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Micro Finance Institutions, Programmes and Initiatives in Thailand: A Review

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ABSTRACT

Microfinance is an alternative avenue of financing the poor people for self-employment to generate income which facilitates them and their families. The aim of this paper is to provide an overview of the main institutions, programmes and initiatives currently available in the microfinance sector in Thailand. The study constitutes a new contribution to the academics within the field. Literature for review were identified from various sources such as journals, reports, proceedings, and other related documents by searching comprehensively both electronics and non-electronics databases. Websites of the organizations known to have undertaken research in this area were also searched to find related documents and reports. Literature review shows that government sector is the main provider of microfinance services to low-income families and poor families. Government-owned specialized financial institutions (SFIs) i.e. BAAC, GSB and I-Bank are the key players in the microfinance industry in Thailand. Semi-formal MFIs (i.e. cooperative institutions, savings-for-production groups, and village and urban revolving fund) are also contributing to the microfinance sector in the country. However, private commercial banks and/or NGOs microfinance operations in the country is very limited. It can be concluded that the government is implementing Microfinance Master Plan that will relax some financial regulations to attract commercial banks and new players into the industry. It is hoped that these proposed changes will not only increase financial access to low income families, but also contribute to reduce poverty and narrow down the national income gap.

Keywords: Microfinance, Institutions, Programmes, Initiatives, Thailand.

1. INTRODUCTION

The term ‘microfinance’ usually implies very small amount of loans to low-income clients for self-employment, often with the simultaneous collection of small amount of savings (The World Bank, 2007). In fact, microfinance is the provision of a wider range of financial services to the very poor such as loans, insurance, remittance and savings (Bakhtiari, 2006). In other words, microfinance refers to a variety of financial services that target low-income clients, particularly the rural customers. Many microfinance programmes offer stand-alone savings products, and remittance and insurance are becoming popular innovations in the suite of services offered by financial institutions for the poor (The World Bank, 2007). However, broadly speaking, microfinance for loans (i.e. microcredit) is the provision of small-scale financial services to people who lack access to traditional banking services. Commercial banks generally do not serve the needs of rural poor people because of perceived high risk and the high transaction costs associated with small loans and savings deposits (Coleman, 2006). Therefore, microfinance is an alternative avenue of financing the extremely poor people for self-employment to generate income which facilitates them and their families (Nilsson, 2010). In other words, microfinance provides very small loans (microcredits) to the unemployed, to poor entrepreneurs, marginalized people and to others living in poverty who are not considered bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credits offered by the commercial banks. A microfinance institution is an organization that offers financial services to low-income populations. This includes NGOs, credit unions, cooperatives, private commercial banks and non-bank financial institutions (some that have transformed from NGOs into regulated institutions) and parts of state-owned banks.

The concept of Microfinance has emerged in Bangladesh where it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begins to build wealth and exit from poverty. Microfinance has launched a challenge to the formal financial system which virtually denies the scope of economic participation of the poor (Mahmudul and Rafiqul, 2012). By creating an avenue for the poor to have access to the modern credit for economic growth and human development, microcredit has opened a scope for promoting poverty alleviation and reducing income inequality in the society. In fact, microfinance has received considerable attention from economists and politicians as a tool to alleviate poverty and stimulate economic growth by providing small loans to under privileged and poor people, groups and organizations (Thampradit and Fongsuwan, 2014). Because, the poorest, especially the women, when receive credit, they become economic actors with power, they can improve not only their own lives, but also their families, communities and ultimately their nations (Bakhtiari, 2006). Microfinance is absolutely important for the poor people particularly in rural areas of the developing countries to create and run a tiny business called micro enterprise. Microfinance emphasizes the provision of credit services, usually in the form of small loans for micro enterprises and income generating activities.

In Thailand, the incidence of poverty has declined significantly during the last few decades. Though the country has been very successful in lowering the national incidence of poverty, the rate of poverty at the regional level still remains high (Bird, et. al., 2011). About 90% of the poor reside in rural areas of the country. Low-income families and poor families are heavily dependent on agriculture. They have lack of inclusion in the finance sector, particularly the banking sector. On the other hand, business enterprises in

Thailand are mostly small and medium-sized enterprises (SMEs) and micro-enterprises which represent 99% of the total business of the country (Thampradit and Fongsuwan, 2014). However, the micro-enterprises which constitute the vast majority of Thai business face difficulty in accessing credit from the financial institutions as they have no collateral to secure a loan. Therefore, majority of the micro-enterprises use credit from informal sources (for example, money lenders) with relatively high interest rates (OSMEP, 2008). In this circumstances, microfinance plays a very important role in helping poor individuals, SMEs and micro-enterprises in the country. The government sector is the main provider of microfinance servicing low-income families and poor families (Bird, et. al., 2011). In Thailand, government has supported microcredit programs for more than 30 years (Fongthong and Suriya, 2014). Most of the programs developed from community-based credit schemes that focused on social capital in the community (Worakul, 2006). The Thai government has also taken a major role in providing financial assistance to SMEs by setting target loans provided through the specialized financial institutions (SFIs) and promoting loans provided by commercial banks. However, the participation of private sector and NGOs in microfinance activities in the country is limited.

The aim of this paper is to review the existing microfinance options in Thailand. The study provides an overview of the main institutions, programmes and initiatives currently available in the microfinance sector in Thailand. The study constitutes a new contribution to the academics within the field.

2. MATERIALS AND METHODS

This study identified and selected literatures (for review) that focused on concepts, institutions, programmes and initiatives related to microfinance in Thailand. Literatures were identified from various sources such as journals, reports, proceedings and related documents by searching comprehensively both electronic and non-electronic databases. Literature searches from electronic databases were conducted mainly on Science Direct, Springer Link, Blackwell, and Social Science Citation Index using a range of key words relating to Government and Non-government based Microfinance Programmes in Thailand. References cited in the literature were searched and important studies were collected in full text. Websites of the organizations who conduct microfinance related research were also searched to find related documents and reports. In addition, both electronic and non-electronic searches were also supplemented by a network of colleagues who provided related literatures and documents. In the review process, only the documents written in English and Thai were considered. This study reviewed the literatures that included discussions and demonstrated data, findings and evidences related to Government and Non-government Based Microfinance Programmes in Thailand.

3. FINDINGS

This study is based on the evidences and findings from published literatures and documents that highlight and discuss about microfinance institutions, programmes and innovations in Thailand, depending on the availability of literatures and documents.

Thailand has a long history of development in the microfinance industry, which corresponds with its large dynamic rural sector. However, the microfinance sector in Thailand is heavily dominated by government programs and intervention (FDC, 2010). There are very few private MFIs operating in the country. The microfinance institutions (MFIs) in Thailand can be categorized into three groups (MOF, 2005):

1. Formal MFIs
2. Semi-formal MFIs
3. Informal independent and self-help groups

The following sub-sections focuses on the main categories of MFIs, their programmes and innovations in Thailand:

1. **Formal MFIs:** Formal MFIs are the financial institutions that are legislated and under the supervision of the Bank of Thailand (BOT) or the Ministry of Finance (MOF). These institutions include commercial banks, non-bank financial institutions (NBFIs), credit fonciers, commercial retail financing institutions and government-owned specialized financial institutions (SFIs). They operate under prudential regulations issued by the BOT or MOF. These institutions provide the majority portion (nearly 90%) of the total microcredit in the country (FDC, 2010). The major providers under this category are as below:

- 1.1. **Government-owned Specialized Financial Institutions (SFIs):** Government-owned specialized financial institutions (SFIs) facilitate the implementation of economic and development policies and programmes of the government. At present, a total of eight SFIs are operating in Thailand. However, only three SFIs are engaged with microfinance activities in the country. The SFIs that offer microfinance services are discussed below:

- 1.1.1. **The Bank for Agriculture and Agricultural Co-operatives (BAAC):** BAAC is the largest government-owned specialized financial institutions (SFIs) in Thailand. The bank functions mainly in rural areas of the country. BAAC was established in 1966 as a vehicle to deliver low-cost credit to Thai farmers and mobilize their vast savings (FDC, 2010). The bank provides financial services for agriculture and agriculture-related activities (for example, cottage industries) either directly to farmers or through agriculture cooperative institutions (CIs) and farmers' associations (Fitchett, 1999). The primary objective of BAAC was to provide agricultural loans to farmers and agricultural cooperatives, typically loaning money for inputs at the beginning of the growing season and being paid back after the harvest. However, the role of BAAC has expanded beyond agriculture over time. For the fiscal year 2014, BAAC reported total deposits outstanding of 985,039 million Baht which consisted of deposits from the general public of 577,425 million Baht (54%), the government sector 305,136 million Baht (31%) and reward earning deposits of 102,478 million Baht (10%) (BAAC 2014).

BAAC offers a range of loan and savings products for their target market. In 2012, BAAC loans were extended to a total of 6.72 million farm households or 92.7% of all farm households in Thailand. Loans to individual farmers (organized into joint liability groups) accounted for 74.5% of the total loan portfolio (BAAC 2013). Moreover, BAAC initiated the Community Bank Project in 2010 in line with government's new policy initiative of reducing informal sector debt. Under this project, the bank provides credit services to the most vulnerable group of the society, the poorest of the poor who are not served by the regular service channels of the bank. Recently,

the bank is implementing the government's credit card initiative for the farmers. BAAC clients can apply for credit cards which can be used to purchase agricultural inputs at participating stores. As of February 2013, BAAC had approved 2.2 million farmer credit cards, with a total credit limit of 42.7 billion baht (1.5 billion USD) (BAAC 2013). More recently, the bank is providing credit for non-agricultural activities such as loans for occupational purposes, loans to purchase homes or real estate, educational loans, loans to improve quality of life and loans to help customers pay off their debt to moneylenders (BAAC, 2015). It can be said that BAAC has become the predominant provider of microfinance in rural Thailand during the past four decades.

1.1.2. **Government Savings Bank (GSB):** GSB is the first government-owned specialized financial institution (SFI) to focus on 'micro' savings in Thailand. GSB in its present form was founded in 1947 as a way to build capital for the Kingdom and to encourage savings behavior in individuals for providence and capital accumulation (Lewis, 2013). As GSB's objective is to promote savings and to support lower income households, it offers a variety of savings products as well as loan products. Deposit products at GSB can be divided into regular deposit accounts (demand deposits and term deposits) and GSB lottery savings accounts. All of deposit accounts require no maintenance fee. On the other hand, loan products of GSB are designed in line with government policy to support grassroots development, SMEs and retail business, as well as other financial services. These include, for example, special services for the Muslim community, banking with mobile boats and mobile vans, community and school banks, and finance education (FDC, 2010). A few successful microfinance programmes run by GSB are discussed below:

- A. **People's Bank Programme:** The people's bank programme is one of the most popular microfinance products of GSB and was piloted in 2000. Under this scheme, the bank provides loan at low interest rate (less than 1% per month) to individuals who run Small and Medium Enterprises (SMEs) or low-income individuals who want to start a new business.
- B. **Community Bank Programme:** Community bank programme is designed in line with the government's community development initiatives. Under this programme, GSB provides loans for the development of the community. As a result, each community bank is set up according to the needs of the local community and owned by everyone in the community. Moreover, a community bank receives direct community involvement in its operation and management through an advisory committee, together with GSB and local government authority. Currently, other government banks, such as BAAC and Krung Thai Bank (KTB) are applying this concept into their operations.
- C. **Loan for row house businesses:** Loan for row house businesses is another popular microfinance product of GSB. Shop houses in Thailand are usually built as terrace buildings and are locally called 'row houses'. These row houses are

generally located in near the main roads or in town centers of the commercial districts. Therefore, the term 'row house business' refers to small to medium sized businesses (Lewis, 2013).

Given these products, it is clear that GSB distinguishes itself from BAAC by targeting non-agricultural businesses and providing financial services to low income individuals who are vendors or small entrepreneurs.

1.1.3. **Islamic Bank of Thailand (I-Bank):** I-Bank began operation in 2003 to provide financial services to Muslim customers based on Shariah principles. Like other government-owned specialized financial institutions (SFIs), I-Bank is responsible for implementing government policies. The bank started its microfinance activities a few years ago at the dictation of the government. However, the bank has been cautious in operating its microfinance business, preferring to grow slowly rather than taking a greater risk of expanding quickly. I-Bank offers several products (mostly loan) that serve the microfinance market in Thailand. The products are discussed briefly as below:

- (a) *Community bank loans:* Community bank loans are offered to small enterprise owners to finance their business operations or expand business. Under this scheme, a maximum of 200,000 bath is provided to the customers. However, this loan service is not restricted to Muslim customers only.
- (b) *Grass root loans:* Unlike the community bank loans, the grass root loans are offered on an individual basis. Under this scheme, a customer can borrow a maximum of 50,000 bath.
- (c) *Loans for refinancing informal debt:* Under this programme, loan is provided at a much lower interest rate to a customer to repay his/her informal debt that has been taken previously at a higher interest rate. I-Bank provides this type of loan in line with the previous government's initiative of bringing the informal sectors loans into the formal sector. A customer can borrow a maximum of 100,000 bath to refinance his/her informal debt.

I-Bank also provides occupational training for small entrepreneurs, sometimes in partnership with other agencies, in order to ensure that businesses are operating smoothly and the borrowers are better able to repay their loans. Moreover, similar to BAAC and GSB, I-Bank provides a channel for small farmers to enter into the government's debt moratorium programme.

1.2. **Commercial Banks:** Commercial banks in Thailand have no particular focus on services to poorer sectors of the economy. However, in the second phase of the National Financial Sector Master Plan implemented since late-2009, the government took initiatives to strengthen the microfinance industry of the country. In order to implement the new law, BOT allows the existing commercial banks to downscale, or to set up a microfinance window as a separate subsidiary. Moreover, BOT has been offering training and seminars to educate staff of commercial banks to deal with microfinance activities in the field (FDC,

2010). Currently, two commercial banks are offering microfinance services in the country. The banks are as follows:

1.2.1. **Krung Thai Bank (KTB):** The microfinance services of KTB can be categorized into two groups:

- (a) *Government-affiliated activities:* Through its affiliation with the government, KTB supports the Village Fund activities through financing the fund. In fact, KTB is one of the banks which use Village Fund to deposit their working capital. Although the Village Fund is a free-standing project supported directly by government money, in recent years some expansion of finance for the Village Fund has been sourced by loans through both the BAAC and KTB. In addition to BAAC, KTB also serves as an additional financing channel for triple-A (AAA) rated Village Funds (Lewis, 2013). These loans are wholesaled to the Funds themselves, which then provide loans to Fund members for occupational or other income-generating purposes. These loans are to help implementing the government's plan of upgrading Village Funds into community financial institutions.
- (b) *KTB-initiated microfinance activities:* KTB provides microfinance services under its Community Bank project umbrella. The bank launched the project in 2002 as part of its corporate social responsibility (CSR) activities. The aim of the Community Bank project is to support government policy in developing the grassroots economy by providing various credit products and adding new products in response to needs of the customers. KTB targets mainly the urban micro-business operators as the customers of its microfinance services. The main credit product for this group is called loan for marketplace vendors. A customer can borrow a maximum of 50,000 Baht in the first year of the loan while the duration of the loan is not more than three years. The borrowers who repay their loans on due time can borrow larger amounts in future installments. KTB has started another microfinance programme called 'KTB Micro Bank for Women' to provide loans to members of 'Thai Women's Empowerment Funds' which is a new government initiative unveiled in 2012. For this purpose, the bank is readying itself to provide credit to growers of trees for paper-production under contract to Kanna Company, a subsidiary of Double A (1991) company (Krungthep Turakij, 2012a). In addition, the bank has started a programme called 'KTB Micro Banking for Supply Chains' to provide loans to small suppliers of larger companies that are also KTB customers.

1.2.2. **Thai Credit Retail Bank (TCRB):** TCRB is the only private commercial bank that specifically targets lower-income customers and small business operators. Its main business is providing credit and leasing services. In the credit aspect, the bank serves customers, who do not usually qualify for loans with other commercial banks. These include small business owners with irregular income or the borrower whose proposed loan amount is too small for commercial banks. TCRB offers loans for

various purposes including the purchase of motor vehicles, housing, businesses, education and medical care. One interesting and unique product of TCRB is their gold-backed loan, which allows customers to use gold as collateral (Lewis, 2013). In order to provide leasing services, the bank owns a subsidiary leasing company, Thanaban, which specializes in the leasing of motorcycles. This business has been in operation for more than 30 years and targets the hire-purchase of motorcycles in Bangkok and surrounding areas. In addition to credit and leasing services, the bank also offers deposit savings products as well as foreign exchange services. TCRB has been offering deposit services at post office counters to expand its reach and access to customers by.

- 1.3. **Non-Bank Financial Institutions (NBFIs):** NBFIs are also known as credit-only financial institutions. The BOT lists 28 large credit companies which are referred to as NBFIs in Thailand. By law, NBFIs cannot accept deposits of savings from people or any institution. However, they collect fund in a variety of ways including (i) investment by a wealthy individual or group, (ii) acting as subsidiary of a larger organization including commercial banks (iii) simply taking out corporate loans that they will repay through payments by their clients.

NBFIs are most common in urban areas of the country. They are a source of finance for those who do not have land or other fixed assets to use as collateral, a common situation for many urban dwellers. However, they do still require some form of collateral. They accept borrower's movable assets (for example, jewelry, mobile phones, title of a car or motorcycle) as collateral. NBFIs offer both credit card and personal loan services including consumer credit, leasing and hire-purchase services. Credit card and personal loan companies provide short-term financing, while leasing and hire-purchase companies provide medium-term loans. Many companies provide personal loans together with credit card loans and cash card services. Some companies provide a wider range of services, offering a combination of personal loans, credit card, leasing and hire-purchase services. For example, AEON Thana Sinsap provides credit card services with personal loans, motorcycle leasing and even payment services through its AEON card. NBFIs have a large customer base, but grant smaller loans than either domestic or foreign commercial banks. In fact, NBFIs are big providers of consumer credit in Thailand. It is likely that the poor are well served by the NBFIs as they offer lower interest rates and have more professional management.

2. **Semi-formal MFIs:** Semi-formal MFIs are the legal and member-based financial institutions that promote savings and investment within communities. They operate under only non-prudential regulations and may receive funding from the government (Lewis, 2013). This category of institutions include agricultural, savings and credit union cooperatives, registered savings-for-production groups, and village and urban revolving fund (VRF). The institutions under this category comprise the second largest group of microfinance service providers in Thailand. The amount of fund provided by this category of MFIs constitute approximately 10% of the total microcredit in Thailand (FDC, 2010). The major providers under this category are discussed below:

2.1. **Cooperatives Institutions (CIs):** Cooperatives are semi-formal financial institutions set up by members of the same occupation, or by those who live in the same area in order to help each other. Various types of cooperatives exist in Thailand including agricultural cooperatives, fishery cooperatives, land settlement cooperatives, service cooperatives, credit union cooperatives, savings cooperatives, and farmers groups. It can be mentioned that credit unions in Thailand adopt the cooperative model and are thus called ‘Credit Union Cooperatives’ (Lewis, 2013). Cooperative institutions (CIs) are regulated under the Cooperatives Act of 1968 and overseen by the Cooperatives Promotion Department (CPD), Cooperative Auditing Department (CAD), Ministry of Agriculture and Cooperatives (FDC, 2010). It was reported that there were more than 13,000 cooperatives in the country in 2012. Farmers groups constituted the greatest portion (5,618 groups with 10.7 million members) of the total cooperatives, followed by agricultural cooperatives (4,362 cooperatives with 6.1 million members) (Figure 1) (CAD, 2012).

The main businesses of the CIs are to provide savings and credit services. The objective of credit union cooperatives and savings cooperatives is to promote savings, improve members’ quality of life and develop strong communities. Services offered are mainly deposit and credit, but there are also often popular welfare benefits associated with cooperative membership. On the other hand, the objective in creating a production cooperative for farmers, fishermen and people who live in government-granted land settlements is to help each other in their farming/agricultural work. Agricultural cooperatives and farmers groups are found mainly in the North and Northeast part of the country as these regions are primarily agricultural, with a high poverty incidence and least served by commercial banks and large NBFIs. In contrast, savings cooperatives, credit union cooperatives and service cooperatives operate their businesses mostly in the more urbanized Central region and in Bangkok.

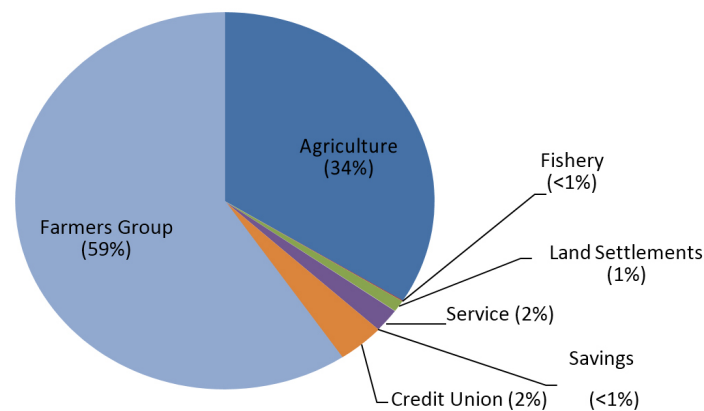


Figure 1: Members of Cooperatives by type of cooperative institutions Source: CAD, 2012

2.2. **Savings-for-Production Groups (SPGs):** Savings-for-production groups (SPGs) are community-based financial institutions that operate at the village level. SPGs are not required to be registered as ‘cooperatives’ to avoid the complexity and limitations of being a registered cooperative. However, there is a requirement that they are to register and operate under guidance developed by the Community Development Department (CDD), Minister of Interior (MOI); and to deposit their savings with the government-owned Krung Thai

Bank (KTB) (FDC, 2010). SPGs promote savings and provide credit services to low income rural families. Profitable savings groups also usually channel some of their profits to provide different types of welfare benefits to members. This type of microfinance service providers are available in all regions of Thailand. However, the largest number of SPGs (nearly 51% of the total groups) is located in the Northeast region, followed by the Northern region. This is probably due to the fact that the North and Northeast are two poorest regions in Thailand, and the people in these regions have limited access to formal financial services resulting in a proliferation of alternative types of financial services.

- 2.3. **Village and urban Revolving Fund (VRF):** In 2001, the Thaksin Shinawatra government launched the Village and Urban Revolving Fund (VRF) program, which aimed to provide 1 million bath (approx. USD \$22,500) to every village and urban community in Thailand as working capital for locally-run credit associations. The National Village and Urban Community Fund Committee was set up to oversee the Fund. The money was quickly disbursed to locally-run committees in almost all of the 74,000 villages and over 4,500 urban (including military) communities of the country (FDC, 2010). The Fund was designed and intended to help boost household-level non-farm enterprise. The money has been channelled to the VRF clients through the BAAC and GSB, the key microfinance arms of the government.

Each village was to manage the funds using a committee that would decide eligibility and size of loan, generally from 10,000 baht (330 USD) to 20,000 baht (670 USD). Because the loan size was small, only 50 to 100 people can borrow at a time from the revolving fund. Each village received the same amount of money regardless of the number of residents, giving smaller villages a higher benefit from the scheme. In practice, local operators have discretionary power in the management of Village Funds. Within certain limits, they can set interest rates, maximum loan amounts and the terms of the loans. New loans can be taken out by a customer once existing loans are repaid. Typically, loans can be used for any purpose and carry a low interest rate of 6 percent. On the whole, the initiative of VRF has been successful in reaching villages and urban communities and it could be an important vehicle in delivering microfinance services. Particularly, the programme enjoyed some success in reaching the poorer households who, in the past, had to rely only on moneylenders (Menkhoff, et. al., 2009). However, it was not as successful in restricting loan eligibility only to poorer households. Moreover, overall this micro-credit program increased consumption among villagers rather than being used primarily for income-generating activities (Boonperm, et. al., 2012; Kaboski and Townsend, 2009). In addition, this system is no longer in existence in many villages.

3. **Informal independent and self-help groups:** This category of MFIs are the community and member-based organization which are created by the communities to serve the community members. However, they are often supported by the external entities including non-government organizations (NGOs), local government agencies and monks (Bird, et. al., 2011). Informal providers of microfinance include self-help savings and credit groups. They promote savings and provide credit services to community members. These providers do not have legislations for their settings and are not subjected to prudential and non-prudential regulations (Lewis, 2013). The major providers under this category are discussed below:

3.1. **NGO MFIs:** Most NGOs in Thailand are operating either as foundations or associations, with existing laws that are quite restrictive when applied to the provision of financial services. A few also work through existing cooperatives and savings groups. However, currently, there are a number of NGOs that are continuing microfinance related programs. Most of these programs are projects of missionary organisations or international NGOs; only a few are local. Normally, NGO microfinance programs are relatively small and have strong development objectives. Their aim is to provide microfinance services to improve the household economic position of low-income minority groups who reside in remote rural areas and do not have access to finance. A few well-known NGOs that have microfinance related programs and initiatives in Thailand are discussed below:

3.1.1. **World Vision Foundation (WVF):** WVF works in nearly 100 countries around the globe, combating the root causes of poverty and responding quickly when disaster strikes. The foundation has a serious focus on economic development which is one key facet of community transformation. The foundation, through its Vision Fund International, provides microfinance services in 30 countries to break the chains of poverty. WVF has a strong participation in microfinance activities throughout Thailand. It is one of the important contributors to the total loan portfolios provided by the NGO MFIs in the country. It was reported that the foundation had around 31,000 credit customers with 190 million bath (USD \$5.4 million) in outstanding loan portfolios in 2010 (FDC, 2010).

3.1.2. **Upland Holistic Development Project (UHDP):** UHDP has a small community-based microfinance program in the Mae Ai region under Chiang Mai province. Most of the project's work is with hill-tribe communities. UHDP is working to transform the lives of rural farming families through environmental restoration, economic empowerment, and spiritual renewal. Partnering with ethnic minorities in Northern Thailand, UHDP is equipping families as they face serious challenges to survival. UHDP is providing training and equipment to 15 savings-and-loan groups as well as partnering with 20 local churches. Activities include training for rural farmers in sustainable techniques such as organic fertilizers, agroforestry, reforestation efforts, soil conservation, family gardens, and rainwater harvesting. Support is also provided for savings-led microfinance groups, and building of church leadership. Since UHDP began working in Thailand, farmers have planted more than 160,000 trees to restore fertility to the land, protect soil against erosion, and produce nutritious crops for families to eat and sell. Community forestry is protecting existing forest.

3.1.3. **Population and Community Development Association (PDA):** PDA is a large NGO with many different programs in Thailand. The original mission of the PDA was to supplement the efforts of the Thai government to reduce poverty by promoting family planning services. To accomplish this, the PDA has focused on targeting remote rural communities where government outreach has not been viable. Realizing that a high population growth rate is a barrier to economic development, the PDA's focus has been on implementing community-Based family planning programs

to lower the population growth rate. It has sought to do so through community-based, participatory approaches to educate and empower village residents. Since its inception, the program mission has expanded to include rural development and the improvement of overall health conditions (Viravaidya and Mechai, 1997). At present, the PDA works to address a multitude of issues to reduce poverty levels. Some of these activities include health care, HIV/AIDS services and awareness, access to clean water resources, reliable means of income, environmental conservation, gender equality, youth education and services, democratic engagement, and small-scale business initiatives, village-owned banks providing micro-credit loans (PDA, 2011).

- 3.1.4. **The Mirror Foundation:** The Mirror Foundation, formerly known as Mirror Art Group, is a NGO based in northern Thailand. The organization's aim is to help the hill tribe people in the sub-district of Mae Yao under the Chiang Rai Province. It works with various issues such as citizenship, drug abuse, erosion of culture and trafficking of women and children through several projects. Currently, the foundation is working to mediate the process of applying for Thai Citizenship for the hill tribe people around the area (Hongthong, 2008; Sai and Marwaan, 2006; Sai and Marwaan, 2002). The foundation has another Project called 'Combat Trafficking of Women and Children' helps educate the people about issues related to trafficking, and raise public awareness of such trafficking (Xiaodan and Staff, 2005; Xiaodan and Staff, 2007). The foundation also runs an ICT project which teaches computing skills to local hill tribes around the Chiang Rai region (Abennet, 2006). In addition, the foundation runs the Hill Tribe Life and Cultural Centre at Ban Jalae and the Virtual Hill Tribe Museum which jointly serve as vessels to preserve the culture of the hill tribes for future generations (Chinvarakorn, 2007). The foundation has launched a website which serves as an outlet for the hill tribes around the area to sell their arts and crafts online (Rahman and Macan-Markar, 2003; Rahman and Macan-Markar, 2006). Recently, it has started a new and small loan program for rural farmers in Chiang Rai.
- 3.1.5. **Common Interest International:** Common Interest international is a foundation based in Chiang Mai province in Northern Thailand. It works primarily with rural and hill-tribe villages using the Village Banking methodology. The foundation also focuses on women and minority hill-tribe groups in Chiang Mai and nearby provinces.
- 3.1.6. **Small Enterprise Development (SED):** SED is a NGO based in Surin province in the Northern Thailand. It works with the poor in that region. SED uses the Village Banking methodology in its programs. It has also ties to Catholic Relief Services and Food for the Hungry.
- 3.2. **Self-help Savings groups:** The self-help savings groups in Thailand started in 1965 as a joint effort of members and community leaders, a result of the lack of access to the formal financial services sector (FDC, 2010). Many of these groups were started as community development projects with assistance and supports from NGOs or local government development agencies or monks. Most of the self-help savings groups are usually small,

locally based, offer only savings and credit services, and are monitored by their own members. Majority of them apply village banking or solidarity group methodologies with varying strategies in raising and mobilizing funds. Apart from providing savings and credit services, these groups also use their surplus profit to set up multi-purpose welfare funds covering health, education, occupation, and support for children, youth, women, elderly, orphans, the disabled, and also folk artists. There are two types of self-help savings groups in Thailand as discussed below:

- 3.2.1. **Sajja Savings Groups:** The Sajja (Truth) Savings Group is very much like a pledge savings group, but incorporated the Buddhist principle of Truthfulness, Sajja. It was initiated in 1985 by a Buddhist monk who observed the luxurious spending habits of young people in the village who still depended on their poor parents for money. He persuaded these youths to take a vow or Sajja to save part of their money for a revolving fund. The elders in the village also joined the Sajja Group. Since then, the concept was adopted by villages throughout the country, with support from the Community Development Department (CDD). Today, Sajja savings groups have become a common basic model of self-help savings groups among small villages around Thailand. Some of these groups also provide welfare to members that for hospital and funeral expenditures, education and community development. As community-based and community-run organizations, the precise objectives and the operations of Sajja savings groups differ depending on the needs of the communities and the practices adopted by the management committees of the groups.
- 3.2.2. **Groups Promoted By Community Organizations Development Institute (CODI):** CODI is a public organization formed in 2000 through the merging of the Urban Community Development Organization (UCDO), and the Rural Development Fund (RDF) (Lewis, 2013). In the initial phases of its operations, CODI focused on the areas of urban community organization, housing finance, welfare funds and savings groups and extended these issues to suit rural settings. At present CODI's microfinance activities include welfare funds and housing loans affiliated with its Ban Mankong Collective Housing Program.
- 3.3. **Informal private financial services:** There are many forms of informal microfinance resources around the country including vendors' credit at gold vendor, pawnshops, and money lenders. The two most popular informal sources of microfinance in Thailand are discussed below:
 - 3.3.1. **Moneylenders:** A moneylender provides an unsecured loan on the basis of a previous relationship with the borrower, often at a high interest rate. It was reported that moneylender's interest rate is as high as 3% per day or 1,095% per year, much higher than BOT's 28% cap for microfinance loans (Krungthep Turakij, 2012b). Moreover, the services provided by the moneylender are not always fair and professional. For these reasons, moneylenders are considered as the least desirable option for obtaining loans. However, for lower-income people in need of quick cash and who have no collateral to offer, moneylenders are often turned to as the last resort of credit.

3.3.2. **Pawnshops:** Pawnshops provide an alternative source of short-term financing for people who are short of cash, but still own some property that can be pawned. A person can use acceptable personal possessions as collateral to borrow money from pawnshop. If the monthly interest is not paid on time or if the loan is not paid back within the agreed period of time, the possession is forfeited. At the times when ready cash is needed, for example, at the beginning of the school year, pawnshops are a popular destination of financing. There are several types of pawnshops available in Thailand, depending on their source of financing and the regulating body. Firstly, public pawnshops are those run by the Public Pawnshop Office within the Department of Social Development and Welfare (DSDW), Ministry of Social Development and Human Security. Public pawnshops are eligible for financing from the government budget, as well as from GSB. The second category is municipality pawnshops operated by municipalities and overseen by the Office of Local Government Pawnshops Committee (LGP), Ministry of Interior (MOI). The third category is private pawnshops regulated by the Ministry of Interior (MOI). Both private and municipality pawnshops receive no financing from government. Loan sizes and interest rates charged vary depending on the loan principle and the type of pawnshop.

Micro Credit Services in Thailand

Most of the Thai people have access to credit from a variety of providers. According to Household Socio-Economic Survey (SES 2011) conducted by the National Statistics Office (NSO), Thailand, approximately 56% of the households have a loan from a financial institution. The survey also reported data on primary sources of loans for the households. It was revealed that the most frequently used source of borrowing was BAAC (31%), followed by Village Fund (22%), and NBFIs (20%) (Figure 2). The least frequently used source of borrowing was the commercial banks, with about 6% of the market.

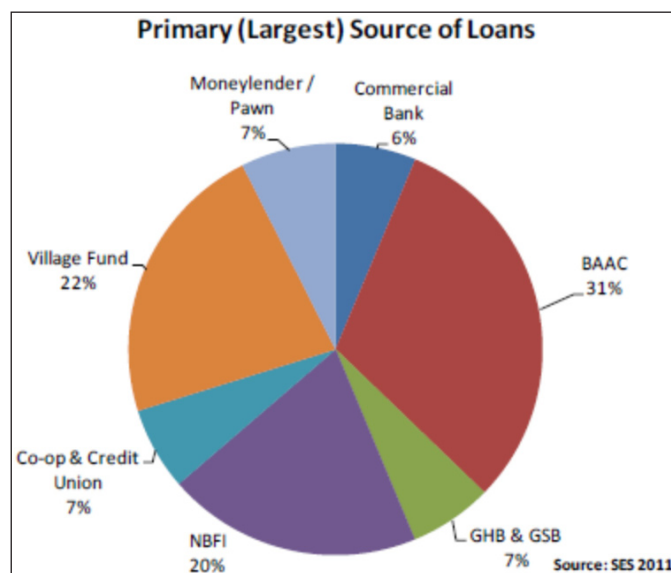


Figure 2: Primary Source of Loans (by number) Source: SES, 2011

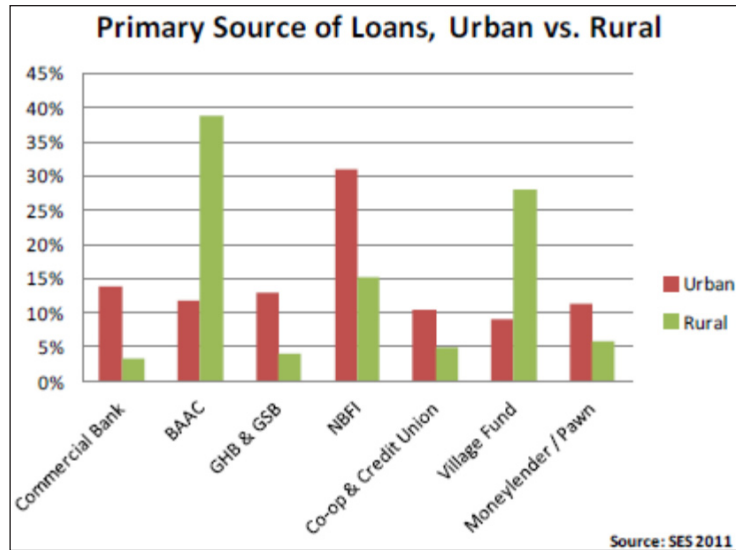


Figure 3: Primary Source of Loans: Urban and Rural Split Source: SES 2011

Figure 3 shows the primary sources of loans for urban and rural households. It can be seen that urban borrowers use formal, semi-formal as well as informal sources of borrowing while rural dwellers rely more on the government-initiated institutions such as BAAC and the Village Fund.

4. CONCLUSION

This study provides an overview of the main institutions, programmes and initiatives currently available in the microfinance sector in Thailand. Literature review shows that microfinance sector in Thailand is heavily dominated by government programs and interventions. Most of the government programs and interventions are developed from community-based credit schemes that focus on social capital in the community. Government-owned specialized financial institutions (SFIs) i.e. BAAC, GSB and I-Bank are the main providers of microfinance services to low-income families and poor families. Formal MFIs provide the majority portion (nearly 90%) of the total micro credit in the country. On the other hand, semi-formal MFIs (i.e. cooperative institutions, savings-for-production groups, and village and urban revolving fund) constitute approximately 10% of the total micro credit in Thailand. However, private commercial banks and/or NGOs microfinance operations in the country is very limited. Most of the microfinance programmes run by the NGOs are small and target specific groups of people such as factory workers, dwellers in urban slums, minority hill tribes and non-resident refugees along the border with neighbouring countries. These microfinance programmes are generally independent and do not collaborate with each other. It can be concluded that the government is implementing Microfinance Master Plan that will relax some financial regulations to attract commercial banks and new players into the industry. It is hoped that these proposed changes will not only increase financial access to low income families, but also contribute to reduce poverty and narrow down the national income gap.

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