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## **CASE STUDY OF BANK FOR AGRICULTUREAL COOPERATIVES (BAAC) RICE VALUE CHAIN IMPLEMENTATION**

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### **ABSTRACT**

*This paper focuses on BAAC's participation in the public private and farmer sectors and their assistance in farming and marketing for farmers' produce through cooperatives society. It will also discuss the "Fair Care Share" idea that was recently implemented to provide assistance throughout value chain (upstream to downstream). The Agriculture Marketing Cooperative (AMC) plays a very important role in working together with the rice farmers, collective buying and marketing of rice and its byproducts.*

Key words: rice, marketing cooperatives, Fair Care Share, agricultural banks

### **INTRODUCTION**

Bank for Agriculture and Agricultural Cooperatives (BAAC) in Brief

#### **Historical background**

Bank for Agriculture and Agricultural Cooperatives (BAAC) was founded to replace the former Bank for Cooperatives under the enabling act of 1966 as a government-owned financial institution to enhance agricultural production through the provision of financial services to the farmers. It has steadily developed as a major agricultural financial institution in the rural area with the support of the government and international donor agencies. Now it is recognized as one of the few successful examples of the Specialized Financial Institutions (SFIs) in Thailand as well as agricultural development bank in Asia and the developing world.

BAAC like other Specialized Financial Institutions (SFIs) was established by acts of Parliament and owned by the Thai Government. It was originally established to achieve certain government policy objectives, such as promoting loans to farmers. However, its activities have been expanded to cover commercial banking services as taking deposit from the general public, which made up the biggest source of BAAC operating fund. According to the enabling act, BAAC's mission is to provide financial assistance to farmers, farmer associations and agricultural cooperatives. In addition to the new law amendment, BAAC can expand its service to individuals, groups, entrepreneurs, village funds and communities, organizations established with objectives to support farmers or communities and all kinds of cooperatives for the following purposes:

1. To undertake farm, farm related and non-farmed activities;
2. To undertake other activities to increase income;
3. To develop agricultural knowledge to increase income or to improve quality of living of farmers or their families; and
4. To invest in ventures intended to promote or support agricultural activities to increase income or improve quality of living.

The success of BAAC is based on the achievement of the dual objectives of maximizing outreach to millions of farm households as its target client and at the same time maintaining its financial viability and the sustainability of its operations and services. As of 2018, BAAC had an extensive rural network of 75 provincial offices and 962 branches throughout the country which provide services not only financial services but also of uplifting the quality of life of people in the rural areas. BAAC has shown its achievement on maximizing outreach to millions of farm households as its target clientele and at the same time maintaining its financial viability and sustainability

## **Vision**

“To be a secured rural development bank with modern managerial technology focusing on the upliftment of small-scale farmer’s quality of life”

## **Mission**

To become a full-fledged rural development bank, BAAC has adopted a major four-fold mission as follows:

- To render credit services while providing fair opportunity and make sure that clients are able to attain production efficiency;
- To focus on development and service provision so as to enhance clients’ improved quality of life;
- To locate funding sources with reasonable cost that would be sufficient to fund all of the bank’s obligations and make sure that funds are administered with security; and
- To originate and develop new services in line with clients’ needs and increase the number of easily accessible service points without unnecessarily putting more financial burden on clients.

## **Farm products marketing**

Since BAAC started its operations in 1966, the credit operation was restricted to cash only. The loans extended to farmers were sufficient for seasonal production expenses, carried low interest, and fair terms and conditions compared to local private moneylenders. The loans provided by BAAC were used mainly to acquire farm supplies from local merchants. Under this method, some farmers were cheated because some merchants supplied inferior quality farm supplies at high prices.

In general, most Thai farmers practice agriculture at the whim or climatic elements. As a result, crop yields can rarely be estimated in advance, and are invariably low. In addition, agricultural products rarely attract high prices, and also prices fluctuate depending on the season or quantity.

In 1972, BAAC initiated a loan product pilot program to prevent forced selling of paddy by farmers at time of depressed market conditions. Under the program, shortly after harvesting season, farmer clients were given loans secured by the pledge of paddy, thus, enabling them to hold up their paddy for a better market. There was no client shall be given a loan exceeding 80 % of the market value of the product pledged with the bank.

In 1974, BAAC, in order to cope with fertilizer crisis, had provided financial assistance to agricultural cooperatives so as to cooperate with the Ministry of Agriculture and Cooperatives (MOAC) in acquiring and distributing scarce fertilizers for their members at reasonable prices. Moreover, the bank provided a constantly expanding credit services to both agricultural cooperatives and farmer associations for acquisition of sufficient farm supplies for their members.

Furthermore, the bank cooperated with related government agencies in formulating agricultural development projects of which long-term credit were not indispensable, included storage facilities and marketing of farm products of agricultural cooperatives project.

In 1980, BAAC introduced the credit-in-kind system by acting as intermediary in providing farm supplies to its farmer clients. Most of the farm supplies were provided directly from producers or dealers. By this system, the BAAC could supervise and assist client farmers to have good quality farm supplies at reasonable prices, the credit-in-kind system has been used for almost ten years and it has been appreciated by the client farmers. In 1988, the volume of business peaked at THB 3,500 million or 16 % of the total credit disbursed.

However, the credit-in-kind system could not overcome all of client farmers’ problems. It is true that, with credit-in-kind, the client farmers can get good quality farm supplies at reasonable prices. But for farm product

marketing, they still depend on the private local merchants where the rate of exploitation is high, for example they offer low prices, they cheat in weighing the produce and insist on unfair payment or delivery condition. So, in 1984, the BAAC started to launch the farm products collection program by encouraging and supporting the client farm products. BAAC has assisted its clients in negotiating with buyers on prices, delivery and payment procedures.

The BAAC has also set up tripartite marketing agreements between buying companies and farmers, which the bank undertakes to ensure fairness by the other two parties. With this system, the client farmers have an opportunity to learn how to market their farm products. At present, some farmers are advanced enough to undertake bargaining and to set up marketing conditions by themselves. The governments also supported this marketing system by providing a grant to BAAC for the construction costs of regional Farm Product Marketing Centers (FPMC) at Nakhon Sawan, Suphanburi, Khon Kaen, Sakon-Nakhon and Roi-Et. Now many provincial governors have expressed interest in having an FPMC in their own provinces. Most of the farm products marketed in the Marketing Centers was paddy.

### **Financial innovation and marketing linkage**

Client farmers need to handle the business of farm supplies and farm product marketing on their own. Formerly, the job of supplying farm inputs to farmers and supporting the farm product collection scheme were undertaken by the BAAC credit officers. The BAAC attempted to encourage farmers to form themselves into informal groups called farmers clubs or “Chom Roms,” where the client farmers develop the potential to act collectively and provide some level of assistance in the development of both pre-harvest and post-harvest management of farm products. These groups have been successful to some extent because of the membership of each club is only 50 - 60 families. With the small number of members their bargaining power are still weak.

After doing farm supplies and farm product marketing business for some period of time, the client farmers realized that they should have their own organization to manage farm supply inputs and farm product marketing. Thus, most of the farmers agree in principle in the idea of forming themselves into formal groups to handle the activities of securing farm inputs, to get credit on reasonable terms, to absorb new farm technologies and to market their farm products. With the encouragement of BAAC, and supported by the Cooperative Promotion Department and Cooperative Auditing Department, the client farmers have discussed and seen the possibility to organize their own societies, in the form of the Agricultural Marketing Cooperatives (AMC), where their problems of farm product marketing can be overcome. These AMCs could also get assistance from BAAC. So in 1989, the client farmers in Chiang Mai Province set up their own organization which was the ever first AMC in Thailand. The AMC's have the following objectives: to help the client farmers to have their own society to take responsibility for farm supplies purchasing and farm product marketing; to cooperate with the concerned government agencies and the private sector in solving problems and promoting the procurement of farm supplies and farm product marketing; to act as an intermediary in extending new farming technology to the client Farmers to improve their living standards; to help the client farmers to gain fairer terms in purchasing farm supplies and in farm product marketing; to help the client farmers to gain access to a wider range of farm product marketing channels; to help the client farmers to gain more experience and ability to operate their own businesses in the near future and so that can keep up with the dynamic changes in farm produce marketing mechanisms; and to take responsibility for the farmers' general welfare.

## Structural Organization of the AMCs movement

The AMC movement can be classified into four levels as follows:

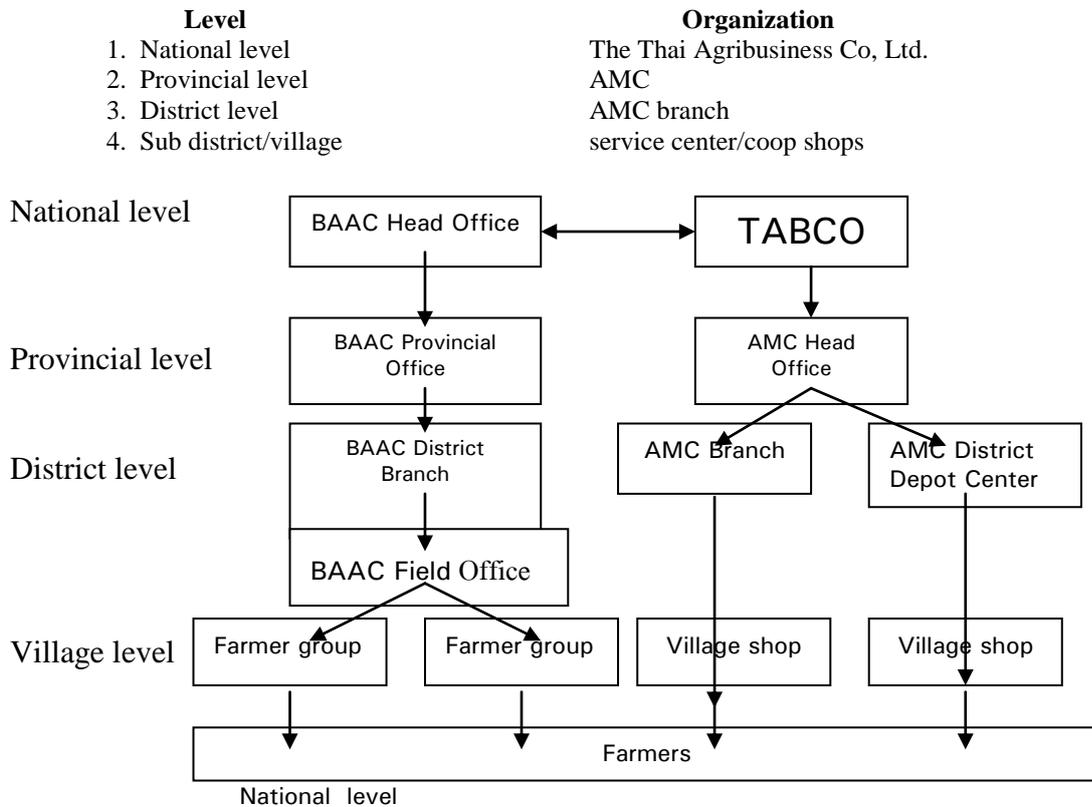


Fig. 1. The relationship between AMCs and the apex organization

The Apex organization of the AMCs is the Thai Agribusiness Company Limited (TABCO) registered July 2, 1992. Since 1989, BAAC cooperated with the related government agencies to support the client farmers to organize themselves into cooperative societies. At the beginning, a total of 64 associations were created over the whole kingdom of Thailand. As the AMC is a society at the provincial level, each AMC does its own business with the local merchants on farm supply purchasing and farm product marketing. Because the volume of business is small, the AMC could not have enough bargaining power to negotiate with the local merchants.

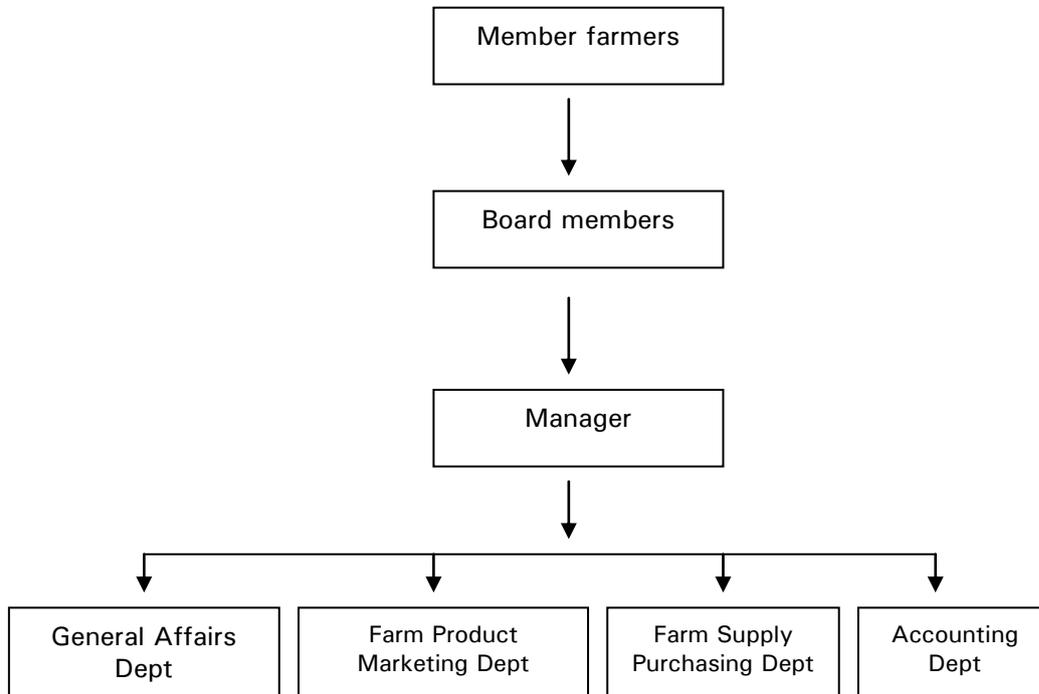
To gain a greater volume in both farm supply purchasing and farm product marketing, all the AMCs nation - wide have joined together and set up their apex organization. BAAC encouraged them to establish a joint venture company registered in the name "Thai Agribusiness Company Limited" or TABCO. There are 120 million registered shares, of which 90 % are held by AMCs and the remaining 10 % are paid up by BAAC. TABCO's functions are:

- to supply both domestic and imported farm supplies, consumer goods and to provide service to the AMCs;
- to perform coordination among the AMCs to exchange their farm or non- farm products, to collect farm products of the AMCs for domestic marketing and exporting;
- to provide management services to the AMCs, such as staff recruitment, supplying capable personnel;
- to provide training services to the AMCs, both its employees and board members; and
- to provide social security and services to the AMC members,
- to purchase or construct farm processing factories as joint ventures with the AMCs ; and
- to provide other activities as requested by the AMCs.

## Provincial level

The AMC is a society at the provincial level, but because its members are scattered all over the province, the AMC set up branches at the district level in order to provide better services to its members.

At the provincial office, the board members are composed of at least 15 farmers who determine their business operation policies.



The main functions of AMCs are to:

- supply farm inputs, consumer commodities and other necessities to their members;
- collect farm products of the members for marketing or processing;
- promote new farming technologies and better living standards among its members;
- provide social security to its members; and
- be a marketing information center for its members.

## District level

At the district area, the AMCs have set up branch offices for rendering service to their members. The sub-committee is composed of at least five farmers (two must be board members) who will set guidelines for business operations for the Branch manager. At the end of each month, the financial report of the branch office must be submitted to the AMC.

## Village shop

To provide convenience supplies of goods and service to their members at the village level, the active members are encouraged to establish village shops which can get consumer goods and farm supplies from the AMC. In case the shop has not enough cash to pay for goods it is eligible to get up to 50,000 Baht in credit from the AMC.

## BAAC's Finance Change

For more than 52 years, BAAC has been in the forefront as the only active agricultural financing bank in Thailand. Passing by the financial crisis in 1997, rural development emerged as the critically important element for economic growth and poverty reduction in the country. Thailand is one of the leading developing countries

in the region to adopt strategies that require sustained and appropriate attention focused on reform in investments for agriculture and rural communities.

BAAC is geared to operate within the changing environments such as: broad macro-economic changes, competition in banking and financial markets and natural phenomenon that create both new opportunities and threats. The changing environment which demands BAAC to change its policies and programs.

As institutions like BAAC grow, interaction and communication expand among link agencies, communities, partner organizations and other institutions related with the activities of the Bank.

### **Paradigm shift in the management strategy**

BAAC is on the verge of a paradigm shift in the management strategy as a development bank. Fulfilling our long-term vision and mission “to be a modern rural development bank with the objective of enhancing the quality of life of farmers and rural people”, (Modernize, Country-minded and Rural Oriented) keeping in view natural resource management and environmental impact is far beyond BAAC’s traditional role as purveyor of credit services only. The value chain finance (VCF) was new approach which introduce to BAAC by FAO became a new solution for fulfilling BAAC vision. The paradigm shift in the development management requires structural reforms, operational changes and institutional strengthening and diversification. BAAC is serious in fulfilling its role in meeting these challenges together with integration of collaboration among players in the Value Chain.

## **THE RICE VALUE CHAIN**

Thailand is a major producer and exporter of rice in the world. By the Office of Agricultural Economics forecast Production situation in the year 2560/61, it was predicted that 58.96 million rai (1 Acre is equal 2.529 Rai) will be cultivated as paddy fields. This will produce approximately 24.07 million tons of paddy. (Forecast: Data from the Agricultural Information Development Board, 2017).

The price situation in 2018 is expected to increase. The world rice output has fallen to 483.47 million tons last year, up 486.73 million tons. (US Department of Agriculture data, 2017). And rice stocks in government projects fail. As a result, the price of paddy rice in the year 2017/18 was higher. The price of jasmine paddy (15% moisture) sold by farmers Baht 15,500 / ton (Thai Rice Mill Association, 2017)

The above figures for the rice situation were significantly different from 2015. At that time the price of jasmine paddy (15% moisture) was Baht 11,000/ton. This was due to many variable factors such as Thai Government stock of rice was still very high, world economic situation weren’t so healthy and high competition in rice production of neighboring countries. This situation forced Thai farmers to sell their paddies at a lower price than the loan program. However, the Royal Thai Government launched “Prolong rice sales project” to help the farmers and farmer institutions to keep the paddies in their warehouses and sell when the price of paddy turn higher.

Along with Thai Government Prolong rice sales project, BAAC also introduced “Rice Management by Farmer Institution to Support the Prolong rice sales project” This initiative concept came from BAAC through the farmer institutions especially Agricultural Cooperatives and other farmers institutions such as farmer groups, community enterprises to collect good quality of paddy from farmers which keep their paddy under the Prolong rice sales project. After that BAAC invited Agricultural Cooperatives and AMCs to transformed paddy into rice and pack under the brand of “A-Rice”. The high quality rice packed has distribution branch offices and Agriculture Cooperatives chain for ready to sell to the consumers.

The objective of Rice Management by farmer institution is to support the Prolong rice sales project according to the following:

- To raise the price of paddy, increase farmers’ income, and also link to the BAAC's Project Based;
- To Promote Farmer Institutions to mill paddy to Rice under the brand of ‘A-Rice Certification’ in which increase value and distribute marginal income return to Farmers;
- To manage the paddy from the Prolong rice sales project of Thai Government;
- To introduce high quality rice and fair prices for consumers.

## **OPERATION METHODOLOGY**

Invite Agricultural Cooperative (Coop), Agricultural Marketing Cooperative (AMC), Farmer Community Enterprise and Farmer Institution to participate in the program. These farmer institutions can purchase paddy from two sources of paddy as follows:

- Buying paddy under the Prolong rice sales project according to BAAC loan program. The farmers’ paddy is able to keep in their own warehouse or farmers institute’s warehouse. The farmers or cooperatives who

participate in this project request to sell their paddy after 1 month or when the price is higher than the price at the beginning of harvest season. The farmers or cooperatives can sell paddy according to the price which is equivalent or higher than the credit limit specified in the loan program's criteria.

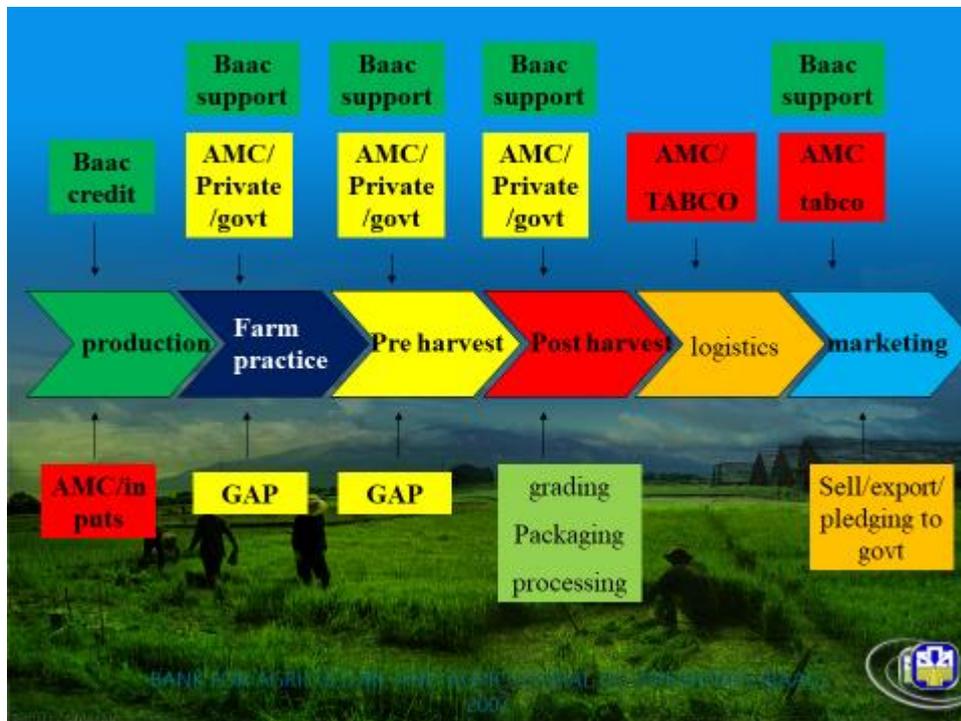
- 3.1.2 Bidding from the rice paddies of the loan program. After the repayment period.

Agricultural Cooperatives (Coops), Agricultural Marketing Cooperatives (AMC), participated in the program, can be approved to mill paddy into rice pack in various sizes according to the market needs.

Agricultural Cooperatives (Coop), Agricultural Marketing Cooperatives (AMC), who participated in the program distribute rice pack through Thai Agribusiness Co., Ltd. (TABCO) and then distribute to distributors/sellers such as BAAC branches nationwide, Bank Agency, Community Enterprise, and Modern Trade. Moreover BAAC introduce E-Commerce system and registered distributor nationwide. This project contributes the benefits which are:

- Fair to farmers who can sell paddy according to credit line, which is higher than market price.
- 2) Fair to consumers who buy Jasmine rice with A-Rice quality certification at fair price.
- 3) Fair to farmers' institutions and farmer organizations that can effectively operate the VCF. In the downstream jasmine rice has a reasonable return.
- 4) Fair to the public sector to allocate budget support.

## Project results



Cooperate with the Ministry of Agriculture and Cooperatives, BAAC has accomplished on improving the quality of life of farmers by integrating cooperation among various networks on the basis of supporting, sharing and fairness. This coordination is creating "Public Private People Collaboration: PPPC". This PPPC is focussed on every step of activities from the upstream, middle stream to downstream. This means that BAAC supported the whole rice production to the marketing process. As the result, BAAC can solve the problem of production, gathering, processing and other related processes in the production process for farmers.

Focus on players on activities from upstream to downstream, the role and responsibility of every players are as follows:

- Upstream Activities "Public Private and People Enhances Productivity"

Associated with various government agencies and private sectors, the upstream activities was aimed at promote and increase the efficiency of rice cultivation. By using good seed which supplied by Department of Agricultural Extension and sold in local shop own by Agriculture Marketing Cooperatives (AMC). This local shop of AMC is certified by Department of Agriculture (DOA) and give Q shop certificate as standardize

agricultural input provider shop. In addition to the public sector, there are private parties also participate by promote and educate the use of agricultural technology. To increase the efficiency of planting, maintenance and harvesting of rice.

- Middle stream Activities "Private and People manufacturing and distribution"

BAAC promoted farmers and communities together with Community Enterprise to collect paddies and sell to Agricultural cooperatives and AMC. These Agricultural cooperatives and AMC were selected to perform as Mill operator and making rice packs. After that BAAC and other AMCs perform as distributor of rice products to the market. In this section related agencies such as Chamber of Commerce in each province, Department of Internal Trade, The Ministry of Commerce help these farmers' organizations to share the benefits in fairness manner.

- Downstream Activities "Private Channel Marketing to Consumers"

To promote rice in the project, A-rice is sold through various channels of the private sector who participating in the project. Some of them are also sold to the E-Commerce system of the BAAC on the site named. [www.fromfarm.xyz](http://www.fromfarm.xyz)

"PPPC" is part of the BAAC's long-term strategic plan.

In 2015, 1.56 million tons of paddies from farmers' families, 390,674 households, and 12,500 tons of A-rice bags were distributed to consumers. As a result of the project's effectiveness, the BAAC Board of Director has made this project a part of the BAAC's long-term strategic plan. Continued to upgrade the quality of life of farmers. And to create a competitive edge for the Thai rice industry in the future.

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