

Cooperatives and Poverty reduction in Thailand

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Abstract. Like other countries, Thailand also tries to reduce poverty and develops programs and measures to help the poor. There are numerous ways that this can be done. Cooperative form of enterprise is one instrument that can fulfill this objective. This paper attempts to give some evidences on the contribution of cooperatives to poverty reduction in Thailand. Therefore, it demonstrates that cooperatives have significantly created employment, generated income and promoted social security to Thai people.

Keywords: poverty reduction, cooperatives, Thailand.

1. An Overview of the Thai Economy and Poverty in Thailand:

Thailand located in the heart of Southeast Asia and occupies an area of 513,115 square kilometres. In term of total area, it is the 50th largest country of the world. Thai economy has transformed from a rural agricultural base to an urban industrial base over the past 40 years.

Thailand is a middle-income country with a gross domestic product per capita of 144,141 baht in 2010 (approximately 4,435 \$) and is considered as a newly industrialized country, with tourism and exports contributing significant shares of income to the economy. Table 1 shows the structural change from 1960 to 2010. The share of the manufacturing sector to GDP rose from 14.47% in 1960 to 40.00% in 2010, whereas that of the agricultural sector fell from 31.53% to 8.29%. Although the agricultural sector has declined its importance in term of its share in economic growth, the majority of the population is still engaged in farming activities. The number of employed persons found in the agriculture sector is significant (almost 40% of the labour force) (table 2).

Thailand ranked the 41st on the UNDP Human Poverty Index (HPI)¹ among 135 countries in 2007. Indicators in table 3 show that Thailand has overcome severe levels of poverty, measured by a long and healthy life (almost 90% surviving to age 40), deprivation in knowledge (exceeds 95% of adults who are literate), and deprivation in a decent standard of living (only 2% of the population lacking access to safe water and 9% of children underweight-for-age).

Table 1: Percentage of gross domestic product in agricultural and manufacturing sector during 1960-2010

| Year | Agriculture | Manufacturing | Total GDP |
|------|-------------|---------------|-----------|
| 1960 | 31.53 | 14.47 | 100.00 |
| 1970 | 27.34 | 16.91 | 100.00 |
| 1980 | 20.20 | 23.09 | 100.00 |
| 1990 | 13.55 | 27.80 | 100.00 |
| 2000 | 10.30 | 36.43 | 100.00 |

Table 2: Number of persons employed by main industry during 1970-2010 (as % of total number of persons employed)

| Year | Labor force | |
|------|-------------|---------------|
| | Agriculture | Manufacturing |
| 1970 | 79.0 | 4.0 |
| 1980 | 70.8 | 7.9 |
| 1990 | 64.0 | 10.2 |
| 2000 | 44.2 | 14.9 |

¹ HPI measures the average progress of a country in human development. The HPI represents a multi-dimensional alternative to the poverty measure 1.25 \$ a day.

| | | | |
|------|------|-------|--------|
| 2010 | 8.29 | 40.00 | 100.00 |
|------|------|-------|--------|

Source: NESDB, National Income of Thailand, Annual GDP (base year 1988)

| | | |
|------|------|------|
| 2010 | 38.2 | 14.1 |
|------|------|------|

Source: Bank of Thailand (statistical data) Labor Force Survey (new series)

Table 3: Human poverty index of Thailand, 2007.

| Indicators | Human Poverty Index(HPI) Rank:41 st (out of 135) |
|--|---|
| • Probability of not surviving to age 40 (%) | 11.3 |
| • Adult illiteracy rate (% age 15 and above) | 5.9 |
| • People not using improved water source (%) | 2 |
| • Children underweight for age (%aged under 5) | 9 |

Source: UNDP Human Development Report, 2009.

Table 4: Poverty line, number and percent of poor people during 2000-2009

| | 2000 | 2002 | 2004 | 2006 | 2009 |
|---------------------------------|-------|-------|-------|-------|-------|
| Poverty line (baht/month) | 1,135 | 1,190 | 1,242 | 1,386 | 1,586 |
| Percent of poor people | 20.98 | 14.93 | 11.16 | 9.55 | 8.12 |
| Number of poor people (million) | 12.6 | 9.1 | 7.0 | 6.1 | 5.3 |
| Population (million) | 59.9 | 61.2 | 62.9 | 63.4 | 65.0 |

Source: Office of National Economic and Social Development Board.

Poverty in Thailand, as measured by the proportion of the population with incomes below the national poverty line, declined steadily during 2000-2009. Table 4 shows that the number and percent of poor people in the whole kingdom decreased from 12.6 million (20.98% of the total population of 59.9 million) in 2000 to 5.3 million (8.12% of 65.0 million) in 2009. Separated into urban and rural areas, it can be seen in table 5 that, in 2009, only 0.92% of urban population were classified as poor, compared to 7.18% for the rural population. Across region, table 6 shows the highest percentage of poor can be found in the Northeast region (13.6% of the population below the poverty line) followed by the North (11.1%), the South (4.7%), the Central (2.5%) and Bangkok (0.8%).

Table 5: Number and percent of poor people by area, during 2000-2009

| Location | 2000 | 2002 | 2004 | 2006 | 2009 |
|---------------|---------------|--------------|--------------|--------------|-------------|
| Urban | 1.59(8.63%) | 1.25(6.43%) | 0.93(4.64%) | 0.67(3.62%) | 0.60(0.92%) |
| Rural | 10.96(26.49%) | 7.87(18.93%) | 6.08(14.22%) | 5.37(12.04%) | 4.67(7.18%) |
| Whole Kingdom | 12.55(20.98%) | 9.13(4.93%) | 7.01(11.16%) | 6.05(9.55%) | 5.27(8.10%) |

Source: Office of National Economic and Social Development Board.

Table 6: Percentage of poor people by region, during 2000-2009

| Location | 2000 | 2002 | 2004 | 2006 | 2009 |
|---------------|-------|-------|-------|-------|-------|
| Bangkok | 1.71 | 2.24 | 0.78 | 0.51 | 0.86 |
| Central | 9.03 | 7.63 | 4.47 | 3.31 | 2.54 |
| North | 23.10 | 20.29 | 15.68 | 12.00 | 11.08 |
| North east | 35.34 | 23.06 | 18.58 | 16.77 | 13.67 |
| South | 16.64 | 9.56 | 6.03 | 5.49 | 4.72 |
| Whole Kingdom | 20.98 | 14.93 | 11.16 | 9.55 | 8.10 |

Source: Office of National Economic and Social Development Board.

2. Roles of Cooperatives in the Thai Economy:

The cooperative movement in Thailand has a history of nearly a century. The first cooperative was brought to the country by the initiative of the Thai government in 1916 as a tool to help the severely indebted farmers. In 2009, there were 6,928 primary cooperatives with more than 10 million members or about 15% of the total Thai population. The number and membership of cooperatives have steadily increased during 2000-2010 from 5,610 societies (8.08 million members) in 2000 to 6,962 societies (10.33 million members) in 2010 (table7).

Table 7: Number of primary cooperatives and their membership during 2000-2010

| Year | Total number of | Total individual members |
|------|-----------------|--------------------------|
|------|-----------------|--------------------------|

Table 8: Distribution of primary cooperatives and their membership, in 2010.

| Categories | Primary Cooperatives | | Individual Members | |
|---------------------|----------------------|-----------|--------------------|-----------|
| | (societies) | (percent) | (persons) | (percent) |
| Agricultural sector | 4,027 | 57.84 | 6,172,845 | 59.76 |

| | societies | (million persons) |
|------|------------------|--------------------------|
| 2000 | 5,610 | 8.08 |
| 2002 | 5,629 | 8.45 |
| 2004 | 6,247 | 8.93 |
| 2006 | 6,712 | 9.57 |
| 2008 | 6,868 | 10.10 |
| 2009 | 6,928 | 10.34 |
| 2010 | 6,962 | 10.33 |

Source: Cooperative Promotion Department.

| | | | | |
|--------------------------------|--------------|--------------|-------------------|--------------|
| Agricultural Coop. | 3,850 | 55.30 | 5,968,358 | 57.78 |
| Land Settlement Coop. | 91 | 1.31 | 189,469 | 1.83 |
| Fisheries Coop. | 86 | 1.23 | 15,018 | 0.15 |
| Non-Agricultural sector | 2,935 | 42.16 | 4,156,191 | 40.24 |
| Consumer Coop. | 206 | 2.96 | 756,092 | 7.32 |
| Service Coop. | 943 | 13.54 | 350,273 | 3.39 |
| Thrift and Credit Coop. | 1,366 | 19.63 | 2,618,501 | 25.35 |
| Credit Union Coop. | 420 | 6.03 | 431,325 | 4.18 |
| Total | 6,962 | 100.0 | 10,329,036 | 100.0 |

Source: Cooperative Promotion Department.

The cooperatives in Thailand are officially categorized into seven types namely: Agricultural Cooperative, Land Settlement Cooperative, Fisheries Cooperative, Thrift and Credit Cooperatives, Consumer Cooperative, Service Cooperative, and Credit Union Cooperative. The first three types of cooperatives are in agricultural sector while the rest are in non-agricultural sector. By number of cooperatives and members, agricultural cooperative is the largest of all. In 2010, it had a total of 3,850 primary cooperatives with about 6.0 million individual members. These represented almost 60% of the total primary societies as well as the total of individual membership of the cooperatives of the country (table 8).

Cooperatives engage in a wide range of business activities in responding to their members' needs. Their main business may differ from one type to another but they mostly involved in five businesses which are credit business, savings and deposit, marketing business, purchasing business and services business. In 2009, cooperatives in Thailand had a total capital of 1.09 trillion baht. They operated the five main businesses and generated business value of 1.2 trillion baht or about 14% of GDP. The credit business is the most popular one with 64% of total business. The average business volume per member of non-agricultural cooperatives and agricultural cooperatives were 246,369 and 34,495 baht respectively (table 9).

Table 9: Volume of business of cooperatives in 2009.

| Type of Business | Agricultural Coop | Non-Agricultural Coop | Total Coop |
|-----------------------------------|--------------------------|------------------------------|---------------------|
| Credit (Million Baht) | 47,121.53 | 725,002.78 | 772,124.31 |
| Saving and Deposit (Million Baht) | 45,639.54 | 262,348.89 | 307,988.43 |
| Purchasing (Million Baht) | 52,805.08 | 7,797.53 | 60,602.61 |
| Marketing (Million Baht) | 59,448.62 | 4,496.56 | 63,945.18 |
| Services (Million Baht) | 398.77 | 718.68 | 1,177.45 |
| Total Business Volume | 205,413.54 | 1,000,364.44 | 1,205,777.98 |
| Average (Baht/Member) | 34,495.21 | 246,369.03 | 120,393.91 |
| Average (Million Baht/Coop) | 57.52 | 378.64 | 194.07 |

Source: "Financial Information of Audited Cooperatives in Thailand", 2009, the Cooperative Auditing Department.

3. Roles of Cooperatives in the Poverty Reduction:

Cooperatives in Thailand are quite heterogeneous in terms of its membership and services. Members of agricultural cooperatives are mostly rural small and medium-size farmers. The majority of non-agricultural cooperatives' members are in urban area. For instance, while agricultural cooperatives assist their members' access to agricultural inputs, farm supplies and marketing their produce, the non-agricultural cooperatives such as the thrift and credit cooperatives provide urban members with a secured financial institution for deposit of savings and access to capital for productive investment. The cooperative enterprise is one form of organization that meets several dimensions of poverty. Below are examples of how cooperatives in Thailand have contributed to security of livelihood of their members.

3.1. Employment Creation of cooperatives

Although cooperatives are not an instrument for employment promotion, they do create and maintain employment in rural and urban areas. Cooperatives create employment opportunities both as production enterprises, that directly employed their personnel, and as service providers that indirectly generated employment to their members.

Cooperatives generate directly wage employment by employing people to work in primary and secondary cooperatives. In 2009, it was estimated that the 6,928 primary cooperatives provided direct

employment to over 55,000 permanent employees or about 8 person/cooperatives. Note that this excludes seasonal or temporary employment in the cooperatives. Cooperative societies especially agricultural cooperatives which having processing/marketing activities recruit seasonal employees every year. Data from the Cooperative Promotion Department (CPD) shows that in December 2002, there were 139 agricultural cooperatives having rice mills, 741 having agricultural product central market, and 287 having smoked Para-rubber plants. Assuming that each of them has an average of 6 temporary workers, it is estimated that over 7,000 people are recruited for seasonal labor services in cooperatives every year. More employment is generated, if cooperatives-related public institution is included. In 2008, employment of permanent staff in the Cooperative Promotion Department (CPD) and the Cooperative Auditing Department (CAD) were 6,886 and 1,218 persons respectively.

Cooperatives facilitate employment through members' owned and operated small and medium enterprises. In 2010, there are 7,452 business's groups with 234,593 members throughout the country (CPD, 2010). These groups have been formed by cooperative members and their spouses to produce various products, such as processed food, herb products, local handicrafts etc., and generate income to their members in the forms of shares of surplus, wages and salaries. The same is true for all types of agricultural cooperatives. For instance, in 2009, agricultural cooperatives, provided self-employment opportunities to more than 6 million farmer-members, whose participation in the economic activities.

Cooperatives also indirectly generate employment among their non-members, through the multiplier effects. Although, the multiplier effects of the cooperatives on employment creation is quite difficult to estimate, but there are some reliable indicators. For example, a substantial number of non-member entrepreneurs derive their jobs from packaging paper used by dairy cooperatives, in some agricultural cooperatives marketing agricultural products are usually handled by non-member entrepreneurs, etc.

3.2. Income Generation of Cooperatives

Tha-Yang agricultural cooperative ltd., in Phetchaburi province is an example of agricultural cooperative that has successfully delivered chemical-free Hom Thong bananas to consumer cooperative in Japan. The business adds price margins of banana to farmer-members by about 20% above market price. In 2006, Tha-Yang agricultural cooperative ltd. generated income to farmer-member by more than 30,000 baht per family per year (Suwanna, 2006).

Pon-Yang-Kham Livestock Cooperative ltd. in Sakhon Nakhon province is another successful case of cooperatives that producing a high quality product called "Phon Yang Kham Beef" which later was known as "Thailand's best beef". Beef from this cooperative can be traced back to its origin with the food tracing system. The system not only provides safety to customers, but also encourages the members to maintain the standards. This business has generated more income to their members than non-member farmers through the premium values generated from the free-chemical high quality products. The cooperative started with 38 cows worth about 0.4 million baht in 1981. The number of cows has now gone up to 5,694, worth more than 240 million baht.

Another example is in Karasin province, a study in 2004 showed that farmer-members of Thaworn Pattana Karasin Agricultural Cooperative Ltd., earned an average income of 37,879 baht per family per year from selling agricultural products, while farmer-non members earned only 30,785 baht per family per year (Juraporn, 2004). The similar example is the study of Atchara Sukaweg who found in 2005 that farmer-members of Keeremart Land Settlement Cooperative Ltd. earned an average farm income of 52,836 baht per family per year, while farmer non-members earned only 39,527 baht per family per year (Achara, 2005).

Moreover, the financial cooperatives both thrift and credit cooperatives and credit union cooperatives, with the total of 1,684 societies provided financial services of more than 700 billion baht to its individual members for a variety of uses. Members frequently obtain loans to support informal business that supplement their wage income. Cooperatives also promote additional income to their members through patronage refunds and distribution of dividends from efficiently managed business. Table 10 presents 4 studies that illustrated the profit distribution of various types of cooperatives in 2004. For example, the study of Arthane Sakuntalaksana revealed that among agricultural cooperatives, the annual net profit of 54.1% was distributed to cooperative members, 44.6% as dividends, and 9.5% as patronage refunds (Artharee, 2007).

Similarly, the study of Kannicha Dechadilok found in the same year that among saving and credit cooperatives, the majority of annual net profit or 80.7% was distributed to their members, 69.4% as dividends, and 11.3% as patronage refunds (Kannicha, 2006).

Table 10: Profit distribution of cooperatives in Thailand in 2004.

| | Type of cooperatives | | | | |
|-------------------------------|--------------------------|------------------------------|--------------------|--------------------------|-----------------------------|
| | Agriculture ¹ | Saving & Credit ² | Store ³ | Watersupply ⁴ | Rubber growers ⁴ |
| No. of societies | 320 | 834 | 96 | 208 | 220 |
| Profit distributed to members | 54.1% | 80.7% | 49.6% | 24.3% | 57.7% |
| - Dividend | 44.6% | 69.4% | 7.7% | 16.8% | 5.4% |
| - Patronage refund | 9.5% | 11.3% | 41.9% | 7.5% | 52.3% |
| Total profit (Million baht) | 100.0% (740.1) | 100.0% (16,841.7) | 100.0% (86.6) | 100.0% (18.0) | 100.0% (91.2) |

Sources: ¹ Artharee Sakuntalaksana 2007, An Analysis of Agricultural Cooperatives' Profit Distribution in 2004

² Kannicha Dechadilok 2006, An Analysis on Profit Distribution of Savings Cooperatives 2004

³ Manassanan Metta 2007, An Analysis of Cooperative Stores' Profit Distribution in 2004

⁴ Jittanan Srisawat 2007, Profit Distribution of Water Supply and Rubber Growers' Cooperatives in 2004

4. Social Promotion of Cooperatives:

Most of cooperatives in Thailand not only supports members to economic services, but also non-economic services such as training courses to enhance capacity of their members, established social funds to provide basic social services like medical expenses, funeral expenses to members and families, and education support to members' children. The study of Apichai Pobundit revealed that in 2005, 371 agricultural cooperatives in Thailand, by average, allocated 4.66 % of their net profit (between 5,000 – 50,000 baht) to education and training. Of these cooperatives, 98.65 % provided education and training to their members, and 59.06 % to general public (Apichai, 2007). Another study by Thanyaporn Tantidanai (2007) also found that the budget contributed to education and training of 102 cooperative stores operated in 2005, by the average, were 6.51% of their net profit. Of these cooperatives, 76.50% provided to cooperative members and 54.90% to the public (Tantidanai, 2007). Similarly, the financial report of Maijo Dairy Cooperative Ltd., also showed that the cooperative contributed 6.07 % (250,000 baht) of the net profit in 2008 to a social fund that was used to provide social services to their members.

It is a common practice, especially among cooperatives in rural area to set up “cremation association” for helping member’s families to reduce the burden of death by sharing the funeral expenses of the members. The contribution came from the annual fees collected from the members. In addition, many cooperatives offer emergency loans to solve unexpected expenses like sickness, an accident, crop failure. These loans can be accessed and approved within a short period.

Cooperatives also offer opportunity to disable people to become self-reliance by empowering them to show their talent and help them to get recognition from the public. A case of Credit Union Cooperative of the Blindness and the Disabled Limited, which set up by the blinds and people with other disabilities in Bangkok is an example. The main business of this cooperative is providing working capital and loans to disabled members for business investment (mostly in selling lottery). Such loans are usually very difficult for them to get elsewhere. At present, the cooperative have 117 members with the total capital of more than 800,000 baht.

5. Conclusion:

Although, cooperatives in Thailand have encountered many problems in the modern and dynamic market system, they are still the relevant institution for the poor and those at risk of becoming poor. According to evidences presented above, it can be said that cooperative enterprises in Thailand provide a significant proportion of Thai people, especially the poor to sustain their livelihood. They also contributed indirectly to the economy through employment generation and other social benefits.

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