Journal of Asian Economics 25 (2013) 3–16

Contents lists available at SciVerse ScienceDirect

Journal of Asian Economics

Does the Village Fund matter in Thailand? Evaluating the impact on incomes and spending

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ARTICLE INFO

Article history:
Received 7 December 2011
Received in revised form 2 January 2013
Accepted 8 January 2013
Available online 20 January 2013

Keywords:
Thailand Village Fund
Impact evaluation
Panel data
Quantile regression
Pro-poor effects

ABSTRACT

Launched in 2001, the Thailand Village and Urban Community Fund (VF) provided almost US$2 billion – a million baht for each of Thailand's 78,000 villages and wards – to provide working capital for locally-run rotating credit associations. Using data from the Thailand Socioeconomic Surveys of 2002 and 2004, we find that VF borrowers were disproportionately poor and agricultural. A fixed effects model using a panel of rural households for these years finds that VF borrowing is associated with, on average, 3.5% more current spending, and 1.4% more income; very similar impacts are found using a propensity score matching model applied to nationwide data in 2004, which also found that VF loans are associated with the acquisition of more durable goods. By way of contrast, borrowing from the Bank for Agriculture and Agricultural Cooperatives appears to have a stronger effect on income than on expenditures. The evidence also shows that the effect on expenditure (or income) of VF borrowing is strongest at the lower quantiles, and flowed disproportionately to low-income households; in both of these senses it is "pro-poor".

In 2001, the government of Thailand launched the Thailand Village and Urban Community Fund (VF) program, which aimed to provide a million baht (about US$22,500 at the then-prevailing exchange rate) to every village and urban community in Thailand as working capital for locally run rotating credit associations.

Thailand has almost 74,000 villages and over 4500 urban communities, so the total injection of capital into the economy envisaged by the "million baht fund" amounted to 78 billion baht, equivalent to about $1.75 billion, or 1.4% of 2002 GDP. The program was put into place rapidly. By the end of May 2005 the VF committees had lent or re-lent a total of 259 billion baht (US$6.4 billion) to 17.8 million borrowers, some of whom borrowed more than once. This represents an average loan of US$466.

In this paper we ask a narrowly focused question: has the VF had an impact on household incomes and spending, and if so, how large are these effects? An answer to this question is necessary, but not sufficient, to help the government of Thailand determine whether the program should be expanded or revised, and to help governments of other countries determine whether they should introduce or expand similar microcredit schemes.

The VF represents a policy experiment on a grand scale, but it is not the only major source of household credit, even in rural areas. The Bank for Agriculture and Agricultural Cooperatives (BAAC) has an extensive network of rural lending. So it is appropriate to ask what additional role the VF has played, an issue that we also address in this paper.

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http://dx.doi.org/10.1016/j.asieco.2013.01.001

Our study contributes to the understanding of the impact of the VF for three reasons. First, it uses data from the large, nationally representative, Socioeconomic Surveys of 2002 and 2004, and thus differs from the studies of the impact of the VF on credit constraints by Menkhoff and Rungruxsirivorn (2011), and on income and expenditure by Kaboski and Townsend (unpublished) and Coleman (1999, 2006), which work with smaller, regionally limited, data. Chandoevwit and Ashakul (2008) use the panel component of the 2002 and 2004 Socioeconomic Survey data (as do we in some of our estimates), but our statistical methods are more complete, and our results differ significantly from theirs. Second, we examine the complementarities between the VF and BAAC, an important issue that has not received much attention. And third, we apply quantile regression techniques to panel data from the 2002 and 2004 surveys in order to identify the distributional effects of VF lending.

We summarize the relevant details of the VF program in Section 1, set out our general approach in Section 2, describe the data employed in the impact evaluation in Section 3, and in the subsequent sections explain the methodology and report the overall results for Village Fund loans (Section 4), BAAC loans (Section 5), and quantile regressions (Section 6). The paper ends with a short set of conclusions.

1. The Thailand village and urban revolving fund

The scale of the Village Fund endeavor can hardly be underestimated, as the comparative data in Table 1 make clear. According to these numbers, by 2004 the Thailand Village Fund was the largest single microfinance scheme in the world: it lent an estimated $3.0 billion in that year, substantially more than the $2.0 billion extended by Bank Rakyat Indonesia, the second-largest microfinance lender by value; it lent to 7.5 million borrowers, almost twice as many as BRAC in Bangladesh, the second-largest microfinance lender as measured by number of loans; and it served more women borrowers than even the Grameen Bank.

The Thailand Village Fund is still large, and in 2009 was the second-largest microfinance lender in the world (after the Vietnam Bank for Social Policy), as measured by gross loan portfolio, and judged against the lenders that reported their 2009 results to the Microfinance Information Exchange (http://www.themix.org). However, the VF has not expanded in the past five years – by its very design, it cannot easily grow from within – while most major microfinance institutions elsewhere in the world have continued to get bigger.

By international standards, the Thailand Village Fund is also unusual in the extent to which it is decentralized. The headquarters in Bangkok has limited information on the assets and liabilities, incomes and expenditure, of the individual funds, which are run at the village level by local committees. This is by design, because the concept is rooted in the idea that villages and urban wards can and should make their own decisions, and this is antithetical to strong central direction or control.

Our focus in this paper is on the impact of the VF in the first three years of its operation, through 2004, because this is the time when the injection of capital into the VF occurred, and thus when any impact is likely to be most easily measured.

As noted above, the VF became operational very quickly. Inaugurated in 2001, Village and Urban Community Fund Committees (henceforth "Village Fund Committees") had been formed in 92% of the villages and urban communities in Thailand by 2002, and much of the money had been disbursed. By May 2005, 99.1% of all villages had a Village Fund in operation and 77.5 billion baht, representing 98.3% of the originally scheduled amount, had been distributed to Village Fund Committees (Arevart, 2005).

Although the initial working capital came from the central government, the Village Funds are locally run. Most charge a modest annual membership fee of 10–100 baht, and members, who often come from more than half of the households in a village, elect the local executive committee. The local committees have some discretion in setting interest rates, maximum loan amounts, and the terms of loans; some require, or at least encourage, savings deposits as a condition for borrowing; and over a quarter (as of 2009) have borrowed an additional million baht or more from local banks to augment their initial working capital.

Typically, loans are disbursed early in the calendar year and are due back by the end of the year. Borrowers are expected to have two guarantors, typically from the same village. The Village Fund Committees then process the loan applications, households obtain the funds either in cash from the VF or, more usually, from the appropriate bank. The interest and principal are typically collected in cash by the local VF committee members, deposited in the VF's account, and re-lent the following year. Most VFs pay modest honoraria to the members of the executive committee.

2. Why the village revolving fund may have an impact

The initial injection of loanable funds, due to the establishment of the VF, was substantial, averaging 2.9% of annual income, or 11.6% of income for the 38% of households who borrowed in 2004. Yet it is not self-evident that even a large injection of microcredit into a rural economy will have a measurable impact, or a positive impact. If financial markets operate well – information is cheap and readily available, there are no policy distortions – then households should already have access to as much credit as they can productively use, and they would mainly substitute VF credit for other sources of credit.

Even without the VF, Thai households have considerable access to credit. In a 1997 survey of 1875 households in 192 villages in four provinces in central and northeastern Thailand, Kaboski and Townsend (2005) found that loans from the Bank for Agriculture and Agricultural Cooperatives (BAAC) – widely considered to be a successful rural finance institution (Fitchett, 1999; Yaron, 1992) – were available in 87% of the villages; furthermore, three-fifths of villages had at least one local financial