

# **Successful Partnership for CSR Activities in Thailand: The NIKE Village Development Project**

*By Wolfgang Frank*

Thailand has a population of 63.5 million (2002) and population growth is below 1%. The land area is 513,000 square kilometers. The GDP is US-\$ 127 billion at market exchange rates (2002) or US-\$ 389 bn at purchasing power parity (2000), which means a GDP per head of US-1990 at market exchange rates (2002) or US 6229 at purchasing power parity (2000). The GDP growth is 5.3% (2002) and inflation is below 1%. (Country data by the *Economist* 2004).

The economic situation in Thailand has stabilized after the grave economic crisis of 1997/98. There has been moderate to high economic growth in the years 2000 to 2003 as a result of an expansive fiscal policy, which stimulated domestic demand. The present government, under Prime Minister Thaksin Shinawatra, introduced various programs in order to improve the economic situation in rural areas. There are credit plans for village funds, people's banks, SME, asset conversion, the 'One-Tambon-One-Product (OTOP)' plan, the 'Debt Reduction/Debt Moratorium for Farmers' program and others.

These were novel direct interventions in favor of the poor and are helping to find equity for the high poverty and inequality in Thailand. NESDB calculates that the number of persons living in poverty in the Kingdom is roughly 9 million, most of who reside in the Northeast. The latest government program is therefore to eradicate poverty over the next 5 years, and initial steps of identifying the poor of the country have already been undertaken. Medium-term policy objectives include corporate restructuring, privatization, the restoration of a solvent banking sector and investment in education.

Policies to diversify export markets and promote agricultural exports are being implemented with success, and Thailand now is the world's largest exporter of rice, rubber, tapioca, and shrimp. Thailand is also a leading producer of canned seafood, pineapples, sugar, fruits, vegetables and chicken. The recent avian flu forced the Thai government to have millions of birds killed with negative consequences for farmers and agro-businesses.

A recent crisis in the southern border provinces of Narathiwat, Yala and Pattani, causing considerable bloodshed and worsening security, hides the hitherto dynamic and successful government of Prime Minister Thaksin.

## **CSR in Thailand**

CSR has been of considerable importance in Thailand for many years and is considered a necessity (see Anand P. 2003, Thai National Committee 1998). Various companies, national and multinational, have programs of various sizes and intensities. It is in the country's culture to make donations for worthy causes and to institutions of public esteem. The landmark passage of the Tambon Administration Organization (TAO) Act of 1994, the New Thai Constitution of 1997 and the National Decentralization Act of 1999 enhanced power sharing among the public, private and civil society sectors and increased community-business partnerships, most notably at the sub-district (Tambon) level. (See Overview Paper for Asia prepared by J. Gonzales for this workshop).

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The Asian Forum on Corporate Social Responsibility held from the 18<sup>th</sup> through the 20<sup>th</sup> of September 2003 in Bangkok honored Asia's outstanding CSR projects in 4 categories: environmental excellence, best CSR policies, education, and poverty alleviation. Hundred of participants also covered business involvement in HIV/AIDS, improving workplace conditions and employee welfare, community relations as business strategy, business and social entrepreneurship and many other events related to CSR. A recent workshop organized by ADB and PDA from the 28<sup>th</sup> through the 31<sup>st</sup> of March 2004 in Pattaya focused on the topic 'NGO - Private Sector Partnership' in line with the contents of this paper.

### **The Population and Community Development Association (PDA) and CSR**

One of the well-developed and successful programs of CSR involving over a hundred companies is the Thai Business Initiative in Rural Development (TBIRD) by PDA. For more details see Mechai V. 2000 and Kavi C. 2003.

The PDA is the largest and most diversified NGO in Thailand. There are more than 400 people working at its headquarters in Bangkok and 16 sub-centers throughout the country. PDA, under its chairman Mechai Viravaidya, began operations in 1974 by promoting family planning in urban and rural areas of Thailand. Using a participatory community-based approach, PDA's family planning efforts helped to reduce Thailand's population growth rate from 3.2% in 1970 to below 1% today, a success recognized worldwide. PDA has since then expanded operations to include primary health care, AIDS prevention, education, gender equality and democracy, promotion of income-generating activities, small medium enterprises and rural industries, forestry and environmental conservation, water resources development and sanitation etc.

For many years PDA has worked with private companies for the development of the poorer regions and strata of society in Thailand. The PDA is one of the pioneers of the 'privatization of poverty reduction' concept, which is supported by the World Bank, ADB and others. It is based on the premise that private sector companies are the most promising vehicles to help people in countries such as Thailand out of poverty. Private companies have the necessary human, technological, marketing and financial resources in comparison with most governments. A small portion of the private sector's resources could be made available to facilitate the development of the country in which they operate. By showing their corporate social responsibility they may benefit from increased goodwill of communities and 'bottom-of-pyramid' market development. For more details on these topics see Annex 1.

### **Thai Business Initiative in Rural Development (TBIRD)**

The PDA introduced the 'Thai Business Initiative for Rural Development (TBIRD)' Program in Thailand at the beginning of the nineties. The essence of TBIRD is to use private sector resources for the sustainable development of rural communities by providing management, marketing and financial know-how as well as financial and human resources. Private companies are recruited to participate in rural development, together with government organizations. The PDA works as a catalyst, motivating private companies to join the program and to help them in selecting villages, designing, implementing and monitoring the projects.

Important functions of the PDA as an NGO is to provide training and facilitate relations with provincial and district authorities as well as specialized government agencies under the Ministries of Finance, Interior, Agriculture, Industry, Labor, Education, etc. Advantages for private companies are tax benefits, improved public relations and, in the case of relocated factories to rural areas, often higher profits due to lower costs, and enhanced staff morale and loyalty.

The TBIRD project is nationally and internationally recognized as an excellent concept to create employment and income-generation opportunities in rural areas slowing down migration to the cities which lead to social disintegration, environmental degradation and disproportionately rising urban infrastructure costs. Initiatives similar to TBIRD are now under way in the Philippines and Indonesia.

### ***Types of projects***

There are essentially two types of projects: industrial projects and support projects. Industrial projects comprise enterprises/factories manufacturing garments, footwear, toys, food etc. and have had considerable impact on employment and income as shown below. Prime examples are labor-intensive industries such as shoe manufacturing operations of internationally known brands like NIKE and BATA, and textiles for export (LE FORM INTIMATES).

Support projects have been implemented in villages that are not ready for an industrial project and/or the corporate sponsor's type of business would not benefit from operations in rural areas. Support projects can be dedicated to income-generating activities such as crop and animal production, handicrafts, cottage industries, community-based tourism, etc. They can also have other purposes like environmental protection (reforestation, ecological awareness), health (HIV/AIDS, family planning), education (scholarships, computer training, school lunches), and community infrastructure (water tanks, libraries). Corporate sponsors have been MNC like EXXON, TESCO, ISUZU, BRIDGESTONE, UNOCAL, PHILIP MORRIS and Thai companies like PTT, Eastern Water, etc.

### ***Impacts***

Though the effects of TBIRD support projects have been positive for community development, they are difficult to quantify. However, there are figures for 45 TBIRD factories. They employ approximately 8,000 persons who earn a total annual income of over THB 450 million (ca. US-\$ 11.5 million). Moreover, the local economy expands as people spend their money on food, consumer goods and services. A rough guesstimate (assuming a marginal savings rate of 0.1) would be a total increase in income through the multiplier effect of around THB 4.5 billion (ca. US-\$ 115 million).

Finally, there is a strong leverage effect of government and donor contributions in TBIRD style projects, while risk and cost are comparatively small. Annex 2 gives details about TBIRD industrial projects, number of enterprises, workers, wages and income for 2002.

## **COMMUNITY CONTEXT – CHAKKARAT DISTRICT**

The case covers in detail a CSR project by the NIKE Corporation in Thailand. The company subcontracted shoe production to a factory by Union Footwear in the Nong Pruk Sub district, the Chakkarat district, and the Nakhon Ratchasima province in Northeast Thailand, and helped villagers through its 'NIKE Village Development Project' in setting up revolving funds. With low-interest loans the villagers could finance income-generating activities, such as the sale of homemade food, ice cream, etc. Furthermore, the company supported environmental activities, such as reforestation and ecological awareness training, as well as educational activities: occupational skills, entrepreneurial workshops, leadership training and scholarships.

Main beneficiaries of the company's efforts were the villagers and communities of Non Pruk Sub district, especially the Nong Bua Klang, Non Ngiew, Hong Chong, Bu, Nong Kla villages targeted by NVDP. However the CSR project irradiated further and also

benefited a number of other Tambons in Chakkarat and adjacent districts of the factory workers.

Chakkarat is located ca. 40 km from the provincial capital Nakhon Ratchasima, and roughly 300 km from Bangkok and the deep-sea port of Laem Chabang on the Eastern Seaboard.

The Chakkarat district has 8 sub-districts and in 1999 had a total population of 63,408 people. The 1999 population reflects a decrease in population from 1994 when the population was 77,154 people. Attempts to make life in the district attractive and create employment opportunities are, therefore, needed to counteract the exodus to the large cities.

### ***Historical development***

Fortunately, there is information about the long-term development of the Chakkarat district, which received assistance from GTZ since 1988. The project provided services such as water supply and latrines; income generation through agricultural (livestock and crops) and non-agricultural activities (tailoring, handicrafts, brick-making); savings- and credit as well as a revolving fund system; human resource and institutional development.

At the start of the project the core problem was the low standard of living of the people of Chakkarat district, and the main causes were low agricultural production due to insufficient irrigation, production techniques and access to credit; low animal production due to lack of feeds and high mortality, low non-farm income due to inadequate production techniques and market access; low level of health due to malnutrition, parasite infection and non-hygienic drinking water supply.

Since the late eighties the district conditions have changed. Health and water supply problems have been largely overcome, and almost all households have access to hygienic latrines, clean drinking water, and health workers. Infrastructure, i.e. electricity supply and roads, have also greatly improved.

The primary source of income has shifted from agriculture and livestock to manufacturing and services. In the mid-nineties Chakkarat experienced a boom due to the construction of a new airport nearby and the establishment of two sugar factories which changed the traditional land-use pattern from tapioca and rice to sugar cane.

However, in 1997 the economic crisis of the Kingdom also hit the Chakkarat district. The crisis started in mid-1997, and the Thai economy took a severe plunge in 1998 when the growth rate dropped by 7.8%, private investment by 46%, public investment by 30% and export value (in US-\$) by 6 % (see *Bangkok Post* 1998). The crisis was exacerbated by the fact that prices and, consequently, incomes from the main agricultural products in the area, i.e. rice, sugar cane and cassava, decreased substantially (20 – 50%) during this period. The low product prices then forced many farmers to defer payments on credits, and arrears viz. non-performing loans became more widespread in the district.

### ***Present trends***

In spite of the economic crisis and slow recovery in many rural areas since 1997, it is all the more surprising that Chakkarat has done remarkably well.

The main reason was the establishment of factories at Non Pruk village where PDA established the Non Pruk Industrial Estate. Since 1998 the shoe manufacturers Jakkarat Union Footwear Co. Ltd., a subsidiary of NIKE, and S.C.S. Sportswear Co. Ltd., as well as garment manufacturers Le Form Intimates Co. Ltd. and Rongroj Embroidery Co. Ltd. were attracted to the site.

These companies set up state-of-the-art production units for their respective products in the facilities provided. The NIKE unit is producing intermediate products (upper parts for some of their world famous sports shoe models) providing jobs for nearly 800 employees. In order

to improve living conditions in the factory's surrounding areas, NIKE introduced a special CSR effort, the NIKE Village Development Project (NVDP) in 1999.

### ***Unemployment***

The employment situation in the district is difficult to assess. There are few large or medium-scale enterprises in the district. According to Thai definition, medium-scale enterprises have 50 to 500 staff, and large-scale enterprises over 500 employees. The Nong Pruk Industrial Estate is undoubtedly one of the large employment generators in the district. The extent of the unemployment problem remains unclear due to conceptual difficulties (the dividing line between underemployment and unemployment), conflicting definitions by various agencies and the absence of a welfare system, which pays those who are registered as unemployed. It is a consensus opinion that micro- and small enterprises provide most of the employment, but predominantly in the informal sector.

### ***Income and jobs***

The average annual income of the poorest sub-district, Nong Kham in 1999 was 60% of the average income from Chakkarat Muang. The annual average income for the district as a whole in 1999 is roughly 50% higher than in 1994.

Most households in the district have more than one occupation and only a small number has a single occupation or is counted as employed labor. This situation has changed considerably since the opening of the factories at Non Pruk Industrial Estate.

Although agricultural production is slowly losing its importance as the number one source of income in the district, data by the NESDB for the Nakhon Ratchasima province still put agriculture in the wider sense, i.e. including crops, fruit, vegetables, livestock, fisheries, forestry, simple agro-processing and related services at 25% of gross provincial product. The importance of agriculture is still considerably higher taking into account its contribution to employment and self-sufficiency of households. In second place is manufacturing with 24%, followed by services (17%), wholesale and retail trade (12%), public administration and defense (6%), transport and communication (4%), construction, house ownership of dwellings, banking/insurance etc.

During the economic crisis, the number of company failures and closures increased countrywide and also in Korat province. However, this trend has lately been reversed. Korat is the province in the Northeast that attracts most investments judged by the number of projects approved by the Board of Investment. The Chakkarat district has benefited from spread effects of the growing Korat economy and the favorable infrastructure, i.e. the newly opened Korat airport nearby and the highway connecting Chakkarat with Korat, Bangkok, and the Eastern Seaboard.

### **CORPORATE CONTEXT – NIKE**

NIKE is the leading company of sports goods (shoes, garments, accessories) and one of the most recognized brands in the world. It ranks as number 9 in the Top 100 Multinational Companies (see *Far Eastern Economic Review* 2003).

Nike products are manufactured in factories owned and operated by other companies. This is also true for the case presented in this paper. This practice of manufacturing products in factories owned and operated by other companies is called 'out-sourcing' and is quite common in the industry. Nike's supply chain includes more than 660,000 contracted manufacturing workers in more than 900 factories in over 50 countries, including the United States. The workers are predominantly women, between the ages of 19 and 25. The geographic dispersion is driven by many factors including pricing, quality, factory capacity, and quota allocation.

NIKE has been present in Thailand since 1980. 65 contract factory partners employ 48,000 Thai nationals. Large factories for final assembly have more than 5000 workers while upcountry stitching facilities like the one in Chakkarat ca. 700 workers.

In the late nineties NIKE came under severe criticism for labor rights abuses, appalling working conditions and wages in NIKE factories in Asia, especially Indonesia, but also China, Vietnam and Thailand. NIKE was blamed by NGOs like OXFAM, NIKEWATCH, etc. for not paying enough to meet basic needs of workers. Nike has also been blamed by these NGO's that the NIKE factory workers have reason to fear discrimination and harassment if they become actively involved in unions. NIKE has become increasingly aware of the problems and has since placed more emphasis on CSR.

### ***NIKE's Mission***

The need to counteract a negative image made NIKE focus on CSR resources. This orientation is also addressed in NIKE's mission statement:

'To be an innovative and inspirational corporate citizen in a world where our company participates; we seek to protect and enhance the Nike brand through practices that contribute to profitable and sustainable growth', and its policies on community involvement:

- Developing and investing in innovative solutions to front the challenges of globalization faced by women and girls
- Working to increase the participation of young people in physical activity to improve their lives
- Making our backyards a better place to live, work and play.

### ***Compliance***

NIKE's goal is to carry out business with contract factories that consistently demonstrate compliance with standards set by NIKE and that operate in an ethical and lawful manner. Cultural, societal and economic diversity makes NIKE's supply chain not only large, but also complex and ever changing, rendering compliance standards and assurance, as suggested by NIKE's Code of Conduct, difficult. NIKE is working closely with independent institutions like the Fair Labor Association (FLA) which conducts monitoring, and the Global Alliance (GA) for Workers and Communities, which conducts worker assessments, including workplace issues, in NIKE's contract factories. The FLA is an association of companies, universities and NGOs joined together to promote and protect labor rights. The GA is a non-profit initiative launched in 1999 supported by the International Youth Foundation, the World Bank, universities, etc. to improve workplace experience and life opportunities of factory workers.

Currently, Nike has more than 80 people located worldwide focusing exclusively on supply chain compliance issues. They are supposed to ensure that social standards of the host countries, which are mostly in line with international standards, are adhered to. These standards are minimum wages, working age, working time, holidays, working conditions (temperature, ventilation, noise, light, cleanliness), occupational safety and health, freedom of association, non-discrimination, etc. (For more on labor standards see A. Kaufman 2002).

### ***CSR and development contributions***

NIKE ranks as one of the five most generous corporate donors providing \$ 29.6 million in 2002 (Conlin 2003). One example of this generosity is the micro-enterprise development program of Opportunity International in Indonesia.

'Over the last five years, the Nike-funded project has provided nearly \$1.8 million in small business loans, called micro-credit, to 11,500 Indonesian entrepreneurs on a cumulative basis.



### ***Quadripartite partnership***

NVDP exemplifies the successful linkage between ‘corporation-government-NGO-community’. The principal players and their functions are:

- NIKE and its Thai subcontractor Union Footwear provided know-how, management, marketing and finance. The involvement of NIKE country manager, other local staff as well as the director of global CSR and other headquarter staff, together with key staff of the subcontracting Thai company, in this case Union Footwear, such as Managing Director and Deputy, Factory Manager and others were important factors in the various stages of the CSR intervention, i.e. the selection of factory site and project villages, project activities and their monitoring. Company representatives visited communities, joined M&E missions, attended villagers’ meetings and helped in solving community problems.
- PDA as the catalyst has provided factory buildings, facilitation with government agencies at all levels, recruitment, training and consulting services. PDA linked up with NIKE because of the potential to create a sizable number of jobs with minimal negative environmental effects. From previous experiences with agro-based industries like chicken farms, PDA had learned that their employment generation effect is low. For instance, a chicken farm of 10,000 birds needs only two permanent keepers, while the same building can accommodate 150 employees to produce shoes or garments. Moreover, by using advanced technology, there is no noticeable ecological damage.
- Government agencies cooperated with the project, i.e. the District and Provincial Offices for general direction and permits, the Royal Forestry Department (RFD) for environmental programs, the Department of Agricultural Extension (DOAE) for agricultural activities, the Department of Industrial Promotion (DIP) for non-agricultural activities, the Departments of Skill Development (DSD) and Non-Formal Education (NFE) for education and skill development, the Bank of Agriculture and Agricultural Cooperatives (BAAC) and the Government Savings Bank (GSB) for financing.
- The main beneficiaries of NVDP were villagers, groups and communities near the factory site at Non Pruk, i.e. in the Nong Bua Klang, Non Ngiew, Hong Chong, Bu, and Nong Kla villages.

More details on the private sector – NGO – government cooperation for development with special emphasis on rural and agricultural enterprises can be found in Frank 2002 and GTZ 2003. Since direct corporation-community-collaboration (CCC) often faces difficulties due to reasons such as indifference or even hostility from communities, lacking skills of company staff to work with grass root people etc., more and more companies resort to cooperate with NGOs in a symbiotic relationship. Private companies make use of the social and institutional know-how of NGOs to reach communities, and NGOs benefit from companies financial and human resources.

The latter aspect becomes more and more important for NGOs since most of them are facing financial difficulties and many cease to exist, because grants from traditional multi- and bilateral donors are ending. NGOs, therefore, have to reach out to new donors like private companies with innovative fund-raising approaches. A second solution is that NGOs start “making money” through commercial ventures.

PDA created around a dozen for-profit companies to support its work as a non-profit organization, and has, since many years, adopted the approach of resource mobilization through business activities. PDA has been able to generate enough income from for-profit-enterprises

such as restaurants, resorts, shops, clinics, factories etc. to cover around 60% of its running costs.

Apart from PDA, there are notable success cases of entrepreneurial activities by NGO's, i.e. BRAC (agriculture, cold storage, handicrafts, housing, education, printing and publishing), Grameen Bank (micro-finance, IT etc.) in Bangladesh and others. For details on NGO sustainability through business activities see Mechai Viravaidya (2001).



Mobile Training on AIDS Awareness

### ***Activities***

Project activities were selected according to mutual understanding between NIKE, PDA and villagers. PDA as the implementing agency coordinated the following activities from a project office located at the project site.

Revolving Village Funds (RVF) were a central part of NVDP, Phase 1, and continue to be important in the second phase. The purpose of RVFs is to provide opportunities of sustainable income/occupation for poor villagers in the target areas. Loans have been disbursed for pig, duck, fish raising, village shops, fertilizers, mobile noodle stalls, motorcycle repair, ice-cream making etc.

Loan criteria are that members of RVF must reside in the village and must be accepted in the community. Payback depends on the nature of loan but does not exceed 12 months,

There are nearly 700 people receiving micro-loans from the Nike Village Development Project, and the growth of total RVFs has been spectacular. In the start-up phase 1999/2000 the total fund amount stood at THB 2.75 million – ca. US-\$ 70,000 - (5 village RVFs at THB 400,000 each plus THB 750,000 for the Tree Bank - see below). At the moment of writing (Mai 2004) it had grown to THB 22 million – ca. US-\$ 560,000. The villagers have benefited considerably from the favorable conditions of the RVFs they managed (1% interest per month as opposed to 7-10% from moneylenders).

Scholarships and school lunches are core activities to support youth and essential to alleviate the cost burden of educating the children of the poor. The project, therefore, provides scholarships to cover tuition and school fees to the tune of THB 357,000 (US-\$ 9,150) in the first phase. It also has school lunch programs which received THB 110,000 (US-\$ 2,820) in the first phase for a nutritionally more balanced diet and to enable students to gain experience in income generation through production of vegetables etc. and in self-help and community spirit.

The school lunch program started with the raising of egg-laying chickens and a vegetable plot. Chicken pens were completed in July 1999, and 200 egg laying chicken were raised in the chicken coop which has been constructed by the teachers and students. Lectures by resource person were given to school children and teachers on chicken raising and quality of production increased. 75-80% of chicken lay eggs and the school used 30% of eggs for school lunches. However, after two years, chicken raising caused problems because of high feed cost and low egg price which decreased the revolving fund drastically. All involved agreed to stop chicken laying activity and

replace it with mushroom cultivation. The chicken barn was renovated for mushroom cultivation. The school bought 500 leavening cubes of oyster mushroom to cultivate for sale and partly for school lunches, but heavy flooding destroyed the mushrooms and also damaged vegetables. So the school children also learned about risks and failures. The vegetable production was organized on 17 plots of 8 square meters. Vegetables grown are kale, morning glory, lettuce, coriander and long beans. Most vegetables were used in the school lunch program, the rest were sold to workers at the NIKE factory. In the second year catfish raising was started in two plastic ponds with 3000 specimens of a new breed – Russian catfish. The fish is used for lunches and income generation. 18 mango trees were planted around the school area, too.



School Lunch Farm under NVDP II Project

The second phase will promote sports activities for young people. This is an essential concern of NIKE, and the project, therefore, will support activities such as basketball, 'takraw', table tennis, volleyball and soccer in the target area by providing the necessary organization and inputs. The project also selects new sites for sports fields and helps in their construction, organizes sports events and competitions and tries to stimulate sportsmanship, fairness and self-reliance, with a view to reduce social problems like drug abuse, prostitution and crime among young people in the district.

The project is putting strong emphasis on involving more women in community development. They are trained in better understanding of democratic processes, leadership and the mechanism of local organizations such as TAO, cooperatives and associations. In the first phase THB 450,000 (US-\$ 11,540) were spent for this purpose.



Women Development



Help Aids Patient with Mini-Farms

The high priority which the project gives to women and youth is also reflected in the fact that the statutes of NIKE Revolving Funds stipulate that the management committee has to include at least 60% women and 20% youth.

Women programs during were spent on various training, counseling and exchange programs. For instance, women leaders were trained on 'The Role of Women and the Way to be Leader in Community Economic Development', 'Community Networking',

‘Waste Management’, ‘Food Processing Techniques’, ‘Hand-making of Funeral Wreaths from Artificial Flowers made of Degradable Material’.

Women observed various activities in other centers such as rice milling, frog raising, shampoo and making fermented fish and compost. They attended demonstrations of Thai sweet preparation like sugar coated banana, sugar coated taro, chili paste etc. and learned about making of anchovy, salted eggs, sugar coated rice crackers, fruit juice, and preserved mango.

In the second phase the activity of mobile teams providing education to villagers on issues such as HIV/AIDS, family planning, and drugs use will be intensified. These teams visit primary and secondary schools in the target area, and villagers from the adjacent communities are invited to the training events held at the schools and other sites.

The new ‘Positive Partnership Approach’ has already been introduced in the second phase. It pairs HIV+ and HIV- people to help them establish small businesses which can increase their income. A first trial is under way at Ban Don village of Nong Pluang subdistrict with a pig raising activity. The project also makes medications available to the beneficiaries. Over time the micro-loan must be paid back to make the project sustainable.

Direct support to income generation has been given by the vegetable bank activity. Its objective is to use barren public land (often along railroad tracks like in Chakkarat) for intensive vegetable production by providing water from a deep well or surface water source stored in concrete tanks. Villagers are provided with training and technical advice to establish the systems, manage them, grow vegetables – often using organic farming techniques - on plots of ca. 800 square meters and market them. It received THB 500,000 (US-\$ 12,820) in the first phase.

The project site for the vegetable bank project was selected at Bu village, the system constructed on 10 rai (1.6 ha), and seeds provided. 20 members were trained on principles of chemical-free vegetable production and how to make liquid organic fertilizer themselves. Main products were kale, morning glory, coriander, corn, pumpkin, chinese parsley, spring onion, chili and cucumber for own consumption and income amounting to THB 1,500 – 2,000 (US-\$ 38,50) per month/member.

The second phase will introduce mini-farms to a larger extent, a new approach for low cost activities that can produce high-value products using small-scale plots of less than a hundred square meters, little water and labor. Typical products are crickets, ants, frogs, field crabs, snails, chicken, ducks, catfish, eel, cucumber, kale, morning glory, onion, fruit and mushrooms which have good market potential. This activity is also suited for the elderly, handicapped and HIV/AIDS infected.

Chakkarat district suffers from environmental degradation, and reforestation measures were implemented using the tree (or carbon) bank concept. In a nutshell, a certain amount of money (say THB 10) is paid into the Tree Bank Fund. The villagers as individuals or groups are then eligible to borrow from this fund for income generation and other purposes. The village tree fund committee, consisting of 6 villagers, four of them women, manages the fund. From the interest paid, half goes back to the fund, and the other half is used to pay for the management. It received an initial endowment fund of THB 750,000 (US-\$ 19,230) and an extra THB 100,000 (US-\$ 2,560) to cover the cost of tree planting.

In June 1999 sites were selected in the 3 villages Bu, Putsa and Nong Pluang on 100 rai (16 ha) and 400 people participated in tree planting. In the first round a total of 23,500 trees, mainly Eucalyptos, Neem, Wattle and Manila Tamarind were planted. Lending after 3 rounds of tree planting amounted to THB 350,000 to 70 members (20 new, 50

repeat). By the end of the first phase THB 830,000 were disbursed as loans to 166 members.

In the second phase the activity will be continued and supplemented by training on environmental issues such as reforestation, biodiversity, pollution, etc. New crops like jatropa with environmentally friendly characteristics will also be introduced.

### ***Difficulties***

Although on the whole, the project developed in a smooth manner without major problems, there were some difficulties as is to be expected in any kind of development project. First, nature is still powerful enough to wreck the best intentioned plans. Severe flooding in the second project year destroyed much of the produce cultivated by the villagers of the vegetable bank projects and by the students producing vegetables for their school lunch programs. Second, it is a constant challenge to maintain the interest and participation of all stakeholders, especially community leaders and managers of NIKE, in the project. This is especially important in times of personnel changes.

## **EFFECTS**

### ***Results according to NVDP Monitoring and Evaluation***

The results of the CSR intervention have been generally positive. The main findings were that villagers are satisfied with the project, which has increased their income and quality of life. They also appreciate the attention and good relations with NIKE employees and PDA staff. The empowerment of women, through their crucial role in the RVFs and the many loans benefiting women, is a major achievement. The RVFs have been highly successful and their total resources in four years have increased eightfold.

Improvements in the quality of life have been substantial, especially with regard to water supply, hygiene etc. The majority of these improvements had been achieved before the project was started.

Direct benefits are observable among the children of target group members who received scholarships and school lunches providing a nutritionally balanced diet, relieving parents from economic burdens and teaching the students to contribute by producing various vegetables and other food products themselves.

The NIKE Village Development Project also helped to raise awareness in the district on ecological issues and environmental problems. Now there is more community involvement in the protection of the environment in the district.

On a more general level, villagers are more inclined to stay in the area, making the development efforts sustainable.

### ***Community strengthening***

The various activities of the NIKE Village Development Project certainly contributed to strengthening the communities, especially the groups involved in revolving loan funds, vegetable banks, environmental activities and women's development program. Women participated as committee members, gained knowledge in occupational training, received income from business activities and, altogether, played a more significant role in the community.

The strengthening of communities in Chakkarat is, of course, due to a variety of factors, i.e. community development efforts by other agencies, and especially also due to greater responsibilities and funding given by government to the Tambon Administration Organizations (TAO). These came into existence on the base of the Tambon Council and Tambon Administration Act in 1995 and were strengthened by the new Constitution of 1997

and the Decentralization Plan and Process Act of 1999. The TAO has as ex-officio members the Tambon headman, and village headmen and 2 elected members per village. The TAO Executive Committee consists of the Tambon headman, maximum 2 village headmen and maximum of 4 elected members.

Through experiences with the NVDP and previous development projects the TAO members were already prepared in community affairs and were able to take advantage of government plans such as the '1 Million Village Fund' and 'One-Tambon-One-Product (OTOP)' countrywide strategy with support from JBID and JICA. The budget for local self-government has increased from 7% of the total government budget in 2000 to 22% in 2002 and will rise further to 35% in 2006 giving a further boost to local administrations and community development.

### ***Dependence***

The factories of the Non Pruk Industrial Estate make the Chakkarat district and the sub-districts in the vicinity certainly somehow dependent with regard to jobs, incomes, taxes and other contributions, because companies may decide to relocate. District authorities have been supportive of private companies and will be so in the future. Challenges may lie in competitive forces beyond the control of the employees and local officials, such as deteriorating conditions with regard to wages, supplies of raw materials, taxes, and the macro-economic and socio-political frameworks.

Though there is an undeniable risk that a multinational company like NIKE withdraws from a locality with such problems in terms of employment and income lost, normally changes only occur if the conditions for the company are altered strongly. Normally a company like NIKE maintains production agreements with local subcontractors when they are mutually beneficial and safeguard good relations with stakeholders. For reasons of global diversification and gaining viz. maintaining footholds in a market like Thailand production facilities are not easily shifted. Though wages in Thailand are higher and increasing relative to competitors such as China, Vietnam, Cambodia, Bangladesh etc., this may be offset by excellent infrastructure, good worker morale, positive investment climate etc.

### ***Fulfillment of company's aspirations/motives***

NIKE's motives may have been manifold. Certainly trust in PDA and the good cooperation of local authorities and the communities tipped the balance to set up the factory in the Chakkarat district.

Although the factory site is in a rural area in the Northeast, which increases transport and communication costs, it was expected to make economic sense, since labor, rent and services were cheaper than in Bangkok or a nearby location. Higher staff satisfaction, less worker fluctuation, and production of better quality with less rejects were also anticipated. Finally, Chakkarat permitted NIKE to introduce a positive corporate social responsibility program that could enhance the company's reputation and public relations locally and internationally.

NIKE's aspirations have been met, as may also have become obvious from the discussion of project results above. Company officials took a genuine interest in the NVDP and visited the project site various times. The villagers appreciated their involvement and were grateful for the support.

The dedicated work of PDA's project staff was positively mentioned in evaluations and is quite instrumental for the good success of the project. It also offered a learning experience to all stakeholders: communities, workers, school children and teachers, PDA staff and NIKE employees.

### ***Socio-economic incidence of factory operation***

The main and most direct outcome of setting up the factories in Non Pruk, including the unit operated by NIKE/Union Footwear, is the creation of permanent jobs for the villagers. Not only for workers but also for people with higher qualification from the surrounding villages are employed in management posts and office related jobs within the factories. This proves that it is not always necessary for people with higher education to migrate to Bangkok and other large cities seeking for jobs with greater prestige in society. There are currently over 2000 people working in Non Pruk Industrial Estate, 720 of those at the NIKE factory.

The need for employment in the district is great, and work in the factory is very attractive. This is shown by the fact that the waiting list for jobs is composed of nearly 500 persons.

The direct income generated by the factories (i.e. salaries and wages of employees and workers) in the Non Pruk Industrial Estate is estimated at 100 million Baht (ca. US-\$ 2.5 million) per year. The multiplier effects of the project are large, indeed, and estimated at 1 billion Baht (ca. US-\$ 25 million) per year (supposing a marginal savings rate of 0.1). Per capita average income in the area is now more than three times above the district average.

About 80% of people working in the factories are women. The exact number in the NIKE factory is 551 out of 720 employees or nearly (77%). TBIRD focuses its projects on employing women because they are usually most at risk of being exploited if they leave for the urban areas. Rural employment provides young women with an alternative to the sex industry, and also benefits women with children. By giving jobs to women in their own villages, children will be able to grow up in a far healthier environment, and will attend school longer.

Workers in each factory are encouraged to establish a saving group. This is, to set aside some money from the workers' wages to be used for different purposes. A board is elected in each factory by the workers in order to manage the saving group and decide upon granting loans. The board represents and is composed of the workers. Each worker joining the saving group is entitled to a low-interest loan.

The working conditions in the NIKE factory are considered better than in many comparable factories, a fact also reflected in a low employee turn over rate of below 3%. According to interviews with management and staff, social standards are adhered to in accordance with Thai Law and ILO conventions, and in many cases, such as minimum age and provisions for maternity, surpassed. There are periodical meetings of NIKE personnel director, workers and PDA staff to make sure conditions regarding safety, working hours, minimum wage, sick leave, rest periods, etc are being met.

According to interviews during monitoring and evaluation visits workers expressed that their quality of life has improved in various aspects, i.e. family members can spend more time together by staying in the village, and people are able to become more involved in social and political activities and other community matters.

The economy as a whole benefits. If the villagers were working in large cities such as Bangkok, the amount of money they would be able to save to send to their families back in the village would be minimal. Working in their own village allows the employees to substantially reduce the cost of living, thus increasing cash flow in the local economy and beyond. The number of shiny new motorcycles in the factory parking lots testifies to this fact. Local government's revenues are increased through taxes and other additional income created by the factories, which can then be used for the development and benefit of the villages.

## **CONCLUSIONS**

The main factors of success and lessons learned were as follows:

The attraction of a private company like NIKE to the district was largely due to the excellent relations of top level and local PDA management with company decision makers and

government officials at district, provincial and national levels. It is a positive example of setting up industries in the rural areas, creating employment and making life in the countryside attractive again, thus stemming the migration to the big cities.

NIKE's aspirations were also largely met. Operating factories in rural areas makes economic sense like in this case when labor, rent and services are cheaper than in Bangkok, staff satisfaction higher, worker fluctuation less, and production of better quality with less rejects. By showing corporate social responsibility, not only did the villages benefit under the project but also NIKE improved its reputation and public relations locally and internationally.

As is fitting for a quadripartite cooperation four factors were important for the success of the CSR intervention:

- The involvement and active support of NIKE country manager, other local staff as well as the director of global CSR and other headquarter staff, together with key staff of the subcontracting Thai company, in this case Union Footwear, such as Managing Director and Deputy, Factory Manager and others. These parties were involved in the selection of a CSR intervention site, project activities and monitoring and evaluation. Company representatives visited communities, joined M&E missions, attended villagers' meetings and helped in solving community problems.
- The contacts, community links, continuous follow-up and day-to-day running of the project by the NGO, in this case PDA who acted as a catalyst bringing government agencies, community leaders and company staff together, providing training, renting out factory buildings, and mediate between the interest of companies and workers/communities.
- The acceptance and support by government agencies at local, provincial and national levels.
- The project largely met the need of villagers, who were actively involved in running the program and were proud of their achievements. These villagers were helped by frequent visits by the NIKE representatives keeping relations between villagers and the sponsor harmonious and friendly.

Other factors of success were:

- The involvement of underprivileged groups in the villages through training and counseling for revolving funds and other groups, and provisions, i.e. the condition that women make up 60% of the committee members of revolving funds.
- Appropriate follow up and support to ensure that the income-generating activities financed with low-interest loans such as pig/chicken/fish raising, organic vegetable farming, food processing, ice-making were economically successful.
- Environmental activities such as reforestation initiatives, educational activities i.e. scholarships and sports activities to improve the quality of life in the district.

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## ABBREVIATIONS

ADB	Asian Development Bank
AIM	Asian Institute of Management
BAAC	Bank of Agriculture and Agricultural Cooperatives
BOI	Board of Investment
BOP	Bottom of Pyramid
CCC	Company Community Collaboration
CSR	Corporate Social Responsibility
DEG	Deutsche Entwicklungsgesellschaft (German Development Company)
DIP	Department of Industrial Promotion
DOAE	Department of Agricultural Extension
DSD	Department of Skill Development
FLA	Fair Labour Association
GA	Global Alliance
GSB	Government Savings Bank
GTZ	German Technical Cooperation Agency
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KFW	Kreditanstalt fuer Wiederaufbau (German Bank for Reconstruction)
MNC	Multi National Corporation
NESDB	National Economic and Social Development Board
NFE	Non Formal Education Department
NGO	Non Governmental Organization
NVDP	NIKE Village Development Project
ODA	Overseas Development Assistance
OTOP	One Tambon One Product
PDA	Population and Community Development Association
PPP	Public Private Partnership
RFD	Royal Forestry Department
SME	Small Medium Enterprise
TAO	Tambon Administration Organization
TBIRD	Thai Business Initiative in Rural Development
THB	Thai Baht (39 THB = 1 US\$, 48 THB = 1 EURO, 0.37 THB = 1 YEN)
UNDP	United Nations Development Program

## **ANNEX 1:**

### ***CSR, PRIVATIZATION OF POVERTY ALLEVIATION AND PUBLIC PRIVATE PARTNERSHIP***

The decades' long world-wide effort to alleviate poverty has brought disappointing results in spite of the thousands of millions of dollars spent, because the problem is treated by the wrong doctor (government officials) with the wrong medicine (bureaucratic business development measures). PDA, therefore, pioneered a new approach of “privatization of poverty alleviation” with support from the private sector (see Mechai V. Interviews 2003 and mimeo without date).

The approach tries to induce the private sector to actively contribute to poverty alleviation. It recurs to CSR (World Bank 2002, 2003 and 2004) and tries to motivate the participation of private companies:

- To provide markets for products of the rural and urban poor
- To function as partners through production, supply and marketing arrangements
- To provide venture capital and technical assistance
- To stimulate self-help capabilities as well as educational and environmental activities
- To change companies' attitudes and practices focusing on local opportunities
- To address the real needs and real opportunities of the majority of people in member countries
- To access radical innovations and cost-saving opportunities.

Companies are also encouraged to work with the poor as a business opportunity (see also C.K. Prahalad et al. 2002 and C. Prystay 2003). Nearly 65% of the world's population earns less than \$2000 per year, that is 4 billion people. In spite of this vast market, it remains largely untapped by MNC. But things have begun to change. E.g. villagers in Bangladesh, who are among the poorest in the world, are avid consumers of telecommunications services, provided by Grameen Bank that is one of the largest and most successful NGOs worldwide. Forward thinking MNCs may gain three important advantages by serving the poor - a new source of revenue growth, cost reduction, and innovation.

- To begin many large companies may have nearly saturated their existing markets and need new sources of growth, i.e. tap the so-called bottom-of-the-pyramid (BOP) market. The latent demand for low-priced, high-quality goods and services is enormous as has been shown by companies such as Hindustan Lever and Citibank in India.
- Secondly, outsourcing to low-cost labor markets such as to China in manufacturing and India in software has decreased cost and increased efficiency.
- Thirdly, BOP markets allow commercial and technological experimentation, the development of novel low-cost devices, etc. IT and E-Commerce systems may help the bottom of the pyramid to gain access to information and markets, and millions of isolated communities may sell to each other, urban and even international markets.
- Finally, large corporations should solve major problems such as alleviating the poverty of 4 billion people.

CSR is closely related to private-public-partnership projects (PPP) for development. PPP has become a catchword for many bilateral and multilateral development agencies (see also GTZ 2002 and P. Bolster 2002) and to the United Nations Global Compact. In the case of Germany for example the Ministry of Finance tightly controls government spending from the official budget to the German Ministry of Economic Cooperation and Development (BMZ). In view of stagnant or decreasing ODA funds, PPP is seen as a promising approach to make use of private sector resources for development cooperation goals.

**ANNEX 2:**  
**DATA ON TBIRD INDUSTRIAL COMPANIES IN 2002**

Location (Centre)	Industry	Factories			Workers		Wage/Income (Baht)	
		SME	Large	Total	Range	Total	Avg/day	Total/year
Nang Rong	F, G	14	2	16	22-325	1841	217	124,643,064
Lamplaimat	F, G, O	3	1	4	7-709	976	170	51,767,040
Nakhon Ratchasima/Chakkarat	F, G, O	5	4	9	5-1033	2879	167	150,007,416
Ban Phai	F, G, O	3	2	5	20-969	1412	145	63,878,880
Mahasarakam	G	0	1	1	380	380	200	23,712,000
Surin	F, G	2	0	2	34	68	120	2,545,920
Putthaisong	G	1	1	2	128-250	378	155	18,280,080
Pitsanuloke	G, O	5	0	5	9-107	227	151	10,694,424
Saiyok	F, G, O	1	0	1	80	80	180	4,492,800
Total		34	11	45		8241		450,021,624
							EURO	9,783,079
<i>Explanations</i>								
Industry	F = Footwear, G = Garments, O = Other							
Small Enterprises	1 to 50 staff							
Medium Enterprises	51 to 200 staff							
Large Enterprises	staff > 200							
Avg./day	Average daily wage							
Total/year	Total wage income per year on the base of 26 avg. working days per month							
	EURO value based on a rate of exchange of 46.							