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Microfinance in Thailand

The biggest microlender of them all

Jan 1st 2013, 16:30 by T.F.J. | BANGKOK

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THERE are an estimated 120,000 microfinance initiatives worldwide but Thailand's "Village and Urban Revolving Fund" lends more money to more people than any other. The scheme's outstanding loan portfolio totalled \$4.9 billion in 2011; the number of active borrowers that year stood at 8.5m. Those numbers are swelling. Yingluck Shinawatra, the Thai prime minister (pictured above), announced plans late last year to inject \$2.6 billion in additional capital into a network of nearly 80,000 village banks, which her brother, Thaksin Shinawatra, who was prime minister between 2001 and 2006, created with a stroke of a pen ten years ago.

The idea of the village fund is to create self-sustaining microfinance banks in each of Thailand's villages. Although the scheme is funded by government grants and funds are handled by intermediaries such as the Bank for Agriculture and Agricultural Cooperatives (BAAC), a state-run bank, each village pot is run by an elected local committee that has some discretion in setting loan amounts and interest rates. Villagers are eligible by residency to take out a loan, typically limited to 20,000 baht (\$656) without collateral.

The scheme has undoubtedly helped financial inclusion and boosted rural credit. According to the Bank of Thailand, 96.5% of households have access to financial products. A 2011 paper by Joseph Kaboski of the University of Notre Dame and Robert Townsend of the Massachusetts Institute of Technology found that Thai households increased both their borrowing and their consumption roughly one for one with each dollar put into the fund.

But the scheme has its drawbacks. Private providers are unable to compete with the Village Fund on cost: Mix Market, a data provider, lists only one private microfinance lender in Thailand. Regulations and licensing requirements are so strict that non-governmental organisations have stopped setting up shop. Critics say it is a tool of political patronage. And Messrs Kaboski and Townsend find that the programme costs 30% more than a direct transfer program that does not leave households saddled with interest payments.

Natee Klibthong, the head of the National Village and Urban Community Fund Office (the fund's official name), says he has not heard of the Kaboski/Townsend research. He notes that the benefits of the Village Fund "cannot be measured in monetary terms" and puts more emphasis on its role in the development of villages. Indeed, that role is only set to grow.

By the end of Ms Yingluck's term in 2016, he says, the government aims to have raised the number of Village Fund customers to 20m. It also wants to make the village funds a "one-stop service centre to help solve problems at the village level". There are also plans to create a "people's bank", a sort of central bank for the Village Fund, and a "nation fund", a state-backed financial vehicle that funds the funds. Whatever the misgivings of others, the course of Thailand's microfinance supertanker has already been charted.

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