

## Thailand Village Fund: Populist Policy for the Poor\*

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*The village fund is used to create economic activities in the village. Through these economic activities, income is generated. Through more income generated, there will be more economic activities. With more activities, there will be employment. Consumption, growth and multiplier effects will follow. The village can stand on its own feet.*

-- Thaksin Shinawatra, Prime Minister of Thailand, September 8, 2003<sup>1</sup>

On July 25, 2001, five months after he took the office on February 9, 2001, Thaksin Shinawatra, also known as Maew<sup>2</sup>, the 23<sup>rd</sup> Prime Minister of Thailand, launched one of controversial programs called ‘*the Nation-Wide One Million Baht Village Fund*’ or shortly ‘*the Village Fund*’ for selected 74,000 villages and 4,500 urban communities in Thailand.

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<sup>1</sup>. Keynote addressed by Thaksin Shinawatra, Organized by the Philippine Chamber of Commerce and Industry and the Philippine-Thai Business Council, Manila, September 8, 2003.

<sup>2</sup>. His nickname came from a name of northern Thailand hill tribe, also known as ‘Hmong’.

On that day, the total amount of THB 78,500 million or USD 1,884 million<sup>3</sup> was injected to the target villages and communities. Village Fund recipients were expected to use money to improve their productivity and/or to invest in essential start-up capital. Thaksin's government anticipated that the Program would at last demonstrate sustainable long-term benefits to the rural majority and improve the overall rural livelihoods.

From the very outset, the new program was beset by widely divergent views of its appropriateness and likely efficacy. Proponents lauded it as a long-overdue 'pro-poor' initiative that could eventually make the entire Thai economy stronger, as it helped lift the lot of the under-privileged farmers and agricultural entrepreneurs, who comprised the bulk of the population. With more opportunities, and resources, to invest in their land, diversify their income-generating activities and develop new products for markets, the targeted groups of rural poor would be able to improve their lives significantly.

A number of critics and analysts, however, viewed the new initiative altogether differently. Several critiques took aim at what they viewed as the highly questionable effectiveness and efficiency of this new approach to "jump-starting" the rural economy. Some research studies questioned the worth and validity of the Program, focusing in particular on the misuses of funds. Yet others, focusing on some key aspects of how the Program was supposed to be administered at the village level, were highly critical of what they viewed as a built-in lack of transparency in the management and operations of the Program. Put together, nearly all critiques were mainly concerned about the volatility and sustainability of the Program.

In spite of these criticisms and doubts about how the funds would be spent, the Program was implemented during Thaksin's first four-year term (2001-2004) along with other populist policies. Now, nearly three years later, with data available concerning the outcomes of the initiative, both supporters and critics were in a position to ascertain the degree to which their respective early views on the effectiveness and efficiency of the Program had proved accurate.

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<sup>3</sup> The exchange rate was THB 41.67 per USD.

As shown in Exhibits 1 and 2, various poverty and distribution indicators had indeed improved. However, it might be too strong to conclude from these figures that they are the results of the Program. Less immediately obvious, however, was whether the targeted households were really better off than they were before the Program's launch. More specifically, who actually gained, who actually lost because of the Program? What were the costs and benefits of the Program?

Thaksin was wondering whether the optimistic anticipation of the sustainable long-term benefits to the rural majority and the overall rural livelihoods improvement could become real. The upcoming 2005 general election, a competition for a chance of his second four-year term (2005-2008), would be held in the next few months. Thus, he was coming to a decision whether to continue or discontinue the Village Fund Program in the new election campaign and what changes might be indicated based on results to date if the decision would be to continue it. He knew that the success of the new election campaign would partly depend on this critical decision.

### ***Sweeping Victory: Beginning of Absolute Political Power***

In 1998 a year after Asian financial crisis<sup>4</sup>, Thai Rak Thai Party (TRT)<sup>5</sup> led by a billionaire telecoms tycoon – Thaksin Shinawatra – was founded. TRT Party was initially perceived as a completely brand-new-imaged Thai political party with an anti-corruption agenda, inward-oriented economic growth policies and various appealing populist platforms for grassroots.

TRT Party pledged to implement several populist policy packages such as a 30-baht (USD 0.75) universal healthcare scheme, a three-year debt moratorium for small farmers, the people's bank – turning assets into capital, “One Tambon One Product” (OTOP),<sup>6</sup> and a one

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<sup>4</sup>. The Thai Baht was floated and devalued on July 2, 1997, triggering the Asian Financial Crisis. Before the crisis, the value of Thai baht was about THB 25 per USD. After the crisis, the lowest value almost touched THB 50 per USD.

<sup>5</sup>. “Thais Rak Thais” means “Thais Love Thais”. Rak means love.

<sup>6</sup>. “Tambon” is a sub-district.

million baht village fund. With impressive image of proactive visions and modernized style of management along with strong marketing efforts, and importantly, numerous tangible policies, Thaksin and his TRT Party were ready and confident for the general election that would be held anytime in the future.

In November 2000, Prime Minister Chuan Leekpai<sup>7</sup> dissolved parliament and declared the 2001 general election. The newly founded TRT Party won a sweeping victory on January 6, 2001 election, the first election held under the Constitution of 1997. Of the 500 parliamentary seats, TRT Party won 248 seats and needed only 3 more seats to form a government. On the other hand, the Democrat Party, the only long-established party in unstable Thai politics, took merely 128 parliamentary seats mostly from the southern region. Chart Thai Party gained 41 seats, New Aspiration Party 36 seats, Chart Pattana Party 29 seats, Seritham Party 14 seats, and other parties 4 seats (Exhibit 3).

At last, a broad coalition government composed of TRT Party, Chart Thai Party, New Aspiration Party and Seritham Party was established with 339 parliamentary seats in total while the remaining 161 seats were formed as the opposition. Given this, the coalition government led by Thaksin, the 23<sup>rd</sup> Prime Minister of Thailand, gained absolute control in the parliament. Remarkably, it was also unlikely for the opposition to have a minimum of 200 seats to censure the Prime Minister. It, thus, was generally believed that this was the strongest and most stable government in all-time Thai political history.

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<sup>7</sup>. Chuan Leekpai, Prime Minister of Thailand, a leader of Democrat Party: 1<sup>st</sup> term (September 23, 1992 – July 13, 1995) and 2<sup>nd</sup> term (November 9, 1997 – February 9, 2001).

***“Thaksinomics” : The Policies, the Chief Protagonist and the Early Criticisms***

In February 2001, a couple weeks after a landslide victory in the 2001 general election, Thaksin and his coalition government announced to the parliament several urgent economic policies aiming at improving the livelihoods of the rural poor or the grassroots, the majority of the country's population.

***“Thaksinomics”: The Policies.***

Nine urgent policies that became the platforms of his government in the first two years (2001-2002) are presented in Exhibit 4. In addition to these urgent policies, other policies during the last two years (2003-2004) of his first four-year term are also listed in Exhibit 5.<sup>8</sup>

In view of analysts, this Thaksinomics' national populism was seen as a different development paradigm from earlier neo-liberalism. Neo-liberal economic development regime pursued an outward-oriented, foreign capital-funded, export-driven, and modern-sector-based growth regime, with the agricultural and public sectors playing marginal roles.<sup>9</sup>

On the contrary, Thaksinomics' populism regime aimed to develop toward more-balanced, inward-oriented and domestic demand-based economy.<sup>10</sup> This observation partly reflected Thaksin's speech to the guests from various business and financial communities, government leaders and members of academia who participated at Fortune Global Forum 2001 in Hongkong on May 9, 2001:

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<sup>8</sup> Krongkaew Medhi, “Thaksinomics Part I: A New Development Paradigm for Thailand,” Paper presented at the Annual Meeting of Bank of Indonesia, Jakarta, Indonesia, February 25, 2004.

<sup>9</sup> Jarvis Darryl S. L, “Problems and Prospects in Thaksin’s Thailand,” *Asian Survey*, 42(2), 2001: 297-319, cited in Choi Jungug, “Economic Crisis, Poverty and the Emergence of Populism in Thailand,” *Journal of International and Area Studies*, 12(1), 2005: 52.

<sup>10</sup> Choi Jungug, “Economic Crisis, Poverty and the Emergence of Populism in Thailand,” *Journal of International and Area Studies*, 12(1), 2005: 52.

*A strong stable social platform is imperative in generating investor confidence and a prerequisite for a conducive and desirable investment climate. That is why the thrust of our policy objectives are geared to revive and resuscitate the farmers and the village economy to generate domestic demand impetus at the grassroots. Given the limited availability of resources and less than friendly world economic outlook, we have to prioritize urgent action programs to effectively resolve the plight of the majority of our poor at the outset.*<sup>11</sup>

Followers of Thaksinomics believed that by uplifting the rural sector and the poor a domestic economy would become stronger and the country would be less reliant on exports and foreign demands and less vulnerable to external economic factors. As explained by Deputy Minister of Finance of Thaksin's government, "The old strategy [exports and foreign dependencies] simply won't work. We [the Thaksin administration] had to come up with something new. We [the Thaksin administration] had to start on the inside [domestic economy]."<sup>12</sup>

Thaksin's government was full of confidence that a stimulation of the economy through various grassroots programs and a careful implementation of discreet economic measures would move capital closer to the people. As stated by Thaksin on September 8, 2003: "This successful partnership between the government and the poor [through various grassroots programs] is virtually the first partnership in Thai history that actually *works!* Measures were embarked by the government to further accelerate the local economy."<sup>13</sup>

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<sup>11.</sup> Keynote addressed by Thaksin Shinawatra, at Fortune Global Forum 2001 in Hongkong, May 9, 2001.

<sup>12.</sup> Michael Schuman, "The Common Touch," *Time Magazine*, Monday, January 31, 2005.

<sup>13.</sup> Keynote addressed by Thaksin Shinawatra, Organized by the Philippine Chamber of Commerce and Industry and the Philippine-Thai Business Council, Manila, September 8, 2003.

***“Thaksinomics”: The Man behind the Policies.***

Thaksin Shinawatra was a government leader without any real parallel in the history of elected Thai prime ministers. A self-made monopolistic billionaire and one of the wealthiest prime ministers ever to lead the country, he brought with him the ethos and methods of operation that had served him extraordinarily well in building Thailand's largest telecommunications conglomerate, Shin Corporation and Advanced Info Service. This soon led to analysts and critics alike referring to Thailand as a company of Thaksin, and Thaksin as a “CEO of Thailand.” Wrote one columnist,

*[Thaksin] declared his intention to run Thailand the way he ran his companies, billing himself as the CEO of government. He demanded instant results from entrenched bureaucrats. He delighted the poor by pumping money into grassroots projects. He spread government largesse across the country instead of directing it to regions where his party was strongest.*<sup>14</sup>

One of the most serious criticisms against Thaksinomics was that economic development for the whole country could not and should not be compared to business development for particular companies or any ones' business lives. Yet, to many observers, Thaksin strongly believed that the same management techniques that had worked so well in running his own diverse set of enterprises should also work for others and the country as a whole. Thus, he conducted himself and behaved as a Chief Executive Officer (CEO) and viewed his government as administrative officials and all civic servants as workers who should, and would, follow the CEO's commands.

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<sup>14</sup> Paul Wiseman, “Thailand's Thaksin Rides Crest of Tsunami Disaster,” *USA Today*, February 3, 2005.

***“Thaksinomics”: Some Early Concerns and Criticisms.***

According to an assessment of Thai economist,<sup>15</sup> Thaksinomics could give a new development paradigm for Thailand, nonetheless, all the Thai people must know all the risks involved, and know how to take care of these risks, and be clever enough to work or compete with anyone in this world. The risks comprised several conditions and assumptions such as strong and stable political position, highly local or domestic reliance, no inefficiency in market-oriented competitive system, fair chances of beginning for everyone, and ability to cope with indebtedness for new opportunities. Important dangers of Thaksinomics were the greater role of the state or public sector under Thaksin’s government as commented by the same economist:

*This greater state’s role reflects a ‘Father-Knows-Best’ attitude with Dr.Thaksin as the omnipotent (and omnipresent) father. This is also akin to an all-compassing socialistic system where the state provides many things, gives all the directions, and controls the movements of everyone in the country.*<sup>16</sup>

Notwithstanding these early concerns that surfaced soon after the announcement of the planned launch of the Village Fund Program, Prime Minister Thaksin resolved to forge ahead. In his view, expressed several times in comments in several forums, the level of income inequality and absolute level of poverty in the rural areas demanded government initiatives of the sort that he had proposed. Indeed, an examination of the sources and uses of Thai household income added credence to the magnitude of the problems that the Village Fund Program was aimed at ameliorating.

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<sup>15.</sup> Krongkaew, “Thaksinomics Part I: A New Development Paradigm for Thailand,” pp. 14-15.

<sup>16.</sup> Ibid. pp. 15.

### ***Sources and Uses of Household Income***

At the outset of 2001, a year of landslide victory of TRT Party, general sources and uses of household income were varied initially by income levels and sectors of households. With respect to this classification, the main targeted group of the Village Fund Program was indeed the poorest 10% (Deciles 1) of households in agricultural sectors.

#### ***Overall Household Income Classes***

According to 2001 National Statistics, Thai households were generally segmented into income deciles and sectors, i.e., agriculture or non-agriculture (Exhibit 6). Overall, 28% of households were in agricultural sector while 72% were in non-agricultural ones. There was a large difference, greater than five times, in total income between households in agriculture and non-agriculture. Average income of households in agriculture was two times smaller than those of non-agricultural ones. However, the gap of average income between the poorest 10% (Deciles 1) and the richest 10% (Deciles 10) in agricultural households was slightly smaller than that in non-agricultural households. Specifically, this average income gap in agricultural households was less than four times, while that in non-agricultural households was almost six times. Finally, the poorest 10% of agricultural households had income shares less than 3% while the richest 10% had more than 33%. On the other hand, the poorest 10% of non-agricultural households had income shares less than 2% while the richest 10% had more than 35%.

#### ***Household Income and Expenditure***

In general, sources of household income were mostly from factor income, i.e., income from supplying inputs to production activities, and partly from money transfers, i.e., transfers from the government, corporations and rest of the world (Exhibit 7). Specifically, total income of the poorest 10% (Deciles 1) of agricultural households were mainly composed of farm income (72%), wages and salaries (18%), social pensions for elderly and assistance and remittance (9%), and others (2%) (Exhibit 8).

On the uses of money in 2001 (Exhibit 9), the highest ten expenditures of goods and services spent by the poorest 10% of agricultural households were on necessities and production inputs: (1) wearing apparel products, (2) manufactured food products, (3) wholesale and retail trade services, (4) rice products, (5) vegetable products, (6) dwelling and real estate products and services, (7) chemicals and chemical products, (8) furniture and fixtures, (9) manufacturing industry products, and (10) rubber and plastic products.

Implementation of the Village Fund Program probably changed the pattern of income and expenditure of the poorest 10% of agricultural households, and possibly affected other households and the whole economic structure as well. An investigation of overall economic picture of Thailand in 2001 thus was necessary for designing the Village Fund Program.

### ***Thailand's Basic Macroeconomic Structure in 2001***

#### ***Macroeconomic Imbalances across Households***

As can be seen in Exhibit 10, a substantial gap existed between the consumption, tax payments, and debt levels of, in the first instance, the poorest agricultural and richest agricultural households, and in the second instance, between, the poorest and richest non-agricultural households. Moreover, the magnitude of the gap as between the poorest and the richest households in these two sectors (i.e., agricultural and non-agricultural) differed appreciably. Whereas in area of goods and services, for example, the richest 20% agricultural households' consumption was about 26% that of poorest 80% households, the richest 20% non-agricultural households' consumption rose to more than 150% of that of the poorest 80%. The same disturbing inequities could be discerned in other areas – e.g., tax payments and debt levels – as between the poorest and richest agricultural and the poorest and richest non-agricultural households.

***Major Macroeconomic Indicators***

Other major macroeconomic indicators could be derived directly from Exhibit 10, for example, gross domestic products (GDP), private and public consumptions, investment expenditures, trade balances, exports, imports, private and public savings, foreign savings, and various tax revenues. As can be seen in Exhibit 11, private consumption is the major component of GDP. The poorest 80% of households in both agriculture and non-agriculture were in debts whereas the richest 20% of households in both sectors had positive savings. The economy exhibited surpluses in public budget and trade volumes.

By and large, transfers of one million baht (USD 24,000) from the central government to each village that could influence national macroeconomic status were generally administered by an existing financial infrastructure according to special procedures and operated by newly established village fund committees with respect to a number of rules.

***One Million Baht Transfers from Central Government to each Village***

On July 25, 2001, in fulfillment of the populist platform that had framed his campaign for office (see Exhibits 4 and 5), Thaksin launched his Village Fund Program with the stroke of a key on his office computer. Instantly, THB 78,500 million or USD 1,884 million was transferred via computer network from the Treasury account to Village Fund bank accounts nationwide. A visibly elated Thaksin allowed, “Building the economy is something like building a pyramid in that nobody can make it from the top. We have to build from the base. Today, the government begins the construction of the Thai economic base.”<sup>17</sup> The Village Fund Program was now in operation.

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<sup>17</sup>. Asian Economic News, July 30, 2001

### ***The Village Fund Financial Infrastructure***

In Thailand, government-owned financial institutions included four major banks: Bank for Agriculture and Agricultural Cooperatives (BAAC), Government Housing Bank (GHB), Krung Thai Bank (KTB), and Government Savings Bank (GSB). The principal contribution of these institutions, especially micro-credit loans, coincidentally supports the operation of Village Fund Program in that if the government by way of these institutional systems provides low income people at the grassroots opportunities to access financial resources and to generate capital formation, a weak economy at the grassroots could become a stronger economy at last.

As is shown in Exhibit 12, the overwhelming majority of GSB loans (i.e., 99.98%) were micro-credit loans whereas only 321 loan customers (i.e., 0.02%) were large corporate loans. GSB loans were made to meet four major needs, i.e., quality of life improvement (47% of total loans), public policy (30%), public sector loans (16%), and commercial loans (7%). Village Funds were indeed an important part of public policy with approximately 12% of total GSB loans.

Besides GSB, another important intermediary of Village Funds was BAAC. In contrast to GSB which operated mostly in urban areas, BAAC operated only in rural areas and semi-urban communities. Broadly speaking (Exhibit 13), the government injected THB 78.50 billion (USD 1.88 billion) to national village fund offices through GSB and BAAC accounts. The national village fund offices distributed one million baht (USD 24,000)<sup>18</sup> to each of the selected 74,000 villages and 4,500 urban communities. Finally, villagers borrowed money from village funds at interest rate equal to 12 month fixed deposit rate plus 1.75%. In more details, there were five steps to operate Village Funds: setting up a local committee, opening an account, examining the loans, accessing the loans, and repaying the loans (Exhibit 14).

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<sup>18</sup>. The exchange rate was THB 41.67 per USD.

***The Local Decision-Making Infrastructure: Village Fund Committees***

Village fund committees generally had an informational advantage in determining who was a good candidate for a loan. This could potentially squeeze out some existing borrowers who may have less access to BAAC loans, and yet not be able to get village fund loans. Some village funds may be inefficient for six reasons: (1) lending to unqualified borrowers; (2) favoring committee members; (3) extending loans that were larger than the limit, e.g., THB 50,000; (4) not insisting on repayment; (5) charging a lower interest rate and (6) lending for longer-than-allowed periods. Some of the more dynamic village funds were trying to become rural banks, which would potentially lead to an efficiency gain in that it would allow money to move from one village to another.<sup>19</sup>

The establishment and operating procedures of the local village fund committee of each village must meet a number of rules (Exhibit 15). Specifically, three quarters of the adults in the village must be present at the meeting; the committee should have about 15 members, half of them women; the amount lent per loan should not generally exceed THB 20,000 (USD 480) and should never exceed THB 50,000 (USD 1,200); the loans must charge a positive interest rate and have at least two guarantors.<sup>20</sup>

Village Funds were also rated by the government in terms of efficiency and social criteria. Those with “AAA” rates would receive an extra THB 100,000 (USD 2,400). Village Funds could borrow an additional million baht (USD 24,000) or half a million baht (USD 12,000) from the BAAC or other facilitators. The size of this additional loan was determined by the BAAC using its own criteria. That is, only Village Funds that were ranked 1<sup>st</sup> class or 2<sup>nd</sup>

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<sup>19</sup>. Boonperm Jirawan, Haughton Jonathan and Khandker Shahidur R, “Does the Village Fund Matter in Thailand?,” Working paper, July 30, 2007: 3. In this research, the impacts of village funds on household expenditure, income and assets were evaluated using data from the Thailand Socioeconomic Surveys of 2002 and 2004 for almost 35,000 households.

<sup>20</sup>. Ibid. pp. 4-5

class by BAAC may borrow a million baht; the others (3<sup>rd</sup> class) may only borrow half a million baht.<sup>21</sup>

This large-scale transfers program urged several researchers to investigate its economic and social impacts, prior or posterior, at the national, community and household levels. These impact findings were critical to the future of the Program.

### ***Some Predicted and Actual Impacts of Village Funds***

#### ***Some Predicted Impacts: Numerical Simulation***

While the exact macroeconomic impacts of the Village Fund scheme could not be known with great certainty before the implementation and operation of the Program, they could be predicted through numerical simulation. As shown in Exhibits 16 and 17, a simulation performed prior to the launch of the Program would have revealed changes in major indicators and macroeconomic structure, based on the lump sum transfers of THB 78,500 million (USD 1.88 billion) from the central government to lower-income agricultural households. It should be noted that these changes were relative to no transfers at all.

Holding constant government consumption, investment expenditure, household savings, and government savings, the above-indicated lump sum transfers were predicted to increase real GDP by 0.01%, the consumer price index (CPI) by 0.17%, and household consumption by 0.2%. Further, given that the lump sum transfers had to be funded by additional taxation, the simulation exercise also showed that government would have increased excise, value-added, import, corporate, and personal income taxes by about 10%. The simulation would have predicted an 8% increase in the income of lower-income agricultural households, based on the lump sum transfers. The simulation results of corresponding macroeconomic structure are shown in Exhibit 16. Changes in household expenditures across goods and services – relative to no transfers at all – are shown in Exhibit 17

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<sup>21</sup>. Ibid. pp. 3-4

***Some Actual Impacts: Economic, Social and Political Studies***

A study of the economic, social, and political impacts of the Village Fund Program offered some additional insights concerning participation rates, loan usage profiles, loan incidences and loan impacts.<sup>22</sup> This research found that approximately 83% of the members of the average village actually borrowed from their village funds, with the average frequency of such borrowings being between two and three times. Further, a near plurality (i.e., 62%) of these borrowers also obtained loans from other sources, with more than a quarter of the borrowers (27%) using the other loans to repay their village fund debt. Most village fund loans were used for domestic purposes – e.g., payments for fertilizers, pesticides, investments, cattle, tuition fees, debts, short-term occupations, and home improvement or construction.

This same study found that the economic advantages of the Program were income distribution, economic growth, and poverty reduction (in terms of both income and debts), whereas the disadvantages were payments for consumption and debts. The social advantage was found to be the establishment of a solid social foundation for the appropriate spending of money, absent which societal damage might ensue to the extent that the loans were used unsuitably. With regard to political impacts, the fund was deemed to have promoted democratization in the village in terms of advancing the acceptance of personal responsibility and collaboration. On the down side of political impacts was the reality the village funds had increased the formation of new structures of power and new exchange relationships in the village – both of which could, over the long, undermine the status quo.

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<sup>22</sup>. Getsuwan Ruangvit, “Impacts of Village Fund in Term of Economy, Society, and Politics on Thais,” research reported to the Secretariat of the Senate, May 2007: 6-8. In this research, 4550 people from 295 villages in 17 provinces across five regions of Thailand were surveyed during October – December 2006. Focus groups, in-depth interview, and documentary research were also conducted.

### ***Experiences with and Patterns of Village Fund Program***

Another study related to the impacts of Village Fund Program on household expenditure, income and assets revealed interesting experiences with the Program facing by all adult members of households (Exhibit 18).<sup>23</sup> This research found that borrowers were disproportionately poor and agricultural. On average, borrowers had 1.9% more income, 3.3% more expenditure, and about 5% more durable goods. The village fund had a moderate impact on household spending and household income.

This study also discovered interesting patterns of the Village Fund Program. Firstly, most of the effect was concentrated in the poorest quintile of the population where the spending increased by 5.2%. Thus, the Program was pro-poor. Secondly, in contrast to the main purpose of the Program which aimed to encourage non-farm enterprises, the Program indeed worked through credit-constrained farmers. Since the Program was only short-term, it was suitable for farmers to finance their inputs. Moreover, it was not long-term enough to invest in other non-farm activities. Thirdly, households who borrowed both from the village funds and from the Bank of Agriculture and Agricultural Cooperatives (BAAC) had considerably higher income than those who borrowed from either separately or from neither. This might imply that the village fund was most effective when it complements BAAC lending. Finally, if the government wanted to expand the village funds, the most productive approach would be to target poorer farming communities.

The above research findings pointed out several insights concerning the impacts of the Program from the national, community and household points of view. However, there were still many personal attitudes from both individual villagers and non-villagers who practically had different connections with the Program.

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<sup>23</sup>. Boonperm, Haughton and Khandker, "Does the Village Fund Matter in Thailand?," pp. 6, 19.

### ***Various Views of Villagers: Upsides and Downsides of Village Funds***

Just as there existed an array of impacts set forth by experts who had researched the Village Fund Program, there also existed a diversity of opinion and views by the intended and actual beneficiaries of the initiative. Some of these views were overwhelming positive. Others were far more critical.

#### ***Dreams Came True: Views of Some Highly Satisfied Beneficiaries***

Five years after launching village funds scheme, Patrawat Kantason, a 21-year-old farmer, said: “I am a farmer. I work in the field growing rice but I also feed two dozen cows and a dozen ducks too. Because of Thaksin’s credit schemes for people in agriculture; my father could borrow THB 30,000 [USD 720] to develop a cow milk business. From the funds that came to our village, our community managed to build a water supply for every household in the village. There are only 100 houses here. Their policies helped us so much.”<sup>24</sup>

Somarj Kuljidd, a farmer from Buriram province in the northeast, joined and traveled with Caravan of the Poor, a group of farmers and villagers from the north and northeast, by foot from his farm to Bangkok to support the prime minister. He explained: “I have never seen anyone who has helped the poor so much. I like the 30 baht health scheme, and I’ve borrowed money from our village fund to invest in more cows for my farm”<sup>25</sup>

Narong Fongkraew, a 50-year-old farmer from Baan<sup>26</sup> Rong Kong Khao, a village near Chiang Mai in the north, who grew rice and chilies on his small farm, borrowed THB 19,800 (USD 475) from the village fund and used it to hire laborers to help him work on his fields. Increased labor led to a greater crop yield. In 2003, for the first time in six years, he earned enough to begin paying back his creditors. He said that village fund was a mini miracle

<sup>24</sup>. [BBC News](#), Monday, October 2, 2006.

<sup>25</sup>. [BBC News](#), Friday, March 31, 2006.

<sup>26</sup>. “Bann” means village.

for him and the whole communities. “After 1997, banks stopped lending to us and some people were forced to borrow from moneylenders who charged high rates of interest. I came very close to losing my land, but now I think I will be free of debt within five years.”<sup>27</sup>

Winai Tatasuthai, a 45-year-old cowherd living in Baan Dongsaensuk, a tiny village in the northeastern, borrowed THB 10,420 (USD 250) from the village fund to buy a few chickens and a three-wheel motorcycle with an attached charcoal grill. He began rumbling around villages, hawking wings and drumsticks. This investment returned him a daily net profit of THB 315 (USD 7.50) and finally tripled his annual incomes. He then had enough money to buy a pickup truck, expand his herd of cows, and pay his 16-year-old son’s school fees. He said: “Life is getting much better. I didn’t have enough money to do anything. Now I have the freedom to do what I want.”<sup>28</sup>

#### ***Unforgotten Nightmare: Views of Some Dissatisfied Beneficiaries***

Unfortunately, there were downsides experienced by some farmers who borrowed from the village fund. Udol Kamta, a 50-year-old farmer, who cultivated rice and red chilies in Nhonghoi, a hamlet in the northeast, had almost no debt before village fund was launched. In 2002, he borrowed THB 20,800 (USD 500) from village funds to invest in a new chili field. Without business experiences, in 2005 he owned the fund THB 93,800 (USD 2,250) in total. A little extra cash of income from rice and chilies was too small for him to pay his loan plus 6% annual interest.<sup>29</sup>

Udol Kamta said: “When the debt came due after one year, my wife borrowed THB 20,800 [USD 500] from the fund for me to pay back my own loan. I borrowed another THB 20,800 [USD 500] to pay the costs of my new chili field. My son borrowed THB 20,800 [USD

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<sup>27</sup>. Andrew Perrin, “The Thaksin Effect,” *Time Magazine*, Monday, October 20, 2003.

<sup>28</sup>. Michael Schuman, “The Common Touch,” *Time Magazine*, Monday, January 31, 2005.

<sup>29</sup>. Ibid.

500] to pay school fees. My mother-in-law also borrowed THB 31,250 [USD 750] to invest in new cows. Each time the loans came due, I temporarily borrowed from emergency savings held by Nhonghoi's elders to repay the village fund, then borrowed more from the fund to erase my debt to the chiefs. I didn't know how to manage the money. If I had known what would happen, I wouldn't have taken the money in the first place.”<sup>30</sup>

Nhonghoi's head chief explained a cycle of debt: “About half of the residents who borrowed from the fund were trapped in a similar debt. In nearby Baan Nhong Ku, locals spent the first two years of the Program borrowing from one another to pay back the fund in full, but this year a poor rice harvest starved the town of extra cash. The inhabitants have taken on extra work on construction sites to make up the difference and have begged the local government office to extend their payment deadline.”<sup>31</sup>

Some residents of Baan Dongsaensuk were less likely to repay. Somboon Nonta, one of the village's loan committee, said: “I consider the fund 'a donation' from the government, so I have allowed residents considerable leeway to pay back loans whenever they can afford it. I don't know when this money will be repaid. If we force people to pay the loans back, it could force them to commit crimes or borrow the money from elsewhere.”<sup>32</sup>

Alican Tayukhen, the leader of a small Muslim community in Baan Dongsaensuk said: “The Village Fund is 'a lot of trouble'. Thaksin played a game to please the villagers, but didn't realize the damage that would be done.”<sup>33</sup>

Serm Borasut, a local leader in a rural district 90 miles north of Bangkok, said: “Many farmers in my area have been forced to sell their land to pay off debts incurred under Thaksin's easy-money policies. I have been buying them out. My holdings have expanded

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<sup>30</sup>. Ibid.

<sup>31</sup>. Ibid.

<sup>32</sup>. Ibid.

<sup>33</sup>. Ibid.

from 20 acres to 240 acres. In the next two years, we may see a crisis like we saw in 1997 [Asian financial crisis]. This time, farmers and poor people will be hit.”<sup>34</sup>

Among those who were not the direct beneficiaries of the Village Fund Program, there existed a similar diversity of views and opinions on the Program’s overall worthiness and accomplishments, as will be shown below.

### ***Diverse Views of Non-Villagers: Pros and Cons of Village Funds***

#### ***Views of the “True Believers”***

There existed a wide array of views supportive of the Program and its fundamental rationale and accomplishments. Typical of these were the views expressed by various governmental officials. For example, the secretary-general of the principal governmental planning agency, the National Economic and Social Development Board, maintained that “by giving [the poor] access to capital, [the Thaksin administration] had given them the chance to show that they are capable of imagination and expansion.”<sup>35</sup>

Another government office, the Minister of Finance took aim at critics’ concerns that loans to farmers would load the sector with excessive debt. “It has been very successful,” he countered. “About 97% of loans have been paid back. It’s much better than giving loans to businesses, where the risk is much higher.”<sup>36</sup>

#### ***Views of the “Naysayers”***

Despite these positive assessments and assurances emanating from various governmental ministries and agencies, the concerns of various critics of the Program were not assuaged. Among the frequently voiced objections to the continuation of the Program was the concern that the government’s giving rural residents access to easy credit – and thereby greater

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<sup>34</sup>. Paul Wiseman, “Thailand’s Thaksin Rides Crest of Tsunami Disaster,” USA Today, February 3, 2005.

<sup>35</sup>. Andrew Perrin, “The Thaksin Effect,” Time Magazine, Monday, October 20, 2003

<sup>36</sup>. Michael Schuman, “The Common Touch,” Time Magazine, Monday, January 31, 2005.

personal debt loads – would place the country in severe economic budgetary difficulty during any future economic downturn. Explained one independent economist, “It’s not sustainable in the long run. The concern is that when the government eventually stops pumping in money, whenever that is, the economy will collapse. Much of this money has been used for consumption, not for development.”<sup>37</sup>

Further, argued others, not only were loan funds, in many instances, not being used for the intended purposes, even the impressive loan repayment statistic cited by governmental officials was less salutatory than it appeared to be. As was pointed out by one keen observer, a faculty expert in Development Economics at the National Institute of Development Administration:

*Much of the money borrowed was used to pay off other, high-interest debt or to cover school fees. In a small number of cases, loans were wasted on mobile phones and motorbikes. Though officially the repayment rate on these micro-loans is nearly 100%, in some cases, borrowers are turning to predatory loan sharks to raise money to pay back the government. Though the fund has helped the poor to a degree, it doesn’t serve the main purpose that people can use this money to generate income and have a better living.*<sup>38</sup>

Yet other critics focused on the perceived lack of attention to principles of good management and to considerations of efficiency in the implementation and operation of the Village Funds Program. The executive director of the Thai Productivity Institute put it this way:

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<sup>37</sup>. Andrew Perrin, “The Thaksin Effect,” Time Magazine, Monday, October 20, 2003

<sup>38</sup>. Michael Schuman, “The Common Touch,” Time Magazine, Monday, January 31, 2005.

*The principles of populist policies are good but too costly, so good management is needed to ensure worthwhile benefits from budget spending. In Japan, the inspiration of Mr Thaksin's One Tambon One Product idea, they sent a team to teach the people before giving them the money. Also, they created a good system to track the effectiveness of the fund that was used. In contrast, TRT's populist schemes just gave money to the people without teaching them how to use it efficiently. As a result, fewer than half of the village funds initiated by TRT have survived to date.<sup>39</sup>*

### ***Future of Village Funds***

Notwithstanding the swirling diversity of opinions among various program beneficiaries, governmental officials, and outside observers, everyone was in agreement that the Village Fund Program was the most ambitious micro-credit initiative ever undertaken by a Thai government. By July 2001, some USD 1.8 billion had been distributed to nearly 74,000 villages and over 4,500 urban communities throughout the Kingdom, with village fund committees having lent USD 6.5 billion (THB 259 billion) to nearly 17.8 million borrowers, some of whom were repeat borrowers. By May 2002, nearly all villages (i.e., 99.1%) had established a village fund.

Despite these statistical measures, a consensus view of the worthiness of the Program remained as elusive as it had been when the Program was launched several years earlier. Indeed, to some observers, it seemed that the perceived worthiness of the Program lay in the eye of the beholder. On the one hand, many beneficiaries and governmental officials remained thoroughly convinced that the Village Fund initiative was, arguably, the best "helping hand" that had ever been extended to the rural poor. On the other hand, a few beneficiaries and

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<sup>39</sup>. Bangkok Post, Saturday, February 9, 2008

many independent analysts and observers were equally adamant in the view that the Program was largely, in its essence, an ill-conceived and poorly implemented government “boondoggle” that would return to haunt the government in office at the time of the next economic downturn, if not earlier.

Absent at least some preliminary consensus view of the Program, it was all but impossible for anyone to predict whether the Thaksin government would inject additional money into the Program or how the government would deal with the aftermath of the Program. Further, what perspectives might the government take into account if the Program were to be continued and institutionalized? These and other questions of concerning the policy and implementation aspects of the Program necessarily had to await a more independent and objective evaluation of the Program – its implementation, its operations, its macro-economic, and other outcomes.

Thaksin and his government were now facing the above critical decision processes regarding the future of the Program. He was wondering whether to include the Program (and in what conditions, if any) in the upcoming 2005 general election campaign which would be held in the next few months. He was aware that a success of a competition for the second four-year term (2005-2008) would somewhat essentially depend on this critical decision.

**Exhibit 1** Poverty indicators in Thailand during 1988-2004

Year	1988	1990	1992	1994	1996	1998	2000	2002	2004
Population <sup>a</sup> (million)	52.4	54.5	55.6	56.6	57.6	58.7	59.9	61.2	62.9
Poverty line <sup>a, c</sup> (THB/head/day)	21.09	23.06	26.32	27.93	31.76	37.65	37.83	39.68	41.41
Poverty line <sup>a, c</sup> (USD/head/day)	0.83	0.90	1.03	1.11	1.25	0.91	0.94	0.92	1.03
Headcount <sup>a</sup> (million)	22.1	18.4	15.8	10.7	8.5	10.2	12.6	9.1	7.0
Headcount index <sup>a</sup> (%)	42.21	33.69	28.43	18.98	14.75	17.46	20.98	14.93	11.16
Poverty gap ratio <sup>a</sup>	11.40	8.05	6.62	3.92	2.85	3.35	4.24	2.75	2.01
Severity of poverty <sup>a</sup>	4.30	2.82	2.23	1.22	0.85	0.99	1.30	0.81	0.56
Average THB per USD <sup>b</sup>	25.34	25.64	25.45	25.20	25.40	41.59	40.27	43.11	40.37

\* Asian financial crisis began in July 1997.

Sources:

(a) Adapted from Socio-Economic Survey, National Statistical Office, [www.nso.go.th](http://www.nso.go.th), compiled by Community Economic Development and Income Distribution Office, National Economic and Social Development Board, [www.nesdb.go.th](http://www.nesdb.go.th)

- (b) Average annual rates of exchange of commercial banks, Bank of Thailand, [www.bot.or.th](http://www.bot.or.th)
- (c) Calculated by the author

Notes:

- (i) **Poverty line** is a critical threshold of income, consumption, or access to goods and services below which individuals are declared to be poor. It represents a minimum level of acceptable economic participation in a given society at a given point in time.<sup>40</sup>
- (ii) **Headcount** is the number of people below the poverty line.<sup>41</sup>
- (iii) **Headcount index** is a fraction of headcount in total population. It is the proportion of the population that is poor.<sup>42</sup>
- (iv) **Poverty gap ratio** is the ratio of the average of income (or extra consumption) needed to get all poor people to the poverty line, divided by the mean income (or consumption) of the society.<sup>43</sup>
- (v) **Severity of poverty** is a measure of poverty that takes into account inequality among the poor. It is the squared poverty gap ratio; a weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves. By squaring the poverty gap index, the measure implicitly puts more weight on observations that fall well below the poverty line.<sup>44</sup>

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<sup>40</sup>. Debraj Ray, Development Economics (Princeton, New Jersey: Princeton University Press, 1998), pp 250.

<sup>41</sup>. Ibid. pp. 253

<sup>42</sup>. Ibid. pp. 253

<sup>43</sup>. Ibid. pp. 255

<sup>44</sup>. World Bank Institute, Introduction to Poverty Analysis, Poverty Manual, August 8, 2005.

pp. 73.

**Exhibit 2** Gini coefficient of income across regions in Thailand during 1988-2004

Year	1988	1990	1992	1994	1996	1998	2000	2002	2004
Whole country	0.487	0.515	0.536	0.520	0.513	0.507	0.522	0.507	0.493
Bangkok	0.388	0.420	0.457	0.405	0.401	0.415	0.417	0.438	0.422
Central	0.435	0.480	0.462	0.461	0.468	0.443	0.448	0.437	0.433
Northern	0.439	0.468	0.476	0.468	0.458	0.462	0.469	0.467	0.478
Northeastern	0.454	0.434	0.471	0.472	0.470	0.460	0.483	0.469	0.448
Southern	0.463	0.469	0.481	0.498	0.470	0.491	0.476	0.464	0.445
Urban	0.434	0.478	0.494	0.473	0.479	0.465	0.471	0.473	0.461
Rural	0.439	0.447	0.439	0.457	0.440	0.450	0.468	0.448	0.445

\* Asian financial crisis began in July 1997.

Source:

Adapted from Socio-Economic Survey, National Statistical Office, [www.nso.go.th](http://www.nso.go.th), compiled by Community Economic Development and Income Distribution Office, National Economic and Social Development Board, [www.nesdb.go.th](http://www.nesdb.go.th)

Note:

**Gini coefficient** measures the inequality of income distribution within a country. It varies from zero to one. *Zero* indicates perfect equality, with every household earning exactly the same. *One* implies absolute inequality, with a single household earning a country's entire income.<sup>45</sup>

<sup>45.</sup> The Economist, economics A-Z, [www.economist.com](http://www.economist.com)

**Exhibit 3** January 2001 general election results in Thailand

Political party	Ballot 1	Ballot 2	Total seats
Thai Rak Thai	200	48	248
Democrat	97	31	128
Chart Thai	35	6	41
New Aspiration	28	8	36
Chart Pattana	22	7	29
Seritham	14	0	14
Others	4	0	4
<b>Total</b>	<b>400</b>	<b>100</b>	<b>500</b>

Source: Adapted from Bangkok Post, January 7, 2001

Note:

There were two ballots for the 2001 general election: ballot 1 (400 seats) for individual candidates under single-member constituencies from districts, and ballot 2 (100 seats) for party lists under proportional representation. At least 251 parliamentary seats were required to form a government.

**Exhibit 4** Nine Thaksin government's policies for the first two years (2001-2002) announced to the Parliament in February 2001

<b>Policy</b>	<b>Description</b>
1. Debt moratorium to small farmers	Permitting a three-year grace period for both interest and principle payments for individual small farmers to relieve their debt burden.
2. Village funds	Funding each target village and urban community one million baht (USD 24,000) loan for individuals and households to borrow for local investment and supplementary vocations.
3. People's bank	Implementing a micro-credit program through the Government Savings Bank (GSB) to ensure better and improved access to banking facilities and resources for low income citizens.
4. SME bank	Facilitating a bank for small and medium sized enterprise to promote existing and increasing number of entrepreneurs in a systematic manner.
5. Thailand AMC	Solving the problem of non-performing loans (NPLs) in the commercial banking system through Thailand Asset Management Corporation.
6. Privatization of state-owned enterprises	Selling shares of state enterprise and listing individual state enterprise directly in the stock market of Thailand.
7. 30 baht healthcare	Providing universal health insurance, capping each hospital visit at 30 baht (USD 0.75), with the object of reducing the overall cost to the country and the people in acquiring healthcare.
8. Drug rehabilitation	Accelerating efforts to establish drug rehabilitation centers concurrently with implementing effective drug suppression and prevention measures.
9. Anti-corruption	Encouraging full and open public participation in the prevention and suppression of corruption.

Source: Adapted from Krongkaew (2004)<sup>46</sup>

<sup>46</sup> Krongkaew, "Thaksinomics Part I: A New Development Paradigm for Thailand," pp. 1-2.

**Exhibit 5** Other Thaksin government's policies for the last two years (2003-2004)

Policy	Description
1. Vayupak fund 1	Issuing a state-run, ten-year open-ended mutual fund with an initial capital of THB 100 billion of which 70% or THB 70 billion were raised from the public, with the guaranteed rate of return of at least 3% a year.
2. Low-cost housing for the low income	Providing state-assisted low-cost housing units for low income people of Thailand at a low monthly mortgage.
3. Low-cost computers for the Thai people	Selling low-cost computers to the Thai people for only THB 10,000 or USD 230 per computer, with basic features such as word processing, spreadsheet, internet and entertainment utility.
4. Asset conversion policy	Issuing of land title deeds in which the land owners could use to raise capital from state banks and financial institutions.
5. Official registration of the poor and the needy	Asking district offices throughout Thailand to register those who considered themselves poor or those who had large debts.
6. Scholarship programs for the poor students in rural areas	Providing one scholarship to a top student from poor family in each of more than 900 districts throughout Thailand to be sent to study abroad for his/her first degree by expanded lottery sales.
7. Income contingent loan scheme for higher education	Allowing students borrow funds from the government to pay for their higher education. Repayment only after their income after graduation reached a certain threshold level.
8. Massive plan for infrastructure spending	Setting Megaprojects to improve transportation systems of the country, e.g., mass rapid transit system by rails in Bangkok and vicinity.

Source: Adapted from Krongkaew (2004)<sup>47</sup>

<sup>47</sup> Krongkaew, "Thaksinomics Part I: A New Development Paradigm for Thailand," pp. 12-14.

**Exhibit 6** Population by household income classes and sectors in 2001

Agricultural household	Frequency	Income	Average	Income
		million USD	income USD	shares
Deciles 1, the poorest 10% of households	361,001	187	517	2.60 %
Deciles 2	360,919	275	763	3.83 %
Deciles 3	361,924	340	938	4.72 %
Deciles 4	359,917	402	1,116	5.58 %
Deciles 5	362,524	476	1,314	6.62 %
Deciles 6	359,035	557	1,553	7.75 %
Deciles 7	363,337	673	1,853	9.36 %
Deciles 8	358,233	797	2,224	11.08 %
Deciles 9	362,342	1,078	2,976	14.99 %
Deciles 10, the richest 10% of households	363,701	2,408	6,621	33.48 %
<b>Total</b>	<b>3,612,933</b>	<b>7,193</b>	<b>1,991</b>	<b>100 %</b>

## Exhibit 6 (Continued)

Non -agricultural household	Frequency	Income million USD	Average income USD	Income shares
Deciles 1, the poorest 10% of households	948,199	676	712	1.76 %
Deciles 2	950,968	1,128	1,186	2.94 %
Deciles 3	948,486	1,486	1,567	3.87 %
Deciles 4	951,552	1,871	1,967	4.87 %
Deciles 5	950,082	2,303	2,424	5.99 %
Deciles 6	948,791	2,809	2,961	7.31 %
Deciles 7	951,565	3,503	3,681	9.12 %
Deciles 8	949,179	4,486	4,726	11.68 %
Deciles 9	945,718	6,465	6,836	16.83 %
Deciles 10, the richest 10% of households	955,020	13,697	14,343	35.65 %
<b>Total</b>	9,499,559	38,425	4,045	100 %

Source: Adapted from Socio-Economic Survey, National Statistical Office

Note: The exchange rate was THB 41.67 per USD.

**Exhibit 7** Overall sources of household income in 2001

Sources of income	Income shares (%)
Factor earnings	89.80
Transfers from corporations	7.40
Transfers from government	1.64
Transfers from rest of the world (ROW)	1.16
<b>Total</b>	100

Source: Adapted from Socio-Economic Survey, National Statistical Office

**Exhibit 8** Specific sources of income of the poorest 10% (Deciles 1) of agricultural households in 2001

Sources of income	Income shares (%)
Wages and salaries	17.56
Entrepreneurial income	1.09
Farm income	71.62
Pensions and annuities	0.21
Terminal pay	0
Social pensions for elderly and assistance and remittance	9.30
Land rent for farming	0
Land rent for non-farm and other rent from rooms or properties	0.19
Royalties	0
Interest and dividends	0.03
<b>Total</b>	100

Source: Adapted from Socio-Economic Survey, National Statistical Office

Note: The exchange rate was THB 41.67 per USD.

**Exhibit 9** Top 30 expenditures of the poorest 10% (Deciles 1) of agricultural households in 2001

No.	Goods and services	Expenditure shares (%)
1	Wearing apparel products	10.05
2	Manufactured food products	9.84
3	Wholesale and retail trade services	9.45
4	Rice products	7.80
5	Vegetable products	5.94
6	Dwelling and real estate products and services	4.91
7	Chemicals and chemical products	4.66
8	Furniture and fixtures	3.90
9	Manufacturing industry products	3.74
10	Rubber and plastic products	3.42
11	Transport services	3.40
12	Beverage products	3.33
13	Marine fishery products	3.01
14	Leather, leather products and footwear	2.59
15	Simple agricultural processed products	2.23
16	Electrical machinery and supplies	2.05
17	Fruit products	1.77
18	Poultry products	1.66
19	Tobacco products	1.44
20	Textile products	1.43

## Exhibit 9 (Continued)

No.	Goods and services	Expenditure shares (%)
21	Petroleum and petroleum products	1.43
22	Medical and health products and services	1.42
23	Restaurant	1.21
24	Electricity	1.04
25	Fresh fishery products	0.93
26	Education services	0.88
27	Sugar products	0.81
28	Insurance services	0.71
29	Non-metal products	0.71
30	Fabricated metal products	0.67

Source: Adapted from Social Accounting Matrix, SAM (2001)<sup>48</sup>

<sup>48</sup> Thailand Development Research Institute, Computable General Equilibrium Model for Impact Analysis of the Government Budget Allocation, Complete report, January 2004.

**Exhibit 10** Macroeconomic structure of Thailand in 2001, (million USD), at THB 41.67 per USD

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
	Act	Com	LabAg	LabNag	Land	CapAg	CapNag	Forest	80PoorAg	20RichAg	80PoorNag	20RichNag	Corp	Gov	Tax	Investment	Row
1 <b>Act</b>		320960															
2 <b>Com</b>	202955								13616	3497	19424	29824		13781		33335	81260
3 <b>LabAg</b>	5092																
4 <b>LabNag</b>	48603																
5 <b>Land</b>	4506																
6 <b>CapAg</b>	3133																
7 <b>CapNag</b>	53669																
8 <b>Forest</b>	83																
9 <b>80PoorAg</b>		4002	1235	1392	2112	2613	56						992	592		419	
10 <b>20RichAg</b>		229	723	1389	874	749	23						367	359		254	
11 <b>80PoorNag</b>		683	14207	725	120	3285	3						1538	138		98	
12 <b>20RichNag</b>		179	32438	1001	27	4670	1						3093	238		169	
13 <b>Corp</b>						42352		113	39	153	297		1446			3142	
14 <b>Gov</b>								29	29	203	541	1952		16334		111	
15 <b>Tax</b>	2919	7204						89	96	237	2020	3769					
16 <b>Savings</b>								-876	1062	-124	6752	30645	2358			-6483	
17 <b>Row</b>		69527						442	243	904	2381	5183	287				

Source: Adapted from Social Accounting Matrix, SAM (2001)

Notes:

Act	Activity
Com	Commodity
LabAg	Labor in agriculture
LabNag	Labor in non-agriculture
CapAg	Capital in agriculture
CapNag	Capital in non-agriculture
80PoorAg	Poorest 80% households in agriculture
20RichAg	Richest 20% households in agriculture
80PoorNag	Poorest 80% households in non-agriculture
20RichNag	Richest 20% households in non-agriculture
Corp	Corporation
Gov	Government
Row	Rest of the world

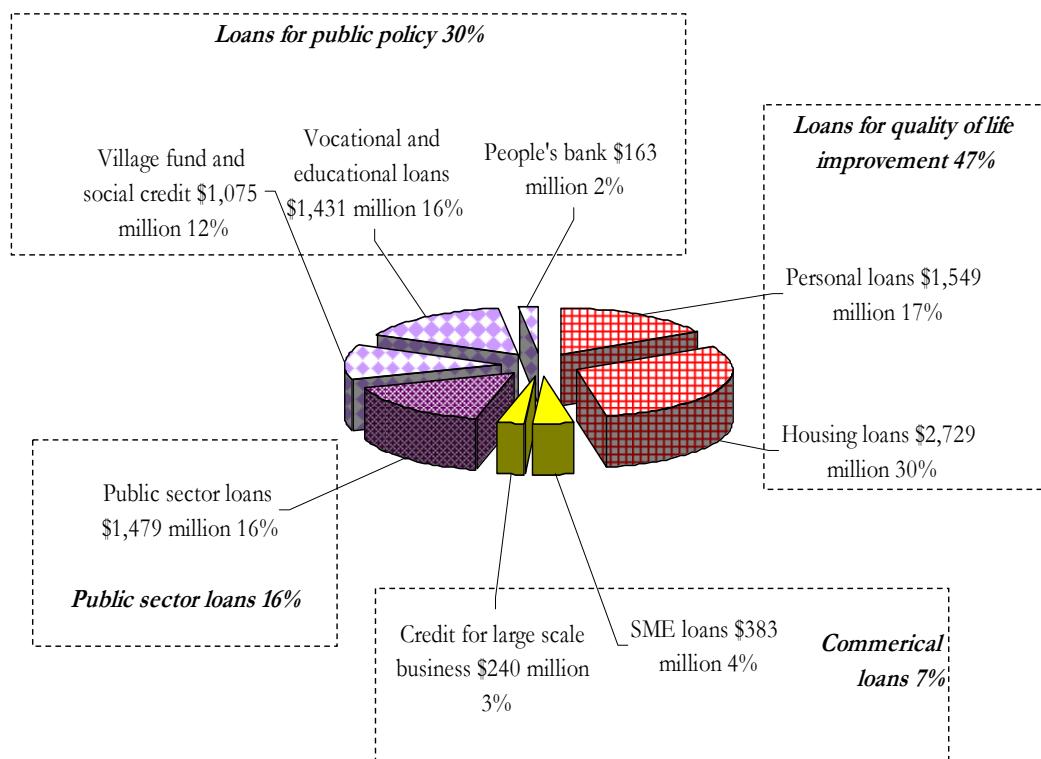
**Exhibit 11** Major macroeconomic indicators in 2001

Indicators	Million USD
Gross domestic products (GDP)	125,209
Poorest 80% agricultural households consumption	13,616
Richest 20% agricultural households consumption	3,497
Poorest 80% non-agricultural households consumption	19,424
Richest 20% non-agricultural households consumption	29,824
Public consumption	13,781
Investment expenditure	33,335
Trade balance	11,733
Exports	81,260
Imports	69,527
Public savings	2,358
Corporate savings	30,645
Poorest 80% agricultural households savings	-876
Richest 20% agricultural households savings	1,062
Poorest 80% non-agricultural households savings	-124
Richest 20% non-agricultural households savings	6,752
Poorest 80% agricultural households total income	13,413
Richest 20% agricultural households total income	4,967
Poorest 80% non-agricultural households total income	20,797
Richest 20% non-agricultural households total income	41,816
Current account deficits	6,483
Value added	115,086

## Exhibit 11 (Continued)

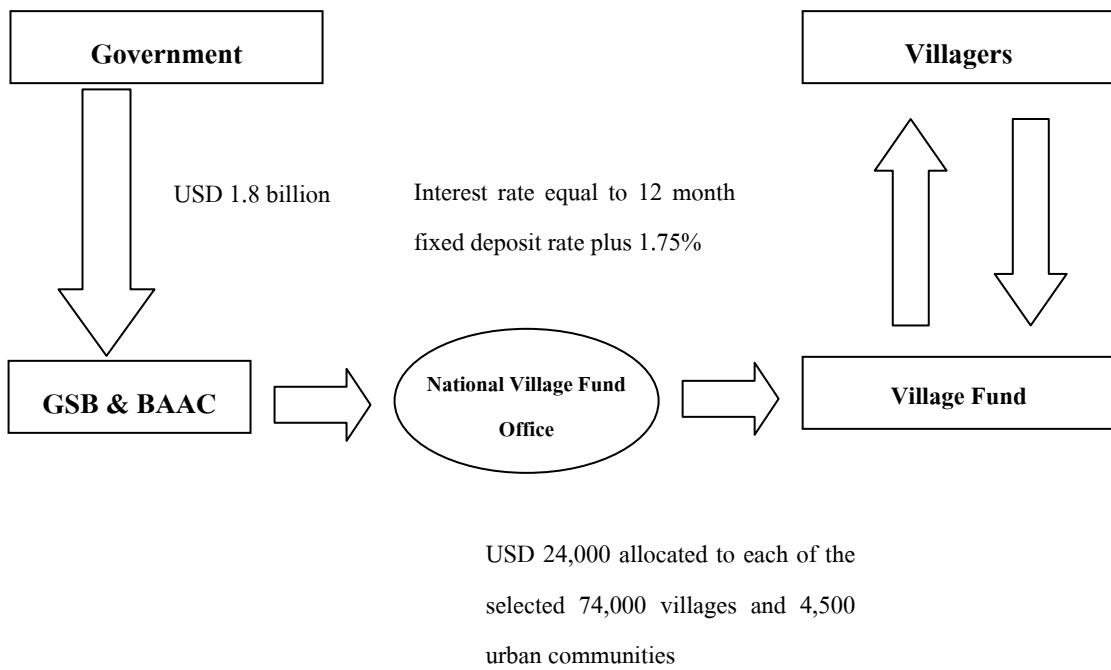
Indicators	Million USD
Value added taxes	2,919
Commodity taxes (i.e., tariffs, excise and sales taxes)	7,204
Poorest 80% agricultural households income taxes	89
Richest 20% agricultural households income taxes	96
Poorest 80% non-agricultural households income taxes	237
Richest 20% non-agricultural households income taxes	2,020
Corporate taxes	3,769
Total tax revenues	16,334

**Exhibit 12** Combinations of GSB loans



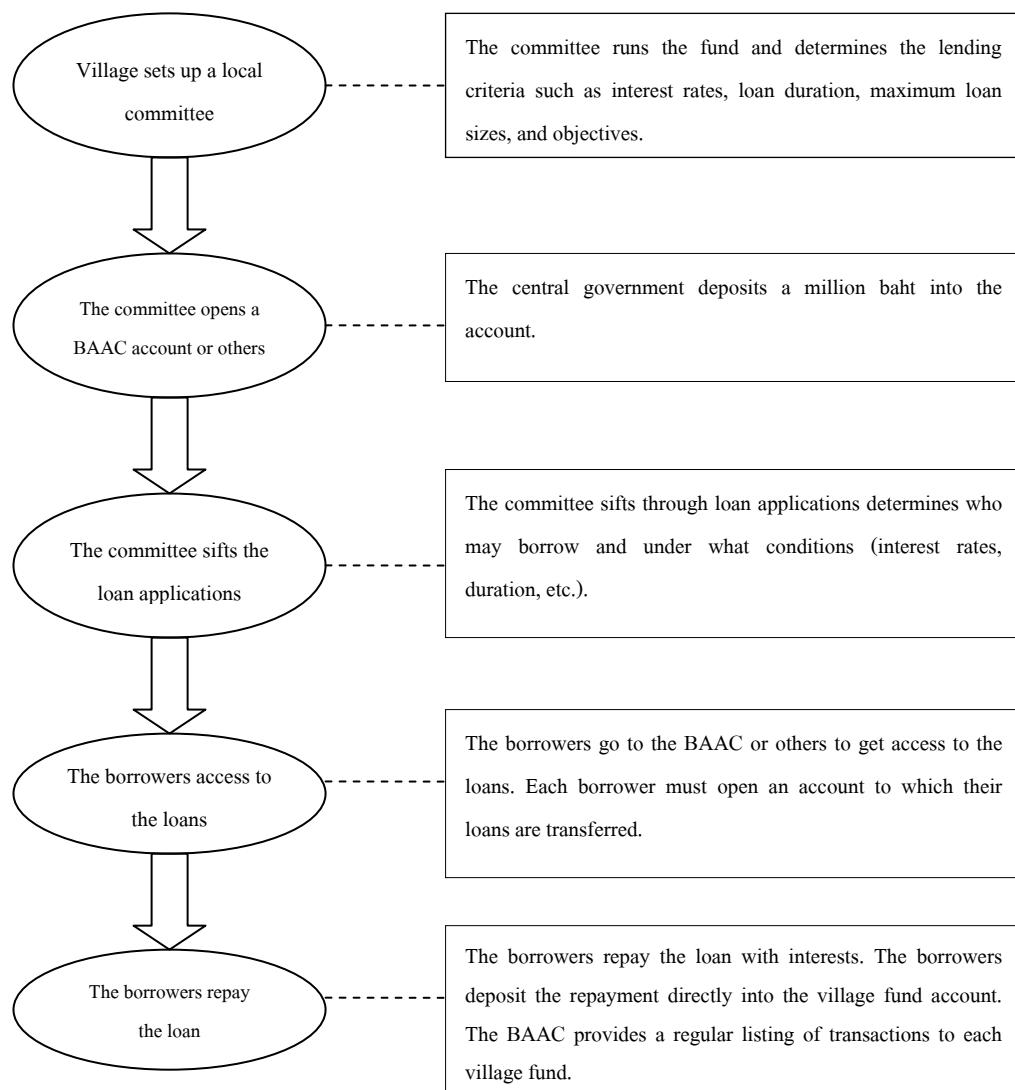
Source: Adapted from Government Savings Bank (GSB)

**Exhibit 13** Overall pictures of village funds



Source: Adapted from Government Savings Bank (GSB)

**Exhibit 14** Five steps to operate village funds



Source: Adapted from Boonperm, Haughton and Khandker (2007).<sup>49</sup>

<sup>49</sup> Boonperm, Haughton and Khandker, "Dose the Village Fund Matter in Thailand?", pp. 3.

**Exhibit 15** The establishment and operating procedures of local village committees**Rules:**

- (1) The locally elected committee should have about 15 members, half of them women.
- (2) Three quarters of the adults in the village must be present at the meeting.
- (3) While there is some discretion about the amount lent per loan, it should not generally exceed THB 20,000 (USD 480) and should never exceed THB 50,000 (USD 1,200).
- (4) The loans must charge a positive interest rate.
- (5) It is recommended that loans have at least two guarantors.

**Remarks:**

- (a) The government rates village funds on a variety of efficiency and social criteria.
- (b) In any given year, those that are rated AAA are provided with a bonus of a further THB 100,000 (USD 2,400) to add to their working capital.
- (c) In addition, village funds could borrow an additional million baht (USD 24,000) or sometimes just half a million baht (USD 12,000) from the BAAC or other facilitator.
- (d) The size of this additional loan, i.e., half a million (USD 12,000) or a million baht (USD 24,000), is determined by the BAAC using its own banker's criteria.
- (e) Only village funds that are ranked 1<sup>st</sup> class or 2<sup>nd</sup> class by BAAC may borrow a million baht (USD 24,000); the others (3<sup>rd</sup> class) may only borrow half a million baht (USD 12,000).

Source: Adapted from Boonperm, Haughton, Khandker (2007).<sup>50</sup>

<sup>50</sup>Boonperm, Haughton and Khandker, "Does the Village Fund Matter in Thailand?", pp. 3-4.

**Exhibit 16** Predicted results of macroeconomic structure due to lump sum transfers, at THB 41.67 per USD

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
	Act	Com	LabAg	LabNag	Land	CapAg	CapNag	Forest	80PoorAg	20RichAg	80PoorNag	20RichNag	Corp	Gov	Tax	Investment	Row
1 <b>Act</b>		321455															
2 <b>Com</b>	203221								14706	3467	19158	29275		13798		33359	73695
3 <b>LabAg</b>	5133																
4 <b>LabNag</b>	48683																
5 <b>Land</b>	4539																
6 <b>CapAg</b>	3154																
7 <b>CapNag</b>	53719																
8 <b>Forest</b>	83																
9 <b>80PoorAg</b>		4035	1236	1402	2126	2615	57						1016	1915		419	
10 <b>20RichAg</b>		230	725	1399	880	750	24						376	388		255	
11 <b>80PoorNag</b>		688	14233	730	121	3288	3						1575	149		98	
12 <b>20RichNag</b>		180	32489	1008	27	4675	1						3166	257		169	
13 <b>Corp</b>						42391		122	39	151	291		1559			3148	
14 <b>Gov</b>								31	29	200	533	1959		17848		111	
15 <b>Tax</b>	2921	7222						360	186	608	2770	3782				0	
16 <b>Savings</b>								-876	1062	-124	6752	30645	2358			-6459	
17 <b>Row</b>		62002						479	242	892	2350	5183	287				

Source: Numerical simulation results

**Exhibit 17** Predicted changes in top 30 expenditures of the poorest 10% (Deciles 1) of agricultural households due to Village Fund transfers

No.	Goods and services	Percentage Changes
1	Rubber and plastic products	8.79
2	Education services	8.11
3	Fresh fishery products	7.00
4	Sugar products	6.41
5	Fabricated metal products	5.26
6	Textile products	5.10
7	Insurance services	5.02
8	Tobacco products	4.05
9	Furniture and fixtures	3.99
10	Medical and health products and services	3.84
11	Restaurant	3.75
12	Transport equipment	3.71
13	Electricity	3.28
14	Poultry products	3.13
15	Leather, leather products and footwear	2.53
16	Simple agricultural processed products	2.53
17	Petroleum and petroleum products	2.28
18	Fruit products	2.21
19	Electrical machinery and supplies	2.14
20	Manufacturing industry products	1.71

## Exhibit 17 (Continued)

No.	Goods and services	Percentage Changes
21	Marine fishery products	1.70
22	Beverage products	1.56
23	Transport services	1.51
24	Dwelling and real estate products and services	0.84
25	Chemicals and chemical products	0.79
26	Rice products	0.78
27	Wearing apparel products	0.77
28	Vegetable products	0.72
29	Wholesale and retail trade services	0.66
30	Manufactured food products	0.49

Source: Numerical simulation results

**Exhibit 18** Statistics of survey responses and uses of village fund, by adults (aged 20 or older), in 2004

Inquiries	All	Poorest 5th	Rural	Female
Number of observations (unweighted)	80,950	13,180	30,892	43,916
Expenditure per capita (THB/month)	3,398	1,060	2,578	3,427
Income per capita (THB/month)	4,717	1,455	3,345	4,745
<b>Did you obtain at least one village fund loan since 2002? (% saying yes)</b>	16.6	20.0	21.5	15.5
<b>Why did you not obtain a loan?</b>				
Number of observations	69,486	10,820	24,547	38,035
- <i>Applied but was refused (%)</i>	0.7	1.1	0.8	0.7
- <i>No need (%)</i>	28.5	16.0	25.1	28.7
- <i>Believed would be refused (%)</i>	4.1	4.4	3.9	3.9
- <i>Too expensive (%)</i>	0.2	0.4	0.2	0.2
- <i>Did not find guarantors (%)</i>	0.9	1.1	0.7	0.8
- <i>Did not like to be in debt (%)</i>	29.5	37.8	33.1	29.7
- <i>Don't know about village fund (%)</i>	7.7	3.1	2.6	7.7
- <i>Other (%)</i>	28.0	36.1	33.4	28.0
- <i>Village fund is not available (%)</i>	0.5	0.0	0.1	0.4

Source: Thailand Socioeconomic Survey 2004 cited in Boonperm, Haughton, Khandker (2007)<sup>1</sup>

<sup>1</sup> Boonperm, Haughton and Khandker, "Does the Village Fund Matter in Thailand?," pp. 19.

Exhibit 18 (Continued)

Inquiries	All	Poorest 5th	Rural	Female
<b>How much money did you ask to borrow in this loan? (THB)</b>	17,183	18,236	17,438	16,340
<b>How much did you actually borrow in this loan? (THB)</b>	16,183	17,312	16,462	15,322
Annualized interest rate on the village fund loan (%)	6.0	5.8	5.9	6.1
<b>What was the main (true) objective for obtaining this loan</b>				
Number of observations	11,250	2,354	6,298	5,881
- <i>Buy agricultural equipment/inputs (%)</i>	39.5	44.9	42.2	35.3
- <i>Buy animals (for sale/use) (%)</i>	9.7	12.3	10.4	8.4
- <i>Buy agricultural land (%)</i>	1.7	1.6	1.8	1.7
- <i>Buy non-farm business equipment/inputs (%)</i>	10.3	3.6	8.9	11.6
- <i>Business construction (%)</i>	3.6	1.3	3.0	4.2
- <i>Buy consumer durables (%)</i>	1.4	2.0	1.3	1.6
- <i>Improve dwelling (%)</i>	4.8	4.3	4.4	4.6
- <i>School fees (%)</i>	4.0	2.1	3.4	4.7
- <i>Health treatment (%)</i>	0.6	0.7	0.6	0.9
- <i>Ceremonies (%)</i>	0.2	0.2	0.2	0.2
- <i>On-lending (%)</i>	0.8	0.7	0.8	0.9
- <i>Other (%)</i>	23.4	27.1	23.0	25.6
- <i>Not reported (%)</i>	0.2	0.1	0.2	0.2

Exhibit 18 (Continued)

Inquiries	All	Poorest 5th	Rural	Female
<b>Were you overdue in repaying this loan? (% saying yes)</b>	7.7	7.9	7.5	7.9
<b>Did you borrow from somewhere else in order to repay this loan? (% saying yes)</b>	16.1	18.9	16.6	16.8
<b>What rate of interest did you have to pay on this other loan? (% per annum)</b>	46.0	44.2	43.9	49.6
<b>How did this loan change your economic situation</b>				
- <i>Improved</i> (%)	71.1	70.9	71.7	70.9
- <i>Unchanged</i> (%)	27.0	27.2	26.4	27.0
- <i>Worsened</i> (%)	1.9	2.0	1.9	2.2
<b>Why was your loan application refused?</b>				
Number of observations	249	62	96	123
- <i>No funds left</i> (%)	39.1	40.5	43.7	32.5
- <i>Application incomplete</i> (%)	8.2	8	8.6	5.2
- <i>No guarantors</i> (%)	19.2	19.8	14.9	20.8
- <i>Other</i> (%)	30.9	31.6	30.4	40.0
- <i>Not reported or unknown</i> (%)	2.6	0.1	2.5	1.5

Exhibit 18 (Continued)

Inquiries	All	Poorest 5th	Rural	Female
<b>If refused, did you obtain a loan from other sources instead? (% saying yes)</b>	45.0	38.7	46.7	52.6
<b>How should the village fund system be changed? (% mentioning item)</b>				
- <i>No changes needed</i>	30.2	28.3	31.5	30.4
- <i>No guarantors</i>	13.4	12.5	12.3	13.1
- <i>Higher loan amounts</i>	33.6	36.7	36.3	33.1
- <i>Longer repayment periods</i>	33.9	40.8	38.2	33.4
- <i>Lower interest/grants</i>	36.9	40.9	38.5	37.1
- <i>Repayment in kind</i>	4.9	6.5	5.5	5.0
- <i>Should give money only to the poorest</i>	25.2	22.3	21.5	25.6
- <i>Other</i>	6.7	5.2	5.3	6.8