



Report on Best Practices for Sustainable Models of Pro-Poor Rural Financial Services in THAILAND



APRACA RuFBeP Publication: 2015-16/1

Report on
**Best Practices for Sustainable Models of
Pro-Poor Rural Financial Services in THAILAND**

Edited by

Prasun Kumar Das and Michael Hamp

An APRACA RuFBeP Publication funded by
the International Fund for Agricultural Development (IFAD)

©2016 by the Asia-Pacific Rural and Agricultural Credit Association (APRACA)

Disclaimer:

The opinions expressed in this publication are those of the authors and do not necessarily represent those of Asia-Pacific Rural and Agricultural Credit Association (APRACA) and International Fund for Agricultural Development (IFAD).

The designation employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of APRACA and IFAD concerning the legal status of any country, territory, city or area or of its authorities or concerning the delimitation of its frontiers or boundaries. The designations 'developed' and 'developing' countries are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process.

All Rights reserved

ISBN 978-616-92335-6-5

Cover Photo Credit: Michael Hamp and Sofia Champanand

Printed June 2016

<i>Distribution</i>	For Copies write to: The Secretary General Asia-Pacific Rural and Agricultural Credit Association (APRACA) Room No. A 303, BAAC Building 469 Nakhonsawan Road, Dusit, Bangkok 10300, Thailand Tel: +66 2 280 0195, Fax: +66 2 280 1524 E-mail: apraca@apraca.org Website: www.apraca.org
<i>Secretary General</i>	Chamnong Siriwyotha
<i>Project Manager</i>	Prasun Kumar Das
<i>Layout Credit</i>	Sofia Champanand

This report published by APRACA under the auspices of the IFAD grant supported APRACA RuFBeP project.

This report is published under the incumbencies of Mr. Shitangshu Kumar Sur Chowdhury (APRACA Chairman) and Mr. Maha Prasad Adhikari (APRACA Vice-Chairman), Mr. Chamnong Siriwyotha (APRACA Secretary General) and Dr. Prasun Kumar Das (RuFBeP Project Manager)

Foreword

Promoting pro-poor growth is a pattern of growth that is inclusive and enhances the ability of impoverished people to participate, benefit in, and contribute to the growth process. This is a critical factor for developing countries to achieve a sustainable way out of poverty and to enable achievement of the Sustainable Development Goals.

The causes of poverty are complex and multi-dimensional. They involve, among other things, climate, gender, markets, access to finance and public policy. Likewise, the poor are quite diverse in both the problems they face and the possible solutions to these problems. Poverty remains a predominantly rural problem with a majority of the poor in developing countries living in rural areas. It is estimated that 76 percent of the developing world's poor live in rural areas whereas only about 58 percent of the overall global population lives in rural areas. Because of the complexity of rural poverty, each country needs to evolve its own strategy for addressing the concerns of rural poor that is in tune with its socioeconomic ethos.

APRACA has been in the forefront to lead access to finance in the rural areas through its member institutions in the Asia-Pacific region by providing technical assistance in capacity building, research and knowledge management. We are fortunate enough to receive generous funding from International Fund for Agricultural Development (IFAD), the global leader in development finance for implementing a project to 'Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries (RuFBeP project)'. The knowledge gathered will help APRACA in disseminating the information that promotes innovations, productivity, inclusive growth, self-reliance, and welfare of the rural poor in the region and benefit the member institutions in 21 countries across the region. We are confident that documenting the best practices on sustainable practices of pro-poor financial services in the countries like China, India, Indonesia, Philippines, and Thailand will be extremely useful to the countries in the Asia-Pacific region to draw lessons in evolving suitable strategies for the benefit of their people and will add value to global knowledge resources.

This country report on rural finance best practices in **Thailand** is a part of the series of country reports being published by APRACA with the financial support from International Fund for Agricultural Development (IFAD).

Chamnong Siriwongyotha
APRACA Secretary General

Acknowledgements

The editors of this document are thankful to the International Fund for Agricultural Development (IFAD) for funding the study as a part of the 'RuFBeP' Project. Acknowledgements are due to the contributors of this document developed through research, development of cases, review and validation of information and recommendations. They are:

- a) Research team of Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand
- b) Research Team of Department of Agricultural Extension, Government of Thailand consists of: Dr. Surangsri Wapet; Mr. Sukol Kositphokin; Mr. Theerapat Kumkrong; Ms. Wilaiporn Chawasri; Dr. Prinyarat Poosiri; Mrs. Chalintorn Anutaraporn; Ms. Surapa Yeamsri; Ms. Mayuree Boonyasenekul; Mrs. Somjai Suppaso; Mrs. Vollayada Namruengsri; Mr. Kanok Sawatphon; Ms. Kaniththa Sonboon; Ms. Chenchira Palachai; Mr. Sane Thongkliang and Mr. Sumran Sarabun (consultant)

The contributors from BAAC acknowledged Mr. Luck Wajananawat, President of BAAC, Mr. Nipath Kuasakul, Executive Vice President, Ms. Apinya Punyarit, Senior Vice President, Savings Department, Mr. Khajornkiat Buasri, Director of Office of Community Enterprise and Village Fund Loans, Mr. Chamnong Siriwongyotha, APRACA Secretary General for their support and authorization. The BAAC research team also would like to put in record the logistics support extended by the Management and staff of *Ubon Ratchathani* and *Chumphon* provincial offices of BAAC led by Ms. Suwimon On-Indra, and Mr. Manop Jinamai, Director of *Ubon Ratchathani* and *Chumphon* Provincial office respectively during the field survey. The BAAC team like to convey their deep gratitude to Mr. Semapon Kidkem, President of *Suk Samran CFI*, Mr. Pisarn Kasemsook, Manager of *Suk Samran CFI*, Mr. Wiruch Phoomala, Branch Manager of BAAC Tha-Sae Branch, Mr. Prawit Tepruangskul, Manager of BAAC *Khamcharoen* Branch, Mr. Jiamsak Khansorn, Manager of BAAC *Sirindhorn* Branch, President and Manager of *Don Moo* Community Financial Institution (Community Fund) for their valuable information and rich insights.

The research team of DOAE likes to put in record our deep gratitude APRACA for giving them the opportunity to conduct the study on "Best Practices on Sustainable Financial Services of Farmer Organization Fund in Thailand". DOAE would like to thank for the concrete cooperation of the authorities who were instrumental in achieving the project objectives particularly the *Sarng Thor Noi* Community Bank and Enterprise, *Hua Taparn* District Agricultural Extension Office, *Amnart Charoen* Provincial Agricultural Extension Office, *Na Koh Sak* Saving Community Enterprise, *Hat Sumran* District Agricultural Extension Office and *Trang* Provincial Agricultural Extension Office, as well as the Finance Division, Planning Division and Personnel Division of the Department of Agricultural Extension Head Office. The research team likes to express their sincere thanks to the management of the DOAE for approving and providing the opportunity to conduct this research for the benefit of increasing the breadth of knowledge in agricultural extension of Thailand.

Prasun Kumar Das (APRACA)
Michael Hamp (IFAD)

About the Authors

The authors of the country report and the five case studies in this document are the team of experienced professionals in rural and agricultural finance from Bank for Agriculture and Agricultural cooperatives (BAAC) and qualified researchers from agricultural extension programme of the Department of Agricultural Extension, Ministry of Agriculture and Cooperatives, Royal Government of Thailand. They prepared the country reports and case studies under the guidance and support of the Project Manager of 'RuFBeP Project' funded by International Fund for Agricultural Development (IFAD).

Ms. Nicha Uaipornrungrat, Director, Office of Organization and System Development Department (Innovation) led the team of the professionals from BAAC and documented the cases on '*Suk Samran Community Banking*', '*Don Moo Community Banking*' and '*Thaweesook Deposit*' scheme of BAAC. The Team of researchers from Department of Agricultural Extension was led by Dr. Surangsrri Wapet who is a Senior Professional in the Department and documented the cases from '*Sarng Thor Noi Community Bank and Enterprise*' and '*Na Koh Sak Saving community Enterprise*'.

Abbreviations

AAR	After Action Review
ADB	Asian Development Bank
APRACA	Asia-Pacific Rural and Agricultural Credit Association
BAAC	Bank for Agriculture and Agricultural Cooperatives
BE	Buddhist Era
BOT	Bank of Thailand
BRI	Bank Rakyat Indonesia
CB	Commercial Bank
CDD	Community Development Department
CE	Community Enterprise
CF	Community Fund
CFI	Community Financial Institution
CBFI	Community-Based Financial Institution
CGAP	Consultative Group to Assist the Poorest
CUES	Credit Union Empowerment and Strengthening
DAEO	District Agricultural Extension Office
DSS	Debt Suspension Scheme
DOAE	Department of Agricultural Extension
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FPO	Fiscal Policy Office
FRA	Financial Sector Restructuring Agency
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Incomes
GHB	Government Housing Bank
GOT	Government of Thailand
GPP	Gross Provincial Product
GSB	Government Savings Bank
IBRD	International Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
IFCT	Industrial Finance Corporation of Thailand
IMF	International Monetary Fund
JLGs	Joint Liability Groups
MFI	Microfinance Institution
MOF	Ministry of Finance
MOI	Ministry of Interior
MOAC	Ministry of Agriculture and Cooperatives
NBFI	Non-Bank Financial Institution
NGO	Non-governmental Organization
NPLs	Non-performing loans
OAG	Office of the Auditor General

OTOP	One Tumbon One Product
PAEO	Provincial Agricultural Extension Office
PR	Public Relations
RTG	Royal Thai Government
RuFBeP	Project to Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries
SFC	Small Farmer Cooperative
SGP	Savings Group for Production
SPV	Special Purpose Vehicle
TAO	Tambon Administration Organization
THB	Thai Baht
USAID	United States Agency for International Development
VBARD	Vietnam Bank for Agriculture and Rural Development
VFS	Village Fund Scheme
WB	World Bank
WOCCU	World Council of Credit Unions

(Conversion: US\$ 1 = THB 32.15 as on 31.03.2015)

Executive Summary

The financial landscape of Thailand under the supervision of the Bank of Thailand (BOT) provides clear cut and proactive policy framework for the rural financing systems and institutions in enhancing the national development goal with rural inclusion. The financial institutions policy committee (FIPC) of BOT sets prudential regulations and supervisory practices to ensure the safety and soundness of the financial institutions as well as its delivery channels to the clients to increase its outreach.

There are two major types of players¹ operating in the rural financial market of Thailand and extending financial facilities which include savings, credit, insurance and funds transfers. However, the specialised financial institutions (SFIs) like Bank for Agriculture and Agricultural Cooperatives (BAAC) and Government Savings Bank are more active in the rural finance for almost five decades. BAAC has been considered as a special purpose vehicle (SPV) to deliver low cost credit to farmers and rural communities in the country. It has adopted the diverse demand of a market driven, growing rural economy through a network of its branches. The most notable features of BAAC's success are its tremendous loan outreach to the rural poor and its impressive savings mobilization. Recent studies reveal that one of the few "old" agricultural development banks that prospered under the new approach is the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. BAAC practices a form of group lending for small loans. It also provides larger individual loans and loans to cooperatives. BAAC now also works outside of agriculture, and engages in savings collection as well. It put much effort into developing deposit and credit products for smallholder farmers. The bank now reaches nearly all farmers and villages and, unlike most developing countries, smallholder farmers in Thailand have adequate access to credit.

This report at an analytical level attempts to familiarize the present pattern of rural financing in Thailand and bring forth the factors contributing to the success of financial support systems which provide financial assistance to sustain rural development and farmers' organizations in Thailand. It thereby explores the best practices and systems prevailing in the (rural) financial market and establishes its scope for replication and scaling up in wider contexts. The contents of this document are based on altruism and nuances drawn from the real life cases from the different type of financial institutions and their practices in lending and deposit mobilizations from the supply side. On the demand side it exhibits the real life benefits derived by the communities and farmers across various strategic intervention locations. The case studies in this report covers a cross section of institutions and target groups towards a wider understanding of the scope of rural financing options and its levels of impact in a causation framework.

The report adopted mixed methods of desk research and primary level interaction with different stakeholders to establish the supply and demand side authenticity and relevance of the financial products and services being offered by the rural financial institutions in the country. Subsequently focus

¹ Both depository corporations (for example, commercial banks, Special Financial Institutions, Saving Cooperative and credit unions, and money market mutual funds) and non-depository corporations (for example, mutual funds, insurance companies, provident funds, asset management companies, and securities companies).

group discussion and in-depth interviews were held with major stakeholders in the financial network for their views and ideas. The discussions focused on the best practices of farmers' organizations which provide financial services and funding support to the community groups. This report covered the best practices of four (4) community financial institutions (CFIs) which are catering the needs of the rural population of the country at the grass root level and one (1) innovative financial product which is aimed to serve the different segments of the society (general community for its domestic needs and the farming community for its specific needs).

Towards establishing its sustainability and scope of replication, the case study institutions and the financial product were selected by using the following inclusion criteria: (a) it is pro-poor with high levels of access and favourable terms to the poor, (b) it is technically and financially feasible with factors that can make replication possible and (c) it is cost effective, profitable and self sustaining without any external handholding. These characteristics make it highly desirable to showcase for adoption by communities across the region. Four rural financial institutions from four geographical locations are covered for an in-depth documentation of the best financing patterns for rural development in diverse environments. These institutions include (a) *Suk Samran* community financial institution in *Chumphon* Province, (b) *Don Moo* community financial institution in *Ubon Ratchathani* Province, (c) *Sarng Thor Noi* community financial institution in *Amnart Charoen* Province and (d) *Na Koh Sak* community financial institution in *Trang* Province. Interactions were held with different stakeholders to ascertain the success factors of these institutions arising out of its business models as well as the service patterns and patronage levels. The analysis reveals that the community enterprises are formed and managed by the members. In essence community financial institutions are owner operated business entities whereby each of members of the community organization plays three roles at the same time viz, the owner, client and manager. Because of the same reason the institution gains greater amount of member controls in its operations as well as management. All the stakeholders participate in the organizational development process. Consequently, they develop suitable rules and regulations including working principles and standard procedures through an agreement with other stakeholders for learning and participation. For instance, the *Na Koh Sak* saving community enterprise uses the tenets of Islam as guidelines in the organizational development and management.

The business volumes of the CFIs are comparatively lower than the other institutions given its small member base and the consequent small basket of financial products and services. The community finance institutions (CFIs) do cater to the specific and specialized social segments which will sustain the development fabric of the country in specialized, target oriented and spatial specific frameworks. It caters to the farming communities, youth, elderly as well as the general categories to carry on with productive engagements and also to generate sustainable income levels to save a part of it for the future growth. The case analysis undertaken in this reports shows this diversity in the operational dimensions of the community financial institutions, its product portfolios, operational modalities as well as the outcomes for its application in wider contexts. All the CFIs establish that they are easily accessible to the target population, it is low cost and the less time consuming from the efficiency point of view.

The best practice elements of *Suk Samran* CFI, for instance have been that it is community oriented and evolves a holistic welfare approach to its members. It is democratically managed and community participation is established in the management processes. It acts as a contingency source of finance for the members and caters to the exigencies of the local communities. It provides a wide range of financial products which enable the members to make investments in new activities, meet the working capital requirements as well as refinancing the business loans. Further it provides services like input supplies for effective farm operations and save the time of the members by paying their service utility bills like telephone, electricity etc. It also provides for the funeral finance supports and engages in debt resolution through negotiation with other lenders with whom the members have affiliations. It works on the principles like cooperation, collaboration and commitment to be replicated elsewhere.

Don Moo CFI on the other hand covers the entire province of *Ubon Ratchathani* where livelihood is primarily agriculture based. It supports the heterogeneous groups in the operational space like the flood prone and the drought prone for farming operations. It seeks to promote agriculture and agribusinesses in the province through sustainable and flexible financial products to the farmers and the small agribusiness entrepreneurs. It has developed financial products which will repair the old debts as well as to take forward the farm processing activities in a better way. Accordingly it has regular loans, special loans and quick cash to ensure the liquidity of the activity groups across the value chain. Accordingly the CFI has created activity groups to take the advantage of scale operations and also established market and trade linkage to gain competitiveness of the businesses. These groups include the rice mills group, beef-cow group, trade group etc. It promotes small savings among the youth and provides them equity based financial service participation. It provides training and exposure to the different activity groups towards enabling their enhanced efficiency levels along with the financial supports. Given the high levels of networking of the CFI, it is low cost financing and fast realizing for the users to be benefited.

The *Sarng Thor Noi* CFI was established after assessing the existing levels of rural activities and the scope and options for enhanced welfare outcomes through the CFI interventions. It identified the critical intervention spaces and points for outcome efficiency and operational sustainability. Hence the CFI is innovative and target oriented in its operations and outcome levels. It evolves the participative action in financial problem solving among the members. Every household in the operational area of the CFI is a member and hence the inclusion level is full for the system. The community leaders are elected by the members from each of the villages based on their capacity, volunteer records, social respectability and track record in public life. The CFI have established a wide network for exchange of information, knowledge, experience, capital, production practices and market channels. It proposes an innovative social movement to renew the way of life of the community living. It promotes alcohol free funerals, motivates for enhanced community savings, and return profits to the members. It sells shares to mobilize capital, receives deposits from the public and it has *satja* saving funds. It provides loans of various sorts to the members to meet their requirements such as emergency loans, ordinary loans, short term loans, special loans as well as loans for agriculture and agribusiness activities. It improves the rural capital formation through providing finances to purchase agriculture implements and machineries which provides long term productivity enhancement for the rural production networks. It multiplies the investment of members through a network of community groups, community enterprises, markets and customers.

Na Koh Sak CFI is essentially a farmer based community finance institution. The members raise funds through savings and the same is loaned for financing productive enterprises within the community system. It follows the self sufficiency approach as well as the Islamic teachings. The farmers in the local area joined together and formed the CFI with the *Satja* approach of savings (THB 10 per month). The same savings has been loaned to the local community enterprise. It promoted agriculture through the creation of demonstration centers, market systems and input distribution network. Along with oath deposits it promoted special deposits which are unlimited and with flexible withdrawal options. At the same time it provided loan products to individual members with a timeline for repayments. It provides two types of common loans with different sort of collateral requirements depending on the nature of operation. Special loans are also provided to members on oath deposits and collateral. It also has emergency lending for short durations. It invests in new businesses for enhancing its cash flows.

Towards the success of these community financial institutions, nine indicators were identified in addition to the external environment which determine its operational efficiency and for the delivery of the services:

- Good leadership with strong community respect and ethics
- Flexibility in agreed regulatory functions consistent with the community life

- Honest and capable management committees
- Higher participation of partners involved in corporate development activities and their networking
- Monetary and non-monetary benefits to the members and the community
- Continuous participatory learning process to community and financing of development
- Availability of diverse financial products and services to support the members' occupation and living conditions
- Developing and installing short and long term plans in place and
- Establishment of operationally feasible and effective risk management systems

Having outlined the above, it is also important to understand the strategies followed by these financial systems to create a value addition to the user categories. Mainly six strategies are identified as the source of support and delivery efficiency for these institutions viz,

- Enhancing the financial literacy of farmers/members of the community financial institutions
- Promotion of continuous saving schemes for different category of members
- Enabling financial discipline
- Appropriation of reserve funds for management plan
- Compliance to strict financial risk management plan and
- Continuous monitoring and evaluation of the activities in order to sustain the development phase of the financial institutions by applying the concept of efficiency in economic management for social uplifting

The financial product of BAAC '*Thaweesook*'² Deposit' is highly innovative and caters to the aging population in the country side who are mainly farmers and farming communities. Given the fact that there is no strong social security net prevailing in the rural areas, this deposit product establishes a saving and future well-being for the senior citizens. It links the farmers with the bank consortium through savings. The CFI has a life protection plan to security the future well-being of the farmers. It provides multiple saving options and plans with respective returns and dividends. As per the plans the farmers have to continuously save as per the plan chosen by them up to the age of 65 and later receive the regular returns to safeguard the rest of their life. The CFI supports the welfare funds of the existing communities by determining a special interest rate in accordance with the announced interest rate of the *Thaweesook* Deposit to support the implementation of the Community Welfare Fund for a joint knowledge and development exchange.

² '*Thaweesook*' is a Thai word which means 'multiplying happiness'

Contents

Foreword	iii
Acknowledgements	iv
About the Authors	v
Abbreviations	vii
Executive Summary	ix
Chapter 1 INTRODUCTION	1
1.1 Background	1
1.2 Scope and Objectives of the Study	3
1.3 Content of the Report	3
Chapter 2 METHODOLOGY	5
2.1 Study design	5
2.2 Inclusion criteria	5
2.3 Geographical area coverage	6
2.4 Sampling methodology	6
2.5 Field work and data collection	6
2.6 Data analysis	6
Chapter 3 REVIEW OF LITERATURE	7
3.1 Published Sources	7
3.2 Grey Literature	10
Chapter 4 FINDINGS ON RURAL FINANCIAL SERVICES	14
4.1 Macro overview of Thai Financial policy evolution	14
4.1.1 Formulating Financial Sector Master Plan	14
4.1.2 Measures to Develop Financial Sector	15
4.2 Key Players in Rural Finance Market of Thailand	16
4.2.1 Financial Institutions in Thailand	17
4.2.2 Bank for Agriculture and Agricultural Cooperatives (BAAC)	17
4.2.3 Other Players in the Rural Credit Market	18
4.3 Community Financial Institutions (CFIs)	19
4.3.1 Background of CFIs	19
4.3.2 Definition of CFIs	20

4.3.3	Nature and Structures of CFI.....	20
4.3.4	Roles of CFI.....	21
4.3.5	Classification of CFI.....	21
4.3.6	Upgrading of Village Funds to CFI.....	22
4.3.7	BAAC and the CFI.....	23
4.4	Key challenges in rural finance	24
4.4.1	High use of informal credit services	24
4.4.2	High levels of debt	24
4.4.3	Low levels of savings.....	24
4.4.4	Lack of social security net	24
4.5	Regulatory Framework and Enabling Environment	25
4.5.1	Establishment of BAAC	25
4.5.2	Establishment of AMCs	25
4.6	Capacity of the rural financial institution in the country.....	26
4.6.1	Agricultural financing	26
4.6.2	Savings mobilization	26
4.6.3	Enhancing quality and productivity	26
4.6.4	Price stabilization	26
4.6.5	Marketing Support	27
4.6.6	Farmer and rural development networking	27
Chapter 5	DETAILED STUDY OF RURAL FINANCE BEST PRACTICES ..	28
5.1	Identifying inclusion criteria	28
5.2	<i>Suk Samran</i> Community Financial Institution (CFI)	29
5.3	<i>Don Moo</i> Community Financial Institution	31
5.4	<i>Sarng Thor Noi</i> Community Financial Institution	34
5.5	The Case of <i>Na Koh Sak</i> Saving Community Financial Institutions	45
5.6	<i>Thaweesook</i> Deposit Product	52
5.7	Summary of Common Best Practices observed from the cases studied	56
Chapter 6	CONCLUSIONS, POLICY RECOMMENDATIONS AND WAY FORWARD	57
6.1	Conclusions	57
6.2	Policy Recommendations	58
6.3	Way Forward: Pilot testing of good practices	58
BIBLIOGRAPHY	61	
ANNEXURES		
Annexure 1	Growth Rate of GDP in Thailand from 2009-2013	63
Annexure 2	Agricultural Growth rate of Thailand during 2009-2013	64
Annexure 3	Terms used in the document and scope of its meaning	65
Annexure 4	Sample question used in the forum and in-depth interview	66
Annexure 5	The Development framework of the CFI towards sustainable grassroots economy	67

List of Charts

Chart 1	Flow Chart showing steps for formation of CFIs in Thailand	21
Chart 2	Components, roles and functions of the committee, sub-committee and staff of <i>Sarng Thor Noi CFI</i>	37
Chart 3	The working team of <i>Sarng Thor Noi CFI</i>	37
Chart 4	Networking of <i>Sarng Thor Noi CFI</i>	39
Chart 5	The saving services of <i>Sarng Thor Noi CFI</i>	40
Chart 6	The Credit Services of <i>Sarng Thor Noi CFI</i>	42
Chart 7	Roles and Functions of the Committee of <i>Na Koh Sak CFI</i>	46
Chart 8	The Networking of <i>Na Koh Sak CFI</i>	48

List of Figures

Figure 1	Monthly income distribution of adult population in Thailand	11
Figure 2	The trend in loans extended to CFIs	29
Figure 3	<i>Thaweesook</i> Deposit Performance	55

List of Tables

Table 1	Number and Asset Size of Financial Institutions in Thailand	17
Table 2	Pension details for members of <i>Satja</i> Savings Fund as welfare for the community bank's members	41
Table 3	The number of members, shares and share capital of <i>Sarng Thor Noi</i> Community Financial Institution	43
Table 4	The financial status of <i>Sarng Thor Noi CFI</i>	43
Table 5	Analysis of the <i>Sarng Thor Noi CFI</i> 's fiscal budget using its financial ratio	44
Table 6	Memberships and financial status of <i>No Koh Sak</i> Community Enterprise	51
Table 7	Analysis of the fiscal budget using the financial ratio of <i>No Koh Sak CFI</i>	51
Table 8	Performance of <i>Thaweesook</i> Deposit Scheme (2007-2014)	54
Table 9	Accumulated benefits provided to eligible savers under <i>Thaweesook</i> Deposit (As on 31 March 2014)	54

CHAPTER 1

Introduction

1.1 Background

Thailand stands second to Indonesia in Gross Domestic Product (GDP) among the Southeast Asian (ASEAN) countries while being the fourth largest in terms of population (67.2 million) after Indonesia, Philippines, and Vietnam respectively. The country continues to be predominantly agrarian though industrialization has surpassed agriculture growth and activity levels in the past few decades establishing remarkable progress in social and economic front (growth rate and contribution of different sectors to GDP of Thailand is presented in *Annexure 1*). It is worth mentioning in this context that the World Bank has upgraded Thailand's ranking from a lower-middle income economy to an upper-middle income one in 2011. Although by 2012, agriculture contributed 12.3 percent to the country's GDP (USD 387 billion). According to latest estimates, the agricultural sector continues to exhibit a declining trend mainly because of the erratic rainfall pattern and non-availability of agricultural labour within the country (Growth rate for Agriculture in Thailand is illustrated in *Annexure 2*). However, it continues to engage 66 percent of the rural labour force for their livelihood with 13.6 million people being involved in agriculture, forestry and fishing currently (August 2014)³. The structure and composition of GDP has also undergone significant changes over the years. For instance although the sectoral share of the non-agricultural sector is 87.7 percent, approximately 37 percent of this accrues from the Small and Medium Enterprises (SMEs). Further, it is observed that most of these SMEs are agriculture based viz, food processing and packaging industry⁴. Similar trends are also observed for urbanization with the proportion of Thai population living in rural areas witnessing a decline. The trends suggest that 87.5 percent of the population lived in rural areas in 1960, which reduced to 68.3 percent by 2000 and further declined to 50.6 percent by 2013⁵.

The liberalization of financial markets in Thailand started since the early 1980s, partly in response to the failure of state-directed lending programme, interest-rate caps, trend of debt forgiveness, and public intervention in almost all aspects of agricultural finance. One of the policy instruments was opening access to foreign financial institutions and is said to have vastly increased the volume and quality of financial services in many cases (Bank of Thailand, 2014). The liberalization of financial markets and interest rates resulted in new initiatives by microfinance institutions with a particular focus being the provision and access to sustainable and cost-efficient financial services for the poor. Initially these were pioneered by NGO-type microfinance institutions, but were soon embraced by governments, international development partners, and banks as well. The liberalization of financial markets also created operating space for a variety of member owned and managed savings and credit associations, such as village and rural banks, which typically focus on rural populations.

The foundation of this new approach to improve the availability of finance to the disadvantaged rested on the twin pillars of empowerment of the targeted beneficiaries and on inculcation of a habit of savings. Farmers and rural populations, in general, have always found it difficult to obtain credit financing, which hampers the efficiency and security of their operations. Many farmers even struggle to pay their seasonal harvest inputs and hence investing in agricultural technology and expansion is an even more difficult proposition. Lack of finance is also one of the reasons for low productivity in the

³ Summary of the labour force survey in Thailand 2014; National Statistical Office, Ministry of Information and Communication Technology, Govt. of Thailand.

⁴ Thailand SME white paper 2013 prepared by the Office of SMEs Promotion (OSMEP); Part 01: Situation and Economic Indicators of SMEs in 2012 and 2013; <http://www.sme.go.th/SiteCollectionDocuments/White%20Paper/2556.pdf>

⁵ World Population Review 2014; Thailand Country report; <http://worldpopulationreview.com/countries/thailand-population/>

agricultural sector. In spite of vast agricultural potential, many farmers are not able to take farming beyond the subsistence levels because of the capital constraints. Recent studies confirm that the lack of agricultural finance is as pressing as ever in spite of government programme undertaken over the years, supply and demand for financial services continues to be mismatched, both in types and volume of services (Leturque and Wiggins, 2011; AFD 2012). Nevertheless, recent innovations in agricultural finance such as value chain finance (involving traders and processors), warehouse receipt finance, agricultural (index) insurance and rural microfinance, have resulted in a renewed interest in this sector.

One of the few “old” agricultural development banks that prospered under the new approach is the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. BAAC practices a typical form of group lending for small loans (as MFIs would do). It also provides larger individual loans and loans to cooperatives and now apart from agricultural sector engages in savings collection as well. The bank has now emerged as a showcase of achievements for good and dedicated agricultural development. Efforts put in developing deposit and credit products for smallholder farmers have resulted in increasing its coverage with the bank now reaching nearly all farmers and villages and, unlike most developing countries, smallholder farmers in Thailand have adequate access to credit. The bank is also no longer reliant on government and donor funding for its existence and functioning.

Farmers and rural communities in Thailand currently enjoy a higher level of access to formal financial services. According to Global Findex (World Bank 2015) study 78.1 percent of the adult population (over 15 years) holds an account with a financial institution. The study also showed that 75.4 percent female adults have access to finance while 72.7 percent of male adults maintain accounts with the financial institutions respectively. Rural finance in Thailand is mainly dependent on commercial bank lending patterns. Thailand ranked just behind Malaysia in financial inclusion among the Southeast Asian Nations (ASEAN)⁶. The higher access to financial services is attributed to the policies pursued by the Government and the expansion of the banking network over the years. Nevertheless an understanding of the determinants of bank lending formats in the rural sector is imperative to promote expansion of credit accessibility to rural clients. It is generally agreed that appropriate products, services and innovations in rural financing potentially bring in desired changes in outreach and inclusion. At the same time it can reduce the costs of delivery, enhance the rate of repayments towards establishing the profitability of banks and other financial institutions.

According to the study conducted by AFD (2012) in 6 countries (Thailand and Cambodia in Asia and Mali, Senegal, Tanzania and Tunisia in Africa), it was observed that from the perspective of demand and supply constraints in the rural financial sector, it is true that banks and MFIs are discouraged by the higher cost of delivering services to farmers. Isolated and dispersed populations, coupled with poor connectivity and energy infrastructure make it difficult and expensive for financial institutions not only to open branches in rural areas and but also to serve and monitor clients. In addition, due to rural poverty, the market size, individual loans, savings accounts, and payment transactions is estimated to be small. As a result farmers are either unable or unwilling to pay a price for financial services that match the real transaction cost and risk (interest rates are usually at least 15 percent per year). Moreover, farmers want to deal with financial service providers that are located in close proximity. In fact, many farmers do not interact with any bank or MFI because there is none at hand. In case of Mali, Senegal and Tanzania, it was observed that the majority of the rural population does not have any financial service provider within walking distance. Travelling to a faraway financial institution is not just inconvenient rather it is also expensive and sometimes dangerous. In addition, such institutions can be quite intimidating, and their procedures off-putting. Hence community financing institutions cater to the demand for rural finances taking into account these inconveniences faced by the mainstream money market operators.

⁶ Compared to Indonesia (36%), Vietnam (31%) and Cambodia (22%): The Global Findex Database 2014: Measuring Financial Inclusion around the World Available at: <http://documents.worldbank.org/curated/en/2015/04/24368699/global-findex-database-2014-measuring-financial-inclusion-around-world>

The country report on Rural Finance Best Practices recommended reconsidering the existing practices of rural finance while also exploring the opportunities, challenges and scope for the development of inclusive financial markets in Thailand. The report covered the rural financial market and the challenges being faced by the country for universal access to finance and the role of the financial institutions. It specifically highlighted the role being played by the Community Financial Institutions (CFIs) which are the graduated versions of the village funds created out of the pro-poor policy of the national government.

1.2 Scope and Objectives of the Study

Rural and agricultural finance is widely recognized as a vital tool to facilitate agricultural development. However, rural finance is found expensive and often inadequate which limits the ability of smallholder farmers to access credit when it is essential. Thailand has made several innovations over time in aspects and domains of rural financial to make it accessible to rural people. The key terms used in this document its scope has been described in *Annexure 3*). Given this backdrop, the focus of this study was on understanding the best practices by establishing a matrix of the products and services targeted to the rural households and their utility/popularity/effectiveness. The specific objectives of this study are to:

- understand the background of financial services available to the rural and farm sector
- enlist the successful indicators contributing to be the good practices of financial services for rural and farm sector
- ascertain the sustainability levels of financial business pattern of the products and services available for the rural and farm sector
- critically review and document the best practices which are replicable and could be scaled up successfully.

1.3 Content of the Report

This report provides an overview of rural finance, key players and their roles, challenges, typology of providing rural finance, regulatory framework, enabling environment and the capacity levels of rural financial institutions in Thailand. More importantly, it includes a detailed documentation of best practices of the Community Financial Institutions from four geographical region of the country. The report includes details about Bank for Agriculture and Agricultural cooperatives (BAAC) which plays a key role in offering innovative financial products and services for the rural community for the last five decades. Given the above category of institutions, the report identified four best practices in rural financial space viz, (a) *Suk Samran* community financial institution in *Chumphon* Province, (b) *Don Moo* Community Financial Institution on in *Ubon Ratchathani* Province, (c) *Sarng Thor Noi* Community Financial Institution in *Amnart Charoen* Province and (d) *Na Koh Sak* Community Financial Institution in *Trang* Province of Thailand. Apart from the four CFIs mentioned above, a review of '*Thaweesook Deposit*' product of BAAC was also made which is very popular among the rural and urban poor not having the opportunity to receive higher returns on their savings deposits.

The report is targeted to enhance the learning through sharing of best practices among APRACA member institutions and other financial institutions operating the Asia-Pacific region. Moreover, these best practices can be transferred and replicated to other areas, institutions, and countries in order to improve access to financial services of the rural poor and facilitate agricultural production and other activities. This report therefore attempts to answer key questions such as:

- What are the best practices, how are they applied and what is its role in strengthening rural finance?
- How can all stakeholders be prepared for adoption of the best practices?

- How do these best practices affect inclusion, especially from the point of view of small producers and what can be done to effectively and efficiently replicate these best practices?
- What can the government and non-government agencies do to support increased and more effective replication of the best practices?

CHAPTER 2

Methodology

The objectives of the study are addressed through examination, selection, integration, and application to suit particular area, institution or community. This research resorted to a methodology combining secondary level information screening followed by a primary level in-depth investigation towards identifying the variables and its interactions enabling the best practices in financial services. The secondary research was conducted at desk level incorporating the published data and reviews of literature (both published and the grey). The primary level in-depth investigations on the basics, operational aspects and modes of operations of rural financing are canvassed through a series of field visits, focus-group discussions and stakeholder interviews. Information gathered through the secondary and primary sources were analyzed to understand and document the best practices. Close cooperation was established with the lead institution and other organizations involved in rural financial services.

2.1 Study design

The qualitative research was conducted by the research team of experts covering the Bank for Agriculture and Agricultural Cooperatives (BAAC) and the Department of Agricultural Extension (DOAE), Department of Agriculture, Ministry of Agriculture and cooperatives, Government of Thailand. The team explored secondary level data from records of the concerned organizations to establish the trend in cases of success (and failure) in the financial services (Sample questions asked during the study are listed in *Annexure 4*). The inferences from these form the base for the primary level interactions. Lessons were accordingly collated and documented about the best financial service practices across banking and farmer organizations that provide financial services to the rural poor. Three approaches encompass the data gathering process with the target groups which are summed in the points below:

- Explore the secondary data from various documents, while documenting the Global Best Practices on Sustainable Models of the RuFBeP project of APRACA.
- Organize forums to brainstorm and gather primary data from the committees and the clients of the farmer organizations.
- In-depth interview with the group leaders of the farmer organizations (for instance, the group leader, the chairman of the committee, the manager and the local expert etc.). The interviews were held using the terms and sample of lead questions for easy understanding.

2.2 Inclusion criteria

The best practices documented in the study satisfy three basic criteria which were formulated in consultation with the Asia-Pacific Rural and Agricultural Credit Association (APRACA). *First*, it must be pro-poor (accessible and favourable to the poor); *Second*, it should be technically and financially feasible with factors making replication possible and *third*, it ought to be cost effective, profitable and sustainable (viable and doable) over a continuous period without need of assistance in any form.

It is however, recognized that sustainability of rural financial service is a necessary but not a sufficient condition for providing the poor with access to financial services such as credit, savings and other financial services. On the other hand sustainable rural financial services should be pro-poor oriented because a financial product/service could be sustainable but it need not serve the poor because it is not accessible and does not provide favourable terms to the poor. For example, credits at relatively low and competitive interest rates are viable and sustainable, but often it is not available to the needy. The criteria for inclusion of the institutions in this study therefore have been multiple as below:

- The first criteria was the nature of the financing product. This included the needs of people in community that sometimes visualize great opportunity in managing their own resources (social capital, human capital, and natural resources capital), reducing external dependence and increasing self-dependence.
- The second criterion was the delivery system of the products and its efficiency.
- The third criterion was the business model of the products. Since agricultural lending is inadequate and costly, wholesale lending helps service providers to reduce operating cost and inherent risk of small scale borrowers.
- Technology adoption and levels of efficiency in servicing the customers was the fourth criteria.
- Fifth was the outreach and flexibility of the product portfolios and its ability to meet the farmer requirements.
- The final criterion considered the scope of replication of best practices identified in wider contexts for its scaling up and thereby enabling an environment for the farming communities in other parts of the world.

2.3 Geographical area coverage

The study covered an innovative financial product of BAAC named *Thaweesook* Deposit scheme which was implemented all over the country. The rest products covered include four farmer organization funds (Community financial institutions) in four diverse provinces of Thailand included due to their robust and successful performance and recognition as a success case of sustainable operations. The main activities of these organizations focus on community financial service delivery in which it has been developed and registered as the community enterprises. They are as follows:

- a) *Suk Samran* community banking in *Chumphon* Province,
- b) *Don Moo* Community Bank in *Ubon Ratchathani* Province,
- c) *Sarng Thor Noi* Community Bank and Enterprise in *Amnart Charoen* Province,
- d) *Na Koh Sak Saving* Community Enterprise in *Trang* Province,
- e) In case of '*Thaweesook* Deposit' product, performance was considered at the bank level

2.4 Sampling methodology

The sampling methodology for this exercise has been a stratified random one as it is observed that the universe is highly heterogeneous. Hence, detailed stratification will result in micro stratum which transforms the groups into somewhat homogenous for impact assessments. To sum up, the methodology was a multipoint random sampling from the stratified universe based on the various socio-economic and financial variables pertaining to the beneficiary groups.

2.5 Field work and data collection

Field surveys were carried out during 20-26 November 2014. Prior to investigation at the community and farmer level, a meeting was held within the research team about their role, responsibility, tools and techniques used, the steps of work, and output of the field survey. Subsequently, the outputs were checked for inconsistencies and verified after the data gathering process. All the study organizations were closely involved in primary data gathering and discussions with the stakeholders.

2.6 Data analysis

The data collected during the study were mostly qualitative and used content analysis according to the rural financial best practices theme of APRACA. The report was also prepared based on the major practices studied during the field visits and also some of the best practices that have been documented by BAAC and the Department of Agricultural Extension.

CHAPTER 3

Review of Literature

3.1 Published Sources

The Bank for Agriculture and Agricultural Cooperatives conducted a study on the success of community-based financial institutions using the National Quality Award criteria in 2014. This study focused on the community financial institutions that are supported by the BAAC and identified the success factors as measured by the National Assessment criteria (TQA). The main factors influencing the success of financial products were identified as: (i) sense of ownership, (ii) availability of community welfare options, (iii) knowing the identity of members, (iv) integration of the group, (v) supervision of credit servicing, (vi) being an entity, (vii) availability of technology and information systems, and (viii) business network of the bank. These eight factors are observed to be the determinants for community-based financial institutions to establish viable and sustainable operations.

In 1975, the Bank of Thailand adopted an agricultural credit policy stipulating that commercial banks would initially have to lend 5 percent and subsequently 20 percent of their portfolios to the agricultural sector. Under this policy, the banks could either lend the amount directly to farmers or deposit with BAAC any portion of the loan quota that they could not lend directly to farmers. The policy marked a turning point in BAAC's operations as the increasing availability deposits of commercial bank made up for the BAAC's shortage of funds. Other measures such as shifting from wholesale lending through agricultural cooperatives to retail lending to individual farmers organized into joint-liability groups were also made to establish the momentum of services. By 1987, BAAC had formed about 100,000 joint-liability groups involving 1.5 million members providing with wholesale loans to 821 agricultural cooperatives.

The important elements of reform that enabled BAAC to improve and succeed in its operations as listed by Maurer et al. (2000) are the following:

- Government patronage and its operational autonomy
- Corporate culture emphasizing cost-effectiveness, productivity and efficiency
- Lending schemes attuned to Thai culture
- Improvement in loan portfolio creating depositor confidence and
- Shift in financial resource base to rural savings mobilization

It will be beneficial to draw a comparison of the experience and practices in rural financing of other countries in the region for clarity on the operational edge in the rural financial domain of Thailand. For instance, the experience of Bank Rakyat Indonesia (BRI) shows the achievements under deregulation. Since 1984, BRI has been a major provider of microfinance, mobilizing micro-savings and offering small and micro loans to individuals and groups at the village level. Seibel (2000) noted that by 1989, BRI was able to fully finance its village lending activities from locally mobilized savings. Since then, the growth of savings has outpaced that of loans, testifying to a strong demand by the rural poor for deposit services. By 1999, its 3,700 rural sub-branches had 2.5 million active borrowers and some 20 million savings accounts. Among the three leading rural financial institutions in Indonesia, BRI accounts for 78 percent of savings account deposits and 52.2 percent of all loan accounts (Yedra, 2007).

By implementing sound policies, including an emphasis on savings mobilization and massive staff retraining programme, this formerly frail government-owned agricultural development bank made its micro-financing unit a tremendous success. Part of this success stems from the bank's recognition of the

need to reach out to the rural poor as well as to wealthier clients. BRI benefited from interest rate deregulation and a management initiative to commercialize operations by transforming its sub-branches into self-sustaining profit centers. It offered profit-sharing incentives to employees and the bank covered its costs from the interest rate margin and financed business expansion from profits (Seibel, 1998).

Even during the recent Asian banking crisis, BRI's micro-banking unit remained profitable: it was rather the only profitable entity among the government-owned banks. At the peak of the crisis in June-August 1998, the demand for credit stagnated because of a general lack of confidence in the market. At that time BRI attracted 1.29 million new savers, leading to a significant increase in the volume of savings deposits in both nominal and real terms (Yedra, 2007).

Similarly the Land-Bank of the Philippines is a government-owned bank operating as a universal bank. It does not receive any government subsidy for its operations. Following government policy that, government banks should provide wholesale loans to financial institutions that will take charge of retail lending, the Land-Bank extended credit facilities (loan and rediscounting facilities) to local rural financial institutions (mostly rural banks and cooperatives) which in turn lend to small farmers and micro-loan borrowers.

In the early 1990s, Land-Bank aggressively used cooperatives (sometimes also hastily formed cooperatives) as conduits of loans to farmers. Haunted by increasing amounts of unpaid loans, Land-Bank adopted a new approach in mid-1990s. It slowed down the formation of cooperatives and shifted to a strategy of strengthening cooperatives. The strategy consisted of (i) cooperative rating system that emphasized the over-all institutional viability of the cooperative as basis in providing them with credit lines, (ii) performance-based lending and (iii) institutional development support to the cooperatives to improve their governance and management practices including improvement of savings mobilization through a programme called "Member Savings Operation". The strategy paid off well with positive results. There was a natural weeding out of cooperatives that did not exhibit the grade and quality. While the number of cooperatives declined, the quality of cooperatives improved. Yedra (2007) reported that average loan repayment to Land-Bank improved from 60 percent to 90 percent during the period 2001-2006. The membership base has expanded and internally generated funds [(share capital and deposits) increased significantly contributing to its financial viability. Land-Bank has maintained 13 to 14 percent of total loan portfolio for cooperative lending over the years.

Likewise the Agricultural Development Bank of Nepal (ADBn) facilitated the formation of Small Farmer Cooperatives (SFC). SFCs were essentially transformed from joint liability groups (JLBs) of small farmers in the 1980s. The JLBs were earlier attached to the field offices of the Agricultural Development Bank of Nepal. The SFC approach, according to Koch, et al. (2004) is based on three main pillars. Local SFCs work at the grass-root level. The apex bank (Small Farmer Development Bank and Agricultural Development Bank) provides the refinance facilities. The federations of SFCs provide the non-financial technical support services. At the village level, small farmer groups are formed as joint liability groups consisting of 5 to 12 members. From each small group, a representative joins the inter-group. This inter-group further validates specific group requests and gives recommendations to the "main committee" (comprising of 9 members) of the SFC that decides on the loans and projects of the SFCs. The SFC delivers various financial and non-financial services to members. Non-financial services include irrigation infrastructure, nursery projects and women empowerment projects. The key intervention has been in institution building which adopts a "farmer-to-farmer replication" approach that proved to be cost-effective as well as sustainable. The replication and expansion of SFCs took about three to four years. However while the organizational transformation from informal groups to SFC was successful, the loan performance of the SFCs in recent years deteriorated (Majorano, 2007). To support the SFCs, the Agricultural Development Bank, Ltd. of Nepal established a separate and independent bank, the Small Farmers Development Bank (SFDB) that provides wholesale lending to SFCs. SFDB started operations as an independent bank in 2003 offering loans for agriculture and livestock investments through SFCs.

The Vietnam Bank for Agriculture and Rural Development (VBARD) on the other hand has used a novel approach. The 'mobile banking offices' of VBARD was able to significantly expand outreach (Nguyen Hung, 2004). In 1998, the bank initiated the mobile banking programme modeled after similar programme of other Asian countries. It started with 159 vehicles equipped to travel in hilly and muddy roads enabling its bank staff to reach remote areas where it could process loan applications, disburse money, collect repayments and savings. After five years, the programme was able to provide services to 315,000 households representing approximately 6 percent of the bank's total clients [Yedra, 2007]. According to Nguyen Hung [2004], VBARD's success can be attributed to its application of best practices in microfinance. This included offering of appropriate loan products, linking lending and savings, the use of joint-liability groups and solidarity groups and cost recovering interest rates. Nguyen Hung (2004) also documented good repayment rates and a US\$ 1,000 monthly profit generated by each vehicle as well as mobilization of 1,983 small savings accounts each month.

Similarly, The Hatton National Bank of Sri Lanka is a leading private commercial bank in the country and a pioneer among private commercial banks in Asia in microfinance. As early as 1989, the bank introduced its own microfinance programme called "*Gami Pubuduwa*" (Village Awakening). It provided a comprehensive package of banking services (savings and credit) and support services (like technical assistance in input procurement and marketing arrangements). Loan appraisals were simplified and authorities decentralized at the branch level to expedite disbursements. A field officer dealt with both deposits and loan services. Most loans were arranged with individuals. The bank achieved a high deposit to loan ratio indicating the viability of micro savings mobilization. The bank has adopted the generally accepted good corporate governance practices in risk management, including creation of asset and liability committee, credit policy committee, and strong audit unit (Abeywickrema, 2005).

Having witnessed the above experiences and examples of establishing and maintaining sustainable rural financial service systems, it is to reckon that one of the main tasks in rural financial inclusion has been to transform Cooperatives into Commercially Viable Financial Institutions. Cooperatives are among the significant financial service providers in rural areas especially among APRACA-member countries such as China, India, the Philippines, Nepal and Sri Lanka (Yedra, 2007). Its potential has been largely ignored due to a legacy of failed government credit programmes that used cooperatives as channels of credit to small farmers. Many rural cooperatives were also not financially viable (Sasuman, 2001). In the late 1990s efforts by the World Council of Credit Unions (WOCCU) around the globe to revitalize cooperatives and turn them into commercially viable microfinance institutions seemed to have paid off (Richardson and Lennon, 2001).

Pilot projects were implemented in Latin America (Bolivia, Guatemala and Ecuador), Europe (Romania) and Asia (Philippines). Richardson and Lennon (2001) indicated that the approach was to make cooperatives "bank-like" in operation in terms of products and services offered (e.g., competitively priced loan and deposit products and professional services), physical image (as part of its marketing strategy) and financial structure (e.g., reliance on deposits as primary source of funds). The WOCCU credit union model emphasized the importance of meeting financial standards. Financial discipline is linked to expanded growth and outreach while keeping track of stability and soundness. The financial performance standards called PEARLS (Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity and Signs of growth) guide management in assessing the results of their operations. In the Philippines, a USAID-funded project called Credit Union Empowerment and Strengthening (CUES) with savings and education components followed the WOCCU credit union model. Its microfinance scheme involved formation of women savings and credit groups and linking them with the cooperative. Microfinance served as the cooperative's strategy in penetrating the markets for both savings and loans. There were significant improvements in the performance of the first 11 cooperatives that participated in the CUES Project in terms of outreach (150 percent increase in membership), in volume of loans (270 percent increase), in delinquency rates (reduction of loan delinquency rate from 63 percent to 7 percent) and savings (450 percent increase) within a five year

period 1998-2002 (Sasuman 2001 and Yedra 2007). Similar exponential growth and performance results were achieved by other cooperatives that replicated the WOCCU CUES model even after the termination of technical assistance by USAID [Yedra, 2007].

3.2 Grey Literature

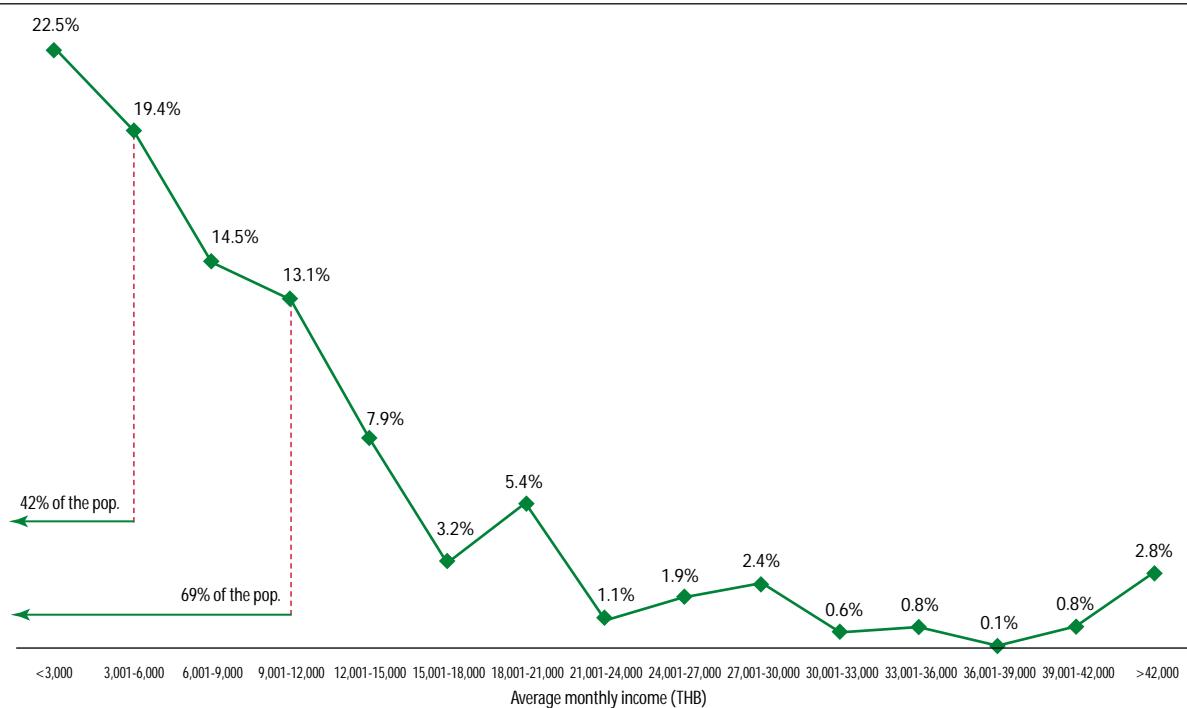
Review of other source of literature on the topic has also been made to ascertain the above observations and establish its relevance in wider contexts in the region as well as outside. The ADB (2013) publication titled Thailand: Development of a Strategic Framework for Financial Inclusion, report of the case study on Bank for Agriculture and Agricultural Cooperatives, Thailand (Delbert 1999) and Boonperm (2012) on the appraisal of Thailand Village Fund are very informative in the context of rural finance and its best practices being followed in the country.

According to the 2013 report of the Bank of Thailand, Thai banking industry performed well despite the economic slowdown. Decline in private consumption due to concerns over rising cost of living, increasing household debts, political tension at the end of the year, and slow and cautious investment decisions of the private sector marked the impact of the economic slowdown. Further, exports contracted 0.2 percent year on year amid the baht appreciation which hit a 16-year record of 28.55 Baht per US dollar at the beginning of the year. Slow economic recovery of the US and the EU and China's economic slowdown during the first quarter of 2013 added fuel to the declining phase of the Thai economy. Exports of key agricultural products recorded shrinkage including rice, rubber, shrimp, chilled and frozen chicken, canned and processed seafood. In the money market, the Monetary Policy Committee has reduced the rates twice (in May 2013 from 2.9 to 2.75 percent and to 2.50 percent per annum, and in November 27, 2013 from 2.50 percent to 2.25 percent per annum).

The high level of access to credit and financial systems in the country is attributed to the deliberate policies pursued by the Royal Thai Government (RTG) over the years to extend financial services to the underserved or unserved population. These policies have been largely government led and government financed with the commercial sector playing a relatively minor role in providing access to credit and insurance. This provided a lead in the provision of savings and remittances.

The FinScope survey (Figure 1) reveals that only 4 percent of adults resort to borrow from commercial banks as compared to 25 percent adults having loans from Specialized Financial Institutions (SFIs) and other formal and semi-formal financial institutions (such as Non-Bank Financial Institutions (NBFIs) and Community-Based Financial Institutions (CBFIs). Income levels of the borrowers varied across different financial institutions with the median income of THB 27,322 for borrowers from commercial banks, THB 18,676 for NBFIs, THB 13,695 for SFIs and THB 9,098 for Village Funds respectively. SFIs and Village Funds accounted for majority of the borrowers with 7.1 million and 7.4 million clients respectively. However, about 1.7 million adults (with an average income of THB 10,418) indicate that they still source loans from money lenders.

Supply-side analysis reveals that there has been limited expansion by commercial banks to low-income rural households despite the issuance of the Microfinance Guidelines for Commercial Banks by the Bank of Thailand (BOT) in mid-2011. The only commercial bank which made a significant response to the BOT guideline was the state-owned Krung Thai Bank (KTB). It introduced a microfinance loan programme targeting the urban micro enterprises in 2011. KTB primarily offers wholesale credit to Village Funds and other locally established financial entities through their Community Bank project. The BOT guidelines however empowered commercial banks to charge up to 28 percent interest for microfinance loans. Again, the supply-side analysis however reveals that KTB charged only 14.5 percent from the urban micro enterprises through its Community Bank project. Most formal microcredit was priced between 6 percent (Village Funds and SFIs) and 15 percent compared to the 7.5 percent prime rate charged by commercial banks. Only NBFIs charged up to 28 percent though they did not primarily serve the low-income market.

Figure 1. Monthly income distribution of adult population in Thailand

(Source: FinScope Thailand, 2013)

Much of the literature on the financial operations in the state observed that the relative easing of bank transfers had a widespread impact on its use among the Thai population. At least 10 percent of adults received their main income from remittances and of these 55 percent live in the Northeast (an additional large percentage receives remittances of some form but did not report it as their primary source of income). The large informal economy also depends heavily on the ability of making payments over distances. The bulk of remittances were sent through commercial bank savings accounts. The review of available literature revealed that in the less than THB 50,000 (US\$ 1,670) category (87 percent of all bank savings accounts), the average bank account size is THB 4,861 (US\$ 156). A large percentage of Thai population maintain low bank account balances and use these accounts primarily for sending and receiving funds.

The transaction cost of money transfer via the banking system is significantly high, particularly for smaller amount holders. The distance to the nearest source of financial service has been the main cost in terms of time and energy. FinScope observed that, of the potential touch points for the delivery of financial services, respondents in non-municipal areas on average took 37 minutes to reach a bank, 36 minutes to reach a post office and 35 minutes to reach an ATM respectively. But it took them only 8 minutes to reach a local grocery store. Further FinScope identified the two most important financial product attributes for the use of financial products as: (a) proximity to the source and (b) the operating hours. The suggestions pointed towards the opportunity to reduce the direct and indirect transaction costs of providing financial services to the rural communities. It is found that the relatively higher cost of bank-based payments increase the cost of other financial services such as savings (the bulk of which is mediated through commercial banks and SFIs) and formal credit. The savings and credit behaviour are observed to be encouraged, if the cost of payments through formal financial institutions is reduced. Hence the most pertinent opportunity to improve the financial inclusion is to improve the extent, cost and quality of financial services and products.

The Bank of Thailand survey 2013 provides some insight into the scope for improvement in these domains. The responses from 10,613 heads or representatives of households regarding the need and

usage of nine financial services reveal that 87.99 percent of the households used at least one financial service while 12.01 percent did not use any financial service. The non-usage households could further be categorized into two groups. One group consists of the involuntary excluded (had demand, but could not access to any financial service) (4.23 percent) and the other group represents the ones considered as self excluded or voluntary self-excluded (7.78 percent) i.e. capable of accessing at least one financial service, but did not need the service and chose not to use any financial services. It was found that the percentage of voluntary self-excluded decreased from 11.92 percent reported in the previous survey in 2010.

Considering the usage from each financial service provider, the majority of households were customers of commercial banks (59.27 percent) followed by SFIs (20.22 percent), while the rest used financial services from semi-formal and informal financial service providers. The percentage of usage in the later group has slightly increased from 2.51 percent to 3.53 during 2012-13 percent. The increase in the percentage of involuntary excluded households was found in almost every group of income level and region. This might have resulted from the increasing demand but non access to any type of financial services. Furthermore, it was found that the lowest income group of households and those who lived in the southern and north-eastern region showed the highest percentage of involuntary exclusion.

As far as the sourcing of loans is concerned, approximately 39.50 percent of households were using loan service. Most of them used the service from SFIs (13.68 percent) followed by Thai and foreign commercial banks (8.68 percent) and village funds (5.98 percent), respectively. The proportion of household using loan services with informal financial service providers was declining as compared to the 2010 survey. This perhaps conveys the higher cautiousness among households when considering loan services from informal financial service providers. Households tended to use more loan services from commercial banks. The percentage of households that used commercial banks' loan service increased from 7.63 percent in the previous survey to 8.68 percent (+1.05 percent). However, 60.50 percent of households do not use loan services at all. This non-usage group comprised those who did not intend to use (53.90 percent), and those who could not access to the services (6.60 percent).

It is worthwhile to summarize the observations and findings from various literature sources on the financial sector developments in Thailand towards a cohesive understanding of the financial road map of the country and accordingly to draw special thrust on the best practices prevailing in the system:

- a) *Financial access:* In 2013, 87.99 percent of Thai households could access to financial services which is an improvement from 84.58 percent observed in 2010. This also illustrates higher demand for financial services, which have been served mostly by formal financial service providers, especially commercial banks. However, there still remain 4.23 percent households without access to any financial service providers. The characteristics of households with lower level of access are those falling in the lowest income quintile, living in non-urban area, and living in southern and northeastern regions.
- b) *Constraints in using financial services:* The proportion of households that encountered problems in using financial services has declined compared to the previous survey in 2010. This could imply higher level of satisfaction in using financial services. However, major impediments in the usage of the three fundamental financial services including deposits, loans, and money transfers and remittances were, long travel distance to the nearest financial service providers or inconvenience to reach service points, high interest rate and fee for loans, insufficient credit line, and complicated procedure and service condition for loan application.
- c) *Variety of financial services:* Apart from the three fundamental financial services, the results show that Thai households have used more variety of financial services, especially those with higher income. Life Insurance became more popular among households which might be a result of commercial banks and SFIs' cross-selling campaigns. However, investment products such as private and government securities were not as much popular as other financial

products. This implies the lack of knowledge and understanding of those services which consequently resulted in the lack of confidence in using unfamiliar products.

- d) *Saving product and its access:* Savings was the most used financial product. The percentage of households that could access to savings service was 80.72 percent in 2013, which increased from 76.94 percent in 2010. The main deposit services providers were commercial banks and SFIs which reflected the intense competition for deposit taking among formal financial institutions in the last 2-3 years. However, the majority of households who could not access this service were those in the lowest and low income quintile, living in non-urban area, and living in 27 north-eastern and northern regions. Main barriers of accessing the service were negative financial balance and long travel distance.
- e) *Loans (excluding credit cards):* Loan was the least used product among the three fundamental financial products. The loan usage accounted for 39.50 percent which was slightly lower than the results of previous survey. Most households used the service from SFIs, Thai and foreign commercial banks, respectively. The proportion of usage from Thai and foreign commercial banks increased while that from SFIs and informal financial service providers decreased. The households that could not access to loan services were those in the group of lowest to middle income quintile and living in Bangkok metropolitan and central region. It might be the case that those households in the urban areas could only access loans from formal service providers, such as commercial banks, which had strict loan approval criteria. Moreover, those service providers might have tightened their credit extension where unfavourable economic conditions and higher household debts were observed. On the other hand, those households in non-urban area could access to alternative financial services providers such as village funds or savings groups.
- f) *Money transfers and remittances:* Compared with the other two fundamental financial services, the usage of using money transfers and remittances service has increased the most. A higher usage proportion was observed from every group of financial service provider, especially commercial banks and SFIs. However, households falling in lowest to middle income quintile or living in north-eastern region still had lower levels of access to formal financial service providers. They consequently might turn to informal financial service providers because of familiarity, trust, and convenience to travel to a service point.
- g) *Barriers of accessing banking services:* The major obstacles preventing households from accessing financial services of commercial banks include inadequate financial status/lack of collaterals, inconvenience to reach service points, too high minimum opening balance, too complicated processes and conditions, lack of service understanding and lack of confidence to apply for a loan. These were the same as the results found from the previous survey in 2010. It was also found that households in the north-eastern region tend to have highest percentage of involuntary exclusion because of the least coverage (proportion of bank branch per population).
- h) *Financial service channels:* The most popular channels for the three fundamental financial services (deposits, withdrawals, money transfers and remittances) that households currently use and additional channels that households need in the future were bank branches and ATMs. However, cooperatives, savings groups/village funds, and convenience stores/retail shops became increasing popular choices. Moreover, households also need agents or officers to provide services at their home or workplace. But, modern technology channels such as mobile/internet banking were not very well recognized because of unfamiliarity these channels and cultural preference for direct personal contact.

CHAPTER 4

Findings on Rural Financial Services

4.1 Macro overview of Thai Financial policy evolution

Thailand's economic system is characterized by the presence of a relatively developed industrial sector on one hand and a predominantly rural sector that employs over half of the country's labour force on the other. Moreover, the financial sector has traditionally focused its services mainly on the advanced sectors, with little attention being paid to the underprivileged groups, especially people in rural areas. Micro-enterprises still lack adequate access to financial services, while small and medium-sized enterprises (SMEs) are short of good-quality services. Likewise, the 1997 financial crisis has underscored the need to address a number of key financial sector issues, such as efficiency of the financial system and a more balanced role of the capital market vis-à-vis the financial institutions. As a result, the Bank of Thailand (BOT) decided that it is imperative that a master plan be formulated to guide the development of the financial sector over the next 5-10 years.

In February 2002, the BOT set up a Financial Sector Master Plan Committee comprising of representatives from government sector, regulatory agencies (i.e., the BOT, the Office of the Securities and Exchange Commission, and the Department of Insurance), financial sector, consumer groups, the general public, and a number of recognized experts. The Committee was charged with the task of setting the vision and framework for the development of Thailand's financial sector. The vision for the financial sector is:

- a) Comprehensive financial services for all potential users with no significant difference in the level and quality of services between urban and rural areas
- b) Efficient, stable, and competitive financial sector, with a balanced composition of available sources of financing, namely: financial institutions, debt instruments, and equity market
- c) Fairness and protection for consumers

4.1.1 Formulating Financial Sector Master Plan: The process of formulating the Financial Sector Master Plan was divided into 3 stages:

Stage 1: Problem identification and vision setting (January – April 2002): In January 2002, the BOT organized a seminar on "Modernizing the Financial System" for the benefits of financial institutions and related parties. Guest speakers included those who had been involved in formulating financial sector master plans in their own countries (i.e., Canada and Australia), commercial finance experts, and experts in financial services to low-income household. In the process, the BOT received numerous useful suggestions regarding financial sector problems and possible approaches to develop the financial sector. The Committee held several meetings from February to April to consider fundamental problems of inadequate financial services for certain segments of the public. The Committee set the vision and framework for financial sector development that formed the basis for detailed analysis and drafting of the master plan by a BOT's working group. Throughout this process, the working group had benefited from the Committee's expert advice and guidance.

Stage 2: Problem analysis (May 2002 – January 2003): The BOT commissioned a research study on household and business sectors' demand for financial services, thereby affirming which customer groups are not adequately served by financial institutions and why. Another study was conducted to assess the current status, structure, and trends in the Thai financial system in comparison with other countries. The results of these studies provided useful inputs to the drafting of policy recommendations in the Master Plan.

Stage 3: Drafting of policy proposals (January – June 2003): Strategies and action plan to develop the financial sector was drafted by the BOT and submitted to the Committee which, having given due consideration, then forwarded the plan to the Ministry of Finance (MOF) in June 2003. The Finance Minister has since given his consent to the plan, which was finally approved by the Cabinet in January 2004.

4.1.2 Measures to Develop Financial Sector: Based on the vision for the financial sector as set by the Committee and supported by a number of research studies, the BOT proposes the following policy measures:

a) *Measures to broaden general access to financial services*

- Promoting grass-root financial services to fill the gap in financial services to low-income households: The MOF has set up the Committee for Grass-Root Financial Services to promote efficient and sustainable grass-root financial services and decided to designate an appropriate agency as the centre for the training and development of various types of microfinance institutions. Development efforts included capacity building in such areas as asset/liability management, banking skills, operational processes and systems as well as setting up a framework to ensure long-term stability of microfinance institutions.
- Transforming the Bank for Agriculture and Agricultural Cooperatives (BAAC) into a rural development bank which will provide financial services to individuals and communities in the rural areas as well as cooperatives, local administrative bodies, village funds, community enterprises, etc.: The Bill meant to transform the BAAC into a rural development bank, proposed by the MOF has been approved by the Cabinet.
- Encouraging existing financial institutions to increase the level of financial services to low-income household: The BOT organized a seminar on November 6, 2003 to promote awareness and understanding by financial institutions on the commercial viability of financial services to low-income households. The BOT started a pilot project in cooperation with interested commercial banks to improve capacity and infrastructure specifically for the promotion of financial services to low-income households.

b) *Measures to increase efficiency of the financial sector*

- Rationalize the structure and roles of financial institutions to better meet customer demand: There is greater efficiency and less duplication of functions that stems from having different types of institutions offering essentially the same types of services to the same group of customers. Financial institutions need to be more resilient and responsive to changing environment as a result.
- Restructure the Thai financial institutions: The BOT issues two types of licenses to financial institutions that take deposit from the public-commercial banks to qualify as well capitalized financial institutions. Such commercial banks may provide financial services to all groups of customers and carry out virtually all types of financial transactions, except insurance underwriting, brokering, trading and underwriting of equity securities. Therefore the commercial banks are of two types. The first one is the commercial banks with branch permits which will be allowed to open branches with no limit on the number or location. The minimum capital requirement is 5 billion baht of tier-1 capital.
- Retail banks are qualified financial institutions with smaller capital requirement: Such retail banks offer financial services to retail customers and SMEs subject to exposure limit per customer and other conditions set by the BOT. They may provide virtually all types of financial transactions with the same exceptions as commercial banks, but not permitted to conduct business related to foreign exchange and derivative products. These financial institutions are allowed to open branches. The minimum capital requirement is 250 million baht (as tier-1 capital). The initial phase is 1-3 years in order to create a level playing field

for all financial institutions. Existing finance companies and credit finance companies may apply for commercial or retail bank licenses provided that they satisfy both qualitative and quantitative pre-requisites (such as management competency, asset quality, capital to risk asset ratio and percentage of impaired assets). In the case of a commercial bank license with branch permits, the application must include a plan to merge with at least another finance or credit financier company.

- Next phase, (after 3 years and contingent on suitable economic conditions): If and when ready, a retail bank or commercial bank without branch permits may apply for an upgrade to commercial bank with branch permits. In addition, an opportunity is open for new investors to apply for commercial bank licenses. This further enhances competition and efficiency in the financial sector.

Restructuring foreign-owned financial institutions enabled them to play a greater role in economic and financial development: There are two types of foreign bank licenses: (a) Subsidiaries of foreign banks which enjoy the same scope of business as commercial banks are allowed to open a certain number of branches. The MOF has a committee to consider criteria for the establishment of subsidiaries to ensure maximum benefits to the country's financial system and the macro economy. (b) Full branches of foreign banks have the same scope of business as commercial banks but will not be allowed to open any branch in the Initial phase (1-3 years). The emphasis in this phase will be placed on restructuring foreign owned financial institutions currently operating in by encouraging qualified stand-alone International Banking Facilities (IBFs) to upgrade the subsidiaries. Tax benefits for "Out-In" transactions will be discontinued. A foreign-owned stand-alone BIBF wishing to upgrade its status to that of a bank subsidiary be the core institution for merger with, or acquisition of, another financial institution. Likewise, if a stand-alone BIBF upgraded to a full branch status and subsequently wishes to establish itself as a bank subsidiary, it needs adequate capital as well as a plan to merge with another Thai financial institution.

- Existing full branches may apply to be upgraded to subsidiaries after 3 years and contingent on suitable economic conditions. New commercial banking licenses may be issued to foreign investors as a means to increase competition and efficiency in the financial sector.

c) *One Presence Policy*

Financial conglomerates under the same umbrella with a number of financial institutions of different types, each mobilizing savings from the public in one form or another can be operational. Such conglomerates hold a regulatory distinction from commercial banks, finance companies, and credit finance companies. The new system of bank licensing will remove distinction in the scope of business, making it redundant to have different types of financial institutions within the same group. Indeed, to reap full benefits from economies of scale and elimination of duplicate functions, there is only one type of deposit-taking institution in a financial conglomerate.

4.2 Key Players in Rural Finance Market of Thailand

Most of the MFIs and other CBFIs deliver credit through direct lending to individual client farmers while BAAC delivers its credits through direct lending or one-step loan to individuals and indirect lending or two-step through farmer institutions such as Agricultural Cooperatives, other types of Cooperatives, Village Funds, Community Financial Institutions (CFIs). In FY 2013 (As of 31 March 2014), loans under direct lending account for 82 percent (THB 777.88 billion) of the total loan target (THB 957.62 billion). In an effort to reduce operating costs, BAAC is currently piloting 9 CBFIs to act as BAAC's agents to disburse loans of THB 50,000. GSB and KTB have also extended credits to rural people through wholesale lending to CBFIs.

4.2.1 Financial Institutions in Thailand: There are 2 types of financial institution in Thailand:

- (i) Depository Corporations, for example, commercial banks, Specialised Financial Institutions (SFIs), Saving Corporative and credit unions, and money market mutual funds; and (ii) Non-depository corporations, for example, mutual funds, insurance companies, provident funds, asset management companies, and securities companies (Table 1).

Table 1. Number and Asset Size of Financial Institutions in Thailand (as of December 2014)

Sl. No.	Types of Financial Institutions	Number	% of Total Assets of Financial Institutions
1	Depository Corporations (Total)	2,020	69.6
1.1	Commercial Banks	30	47.9
1.2	Specialized Financial Institutions (SFIs)	6	15
1.3	Saving Cooperatives and Credit Unions	1,943	6
1.4	Money Market Mutual Funds	41	0.7
2	Non-Depository Corporations (Total)	7,074	30.4
2.1	Mutual Funds	1,495	9.8
2.2	Insurance Companies	86	7.6
2.3	Leasing Companies	661	3.0
2.4	Credit Card and Personal Loan Companies	29	2.8
2.5	Provident Funds	418	2.8
2.6	Government Pension Fund	1	2.0
2.7	Asset Management Companies	33	0.9
2.8	Securities Companies	47	0.8
2.9	Agricultural Cooperatives	3,748	0.5
2.10	Pawn Shops	556	0.2

Source: Bank of Thailand, Annual Report 2014

The most important depository corporations are commercial banks and SFIs with the share of 47.9 and 15.0 percent, respectively. Such domination was attributed to their extensive branch networks which allowed them to service businesses and consumers more widely than other types of financial institutions. At the end of 2014, commercial banks and SFIs together owned approximately 9,664 branches and 61,839 ATMs nation-wide. The SFIs were established with specific law, whose objectives are to serve the government policies in promoting economic development and supporting investment. Examples of such institutions are Bank for Agriculture and Agricultural Cooperatives (BAAC), Government Savings Banks (GSB), Government Housing Banks (GHB), and Export-Import Bank of Thailand (EXIM) etc. whereby these institutions are established in accordance with the Bank for Agriculture and Agricultural Cooperatives Act, B.E. 2509 and amended, the Government Saving Banks Act, B.E. 2489 and amended, the Government Housing Banks Act, B.E. 2496 and amended and the Export-Import Bank of Thailand Act, B.E. 2536 and amended, respectively. Furthermore, these institutions are under the direct supervision of the Ministry of Finance.

4.2.2 Bank for Agriculture and Agricultural Cooperatives (BAAC): The BAAC, a SFI is the key player in rural financial space in Thailand for last five decades. It holds around 65 percent of total rural and agricultural credits in the country. As of 31 March 2014, BAAC has established 1,257 branches throughout the country with staff strength of over 18,300. BAAC operations are highly decentralized through an extensive branch networking system. An important expansion of its network was undertaken during the late 1980s. Field offices provide the BAAC's with its most required outreach. Each field office employs eight to nine credit agents who are responsible for coverage of districts or designated locations. Field offices do not have facilities for disbursing loans or for collecting debt repayments and mobilizing deposits. These functions are managed at the branch and sub-branch levels

to which the respective field office is affiliated to. However, BAAC has plans to transform these units in order to broaden the variety and quality of their services to clients and improve savings mobilization capacity. The field officers represent the “front line” with respect to BAAC’s linkages to the farmers. They are responsible for farmers’ training and monitoring and also overcome obstacles towards timely loan repayment. On average, a credit officer services 400 to 500 farmers. This high ratio is facilitated by their direct interaction with joint liability groups covering number of members in each group.

4.2.3 Other players in the Rural Credit Market: Additionally there are other Specialized Financial Institutions SFIs such as Government Savings Bank (GSB) Agricultural Cooperatives, Village Funds (VFs) and Community Financial institutions (CFIs) provides around 25 percent of the total financial service delivery in the rural areas while Commercial Banks (CBs) cater to around 5 percent of the rural credit market. It is observed that mostly CBs concentrate on deposit mobilizations while few of them provide loans to large-scale commercial farmers cultivating cash crops for export and who are able to adequately collateralize their loans. These financial institutions also provide a variety of other services to their clientele such as money transfers, letters of credit, foreign exchange transactions, etc.

4.2.3.1 Government Savings Bank: Small-holder’s access to commercial bank services is primarily for savings, a service also provided in rural areas by the widely-branched Government Savings Bank (GSB). GSB initiated the rural finance programme through a microfinance programme in 2001, under the brand of “People’s Bank Project”. The programme targets unbanked low-income people, particularly the small entrepreneurs both in urban and rural areas, combines savings mobilization and education training for entrepreneurs with microcredit at a flat 1 percent per month rate of interest and loans of up to USD 750 for first-time borrowers and till USD 1,250 for subsequent borrowing. “People’s Bank Project” reached its 12th year in 2013 and helped more than 3 million households to have access to financing source for career development and income generation and has supported the country’s grassroots economic system.

4.2.3.2 Village Funds (VFs): In 2001, the Thai government revolutionized the rural credit market by its decision to inject 1 million Thai Baht (THB), or about 28,600 US Dollars at the present exchange rate, to each of the 77,000 villages in Thailand. The vehicle of this programme is so called “village funds”, i.e. revolving credit funds which are set up in all 77,000 villages. The village funds emerged as the single most important lender in terms of the number of loans granted right from their inception. In terms of credit volume they rank second in rural credit with a market share of about 20 percent. Thus the village funds are extremely important in Thailand’s rural credit market. The village fund committees were created and required to open their village fund account at BAAC or the Government Savings Bank (GSB). Once the loan application is approved, borrowers receive the loan from BAAC or GSB. In this sense the village funds operate more similar to a formal institution. However, village funds neither have a permanent office nor its own staff, so that they are regarded as being in between formal and informal institutions.

4.2.3.3 Community Financial Institutions (CFIs): Village Funds are spinning off Community Financial Institutions (CFIs) that are vehicles for keeping and intermediating local savings separately from the funds (i.e. in an account segregated from the capital contributed by government). BAAC mentors Village Funds in the process of upgrading and forming CFIs, helping the latter set up a general assembly and cooperative governance structure. The CFIs are generally informal, having no legal charter and operating in premises lent free by village authorities. However, keeping in view the growth and outreach of some of the CFIs, the Ministry of Finance, Thailand initiated a master plan to bring these institutions in to the fold of the formal financial institutions. The current report studied in details about 4 CFIs in 4 provinces of the country, a separate description on CFIs are given later in this chapter.

4.2.3.4 Finance Companies and Agricultural Cooperatives: Finance companies hold a small share of the rural financial markets, while agricultural cooperatives provide credit to members (usually with loan funds obtained from BAAC for on-lending to their members).

4.2.3.5 Informal Financial Market: The informal financial markets are estimated to cater to one-fifth of the total rural credit demands in recent years, compared to about 40 percent 3 decades ago. However, it is to reckon that yet the informal segment is a significant player in the financial spectrum.

4.2.3.6 Non-Bank Financial Institutions: The non-bank financial institutions (NBFIs) also play a significant role in the rural economy for the provisions of loans and advances. Bank of Thailand (BOT) has licenced 28 NBFIs, the Ministry of Commerce has registered approximately 1,000 finance companies and an unknown number of NBFIs are not registered. Registered and unregistered NBFIs are most common in urban areas and provide loans secured by movable assets (e.g. motorbike financing) or personal loans secured by collateral (NBFIs typically do not require fixed collateral). NBFIs have expanded rapidly in recent years and are replacing more traditional forms of informal microfinance such as pawnshops and money lenders.

Given the above structural orientation of the financial product basket of the country, it is recognized that the barriers that limit commercial banks to extend their credits to farm producers, particularly small holders, are high transaction costs, high risk in agriculture, and farmers' income instability. In addition, the precarious nature of property titles issued under the land reform laws makes the provision for collateral makes it difficult for farmers to access the commercial lending sources. These land titles are issued by the Land Reform Office essentially to protect farmers' inheritance rights. Hence it cannot serve as a basis for land sales or mortgages, nor can they be foreclosed upon. Since land is the principle asset of small farmers, agricultural lenders have to search for alternative forms of collateral in order to safeguard their loans. In this context, BAAC, as the country's specialized agricultural lender, has developed an innovative loan guarantee mechanism based on joint liability (groups) as a substitute for more traditional land collateral instruments facilitating small loans to farmers. Further, in collaboration with land Reform Office (2003), BAAC determined that the titles under land reform were regarded as collateral.

4.3 Community Financial Institutions (CFIs)

4.3.1 Background of CFIs

The origins of the community banking in Thailand is derived from the grass-root funds of the rural areas and communities in 1977 arising out of the difficulty in accessing financial institutions by rural people. Group members were managed primarily by a trust that did not require collateral. The network expanded rapidly beyond the Community Development Department which was supported by the interior ministry. Currently the rural/microfinance organizations are classified as: (i) The semi-formal financial system, which contributes to the establishment of a law and as a legal entity, such as Credit Unions, Savings and Credit Cooperatives (1,227 locations), village funds (78,013 locations), saving groups for production and (ii) Self-help groups such as general saving groups that initiated joint savings, for example, credit union. Since 2001, the government set the rules for these financial institutions and donated 1 million baht to each village based on their corporate finance linkages and self-dependency. However, these organizations enjoy autonomy in management and to follow their own administrative patterns. These financial organizations are linked to each other through a loan or deposit behaviour of the current borrowers to spend and invest in production. In 2004, The Prime Minister of Thailand himself traveled to inspect the various provinces across the country and gathered the public complaints and sought for the budget support to resolve the village community problems. As a result, the government initiated the Community Village Development Project (SML) with the following objectives:

- a) *Streamline the rural financial support through a budgetary process:* This provides direct budget allocation so that the village residents can resolve their daily operations on their own to maintain a stable and sustainable life (idea and management collaboration). This also was a strengthening move in the democratic process. This revitalization worked as a driving force

in reducing the poverty levels. It created opportunities for sustainable approach to an efficient economic philosophy to develop the capacity of the people and bring them in the creative mainstream development process and enable them to lead a quality life in a sustainable way. It was more of a demand driven approach and used as a model for the development of human resources in the public sector to participate in the preparation and to create local community leaders for efficient local management and decentralization in development interventions. In the same year, the government declared a policy for the villagers to set up rural community financial institutes as a result 256 such rural community financial institutes were incorporated (by BAAC). On March 23, 2005, the government made the policy statement in the Parliament to develop a financial system that supports the economic foundations of the villages through village banks that provide opportunity to access finance in a sustainable manner with 5 core objectives as given below:

- To be a source of savings with a secured and appropriate benefits
 - To be a source of funds for economic development and alleviate the suffering of the individual, household and community
 - To enhance the welfare and wellbeing of the community
 - To strengthen financial discipline and provide consulting services to the community and
 - To be a learning center for the social and economic development of the community
- b) Since 2007, the government has enacted policies to raise funds for the community to become a Community Financial Institution (CFI). It is meant to provide financial and capital resources and establish easy access to such funds for the development of the community through proper management, standards and quality. This was expected to strengthen the foundation of the economy and community as well as relieve the community from the burden of external debt. Further, the Ministry of Finance and the Bank of Thailand jointly planned the Financial Institutions Development Phase (2010-2014) with the core objective being to encourage different group of people to access microfinance to cater directly to the needs of the clients and reduce the burden of external loans from financial institutions (loan sharks) with a formal process.
- c) Knowledge and skill is identified as the base to create jobs and provide extra income to the community towards self-reliance including the ability to close the channels of external financial services that is provided at higher interest rates. Hence the initiative was to leverage the informal group who earn less in the community through the provision of financial services from Community Financial Institutions which is owned by the community members. The financial activities are carried out from the savings raised and the loans were disbursed to support the livelihood activities and thereby improving the quality of life and/or to solve problems faced by the community members themselves (Bank of Thailand, 2010)

4.3.2 Definition of CFIs: The National Housing and Urban Development Community define the Community Financial Institutions as a financial institution which is established by the community to provide credit and financial services primarily to low income communities who lack the opportunity to access and use financial services based on the criteria of the general standards of the banks but set forth to assist the community with their own financial services.

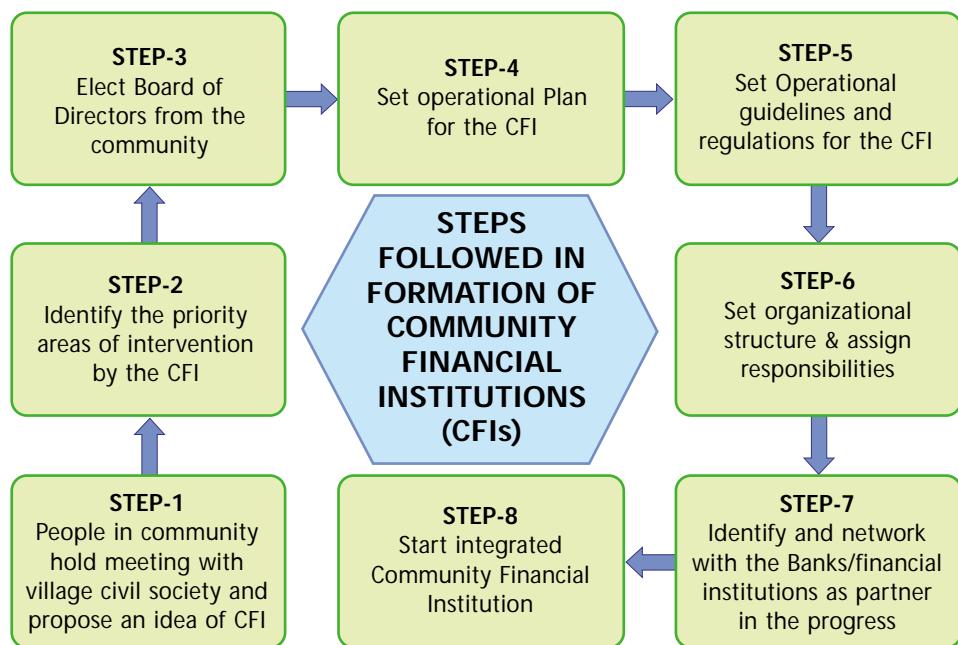
4.3.3 Nature and structure of CFIs

The following criteria of the village funds will transform them to the CFIs:

- To be a part of the mutual fund community activity
- The village or community fund established by several communities
- Results from the consolidation of the fund community
- Emergence of the village and financial community establishing a common fund

The flow chart below (Chart 1) describes the 8 important steps followed for the formation of the integrated CFIs in Thailand.

Chart 1. Flow Chart showing steps for formation of CFIs in Thailand



(Source: Information received from the Key Informants)

4.3.4 Roles of CFIs

- Promote savings of the community members and the public
- Accept deposits from members and the public
- Provide loans to the members and public or other financial organizations
- Take loans from other sources of funding as per the set norms
- Provide banking and other transactions that facilitate and meet the needs of its members and the public
- Provide welfare to the members and community
- Allocate revenue for services and develop capacities among stakeholders

4.3.5 Classification of CFIs: The financial service community of Thailand is classified into two groups: (i) those with a focus on the welfare savings to achieve the Welfare Based Model as a Social Safety Net for the public and (ii) the ones that seek to provide loans called Lending Based Model so that the people will have fund to invest in businesses and raise income for the family. Both categories have a common objective to provide public welfare through savings and break the status quo via loans. Many financial institutions in Thailand are providing both the elements for welfare and businesses. The Community Development Department, Ministry of the Interior has encouraged the establishment of a community credit union. This is the same community financial institution mandated to support the implementation of the community institutional fund management and make a strong, sustainable and integrating network. Therefore, the community financial institution means an economic foundation that is established to integrate the management of the organization, linking with funds and mutual funds for its effective utilization.

With an intention of providing funds to the public at ease, the CFI's aim to create a mechanism to resolve external debt and solve the sufferings of the people. Therefore community finance tries to help those earning less and could not access to the community financial services or using services from other financial organizations to elevate the village and community with purposes to: (i) improve savings that are secure and offer reasonable returns, (ii) act as source of funding for economic development and alleviate the suffering of the individual, household and community, (iii) enhance the welfare and wellbeing of the community, (iv) strengthen the financial discipline and consulting services to the community and (v) act as a learning center for the economic and social development of the community. Ever since 2004, the current government has set policies to solve problems of external debt of the public and declared its commitment to overcome poverty. In 2007, the government established the community financial institutions or institutional fund management community to tackle debt system. However, the external debt issues continue to be severe. The government established the National Office of Housing and Urban Development, signed a memorandum of agreement to establish a community financial institution and setting core objectives with BAAC at 3,000 locations, GSB at 5,000 locations, Krung Thai Bank at 1,000 locations and the National Housing and Urban Development Community at 1000 locations, in all totaling to 10,000 locations. The government has added a fund of 1 million baht per village and community aiming to the fund efficient community at 21,000 locations. Implementation of the agreement was made in 16,575 locations with a total financial outlay of THB 16,575 million.

It is observed that financial or grassroots organizations are concerned with the difficulty of access to finance in rural areas. The government therefore has to use organizations and financial community to protect those who are drawn into poverty. The development of the village community (SML) as village funds raise funds for the community to encourage funding and microfinance thoroughly to meet the needs of the community and reduce the burden of external borrowings. Also to strengthen the community with knowledge to generate extra income for people in the community, it is expected to be self-reliant and establish close monitoring of the channels of financial services who charge high interest rates as a way to leverage the informal group of people who have low incomes.

4.3.6 Upgrading of Village Funds to CFI's

- Since their creation village funds became an important lender in the rural areas in terms of the number of loans granted. In terms of credit volume they rank second in rural credit with a market share of about 20 percent. Thus the village funds are extremely important in Thailand's rural credit market. The Village Fund Scheme (VFS) has the following primary objectives:
 - Providing revolving fund for village/community members in enhancing livelihood, creating jobs, generating incomes, relieving unexpected and emergency troubles
 - Promoting self-reliance through learning, capacity building, initiative development
 - Promoting and developing resources management systems
 - Stimulating grass-root economy
 - Enhancing village/community economic and social resilience
- All 87,000 villages and urban communities across the country were provided with THB 1 million (USD 31,250) as start-up fund. Over the past few years, all village funds were given an additional amount of THB 1 million. The primary function of village fund is to provide loans to its members. Village funds encourage their members to buy the shares in order to capitalize the fund to meet the demand of funding. The shareholders shall receive dividend if the fund turns profitable. Subsequent to the setting up of the 1 million baht village fund scheme in 2001, the Thai government has contributed 74,865 million baht to each village in total (National Village and Urban Community Fund Office, 2010). This becomes the working capital and accessible financial source for people in rural villages. The government plans to upgrade these village funds to become the community financial institution serving as the

main financial source for the community. The problems are that village fund administrators and the community members are not ready for the operation and there is no clear approach for setting up community financial institution. This document aimed to study the development of the village fund into community financial institution in four locations of the country in order to establish choices for village fund to upgrade into community fund in the future.

- Many village funds have proved successful in managing their funds and providing more services to their members such as life insurance and marketing of members' products. After some years of operations, a number of opportunities and challenges have also emerged. Most VFs faced insufficient fund for operations as their membership ranges from 300-600 people and the average size of loan per borrower is relatively small (USD 300). Many VFs have sought opportunities in supporting the Community Enterprises (CEs) such as Handicraft CE, Food Processing CE, Herb CE, etc. The successful Village Funds were upgraded to community financial institutions and in some cases it was found that 2-3 village funds club together to form the CFI. However, the success of the CFIs was dependent on the community leadership and the vision. Keeping in view the future prospects of the CFIs, the financial institutions like BAAC, Government Savings Bank and Krung Thai Bank shown their interest to invest on the CFIs although the majority of them are not registered organization. BAAC emerged as the champion of handholding with the CFIs leveraging their vast number of branches in the rural areas of the country. The development framework for CFIs towards sustainable grassroots economy depicted in *Annexure 5*.

4.3.7 BAAC and the CFIs

The BAAC aims to become a national level rural development bank, targeting to promote the country's grass-root economy and uplift farmers' quality of life. BAAC has achieved its goal in providing financial services to the farmers. In 2014, 7.4 million farming households (both direct and indirect) availed BAAC credit services. However, quality of life of farmers is still an issue for BAAC to tackle with. In an effort to uplift farmers' quality of life, learning, capacity building, self-reliance, effective and efficient resources management have been addressed.

To promote sustainable development, BAAC strongly encouraged farmers to adopt the King's Philosophy of Sufficiency Economy (SE) as a guideline for their living and livelihood. SE is a philosophy bestowed by His Majesty King *Bhumibol Adulyadej* to the people of Thailand, through royal remarks on many occasions over the past three decades. His Majesty has provided guidance on appropriate conduct covering numerous aspects of life. Application of Sufficiency Economy by individuals and families starts when one acquires the essential knowledge and necessary skills to appropriately cope with critical challenges arising from extensive and rapid socio-economic, environmental and cultural changes. At the same time, it is critical for every person to realize how important to live harmoniously in society and coexist with nature. This means that one should adhere to morality, maintain honesty and integrity, self-discipline, patience and share prudence in making decisions and taking actions in improving oneself. All of these virtues will lead to self-immunity or sufficient protection for individuals and families from the impact arising from internal and external challenges. This will enable one to be moderate and reasonable in life, according to one's roles and responsibilities, so that one can efficiently rely upon oneself and be capable of helping others and contribute to society. However, approximately 7 million people accounting for 10 percent of the country's population do not have a registration with BAAC possibly due to their inability to meet BAAC requirement or inconvenience to use BAAC services etc.

4.4 Key challenges in rural finance

4.4.1 High use of informal credit services

FinScope reported that more than 1.7 million Thais (7.4 percent of borrowers) are currently borrowing from informal money lenders and a further 335,000 or more from unlicensed NBFIs despite their high interest rates (up to 3 percent per day charged by moneylenders for short term loans). A significant proportion of informal lending is for productive purposes while the remaining is for consumption purposes or emergencies. Although the qualitative demand-side research revealed that Thais are very price sensitive when it comes to formal credit, they do accept high interest rates from the informal sector. This may be explained by the fact that: (i) many Thais cannot comply with the collateral and other requirements set by formal lenders, (ii) formal lending products are not structured appropriately (in terms of their speed of access, flexibility and responsiveness) and/or (iii) the supply of credit is simply not sufficient to meet the demand. The formal lenders do have a supply side constraint.

4.4.2 High levels of debt

A substantial percentage of Thai households carry a high debt burden which causes them to draw upon multiple sources of credit. Many of this credit are at interest rates than what is charged by regulated financial institutions. Although only 12 percent of respondents in the FinScope survey indicated that they use credit to pay existing debts, the study also revealed that individual debt is inversely related to annual income. This means that the lowest income groups (those earning below THB 3,000), carry the highest debt burden compared to the higher income segments. The ratio of total debt to annual income for individuals earning below THB 3,000 is estimated at 4.6. The same ratio for person earning THB 42,000 is estimated at one. This level of indebtedness suggests that past initiatives to deal with the high levels of household debt problem (such as programmes by SFIs to purchase informal debt) have not only been successful and on the contrary it has actually accelerated the problem. A renewed strategy and approach is therefore desirable to establish a sustainable way forward in the rural financial sector.

4.4.3 Low levels of savings

It is estimated that 53 percent of Thais save on a regular basis with about an equal number of adults saving in commercial banks and SFIs (32 percent and 31 percent respectively). Similarly, 10 percent of the population saves with Village Funds, 4 percent with savings and credit cooperatives and 8 percent in informal entities respectively. Only 34 percent of Thai adults either do not save at all or have only in-kind savings such as gold or simply hide cash somewhere in their house.

4.4.4 Lack of social security net

A market conduct failure can be said to occur when an institution fails to conduct its business with its client market in an appropriate or responsible manner. There remains an unusual risk appreciation amongst the Thai population. Normally, low-income clients are most concerned about health risks, the death of a breadwinner or funeral expenses. However, none of these risks featured in the top 10 risks identified by respondents. In fact, the top four risks were related to fears of rising prices for goods, fuel, electricity and fertilizers. This could stem from a combination of (i) traditional risks being covered by the government and community-based organizations and (ii) high levels of debt where even small changes in prices can eliminate any residual monthly savings. Risks currently not covered by the government and community-based mechanisms include loss of asset and personal accident. It is therefore no surprise that the 2.1 million insurance policies underwritten by private insurers are primarily personal accident and property-related.

4.5 Regulatory Framework and Enabling Environment

Thailand has a well-developed regulatory system governing rural financial services. Potential providers of small-scale financial services must cope with regulatory norms designed to protect clients and safeguard the financial system. Most obvious is the general interest rate cap of 15 percent under the Civil and Commercial Code, which not only applies to commercial banks, but also for SFIs, as well as community based financial institutions that include Village Funds, Cooperatives, pawnshops and SGPs. The guidelines on microfinance for Commercial Banks issued by BOT in 2011 defined microfinance as loans for business or professional purposes, for an amount not more than THB 200,000, with a 28 percent cap on interest and fees combined. There is no collateral or minimum income requirement, and the borrower can be either an individual or an organization. Banks are allowed to conduct this business outside of their branches and offices for the convenience of potential borrowers. The SFIs collectively play a dominant role in small-scale financial services. Each of the SFIs is governed by its own statute, and all are under the supervisory responsibility of the FPO, which delegates audit functions to BOT. The SFIs engage not only in the provision of financial services after the manner of commercial banks and others, but also implement government programmes.

One of the major policy decision taken by the government of Thailand is the establishment of SFIs like BAAC which is a dedicated arm of the government to extend financial services to the rural areas of the country. Apart from establishing the BAAC, the government responded to the need of the farming community and created the Agricultural Marketing Cooperatives (AMCs)

4.5.1 Establishment of Bank for Agriculture and Agricultural Cooperatives (BAAC)

Established under the BAAC Act of 1966, BAAC is supervised by the Ministry of Finance of the Thailand government. BAAC is currently governed by a Board of Directors appointed by the Council of Ministers comprising of 15 members, including a Chairman (the Minister of Finance), Vice Chairman (a representative of the Ministry of Agriculture and Cooperatives), Secretary (incumbent President of BAAC) and 12 other Directors. The Board controls the policies and business operations of the bank. BAAC's enabling legislation requires that Board membership also include representatives from the Ministry of Finance, Cooperative Promotion Department, the Agricultural Land Reform Office, the Bank of Thailand, a representative of the Agricultural Cooperative shareholders and up to seven independent experts compared to total 11 members most of which were from government offices.

This composition of the Board of Directors reflects the ownership patterns of THB 107 billion (USD 3.34 billion) issued and paid-in shares of BAAC's USD 3 par value stock (in March 2014). The Ministry of Finance owns 99.79 percent of these shares. All the remaining 0.3 percent of issued to cooperatives and private shareholders. In these circumstances, the authorities have full control over the composition and membership of the Board of Directors. As of 31 December 2015, BAAC has 1,257 branches located in all provinces and all districts nation-wide with total staff of 21,000 (18,000 permanent staff).

4.5.2 Establishment of Agricultural Marketing Cooperatives (AMCs)

BAAC established Agricultural Marketing Cooperatives (AMCs) in 1989, aiming to tackle the marketing problems of its client farmers and ensuring farmers' income stability. AMCs performs 2 main functions for its members supplying good quality and reasonably priced farm inputs, and marketing members' farm products. Some AMCs also provide agricultural services such as shipping, plowing, harvesting etc. These AMCs do not supply loans to their members since those people are BAAC's client farmers and have already been provided with loans by BAAC.

An AMC is a society at the provincial level. With the support of BAAC, the "Thai Agribusiness Company" (TABCO) was established in 1992, aiming at gaining competitive advantage in farm supply chains, product aggregation and agricultural products marketing. Currently, there are 75 AMCs across the

country with a total of 3.02 million members. As of 31 March 2009, AMCs' farm input supply to their members valued at THB 20 billion and members' farm products valued THB 9.57 million were marketed. Apart from the AMCs, 3 central marketing centers were also established to facilitate marketing of farm produce of members, mainly rice. Farmers are assured of fair prices and correct weighing.

4.6 Capacity of the rural financial institution in the country

4.6.1 Agricultural financing

Since its inception in 1966, BAAC has carried out its mission through an extensive branch network of 1,257 branches and 957 field units across the country. A total of 7.47 million farm households have access to BAAC credit services either directly or indirectly constituting approximately 98 percent of its outreach. As of 31 March 2014, total loan outstanding reached THB 947 billion or \$ 29.59 billion. In FY 2013, total loans disbursed to the rural sector amounted to THB 970 billion or \$ 30.31 billion of which THB 416 billion was for agricultural credit (accounting for 93 percent) while the rest 32.8 billion or 7 percent was for non-farm activities. According to the BAAC Act as amended in 2006, BAAC is authorized to provide non-farm credits as well.

4.6.2 Savings mobilization

During the early stages of BAAC development, it heavily relied on government budget, overseas borrowings, and forced savings from Commercial Banks. In an effort to cope up with rapid expansion of agricultural lending, Bank of Thailand (BOT) issued a regulation which required Commercial Banks to extend their credit services to agriculture sector at 5 percent, which later increased to 10 percent of their total deposits.

Subsequently, BAAC realized the need of self-reliance. Consequently, BAAC developed its own savings mobilization programmes. Emphasis on savings mobilization and service improvement has been placed as important agenda at all levels. BAAC has developed and launched a number of market-oriented saving products. Markets particularly in rural areas have positively responded to these products. As a result, BAAC deposits have significantly increased over the years.

4.6.3 Enhancing quality and productivity

Quality and productivity support project has been initiated in order to enhance competitiveness and income generation of client farmers. BAAC has implemented many projects to support quality and productivity of its farmers namely organic rice farmer school project, model farmer project, fluid manure project (in collaboration with Livestock Department) BAAC-KU product quality development project (in collaboration with Kasetsart University) etc. In addition, trainings in various fields of agriculture and related fields such as entrepreneurship, management, accounting, food processing, packaging, and marketing have been successfully conducted.

4.6.4 Price stabilization

Since crop prices are often volatile and subject to market dynamics, farmers were frequently affected by this volatility. This led to income uncertainty, resulting in mounting debt. Realizing this problem, BAAC with support from the government, launched the crop pledging scheme as a price stabilization measure to ensure income stability. This scheme had been implemented for almost 30 years when it was superseded by farm income guarantee scheme.

Having implemented crop pledging schemes for many years, the new government realized crop pledging schemes' disadvantages and its potential in deteriorating the farmers' discipline and the country's competitiveness in the world market. Thus, the farm income guarantee was introduced to

replace the pledging schemes in 2009. Both schemes were essentially income supporting interventions (protection). However, the farm income guarantee scheme is considered to be different from the crop pledging scheme mainly in terms of methodology. The Pricing Committee sets guaranteed prices based on farmers' production cost, estimated in terms of income per hectare, plus a reasonable margin (approximately 25-30 percent for particular crops like rice, maize, and cassava). During the harvest season, reference crop prices were announced weekly or fortnightly depending on the kind of crop. If the reference price is lower than a guaranteed one, farmers would receive the difference from the government which would be transferred through BAAC's branches to farmers' savings account.

4.6.5 Marketing Support

The loans provided by BAAC were used mainly to acquire farm supplies from local merchants. Under this system, some farmers got deceived because of some merchants supplying inferior quality farm inputs at higher prices. In 1980, BAAC introduced the credit-in-kind system by acting as an intermediary in providing farm supplies to its farmer clients. Most of the farm supplies were provided directly from producers or dealers. Under this system, BAAC could supervise and assist client farmers to ensure good quality farm supplies at reasonable prices. The credit-in-kind system has been used for almost ten years and it has been appreciated among client farmers. In 1988, the volume of business peaked at THB 3.5 billion or 16 percent of the total credit disbursed. However, the credit-in-kind system could not overcome all of client farmers' problems. It is true that with credit-in-kind, the client farmers can get good quality farm supplies at reasonable prices. But for farm product marketing they still depend on the private local merchants where the rate of exploitation is high. For example they offer low prices, cheat in weighing the produce and insist on unfair payment option and/or delivery conditions.

4.6.6 Farmer and rural development networking

Realizing the fact that agriculture is volatile and can be frequently affected by adverse impact of extreme climatic conditions, severe natural disasters, outbreaks of pests and diseases, market conditions, and national and global economic and social uncertainty, BAAC has initiated measures to empower rural people and communities through learning and providing opportunities for them to realize their potential. BAAC has established 84 Learning Centers in every province across the country with 300 more LCs being established at the district level. These LCs serve as school for farmers to learn 3 steps of development viz,

- *Self-dependence:* At this stage farmers are taught how to gain cost advantage in both production and living costs. They are also taught how to increase their incomes starting from their individual resources and potential. They are encouraged to have financial literacy as how to (i) record the household book-keeping or accounting, (ii) produce farm inputs such as organic fertilizers and pesticides using natural resources as much as possible, (iii) practice various techniques in agricultural production and processing in order to improve productivity and (iv) apply the King Sufficiency Economy (SE) as guideline to live their life in self-reliant and correct manner.
- *Interdependence:* Here, they are encouraged to organize various occupational groups according to their potential and interest. This division of occupation or specialization aims to capture opportunity in business or enterprises that individuals of that community could handle more efficiently (for instance rice milling, processing etc.). Hence farmers get opportunity to organize in an occupation or community enterprise.
- *Networking:* After each community established community based businesses or enterprises, a network of these community enterprises were established. Linkage to multi-organizations of government, NGOs, and private sector were strengthened.

CHAPTER 5

Detailed Study of Rural Finance Best Practices

Rural finance in Thailand is being led by BAAC which emerged as the most prominent state owned specialized financial institution. In the course of its 50 years of serving rural community of the nation, the BAAC developed a number of best practices and supported the government programme to reach out to the rural community in the country. As a first of its kind, the Joint Liability Group (JLG) was launched in 1967. This lending mechanism allowed large number of farmers to access BAAC credit without any physical collateral. It also helped BAAC to speed up its lending operations. It has been proven as one of the most effective and efficient tool in rural and agricultural lending. This has been constantly practiced ever since. In 1991, BAAC launched innovative saving products called Omsap Thaweesook (or Lucky Draw). Any individual who saves a certain amount for a certain period of time would be entitled to the right to win prizes such as car, motorcycle, gold, electrical appliances etc. twice a year. This kind of saving promotion is popular in rural areas and it attracts millions of savers. Another innovative and popular saving promotion programme in urban areas is Omsap Thaweesin (or Lotto certificate). This savings features high cash prizes up to THB 20 million. Additionally, there are many tailor-made saving products that fit customers of different kinds for example the '*Thaweesook Deposit*' scheme which was launched by BAAC in 2003 to attract the old people from rural regions to reap the benefit of the economic growth of the country.

By the end of FY 2013, 7.47 million farm households had access to BAAC credit services both directly and through farmer institutions. The Bank supported the government programme on village fund schemes and supported the village funds to grow by providing loans and technical assistance. BAAC also promoted a number of community financial institutions who wanted to graduate from the village fund and operate in a larger geographical area. This report documented 4 major CFIs promoted by BAAC viz.,

- (a) *Suk Samran Community Financial Institution* in *Chumphon Province*
- (b) *Don Moo Community Financial Institution* in *Ubon Ratchathani Province*
- (c) *Sarng Thor Noi Community Bank & Enterprise* in *Amnart Charoen Province*
- (d) *Na Koh Sak Savings Community Enterprise* in *Trang Province of Thailand*

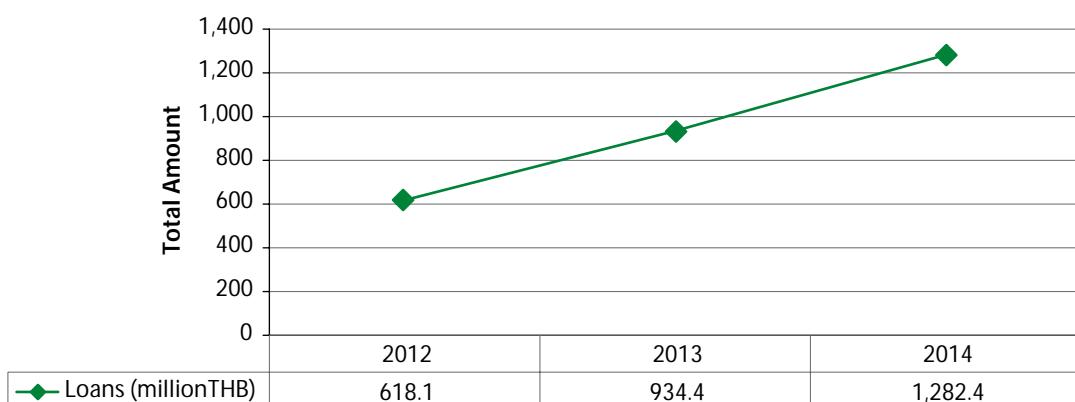
5.1 Identifying inclusion criteria

Inclusion criteria for Community Financial Institution (CFI) have been based on the common indicators recommended by APRACA. The specific evidences of fulfillment of such criteria have been the following.

- *Product:* CFI is holistic lending and sustainable rural development and financial inclusion product. This is because CFI is built from the needs assessment of households and communities who vision great opportunity in managing their own resources (social capital, human capital and natural resources), reducing external dependence, and increasing self-dependence. CFI provide opportunities for all members with access to credit services and equitably share the benefits to all.
- *Delivery System:* The product is delivered through BAAC branch network across the country in terms of technical and financial services. A/The potential community is chosen followed by public hearing to determine whether the community needs to establish CFI in their community.

- *Business model:* CFI is a wholesale business model. Since agricultural lending is inadequate and costly. Wholesale lending helps service-providers reduce operating cost and inherent risk of small scale borrowers.
- *Technology:* Integrated technical services are provided to CFIs for indigenous technology or local wisdom of knowing your customer (KYC). CFI is also provided with new technology such as computerized accounting and lending operations to ensure transparency and efficiency.
- *Outreach:* There are currently 981 established CFIs that are operational in the country. BAAC has extended loans to the tune of THB 1.2 billion (as of 31 December 2014) to those CFIs compared to THB 0.6 billion in the previous years (Figure 2).

Figure 2. The trend in loans extended to CFIs



(Source: BAAC Annual Report 2014)

- *Flexibility:* The CFI model is not a fixed one, rather, it is highly flexible. This model can be applied to any country or institution. The structure, regulations, procedures, and operations can be decided and modified to suit the specific community and legal environment of the adopting country.
- *Special features:* CFI is a combination of blended knowledge and finance with emphasis on the people with whom they are dealing with. The integration of various stakeholders is essential to run the CFI in an efficient and sustainable manner.
- *Replicability:* The model of CFI can be replicated to any community in any country. The details of structure of organization, the committee, regulations, procedures, operations vary as per the characteristic of community, legal framework and environment of each community.
- *Enabling environment:* Many government policies, strategies and legal framework have been established in order to support the delivery of the rural finance to address the challenges of access to formal financial facilities for the rural population in the country (for example government supported the programme of Village Fund by providing THB 1 million). The expansion of rural finance market, the increasing demand of credits, and the development of technologies have replenished the enabling environment.

5.2 Suk Samran Community Financial Institution (CFI)

5.2.1 Brief Description: The *Suk Samran* Community Financial Institution is located in the village *Suk Samran* under sub-district Rabror, Thasae District in *Chumphon* province. The committee of *Suk Samran* Community Bank/Financial Institution (CB/CFI) comprises of 16 members who are designated respectively as Chairman, Vice-chairman, Secretary, Treasurer, Marketing Supervisor, Credit Supervisor, Production Supervisor and Public-Relation Supervisor and Committee members. There

remains an explicitly written delegation of power to each of the committee member for particular purposes. This helps in ensuring that each member has authority to act on behalf of CFI. All Committee members can independently propose new ideas, initiatives for effective and efficient management of the CFI. Such proposals are discussed and considered in the Committee meeting before making a final decision. Apart from the designated committee members, there are hired professionals who manage the day to day operational aspects of the CFI. They are designated as: Manager, Assistant Manager, Credit Officer, Cashier, Customer Development Officer, Public Relation Officer, and Marketing Officer.

5.2.2 General rules and regulations: According to the current regulation, the *Suk Samran* CFI has set the criteria for membership as individuals in the age between 20-65 years and be a member of the group for at least 5 years and living in the same village. Only one member of a family is allowed to take loans. The borrowers must form a group of at least 5 members who dwell in the same village. The reason why they have to be from the same village is because they need to know one another well. They need to be responsible for the committed joint liability of the loan taken from the CB for not being defaulted. It is not only that members of the group that will monitor the progresses and action levels but the CB will also closely scrutinize all assets, liabilities, incomes, expenses, and occupation of the group members. As a result of prudential approach, its lending operation is NPL-free. The existing BAAC client can become member of the CFI.

5.2.3 Services provided

Multiple categories of loans are offered by the CFI to suit the business requirement of the groups depending on their activity levels and domain of operation. The following are the type of loans generally sanctioned with definite conditions and terms of references.

- *Working capital loan:* for the purpose of working capital in agricultural activities or improved quality of life. The maximum loan amount is THB 50,000, the interest rate is 15 percent and payable in 12 months or 18 months in extraordinary case.
- *Investment loan:* This loan is generally utilized in running business, entrepreneurship, trading, productions, etc. Maximum loan amount is THB 250,000 with 15 percent rate of interest and payable in 12 months or 18 months in extraordinary cases.
- *Refinancing non-formal debt loan:* There is no limit of the loan amount. However, this must comply with the condition and policy of the CF.
- *Emergency loan:* This is used in cases of emergency like family hardships arising out of accident, illness, death, or other unexpected event that required quick payment of cash. Maximum loan amount is 150,000 and payable in 12 months with 15 percent rate of interest.

5.2.4 Other Businesses. Realizing the difficulty of its members as well as the business opportunity, CFI started new business on money transfer and account payment services such as electricity Bills telephone bills and telephone-top-up credits, sale of inputs supply such as fertilizers, pesticides mulled rice, drinking water production, provision of life insurance in form of funeral aid association (FAA) which aim at helping members arrange funeral ceremony and pay off the debt. FAA is open for interested members whose age is 75 years or lesser. Advance fee for 4 heads is collected which equals THB 1,000. The current membership is 298 members with the study revealing that benefit to the members have accrued in the following ways:

- Facilitating income generation for its members from marketing business
- Providing more convenient service to members
- Helping reduce cost of transportation
- Job creation in community
- Non-formal debt resolution, by negotiating with money lenders consequently, CB refinance such debts

5.2.5 Satisfaction and recommendation of members: It is seen that all members are satisfied with the CB in terms of the services and supports it provides. The specific sense of appreciation from the members falls in the categories such as encouraging cooperation, collaboration, and commitment. The members do believe in the sound system of CB including the committees which are elected by themselves. Any changes in the management and staff in future will not undermine the operations of CB.

5.2.6 Summary of best elements of *Suk Samran CFI*

The best practice elements of *Suk Samran CFI* have been that, it is community oriented and evolves a holistic welfare approach among its members. It is democratically managed and community participation is established in the management processes. It acts as a contingency source of finance for the members and caters to the exigencies of the local communities. It provides a wide range of financial products that enable the members to make investments in new activities, meet the working capital requirements as well as refinancing business loans. Further it provides services like input supplies for effective farm operations and save the time of the members by paying their service utility bills like telephone, electricity etc. It also provides for the funeral finance supports and engages in debt resolution through negotiation with other lenders with whom the members have affiliations. It works on the principles of cooperation, collaboration and commitment to be replicated elsewhere.

5.3 *Don Moo Community Financial Institution*

5.3.1 Brief Description: *Don Moo* is a village in Tumbon *Khampia* of *Trakarn-Peuchpol*, *Ubon Ratchathani* Province. The CFI serves 170 households with 680 people. It is situated 18 km north of the district town. Most of its population is engaged in agriculture. The total cultivated land is 4 Rai (666 hectare), with paddy being the primary crop. As this is a rain fed area, only one crop of rice is cultivated in a year. The secondary livelihood avenue is livestock. The villagers raise beef cows, buffalos and swine. They also earn additional income agricultural wage labour. According to the Village Headman, *Don Moo* was founded in 1991. The village used to be very fertile full of forest and wild life. As the village grew in population, paddy fields expanded resulting in the shrinking of forest area. The village land is less in the Southern part and more in the North. The southern part of the village frequently experiences flooding due to its lower elevation compared to the Northern part. The Northern part frequently experiences the shortage of water particularly during the years with relatively less rainfall. In 1994, the villagers were encouraged to form various occupation groups such as savings group for production, paddy bank, community forest group etc. Following the economic crisis in 1997, many financial institutions collapsed, hundreds of businesses closed down, millions of people were laid off. Many of them returned to their home town keeping agriculture as an option for food security. In 2003, the government launched Debt Suspension Scheme (DSS).

5.3.2 Role of BAAC: BAAC played a significant role in educating the farmer borrowers who participated in DSS. It ensured that farmers, upon the completion of DSS, are in a position to repay their debts. BAAC encouraged farmers to apply the Philosophy of Sufficiency Economy involving moderation, reasonableness and self-immunity. Farmers were educated of the three steps of SE economic development. Self-dependence by reducing the cost of living cost of production and expansion of opportunity for mutual-dependence. They were encouraged to arrange into groups of various occupations such as rice mill group, swine group, farmer farm school group, beef-cow group etc. Network of cooperation and business connection in trading and exchanging food, products, and expertise have been made at all levels-starting from tambol (sub-district) level, district level, and provincial level.

With the initiative of former District officer of *Trakarn-Peuchpol* District and the knowledge earned from DSS, the *Don Moo* key persons were inspired to establish the CB. All occupation groups were given some

exposure visits to community bank in *Loei* Province and also in other locations. *Don Moo CB* was established on 9 February 2007. It aimed to promote savings for sustainable development, provide financial services to its members, and provide social welfare to its members. As of 28 February 2014, *Don Moo CB* has 679 members who share equity of THB 3,416,560 (USD 106,000), deposits of THB 8,580,006 (USD 268,000) and total loans of THB 9,389,289 (USD 293,000) with a net profit of THB 1.14 million (USD 35,000).

5.3.3 Management of *Don Moo CFI*: There are 17 Committee members who manage the CB in accordance with its regulations. However, there is no official designation to any committee members who perform various functions of the CB. Only some committee members are designated to the post of manager, assistant manager, and accountant. According to its regulations, the committee term of service is 4 years. Each committee member serves no more than 2 consecutive terms. None the less, no change has been made to those committee members, who are re-elected by the general assembly repeatedly. The number of committee members have increased periodically when a new group of members join the CB. A representative of new group may be required to augment the managing committee.

There are, currently, 17 committee members. The re-election of committee members and their scope of serving the CB (more than 2 terms) are dependent on their skill, trustworthiness and experience. Nevertheless, the re-structuring of management system has been initiated in order to comply with universal/international governance norms. The Committee meeting is convened at least once a month. The minutes of the meeting is recorded properly for transparent checks and balances. Members of CB can freely place comments, recommendations or requirement to the committee, and may raise the issues at the GA for improvement of CB services.

5.3.4 Services Provided. *Don Moo CFI* provides its service to the entire area of Tambon *Khampia*. At present, most of members are *Don Moo* dwellers. Few members come from neighbouring villages also based on convenience of services. Most of the members are relative of *Don Moo* inhabitants. *Don Moo CB*⁷ opens every Monday, Wednesday, and Friday. The CB mobilizes capital from shares, initial shares of at least 1 share worth THB 50 (USD 1.60). The value of shares is deducted from the loans. 5 percent of loan amount is deducted towards the shares held by the borrower. All members are required to contribute THB 500 to the MWF. They are entitled to receive welfare in the forms of cash voucher for a new-born baby, compensation of THB 80 per day (with a maximum 5 days per year in case of sickness and undergoing to treatment at the hospital), indemnity provided to the family in case a member passes away. There are 2 types of savings: (i) Time-Deposit-interest with an interest rate of five percent (minimum duration is 1 year and maximum amount of savings per person is THB 5,000,000 or USD 165,000) and (ii) Savings Deposit-interest rate is one percent and maximum amount of savings is not yet determined. General public, youth and various groups in the community are eligible to save. The following services are being provided:

- **Lending:** All eligible borrowers must be adult with only one member in a family allowed to borrow from the CB. Collateral is in the form of at least 2 guarantors. The loan of a borrower seeking a bigger loan amount compared to the previous loan is considered and as per the approval of the Committee. For loan of the same amount as of a previous one or a smaller amount, needs approval by the committee member who acts as manager. There are 3 types of loan products as the details given below
 - *Regular loan* is used as working capital in various income generating activities with maximum amount of THB 50,000 (USD 1,650), payable in 12 month, with 11 percent interest rate. The defaulter is charged additional four percent interest.

⁷ The terminologies Community Financial Institution (CFI), Village Bank (VB) , Community Bank (CB) are used alternatively having the same meaning and performing the same function.

- *Special loan* is to ease the unexpected event of trouble. The maximum amount is THB 150,000 (USD 4,700) with 15 percent interest rate, payable in instalments over 12 months. Two guarantors or land title deed is held as collaterals by the CFIs. This loan needs to be approved by the Committee. The purpose and the need of loan will be taken into consideration while approving it.
 - *Quick Cash*: In case members encounter financial emergency in household expenses, the CFIs offers quick cash to ease the trouble of members. This prevents the members from falling victim to the loan sharks who charge exorbitant rates of interests with a shorter repayment time. The maximum amount for this type of loans is not fixed. Depending on the need however, it is observed that the maximum amount is around THB 100,000. Quick cash is an effective tool in helping members during the time of difficulty such as family members experience sickness, accident, death or payment of educational expenses. Each member can borrow up to 3 types of loan using the same guarantors for all loans. On the other hand, a small group of 3 members can be bound together as borrower and guarantor of each other.
 - **Other businesses:** Due to lack of access to technology in this village, money transfers and account payments are not available currently. However, the CFI has planned to implement this in near future as the system improves. *Don Moo* CFI, currently runs the following businesses with approximately 20 households in this village who raise swine. Swine feed is sold to them in cash and credit. Another group is providing service in packaging of organic jasmine rice for community rice mill.
- Don Moo* villagers have undergone the training on SE during the period of debt Suspension in 2001. Consequently, they established the Organic Farm School, later developed it as Learning Center of Sufficiency Economy Model under BAAC support. It is one of the 84 Learning Centers (LC) of BAAC. During the early period of this LC, most farmers have been trained and as a consequence, they have shifted from using chemical fertilizers to organic ones in their paddy fields. Many farmers confirmed that their production increased, soil was more fertile than before. The use of chemical fertilizers has been reduced substantially. One said, in the past, he cultivated rice in 15 Rai (2.5 hectare), using 15 bags of chemical fertilizers, he now uses only 1-2 bag(s) of chemical fertilizer because his soil is more fertile while the production increased from 40 barrels to 60 barrels per Rai (2.4 ton per ha to 3.6 ton per ha).
- At present, 20 farmers in the village have received Organic Certification from the Rice Department, Ministry of Agriculture and Cooperatives. There is increasing demand for organic rice. However, organic rice of the village is yet to reach the high end market. Therefore, the CFI is attempting to connect with its BAAC network for marketing networks and enhanced value addition of the rice farmers. As a result, more orders are flowing in from the Southern part of Thailand which includes *Suk Samran* CFI, *Chumphon* Province, *Wansai* CFI, *Nakhon Si Thammarat* Province.

5.3.5 Benefits of the CFI: After interviewing the committee and members of CFI, the following benefits of the CFI are identified:

- Promotes savings of people in the community including youth, who have never saved due to small amount of money available with them. Now everyone can have a savings account irrespective of the size of deposits.
- Convenience: instead of going far to the district town, now the CFI is open in close proximity (few minute walk from home). It become very convenient for everyone in the community
- Lower transportation cost: villagers don't have to travel long distance, they save some money and have more time to work
- Important source of fund for community

- Community members benefit from dividend, higher savings interest and community welfare
- Value creation of agricultural produce such as rice
- Informal debt resolution: Most of the villagers are normally exploited by money lenders usually charging very high interest rates ranging from 5 to 10 percent per month or 60-120 percent per year. The CFI helps eliminate informal debt substantially.
- Member satisfaction and recommendations: The study revealed that members are satisfied with the CFI and they are very proud to be part of the CFI. Other villages highly admire the CFI of *Don Moo* and its performance with many awards being received. They also feel they are not client of the CFI but they are the owner of CFI.

5.3.6 Key success factors

- Strong commitment of the management and staff of BAAC in addressing the issues of finance
- Prolonged and close relationship between BAAC's staff and client farmers
- Deep understanding of its clients
- Effective communication and public relation

5.3.7 Summary of best aspects of *Don Moo* CFI

Don Moo CFI covers an entire province that is agriculture based. It supports heterogeneous groups in the operational space like the flood prone and the drought prone for farming operations. It seeks to promote agriculture and agribusinesses in the province through sustainable and flexible financial products to the farmers and the small agribusiness entrepreneurs. It has developed financial products which will repair the old debts as well as to take forward the farm processing activities in a better way. Accordingly it has regular loans, special loans and quick cash to ensure the liquidity of the activity groups across the value chain.

Accordingly the CFI has created activity groups to take advantage of scale of operations and also established market and trade linkage to gain competitiveness of the businesses. These groups include the rice mills group, beef-cow group, trade group etc. It promotes small savings among the youth and provides them equity based financial service participation. It provides training and exposure to the different activity groups towards enabling their enhanced efficiency levels along with the financial supports. Given the high levels of networking of the CFI, it is low cost financing and fast realizing for the users to be benefited.

5.4 *Sarng Thor Noi* Community Financial Institution

5.4.1 Background: *Sarng Thor Noi* sub-district has 13 villages under its administration. It is one of the eight sub-districts of *Hua Taparn* District in *Amnart Charoen* Province. This sub-district lies between 6 and 48 km from *Hua Taparn* District and the provincial center, respectively. It covers an area of 57,500 Rai (1 Ha = 6.25 Rai), consisting of 25,000 Rai in *Dong Yai* National Reserve Forest. Another 30,000 Rai is devoted to rice farming with the rest being used as orchards and living quarters. Five rivers flow through the sub-district and there are four reservoirs serving 1,702 households comprising 8,042 persons with most of them being farmers. The community found that agricultural activities in *Dong Yai* forest area have been on a constant decline since 1992. Changes in the community observed following changes in the development patterns with the adoption of modern agricultural systems brought about quite a strong impact on the traditionally easy and inter-dependent way of life of the community members.

5.4.2 establishment: The concept of forming a community bank was then proposed to the meeting of *Sarng Thor Noi* sub-District Council, Community Master Plan Working Group and Village Fund Committee, followed by the creation of community forum in every village for explanation and approval.

With unanimous approval, rules and regulations for the community bank had been drafted along with the development framework of the community bank towards establishing sustainable grassroots economy. The first committee for the bank was then elected. The bank shared the building of *Sarng Thor Noi* TAO (Tambon Administrative Organization) as its office and started its operation on July 18, 2005. The government policy, in the meantime, was to solve the poverty problem by promoting a community master plan for every sub-district. The Chairman of *Sarng Thor Noi* Tambon Administrative Organization (TAO) started a survey of the community economic data with support from the Head of the BAAC, *Hua Taparn* Branch, representatives of government units in the local area and the village foundations in the In-Pang Network. A continuous participative learning process was made in the form of community forum to study the current situation, needs and problems, and then find out alternatives for community development.

5.4.3 Objectives: The main objectives set for the bank are: (i) to be the funding source for the community members, (ii) to be the savings bank, (iii) to help clear its members' debts and (iv) to provide community welfare. Its slogan remains as *Uniting to create, sticking to unity, and giving good services to all, for members' happiness*. The first lot of membership consisted of 1,026 households. The CFI could earn THB 200,900 on its first day of operation. One person is hired as its employee, whereas two committee members take turns to come to the CFI office on a daily basis. Services follow the same pattern as that of the BAAC. The bank's business was later registered as the Community Enterprise named *Sarng Thor Noi* Community Bank and Enterprise with *Hua Taparn* District Agricultural Extension Office (DAEO) according to Community Enterprise Promotion Act B.E. 2548 on January 22, 2008 (Registration No. 4-37-06-06/1-0019).

5.4.4 Performance: It was estimated that the community as a whole earned a total amount of THB 22.74 million in a year whereas its expenditure was at THB 39.51million causing a net debt of THB 59.26 million amounting to an annual interest amount of THB 3.54 million. This led to social grouping for occupation development, creating the community master plan and organizing savings group at sub-district bank level. The community leaders together with the BAAC staff made a study trip to *PuanPu* sub-District Community Bank in *Phu Kradueng* District, Loei Province (BAAC *Phu Kradueng* Branch). It became the model for *Sarng Thor Noi* Community's participative action in their financial problem solving.

The CB's performance has been successful and well recognized. It has become one of Thailand's model community financial institutions. It now has its own office consisting of three buildings covering an area of one Rai with well-equipped systems and public utilities, all bought with its own funds of THB 1,200,000. The office is located at 144, Moo 13, *Sarng Thor Noi* sub-District, *Hua Taparn* District, Amnart Charoen Province (GPS: N 15.653098 E 104.471885). In 2013, this community enterprise had every household of the sub-district as its members. The bank provides financial and social welfare services with its current capital base of as high as THB 50 million and the bank's business is steadily on the rise.

5.4.5 Structure of the CFI: Community representatives consisted of people selected from every village based on their capability, voluntary mind, honesty and recognition. There are three groups of community representatives as given below:

- CB Committee, that consists of five groups of representatives, i.e. (i) Village Fund Chairman of every village (13 villages), (ii) *Sarng Thor Noi* TAO's representative, (iii) senior experts, (iv) farmers' representatives and (v) community expert, totaling 19 with terms lasting for two years.
- CB sub-Committee comprising of the community bank's members selected from every village (five from each village, totaling 65). Their term lasts for two years.
- CB staff consisting of four selected persons who live in *Sarng Thor Noi* sub-District, i.e. the manager, accountant, credit staff and general administration staff.

5.4.6 Network of the CFI

The Community Financial Institution network consists of the following geographical area:

- *Sarng Thor Noi TAO* and *Hua Taparn* sub-District Municipality in their capacity as leading organizations provide supports in terms of community development, project and budget supporters
- *BAAC Hua Taparn Branch* and *Amnart Charoen Branch* in their capacity as consultants on banking business, loan sources, deposit institutions, provide resource persons to participate in drafting the community's master plan, the community bank establishment and account auditing
- *Sarng Thor Noi* sub-District Health Promotion Hospital and *Amnart Charoen Provincial Public Health Office*, Ministry of Public Health in their capacity as supporters of the community enterprise provides for health development
- *Hua Taparn DAEO* and *Amnart Charoen Provincial Agricultural Extension Office (PAEO)*, under the DOAE, Ministry of Agriculture and Cooperatives (MOAC) in their capacity as consultants supports the promotion of farmers' grouping to develop their occupation, product processing, product development, community enterprise and community enterprise networking
- District Community Development Office and Provincial Community Development Office, Community Development Department (CDD), Ministry of Interior (MOI) in their capacity as joint resource persons participate in drafting the community master plan
- Office of Provincial Cooperative Auditing, Cooperative Auditing Department (CAD), MOAC in its capacity as accounting and auditing consultant enable the accounting and auditing systems
- *Ubon Ratchathani Vocational College* provide resource persons to impart knowledge to the resource persons of the learning center for occupational development according to the community's needs
- Non-government Organizations (NGOs) like Village Foundation, In-Pang Network and the University of Life in their capacity as joint resource persons participate in drafting the community master plan

The members of Sarng Thor Noi Community Bank played an important role in proposing and choosing their representatives as well as participating in the community development learning process is given in Chart 2 and the working team of the CFI is given in Chart 3.

5.4.7 Success Factors: The challenge that motivated the community to seek a change was that they wanted to be relieved of community debt, bring back interest, prevent the flow of money out of their community, build financial discipline and promote their community's savings without the need to rely on outside assistance. The community members then joined their effort in developing towards a "*leading farmers' organization*" with outstanding achievements recognized country-wide and earned several awards. There are altogether eight success factors leading to the community's success as follows:

- *Leader and leadership succession:* As mentioned earlier "leadership could influence the community members' thinking and actions. The community core leaders' willingly joined the community change process. There are two channels for leadership succession viz, each village selects a person with leadership to be its Village Fund's chairman (13 Village Fund chairmen), who will then be the village representative to be automatically appointed as a committee member according to the bank's regulation. The community bank's sub-committee members are composed of five village members selected from each village, totaling 65.

Chart 2. Components, roles and functions of the committee, sub-committee and staff of *Sarng Thor Noi CFI*



(Source: *Sarng Thor Noi CFI*)

Chart 3. The working team of *Sarng Thor Noi CFI*

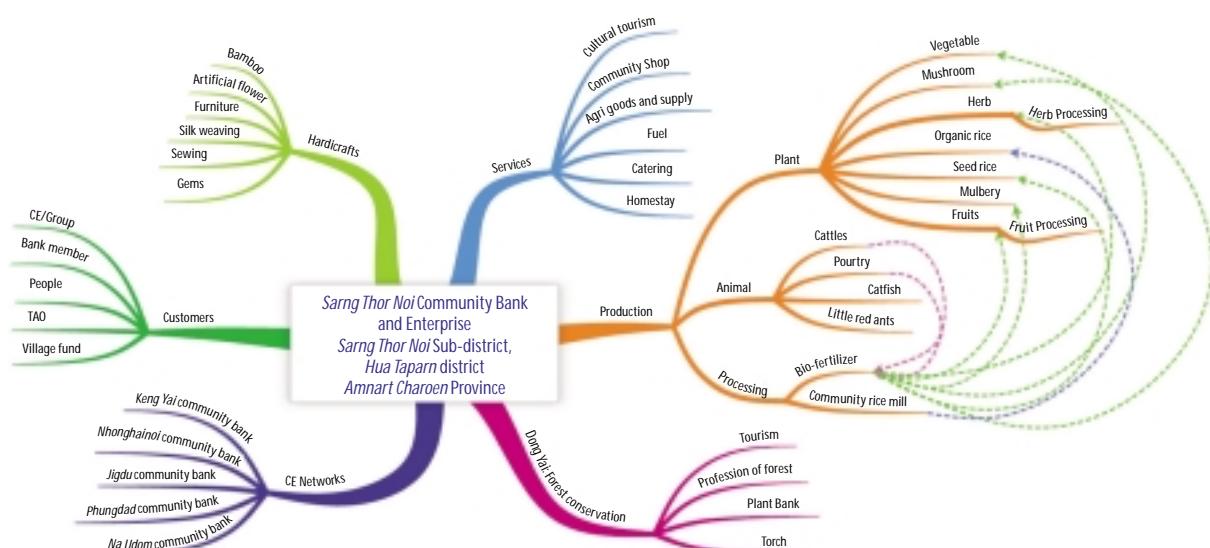


(Source: *Sarng Thor Noi CFI*)

- *Participation of the community members.* Every household is presently the community's member. The participation, from the initial decision making, operating, monitoring and evaluating to benefit sharing, takes place both directly and indirectly through village representatives following three strategies (a) creating knowledge, (b) creating social measures, and (c) creating community participation.
- *Clear managerial system*
 - i. The community bank's organizational structure is composed of the committee, sub-committee and management with functions as specified in the bank's regulation. The committee itself is divided into three divisions such as management division, loans and debt division and business development and Enterprise Inspection Division Rules and regulations of the community bank have been achieved through the community's continuous participative learning process, which have been used in the management of the bank from the outset.
 - ii. The community bank's enterprise development plan is clearly written, focusing on being the leader in management, services, credits, welfare promotion and social services. Additionally, prior to the implementation, every activity needs the community's approval before submission to the committee meeting for approval as an action plan together with its budget which will then be implemented by an assigned ad-hoc working group.
 - iii. Financial services follow the pattern of BAAC with some modifications to suit the community. The community bank is run by its manager and accounting, credits and general administration divisions along with its consultants on accounting and risk management.
 - iv. IT tools are adopted for efficient services since 2007, using computers and telephones for external communication. With the adoption of Internet in 2009, website for PR campaigns by DOAE supported in 2012 and banking operation system programme in 2013.
- *Systematic communication and PR* for internal communication which is conducted through three channels, viz,
 - i. Committee meeting, which is held every month
 - ii. Annual general conference, held for summarizing annual performance and for approving the next year's action plan
 - iii. Annual mobile meetings, held in each village to provide a forum for the meeting between the bank and its members
 - iv. The bank publicizes its activities through various media such as community volunteers, village news announcement tower, community radio station, and local singers
- *Development network connections* are established for the purpose of exchanging information, knowledge, experiences, local wisdom, capital, production factors, goods, or for being the marketing channel to achieve the effective running of the bank's enterprise and occupational development groups. There are two types of network,
 - i. Organization level: This refers to organizations/agencies which support and work together as mentioned earlier
 - ii. Community enterprise level: Farmers' occupational development groups and customers under the bank's support to achieve appropriate self-reliant management within the community and strengthen inter-group relationship as shown in Chart 4.
- *Building new social movement (Innovation)* in an effort to renew the community's way of life with a view to minimize unnecessary expenses and building new culture and way of life as follows:
 - i. Alcohol-free funerals to cut unnecessary expenses and avoid adverse effects on health, debts, crimes, etc. The following steps were taken in this direction
 - Surveying expenses on alcohol in the community's funerals

- Joining community effort to create awareness of alcohol-related problems and win a common resolution to change the community's way of life
- Providing a forum for presenting the survey result and effects to follow in order to find out common measures and recruit voluntary families to join the "Model Families of Alcohol-Free Funeral" project
- ii. Inauguration of the project and signing the memorandum of understanding (MOU) between the voluntary families and the network committee was first made on June 25, 2010 under the slogan "Abstaining from Alcohol, Free from Poverty, and Bringing Warmth to the Family"
- iii. Expo OTOP (One Tumbon One Product) was initiated to encourage the community's occupational development groups to display and sell their products, which is a new marketing channel to activate the community's economy and expand the community enterprise and the groups' networking
- *Returning profits* to the public by allocating an average of 4-5 percent of the bank's net profits from its annual business performance to; (i) the local temples, schools and hospitals, (ii) public activities, and (iii) charity fund for quality-of-life development
- *Motivation for the community's savings* to encourage building financial discipline by giving rewards to members with highest annual savings or share capital

Chart 4. Networking of Sarng Thor Noi CFI



(Source: Sarng Thor Noi CFI)

5.4.8 Business pattern of Sarng Thor Noi CFI: The business pattern of Sarng Thor Noi Community Bank and Enterprise takes the form of a Community Financial Institution (CFI) running its half-bank-half-welfare business to help its members. There are three types of service products. Savings to collect the capital in forms of share capital and deposit, which can further be divided into three different categories as shown in Chart 5.

- *Share capital:* Shares are sold to raise capital at THB 100 per share. Each member can buy no more than 2,000 shares, and will receive a dividend at year end which varies according to annual profit.
- *Savings deposit:* Members or general public can deposit their money by opening an account with THB 100 as the minimum and will receive an interest rate of 2 percent per year.

- *Satja (Oath)*⁸ Savings Fund for the community bank members' welfare: The bank's members and general public can deposit their money on a regular basis. The accumulated amount of money will be used to provide welfare for the fund's members in times of child birth, sickness, old age and death. Following are the service conditions:
 - Each member has to deposit THB 1 per day or THB 30 per month as regular savings
 - Membership can start from birth up to 60 years of age. Each member with 10 years' savings has the right to receive a pension. Table 2 below shows the amount of pension received by the members
 - Each member who is 60 years old with a savings account of THB 10,000 will receive THB 100 welfare money per month. In case of a member's death after 90 days of membership, his/her heir will receive the whole amount of the savings without interest
- Each member with six months' membership will receive the following benefits:
 - Each member who give birth to a child will receive THB 600 per birth and THB 1,000 per birth of twins and THB 100 per night of recovery rest for a maximum of 10 nights per year
 - Each member who fall sick and has to stay overnight in a hospital will receive THB 100 per night for a maximum of 10 nights per year
 - Each member who is 60 years old and/or with a savings period of 10 years up will receive a pension in a specified proportion as shown in Table 2
 - Each member who dies after 180 days of membership will receive THB 3,000 for his or her funeral

Chart 5. The saving services of *Sarng Thor Noi CFI*

Type	Savings Deposit	Satja Savings Fund	Share Capital
Customers	<ul style="list-style-type: none"> • Bank members • General people 	<ul style="list-style-type: none"> • Bank members • General people <div style="display: flex; justify-content: space-around;"> From birth up to 60 years of age From 60 years of age up </div>	Bank members in <i>Sarng Thor Noi</i> sub-district only
Savings conditions	Open an account with a minimum of 100 baht and an unlimited amount	<ol style="list-style-type: none"> 1. Every month 2. One baht a day 3. Protection right occurs after 20 days' membership 4. Eligible for welfare after six months' membership 5. Eligible for a pension after 10 Years' savings 	<ul style="list-style-type: none"> • 100 baht/share • A maximum of 2,000 shares/member
Period	All the time	Daily, Every 15 days, Monthly, Yearly	Share selling during March-June
Benefits	<ol style="list-style-type: none"> 1. Whole amount of savings 2. Interest rate of 2 percent a year 	<ol style="list-style-type: none"> 1. Whole amount of savings 2. Welfare (4 types) <ul style="list-style-type: none"> • Child birth • Sickness • Old age • Death 	<ol style="list-style-type: none"> 1. Savings according to the number of shares 2. Dividend depending on annual profits, to be paid during April-May

(Source: *Sarng Thor Noi CFI*)

⁸ 'Satja' is a Thai word which means commitment and 'Satja Savings' means savings what has been committed.

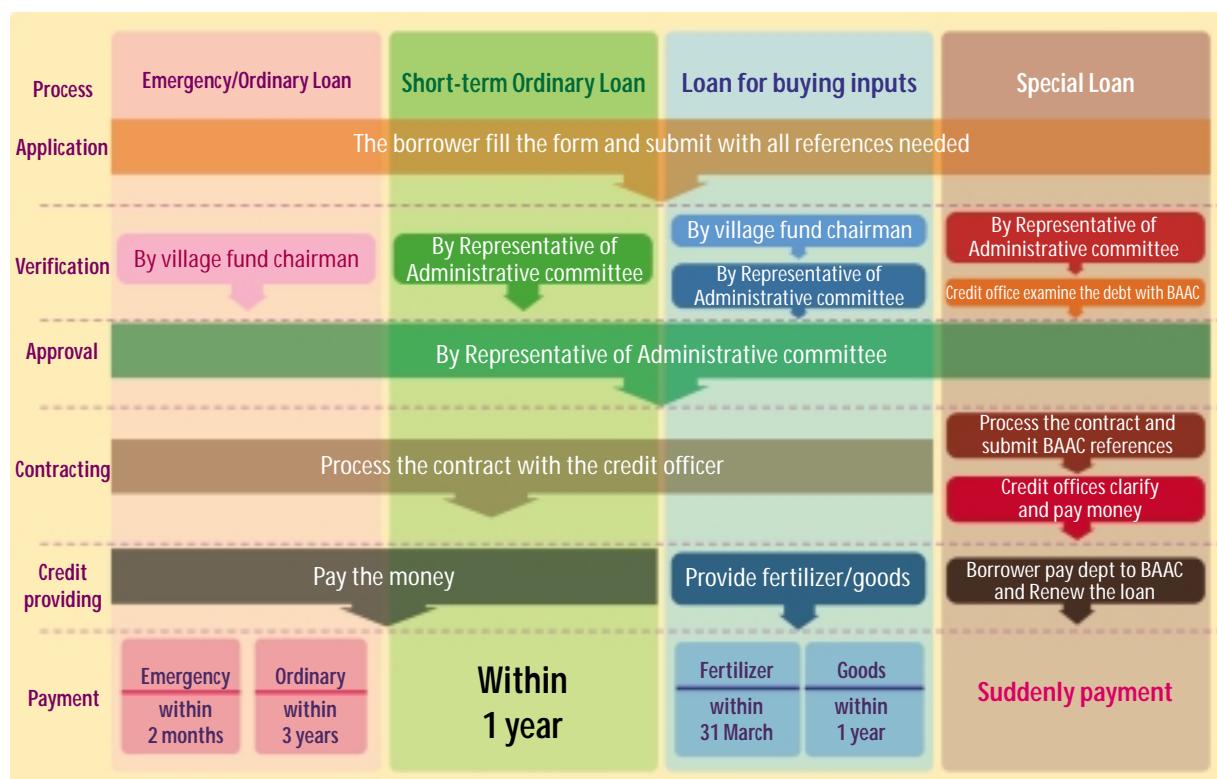
Table 2. Pension details for members of Satja Savings Fund as welfare for the community bank's members

Case	Period of Membership (year)	Member's Age (year)	Pension (THB)
1	10	50-60	400
2	15	45-60	500
3	20	40-60	600
4	25	35-60	700
5	30	30-60	800
6	35	25-60	900
7	40	20-60	1,000
8	45	15-60	1,100
9	50	10-60	1,200
10	55	5-60	1,300
11	60	1-60	1,400

(Source: *Sarng Thor Noi CFI*)

- Credit services are focused on releasing loans for spending on developing members' as well as general public's occupation and living. Applications for loans can be made as individuals or groups. There are six types of loans available for customers with the service system as shown in Chart 6.
 - *Emergency Loan*, is provided to members who possess share capital. It requires 5-10 guarantors. The maximum loan amount is THB 5,000 at a time. The service fee is THB 100 with an interest of THB 84 per time, with the maximum loan period of two months. In case of earlier loan clearance, the members can apply for a new loan immediately.
 - *Ordinary Loan*, is provided to members who possess share capital. Again as before it requires 5-10 guarantors. The maximum loan amount is THB 5,000-50,000 at a time. The service fee is THB 50 per time with an annual interest rate of 8 percent. The maximum loan period is three years. Members are required to pay back for the loan every month, and they can apply for a new loan after half the loan amount has been repaid. The bank will deduct 5 percent of the loan amount to be added up to the respective members' share capital.
 - *Short-Term Ordinary Loan*, is provided to general public who possess a land title with certified assessment price to be used as a guaranty. The maximum loan amount must not exceed half the assessment price. The service fee is 0.5 percent of the loan amount with an interest rate of 9 percent a year. The maximum loan period is one year.
 - *Special Loan*, is provided to general public who are BAAC's debtors and want to repay their debt. Each of them must then apply for a new loan from BAAC to re-pay the community bank. Each loan will be released in the same account as the debt owed to BAAC (principal only) without a fee but with an interest rate of 2 percent per time. The maximum loan period is 7-10 days.
 - *Loan for Buying Fertilizer*, is provided to members who possess share capital and want to buy fertilizer on an installment basis. The loan attracts no fee but charges an interest rate of 9 percent a year. The maximum loan period must exceed the annual account closing date on March 31st of every year.
 - *Loan for Buying Agricultural Machinery*, is provided to members who possess share capital and want to buy agricultural machinery on an installment basis. The loan attracts no fee but charges an interest rate of 9 percent a year. The maximum loan period is one year.

Chart 6. The Credit Services of Sarng Thor Noi CFI



(Source: Sarng Thor Noi CFI)

5.4.9 Potential of Sarng Thor Noi CFI. The business of *Sarng Thor Noi* Community Bank and Enterprise has so far clearly shown that the bank has a good potential of being an efficient community-level financial institution as can be proved by the following indicators: the linkage of community activities, the increase in the number of its members, shares and share capital, its financial status, its business returns and its future plan as detailed below:

- *Linkage of groups, community enterprise, network parties and customers:* The grouping of the farmers in the community to join hands in running local development activities in terms of occupational development and living condition upgrading as shown in Chart 4. With the linkage of these groups' activities that support each other boosts the community's strength and self-reliance to a an extent with the bank as the supporting and coordinating source. In addition, a welfare system covering every group of members has also been provided.
- *The increase in the number of members, shares and share capital:* The significant growth of the bank's business can be proved by the increase in the number of members, shares and share capital. Currently there are 2,392 members, 187,063 shares and share capital in the amount of THB 18.71 million. Details are shown in Table 3.

5.4.10 Financial Status: The growth of the bank's business as detailed in Table 4 shows that current capital, profits and reserve have steadily increased to THB 49,031,353, THB 2,659,724 and THB 1,400,558 respectively in 2013. It made continuous profits except in 2009, when the reserve amount significantly dropped because its largest part was used in buying land and building the bank's new office.

Table 3. The number of members, shares and share capital of *Sarng Thor Noi* Community Financial Institution

Accounting Year	No. of Members	No. of Shares	Share Capital (THB)
2005	1,684	3,221	322,100
2006	1,832	8,426	842,600
2007	2,014	39,983	3,998,300
2008	2,147	71,564	7,156,400
2009	2,197	94,453	9,445,300
2010	2,246	134,277	13,427,700
2011	2,302	181,248	18,124,800
2012	2,376	189,802	18,980,200
2013	2,392	187,063	18,706,300

(Source: *Sarng Thor Noi CFI*)

Table 4. The financial status of *Sarng Thor Noi CFI*

Accounting Year	Current Capital (THB)	Financial Status			Reserve (THB)
		Income	Expenses	Profits	
2007	6,340,909	895,009	421,787	473,221	47,578
2008	19,517,969	4,621,654	3,014,515	1,607,138	559,872
2009	25,224,144	4,282,971	2,842,140	1,440,830	2,061
2010	37,013,555	5,265,463	3,368,438	1,897,025	766,865
2011	42,585,224	5,785,265	3,464,099	2,321,166	956,567
2012	52,582,445	6,335,281	4,216,539	2,118,742	1,188,684
2013	49,031,353	5,345,995	2,686,270	2,659,724	1,400,558

(Source: *Sarng Thor Noi CFI*)

5.4.11 Business Returns. The bank's financial ratio has been analyzed as detailed in Table 5 and the main findings are as follows:

- The analysis of the bank's financial liquidity based on its fiscal budget by using liquidity ratio from 2009-2013 revealed that the bank had its moderate liquidity with its average five-year current capital ratio being 1.77 and average five-year quick current capital ratio standing at 1.78. Its account receivable turnover was changed into cash which took a very long period and average collection period took quite a long due to a large number of its long-term debtors. Meanwhile, the duration of goods distribution could be managed to gradually take a shorter time.
- Based on the analysis of the bank's fiscal budget by using its profitability ratio from 2009-2013 it was found that the bank had its average five-year net profit rate of 36.32 percent. Such high profit rates led to an average five-year return-on-equity rate of 11.29 percent. In 2012, however, the bank made a lower rate of profit against the higher amount of its capital which then resulted in a lower rate of return. In 2013, despite its capital increase compared to 2012, the bank could make a higher rate of profit, leading to a higher rate of return.
- Measurement of the bank's performance based on the analysis of its fiscal budget by using its efficiency ratio from 2009-2013 revealed that the bank possessed a large amount of total assets but could use merely 5.15 percent of them for making returns on its business for the average five-year period. The return on its fixed assets for the average five-year period was 2.03 times whereas its inventory turnover rate for the average five-year period was 5.72 times and its total assets turnover rate for the average five-year period was 0.14 time. This means that the bank was still far from making full use of its fixed assets and total assets for maximum

Table 5. Analysis of the *Sarng Thor Noi* CFI's fiscal budget using its financial ratio

Financial Ratios	Accounting Year					Average
	2009	2010	2011	2012	2013	
1. Liquidity Ratios						
Current capital ratio (times)	1.76	1.72	1.96	1.69	1.74	1.77
Quick current capital ratio (times)	1.74	1.72	1.95	1.68	1.81	1.78
Account receivable turnover (times)	0.25	0.23	0.20	0.17	0.17	0.20
Average collection period (days)	1,460	1,587	1,825	2,147	2,147	1,833
Inventory turnover (times)	7.21	8.27	15.08	19.84	14.38	12.96
Average days sales period (days)	51.00	44.00	24.00	18.00	25.00	32.40
2. Profitability Ratios						
Gross profit margin (%)	68.19	72.56	75.20	66.79	77.12	71.97
Net profit margin (%)	33.64	36.03	40.12	33.44	38.37	36.32
Return on equity (%)	13.03	11.53	10.74	9.49	11.66	11.29
3. Efficiency Ratios						
Return on total assets (%)	5.71	5.12	5.45	4.03	5.42	5.15
Return on fixed assets (times)	4.26	1.17	1.49	1.40	1.83	2.03
Fixed assets turnover (times)	12.68	3.25	3.71	4.18	4.76	5.72
Total assets turnover (times)	0.17	0.14	0.14	0.12	0.14	0.14
4. Financial Ratio						
Debt-equity ratio (times)	1.28	1.25	0.97	1.36	1.15	1.20
Interest coverage (times)	12.41	9.76	6.53	4.09	4.68	7.49

(Source: *Sarng Thor Noi* CFI)

benefits. In other words, it had a surplus of assets. Hence it should improve the operational performance by making maximum use of its assets or reducing its assets.

- Measurement of the bank's debt clearance capability based on the analysis of its fiscal budget by using its financial ratio from 2009-2013 revealed that the bank had a larger part of debt than its shareholders and its debt-equity ratio for the average five-year period was 1.20 times. Most of the debt incurred out of its members' savings deposits which could be drawn any time. The bank's interest coverage for the average five-year period was 7.49 times, which was not quite high. Moreover, its five-year statistics showed that the bank's interest coverage gradually decreased.

5.4.12 Future Plan: The bank's corporate development plan also included in its future business development plan, e.g.:

- Investment in new businesses which requires readiness assessment prior to investment, e.g. buying land in the urban area of Amnart Charoen Province for running villager-market business, community clean drinking-water business, etc.
- Promotion of additional activities on occupational and living-condition development

5.4.13 Summary of the best practices components *Sarng Thor Noi* CFI

The CFI has been established after assessing the existing levels of rural activities and the scope and options for enhanced welfare outcomes through the CFI interventions. It identified the critical intervention spaces and points for outcome efficiency and operational sustainability. Hence the CFI is innovative and target oriented in its operations and outcome levels. It evolves the participative action in financial problem solving among the members. Every household in the operational area of the CFI is a member and hence the inclusion level is full for the system. The community leaders are elected by the members from each of the villages based on their capacity, volunteer records, social respectability

and track record in public life. The CFI have established a wide network for exchange of information, knowledge, experience, capital, production practices and market channels. It proposes an innovative social movement to renew the way of life of the community living. It promotes alcohol free funerals, motivates for enhanced community savings, and return profits to the members. It sells shares to mobilize capital, receives deposits from the public and it has satja saving funds. It provides loans of various sorts to the members to meet their requirements such as emergency loans, ordinary loans, short term loans, special loans as well as loans for agriculture and agribusiness activities. It aims to improve the rural capital formation through providing finances to purchase agriculture implements and machineries which provides long term productivity enhancement for the rural production networks. It multiplies the investment of members through a network of community groups, community enterprises, markets and customers.

5.5 The Case of *Na Koh Sak Saving Community Financial Institutions*

5.5.1 Development of *Na Koh Sak Saving Community Enterprise*. “*Na Koh Sak Saving Community Enterprise*” is a farmer organization which has been established for more than 32 years. The outstanding achievement of the CFI is the formation of groups among its members to raise money and set up a fund. This acts as a means of encouraging saving as a reserve for their families and as a funding source for running their livelihood activities. Saving discipline has been instilled into the minds of the members since their childhood. The community enterprise promotes using H.M. the King’s Self-Sufficiency Economy and Islamic teachings as the guideline for leading their lives. The office of the CFI is located at 37/1, Moo 4, Baan *Na Koh Sak*, *Wawi* sub-district, *Hat Samran* district, *Trang* Province.

Most farmers in *Wawi* sub-district are poor and lack capital to run their business occupation. They are constrained by accessibility to funding sources and convenient transportation and public utilities. At that point the Tambon Development Officer, proposed establishing a saving group for rural development. The interested farmers, therefore, joined hands in forming saving group for production carrying out two main activities. At first they formed *Satja* saving service with THB 10 per month and loan leasing service for investment in occupation and later by using the loan applicant’s and guarantors’ amounts of money in their savings passbooks, the loan amount was released. Personal guaranty was also being used for release of the loans.

5.5.2 Formation of saving group: There was one more initiative to form the savings group as the former group was not functioning well. They could gather 45 member and set up “*Na Koh Sak Saving Group for Production*” on February 1, 1982 with the objectives to: (i) promote saving, (ii) assist one another, (iii) create love and esprit de corps and (iv) abide by five moral principles, i.e. honesty, sacrifice for the whole group, common responsibility, sympathy and trust. Twenty members were chosen as the executive committee. The group’s main activity was *Satja* saving service. Each member had to deposit THB 10 per month on the first day of each month at the group’s temporary office.

The saving group has moved to its new office at the present building since 1997. The saving group’s business has been running on the five moral principles which is the reason why it could carry on its activities for such a long time along with its gradual growth and development as well as its larger membership and current capital base. The DAEO helps the members of the CFI to develop their skills on agricultural production system and also encourages the group’s registration as a community enterprise under the name “*Na Koh Sak Saving Community Enterprise*” so that it could run its business legally based on community enterprise promotion Act B.E. 2548.

5.5.3 Performance: *Na Koh Sak Saving Community Enterprise*’s performance had been widely recognized by the society and public organizations as proved by its winning of numerous awards. Its enterprise grew with expanded activities alongside with financial service as its main business. Its supplementary activities included marketing demonstration center, rubber plantation, and agricultural

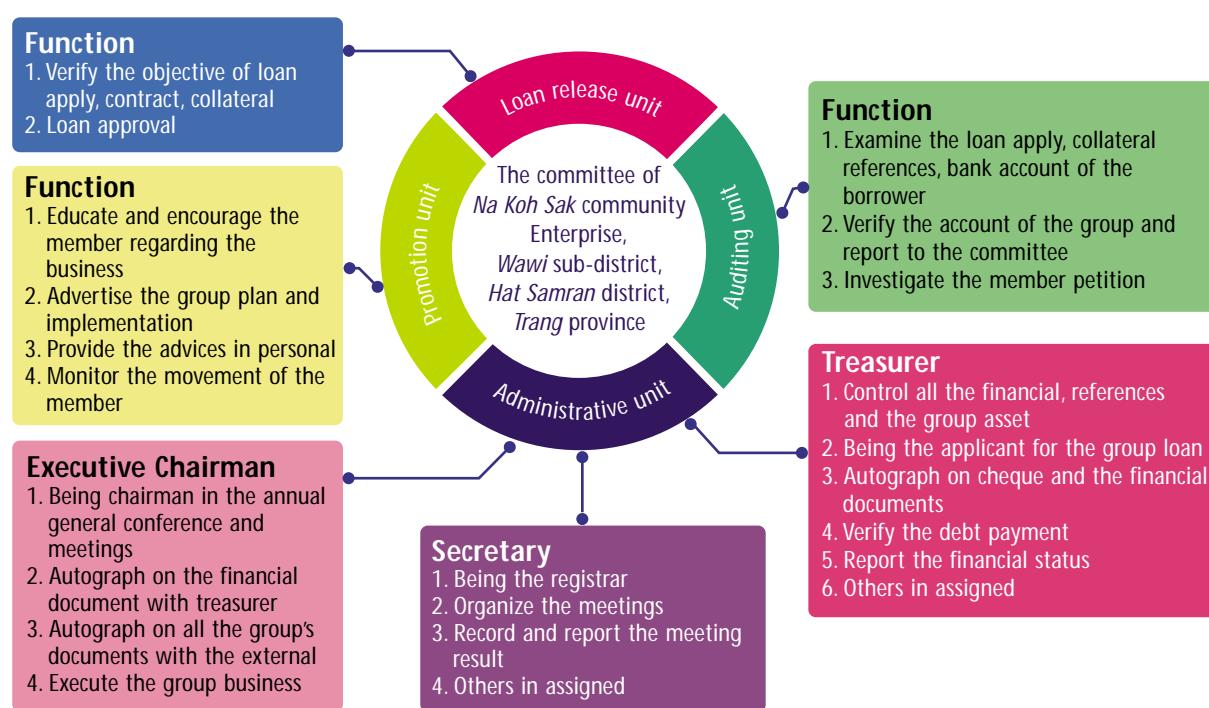
cooperative distribution center for BAAC customer marketing, development activities of Muslim housewife groups, etc. In addition, more interested people from other district e.g. *Muang, Kantang, Palian* and *Yaan Ta Khao* district of *Trang* province applied for its membership. By November 2013 its total membership was 666 persons, consisting of 21 groups of people from outside *Wawi* sub-district, with a total deposit amount of THB 26 million, a total loan amount of THB 10 and a total current capital amount of THB 29 million.

5.5.4 Leadership Roles in the Development of *Na Koh Sak* Saving Community Enterprise:

Na Koh Sak Saving Community Enterprise is an agricultural organization cordially run by Muslim and Buddhist members in the ratio of 80:20, respectively, and their relationship in the group is kinship-like, which is quite a unique feature of harmonious combination.

- The vision and determination of the leadership in the development direction, setting up rules and regulations is interesting to learn. The leadership places emphasis on systematic and continuous accounting and devotes itself to work for the group's benefits
- The saving group committee is elected by members on the annual general conference for one year term. The management is divided into four divisions: administration, audit, promotion and loan releasing. They can appoint their advisor as deemed appropriate as shown in Chart 7

Chart 7. Roles and Functions of the Committee of *Na Koh Sak* CFI



(Source: *Na Koh Sak* CFI)

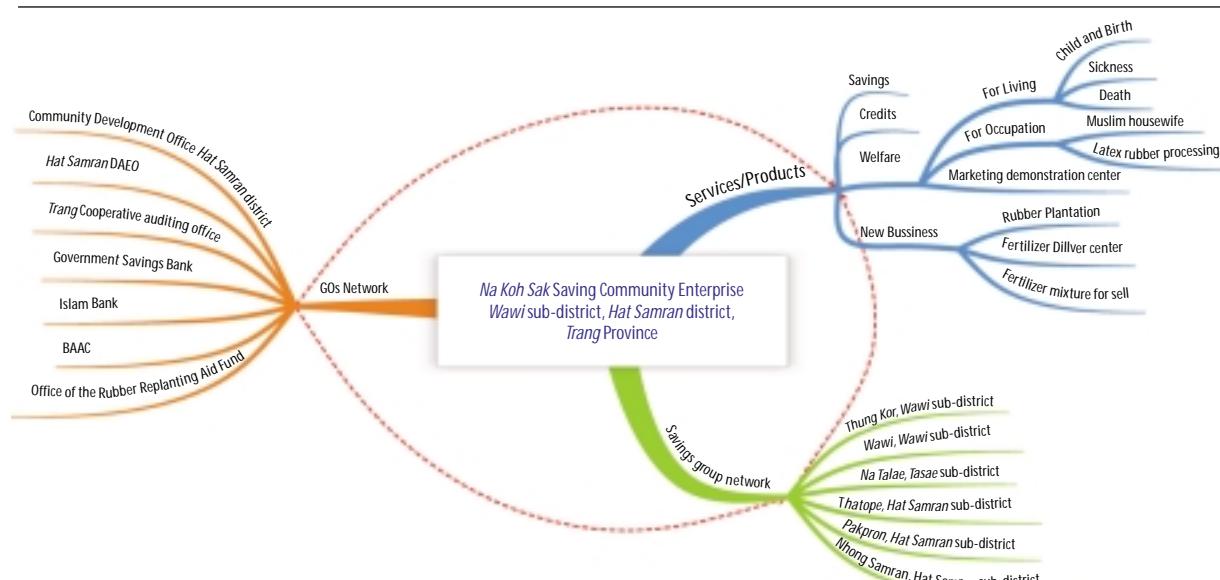
- The committee's authority and responsibility are as follows:
 - Hold the committee meeting at least once a month
 - Consider membership application
 - Consider members' deposit service and decide interest rate
 - Determine loan amounts for members and loan guarantee
 - Allocate percentages of dividend, average return on loan, emergency reserve money, public fund and running costs
 - Keep an account book, registration records and related documents
 - Sign the members' financial documents

- Fix the savings group's expenditure not to exceed 20 percent of its total income
- Sign the members' loan application forms upon approval of the loan committee
- Be the savings group's representative in bringing lawsuits against persons and execute its financial activities
- Consider draft amended regulations and agreements before proposing to the general meeting
- Fix the general meeting date and propose fiscal budget and annual report
- Carry out other activities according to the general meeting's resolution
- The person who initiated setting up the savings group for production has been recognized as model development officer of *Palian* district who had devoted himself to *Na Koh Sak* community development throughout his term in *Wawi* sub-district. He demonstrated how to keep accounting of the saving group. He still occasionally visits the savings group. Network parties support and help strengthen the savings group's financial, service and occupational development activities as shown in Chart 8
 - *Hat Samran* District Community Development Office supports setting up the saving group, transfer knowledge and gives advices on fund management, accounting, book keeping and community development
 - *Hat Samran* District Agricultural Extension Office transfers knowledge and provides advice on promotion of grouping for agricultural occupational development, product processing development, agricultural fund and community enterprise
 - *Hat Samran* District Cooperative Account Audit Office transfers knowledge and provide advices on finance and accounting
 - BAAC, *Hat Samran* branch grants funding support and production materials to the savings group members who are its customers
 - Islamic Bank, *Trang* branch also provides funding support
 - Government Saving Bank, *Tung Yao* branch, *Palian* district and *Yaan Ta Khao* branch, *Yaan Ta Khao* district also endow with funding support.
- Office of the Rubber Replanting Aid Fund, *Palian* district transfers knowledge and provide advices on the promotion of rubber planting. It also provides production material (e.g. fertilizer) for the savings group members which grow rubber
- *Hat Samran* Police Station sends its policemen to be stationed at the savings group's office for safety during its two days of monthly financial services (the last day of the month and the first day of the next month)
- *Trang* Provincial Commerce Office, Department of Internal Trade assigns its officers to give advices on running *Wawi* marketing demonstration center
- Local Government Units consists of *Wawi* TAO and *Trang* Provincial Administration Organization support for the production materials and budget for farmers' occupation development, welfare, study trips, and activities for public benefits
- Saving group network with good cooperation and exchange of experience in savings-related activities, consisting of:
 - *Thung Kor* savings group, *Wawi* sub-district
 - *Wawi* savings group, *Wawi* sub-district
 - *Na Talae* saving group, *Talae* sub-district
 - *Nhong Samran* saving group, *Hat Samran* sub-district
 - *Thatope* saving group, *Hat Samran* sub-district
 - *Pakpron* saving group, *Hat Samran* sub-district

5.5.5 Success Factors of *Na Koh Sak* CFI: Beside the clear objectives of creating the saving groups from the outset along with the vision "To be the community's financial institution and learning source on which its members can rely on and build their good and sustainable quality of life", the key factors that have led *Na Koh Sak* Savings Community Enterprise to its long, continuous success are as follows:

- Strong leadership, ready to sacrifice for the common benefits, being strict to financial and managerial procedures who gains members' trust, recognition and confidence
- The savings group committee members are honest, patient, devoted and not giving up to obstacles. Each of them keeps their own household account to set good example to the members
- The savings group committee and members observe the five moral principles, consisting of honesty, sacrifice, responsibility, trust, and sympathy. The committees must have the first three principles, in particular, whereas the members must have the latter two as the minimum
- In addition, the savings group also adopts Islamic principles to its business operation
- Has beneficial rewards to members and community belonging to activities categorized. The categories in 2013 are: reserves, operating funds, public funds, dividends per sale numbers dividends per membership duration, correspondingly at the rates of 20 percent, 10 percent, 10 percent, 5 percent, and 55 percent respectively. The public funds are divided as follows:
 - Donations to the *Hat Samran* District mosque
 - Supporting annual scholarships to students of *Wawi* sub-district
 - Royal mangrove planting project in *Wawi* sub-district
 - Community forest planting project in *Wawi* sub-district
 - Youth camp, in *Wawi* sub-district
 - Internet for education in *Wawi* sub-district

Chart 8. The Networking of *Na Koh Sak CFI*



(Source: *Na Koh Sak CFI*)

- The members have faith in the organization and participate in its operations, both directly and via representative/committee, by gathering people to think, plan, operate, monitor, and share benefits through 4 channels
- Participating in the committee election as a representative in presenting rights, a coordinator, operator, a deliverer of suggestions and issues of membership, along with acting as a bridge between members and the organization
- Participating in choosing the direction of the organization's development by participating in the analysis of the organization, deciding its vision and planning the community enterprise's development activities, activity plan, supervising plan, and risk management plan

- Participating in preparing newly hired employees, by volunteering to be trained and learning from doing activities, in place of older and aging employees. This includes providing financial service to members during opening hours, arranging committee meetings, annual meetings, marketing demonstration center, study visit to exchange information and experience and participating as members of other development activities
- Participating in the annual meetings, of which all members are able to share their opinions and issues in order to work together for a solution and develop towards future needs of members. In addition, it serves as a channel of participation for members to solve issues
- A systemic operation as seen from the organization's formulating of an organization development plan, a risk control and management plan, and an issue resolution plan. This shows that the organization has an administration that is clear and transparent. The stakeholders are able to participate in the operations, monitor them, and provide accountability to the organization. Moreover, there is a system which is used to increase the efficiency of the management and service system, such as:
 - Using modern multimedia technology, such as computers, software, internet, and communication via social media
 - A system to evaluate the capability of the community enterprise to preserve standards
 - An evaluation system for annual organization planning
 - A system to report the monthly results of operations to the *Hat Samran* community development office, Department of Community Development

5.5.6 Service Business of the *Na Koh Sak CFI*: The operations of the *Na Koh Sak* Savings Community Enterprise comprise of its production activities as a business activity as well as a support to a well-being of members. However, at present, there remains a strategic business/product development to service members in four categories – savings, loans, welfare, and investing in new businesses

- **Savings:** Attract prospective members to collect money and deposit it by making an “oath or *Satja* (in Thai)” and mobilize members’ deposits into “funds”. The members are then rewarded with accumulated deposits and interests. However, since Islamic teachings do not allow the collection of interest, there is instead a system of “dividends” in place of “interest”. Accumulated savings are charged to the price of shares at THB 100 per share. The amount of dividends depends on the turnover of the funds
 - *Oath deposits*: A monthly deposit without a set limit depending on the member’s capability. However, the deposit must be the same amount every time, which can be changed only on 1st January of every year. The deposit cannot be withdrawn unless the member is resigned.
 - *Special deposits*: A deposits without limit, does not have to be done monthly, and can be withdrawn if necessary
- **Loaning:** Providing products and services to members for use, with a contract of conditions and deadline for repayment. In this case, the products and services of the Community Enterprise are “financial loans” and the members are granted dividends. There are four types of loans
 - *Common loan 1*: provides loans to a member of not more than the oath deposit and special oath deposits. If they wish to avail a loan more than the amount in their account, they must find another member as collateral whose oath deposits account can cover the loan. Repayment for the loan must be at least THB 100 with a fee of THB 1/1 percent every month. If they are unable to pay then they are fined THB 10 per month, and being unable to pay the fee they will have to pay an additional 20 percent of the original fee. The loan duration is one year, and it can be extended for an additional year.
 - *Common loan 2*: Provides loans to member at a non-set amount, but it must not be more than the amount of the oath deposit and the special oath deposit. If they wish to avail loan

more than the amount in their account, they must find another member as collateral whose oath deposits account can cover the loan. Members must pay 10 percent of the total loans every month with no fees for one year. If it is unpaid they will be fined for 10 percent of the total loan. If the loan is more than THB 50,000, the loan duration can be set for two years. If the loan is not cleared then the duration can be extended for one more year. This loan will not have dividends by the end of the year.

- *Special Common loan:* Providing loans of not more than THB 100,000. It uses oath deposits and special oath deposits as collateral if the amount of money in the account is less than the needed loans that requires mortgage securities. In addition, the loan cannot be more than half of the mortgage security amount. The duration is one year, and if it's overdue then they will be fined by the amount of the remaining loan.
- *Emergency lending:* Lending money to member in case of emergencies outside operating hours at a low amount. The duration is one month without fees. The loan will be made in accordance with members' financial history, savings amount, and reasons for loaning.
- **Welfare:** Providing service to members and the community to respond to the basic needs for a good life. It is to provide social security which helps people the same as a life insurance. The capital for welfare comes from three sources: subsidy from the *Wawi TAO* depending on the annual financial situation, donations from the community or organizations in the community such as savings community and subsidy from members. The amount of money used in welfare can change the rate of support via consensus of a major meeting. Welfare is divided to three categories:
 - Welfare in which members pay subsidies of THB 100 per year. They will receive welfare in cases of newborn child payment of THB 300, Hospital rest at THB 100 per day for not more than 5 days in a year and for death it stands at 10 times the subsidy amount, but not more than THB 10,000.
 - Welfare in which members pay subsidies of THB 1 per day (THB 365 per year). They will receive welfare in cases of new born child a payment of THB 1,000, Hospital rest at THB 300 per day for not more than 5 days per year or for Death the first-year members get THB 2,000, Second-year members get THB 4,000. Members of 5 years and above get THB 10,000. Accident, injury, disability will get THB 3,000 per year for not more than three years and in case of Fire it is paid by the extent of damages but not more than THB 3,000 per case
 - Other welfare support society gets considered every year, such as granting of scholarships, supporting the elderly, the disabled, and the underprivileged.
- **Investment in new businesses**
 - Purchase of three rubber plantations plot of 16 Rai at THB 6,250,000 at *Tungwaa* district, *Satun* province. It is a long-term real estate investment purchased from a member with financial problems
 - Selling good-quality fertilizer to members by buying their own single fertilizers for mixing, or buying a good-quality organic fertilizer and sell them at a price lower than the market rate
 - Providing land rent as a hub to distribute fertilizer to members who are rubber farmers, and customers of the BAAC by taking deposits of fertilizers of not less than 700 ton per year, by which revenue will come from depositing the fertilizer or storage renting fees and the difference of selling the fertilizer to members at THB 15 per bag

5.5.7 Business capabilities: The business operations of *Na Koh Sak Saving Community Enterprise* has the clear aspects of being a communal financial institution, such as networking of the community's activities, increasing members and shares, financial condition, business compensations, and future planning.

- **Networking of the community's activities:** As elaborated in "The individual's duty to improve the business of the *Na Koh Sak* Saving Community Enterprise in Chart 7 and 8, it can be seen that the organization has received support, exchanged information and learning, while having good relations with network associates both inside and outside the community, including their support for business in a good and stable direction.
- **Growth in membership and improvement of financial status:** The organization has expanded its membership from the initial 45 to an outside district coverage to *Wawi* sub-district and *Hat Samran* district, (such as the districts of *Yaan Ta Khao*, *Palian*, *Kantang*, and *Muang*). Findings indicate that 32 percent of the members outside the district are relatives of the members of the people from the *Wawi* sub-district. From Table 6, it can be observed that in 2009 with a membership of 678, there was an unstable fluctuation in the number of members due to some members resigning and moving out of the *Hat Samran* district. As for the finance of the organizations over the past 5 years, there is an increase in current capital, net profits, and reserve funds. In 2011, there was a decline in net profits since it was partially used to invest in the real estate, which cut down the profits to be used for the reserve fund. For business return or financial compensation, an analysis was done for four factors of financial compensation from 2009-2013: liquidity rate, profit-making ability rate, operating efficiency rate, and financial structure rate. The analysis results can be seen in Table 7.

Table 6. Memberships and financial status of *No Koh Sak* Community Enterprise

Year	Member	Financial status (expressed in THB)				
		Current capital	Income	Expenses	Profit	Reserve
2009	678	15,432,640	1,232,928	1,069,406	163,522	320,355
2010	710	20,498,109	1,232,928	1,148,476	84,452	404,807
2011	782	25,775,288	1,104,379	1,094,933	9,447	114,254
2012	776	26,479,135	1,275,846	1,159,685	116,161	319,053
2013	724	26,866,824.19	832,919.01	687,192.00	145,727.00	464,780.00

Note: Year = Accounting Year

(Source: *Na Koh Sak CFI*)**Table 7. Analysis of the fiscal budget using the financial ratio of *No Koh Sak CFI***

Financial Ratio	Accounting Year					Average
	2009	2010	2011	2012	2013	
1. Liquidity Ratio						
Current capital ratio (times)	1.61	1.47	1.39	1.12	1.16	1.35
2. Profitability Ratio						
Net profit margin (%)	14.89	8.24	1.07	11.39	12.64	9.65
Return on equity (%)	51.04	20.86	8.27	36.41	31.35	29.59
3. Efficiency Ratio						
Return on total assets (%)	1.06	0.41	0.04	0.44	0.54	0.50
Return on fixed assets (times)	–	–	–	1.86	2.33	2.10
4. Financial Ratio						
Debt-equity ratio (times)	46.98	49.64	224.60	81.99	56.81	92.00

(Source: *Na Koh Sak CFI*)

5.5.8 Ratio Analysis

- **Liquidity Ratio:** The analysis indicates that the organization does not have much of medium-level liquidity. This can be seen from an average five-year capital ratio of 1.35 times and the decrease of liquidity after the purchase of the rubber estate in 2012.

- **Profitability Ratio or Profit-making ability:** From the analysis, it was found that there was an average five-year net profit rate of 9.65 percent which is not considered to be high. When taking the investment returns of the owner into account, it can be seen that the organization does not have the investment fund for conducting operations, but instead uses 20 percent of annual profits for the reserve fund. Putting the reserve fund into the account, the rewards of the organization's operations over 5 years is at 29.59 percent which indicates that the organization's profit making efficiency is good. However, there is still a marginal decline of net profits as the years go on, hitting a very low point in 2011 when the reserve fund was used to invest or on buying a rubber estate.
- **Efficiency ratio:** The analysis shows that the organization lacks efficiency in making profits from using its total assets for their operation. The organization has a great number of assets, but in the five years its utilization for business returns forms only 0.50 percent. Hence, it can be seen that the organization uses its fixed assets to create low profits. With the low turnover from the fixed assets, businesses are either not able to efficiently get into high profits, or it possesses much more assets than what is actually needed.
- **Other Financial Ratio:** From the analysis, the organization is shown to have more debt than that of the members, with the ratio of debt to investment over five years at 92 times. Most of the debts come from the special deposits which can be withdrawn anytime, leaving the organization with no funds and with only the reserve fund from the 20 percent of net profits. It can also be observed that the organization is not able to efficiently pay medium/short-term debts (special deposits and outside personnel deposits), and is also not using its assets efficiently. Thus, the organization should find a way to use its assets to its maximum benefits. However, to do so, the organization must consider the liquidity of the business, since if members were to make a withdrawal from their savings, the organization must be prepared to have cash ready for them.

5.5.9 Future planning: The organization still needs to hold onto the objective of a saving organization that collects savings so that families have a reserve fund to spend without shortage and collect inheritance for future generations. In addition, they must hold on to the good conduct of Muslims as instructed by the Islamic teachings, which Buddhist members can also be accepted. This can be achieved through life-improving activities, which does not heavily focus on members doing business but instead helping one another.

5.5.10 Summary of best practice elements of *Na Koh Sak CFI*

It is essentially a farmer based community finance institution. The members raise funds through savings and the same is loaned for financing productive enterprises within the community system. It follows the self-sufficiency approach as well as the Islamic teachings. The farmers in the local area joined together and formed the CFI with the Satja approach of savings (THB 10 per month). The same savings has been loaned to the local community enterprise. It promoted agriculture through the creation of demonstration centers, market systems and input distribution network. Along with oath deposits it promoted special deposits which are unlimited and with flexible withdrawal options. At the same time it provided loan products to individual members with a timeline for repayments. It provides two types of common loans with different sort of collateral requirements depending on the nature of operation. Special loans are also provided to members on oath deposits and collateral. It also has emergency lending for short durations. It invests in new businesses for enhancing its cash flows.

5.6 *Thaweesook Deposit Product*

5.6.1 Background: The demographic pattern of Thailand shows an aging society. The country has experienced constant decline in birth rates followed by an increased life expectancy and health indicators. For instance, in 1955, average life expectancy was 71 years compared to 74 years in 2014. The

number of people in the age group of 60 and above account for 10 percent of the population in 1960 while it has increased to 14 percent in 2014. It is observed that the senior citizens have no life assurance or welfare cover (social security net). This lag in social security net becomes more acute given the fact that approximately 24 million of the populations are farmers. The banking and financial system find it a high risk group to finance for any developmental activity without collaterals.

Thaweesook Deposit is created to enable farmers to be within the bank consortium and have reasonable savings. Initiated as one of the most important strategy of BAAC, this reflects the vision of the bank as a life protection plan for the farmers to secure their future well-being when they get old. BAAC encourages the Philosophy of Sufficiency Economy of His Majesty the King as a foundation to guide an appropriate conduct for sustainable balance of life by fostering the habit of continuous savings and to ensure guaranteed welfare to strengthen the economy. In turn this will strengthen the relationship between the bank, the farmers and their families as secured consortiums to rely on sustainable savings for sustainable life. The bank is also a funding source to reduce dependence on foreign investment in connection with the obligations of BAAC to develop the rural areas.

5.6.2 Definition: *Thaweesook* Deposit is an innovative savings product for farmers with special interest rates (higher than the market rate). This also includes other special benefits for example loans, withdrawal etc. to encourage farmers to save money to spend when they get old.

5.6.3 Objectives: To encourage farmers to imbibe the habit of savings when they can work and to spend the money when they get old this will lead to a sustainable life for them. According to the philosophy of 'Sufficiency Economy' as stated by the His Majesty King of Thailand, there is a requirement to abide by some reasonable principles for good self-immune system to a balanced, sustainable lifestyle. It encourages farmers to enjoy the benefits and welfare provisions of the BAAC as patrons for a better quality of life. It supports the implementation of the bank's vision policy to enhance the farmer's quality of life. The BAAC supports the welfare funds of the existing communities by determining a special interest rate in accordance with the announced interest rate of the *Thaweesook* Deposit to support the implementation of the Community Welfare Fund for a joint knowledge and development exchange.

5.6.4 Eligibility for Membership of *Thaweesook* Deposit: As a welfare enhancer for the people, the *Thaweesook* Deposit follows certain norms and standards in its operations and procedures. The following are the requirements to become a member of the bank.

- Membership qualifications: a BAAC registered client with 20-55 years of age
- Savings Plan: Holds *Thaweesook* Savings Account with 3 savings options:
 - Option 1:* Savings of THB 1,200 per year (approximately USD 40)
 - Option 2:* Savings of THB 6,000 per year (approximately USD 200)
 - Option 3:* Savings of THB 12,000 per year (approximately USD 400)

To open an account, the client must make a full deposit according to the selected savings plan option given above. The customers need to deposit the same amount annually until the maturity age of 65 years. Members can deposit the amount in their savings account (during the period of April 1 – March 31 of each year) and transfer the amount to the *Thaweesook* Deposit scheme at the end of the year. Members are also allowed to make advance deposit only once in a year.

5.6.5 *Thaweesook* Deposit Publicity: BAAC has prepared manuals, brochures, leaflets, posters for distribution through all its branches on the various benefits of the *Thaweesook* Deposit Project. This publicity is helping the farmers in the deep rural areas to learn and understand the importance of this scheme and benefits of this fund.

5.6.6 Membership Benefits: The members receive special interest rates as announced by the bank from time to time. The interest is credited to the account twice in year. The other benefits are as follows:

- Receive increasing benefits from continuous savings
- The principal is returned upon maturity of 65 years
- Children of the members have the opportunity to receive a scholarship from the "Thaweesook Deposit Project"

5.6.7 Thaweesook Deposit Performance. The scheme was launched in April 2007 and made steady progress during last 8 years. As per the available figures as on 31 March 2014 the number of clients participating in this scheme were 1.28 million and the total deposits surpassed THB 6,270 million (Table 8 and Figure 3). It is also very interesting to observe that on an average 64 percent clients are continue to maintain their accounts. As on 31 March 2014, the cumulative members of eligible clients crossed 10,250 who received the benefits of compensation, new child born, funeral aid and medical expenses from this scheme for an amount of THB 75.62 million (Table 9).

Table 8. Performance of Thaweesook Deposit Scheme (2007-2014)*

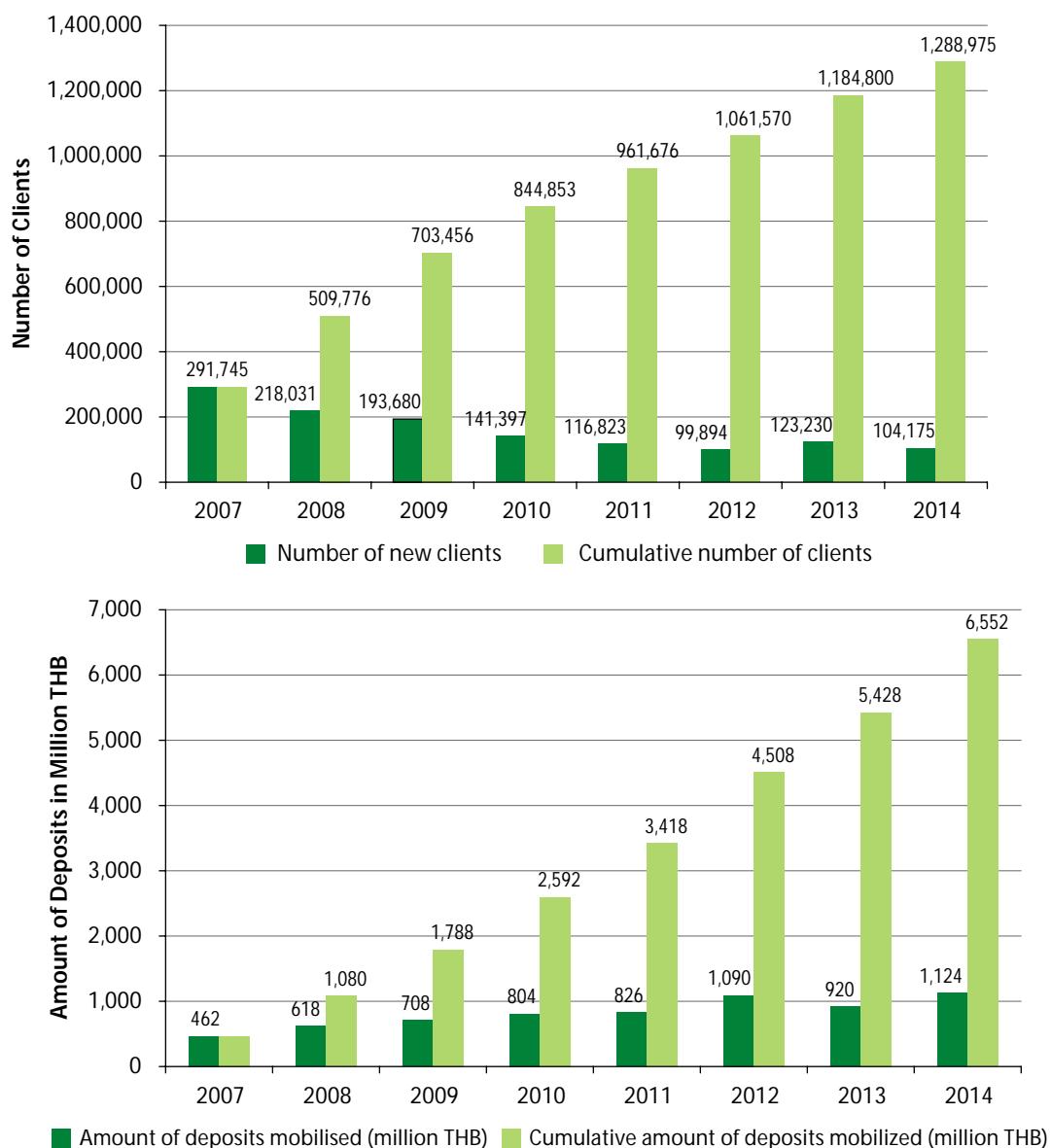
Performance parameters	2007	2008	2009	2010	2011	2012	2013	2014
Number of new clients	291,745	218,031	193,680	141,397	116,823	99,894	123,230	104,175
Cumulative number of clients	291,745	509,776	703,456	844,853	961,676	1,061,570	1,184,800	1,288,975
Amount of deposits mobilized (million THB)	462	618	708	804	826	1,090	920	1,124
Cumulative amount of deposits mobilized (million THB)	462	1,080	1,788	2,592	3,418	4,508	5,428	6,552
% of client continued with the scheme	NA	64.48	60.43	59.29	61.23	70.21	59.23	59.66

* Figures are as on 31 March (Fiscal Year)
 (Source: BAAC Deposit Department Report)

Table 9. Accumulated benefits provided to eligible savers under Thaweesook Deposit (As on 31 March 2014)

Benefits	No. of Members	Amount (THB)
1. Compensation	1,096	55,812,000
2. New Born Child	5,722	2,861,000
3. Funeral Aid	3,307	16,867,000
4. Compensation on medical expenses	132	77,500
Total	10,257	75,617,500

(Source: BAAC Annual report 2014)

Figure 3. Thaweesook Deposit Performance

(Source: BAAC Annual report 2014)

5.6.8 Key Success Factors

- Strong commitment of the management and staff of BAAC in addressing this issue
- Prolonged and close relationship between BAAC's staff and client farmers
- Deep understanding of its clients
- Effective communication and public relation
- Tangible benefits: upon the maturity age of 65 years, the member shall receive special benefits from continuous savings according to terms under the bank conditions except for personal accident if the age exceeds 75 years

5.6.9 Best practice elements of Thaweesook Deposit

This financial system caters to the aging population in the country side who are mainly farmers and farming communities. Given the fact that there is no strong social security net prevailing in the rural areas, it establishes a saving and future well-being for the senior citizens. It links farmers the bank

consortium though savings. The CFI has a life protection plan to security the future well-being of the farmers. It provides multiple saving options and plans with respective returns and dividends. As per the plans the farmers have to continuously save as per the plan chosen by them up to the age of 65 and later receive the regular returns to safeguard the rest of their life. The CFI supports the welfare funds of the existing communities by determining a special interest rate in accordance with the announced interest rate of the *Thaweesook* Deposit to support the implementation of the Community Welfare Fund for a joint knowledge and development exchange.

5.7 Summary of Common Best Practice observed from the cases studied

The case studies analyzed and detailed above is indicative of the best elements of financial inclusions from various social and economic angles for its replication in wider contexts. The common best practices followed in all the cases have been that each of the financial services are targeted oriented and specific in focus and service deliveries. For instance the purpose and focus of the financial interventions varies from the enhancement of rural entrepreneurship and agriculture development through the empowerment of women to the provision of a social security net for the aged population. The modes and the relations of operation across this community managed financial systems makes it unique for adoption and replication in specific contexts and situations with suitable modifications and polishing.

One of the main characteristics of these community finance institutions is that they are all community driven and democratically managed. The members thereby play three roles in one – the owner of the institutions, clients of the system and also manage the institutions. This makes the effectiveness of the institutions in three different formats. First of all, there is an effective and constant interaction between the institutional representatives and the members for the welfare programmes as well as the innovations in the delivery of service mechanisms. Given the members and the administrative officials belong to the same locality, the interactions and communications channels are effective. Secondly, the members receive inputs for their livelihood enhancement activities from the community institution which makes them to determine the operational efficiency and the monitoring of the operations. Thirdly, the members elect their representatives to run and manage the activities of the community financial institutions. This three tier structure of the community financial institutions makes the member controls highly applicable and hence a pro member programmes agenda and the deliveries of services accordingly.

Another significant feature of the cases analyzed above has been the state patronage and the support from the national financial institutions. For instance the role of BAAC in the cases explained above are very significant in terms of providing the base capital and establishing systems in place and subsequently handholding the operations of the community financial institutions. This in a sense takes care of the government obligation of providing the needful livelihood support to the rural communities. The best learning therefore is that strategic stake holder partnerships are vital for the community financial institutions to grow and sustain.

It is important to mention that the demand driven and market based financing options proved to be more successful compared to the supply side management of the financing for development activities. The community finance institutions in this sense are the decentralized financing model whereby the local needs and potentials are identified and accordingly demand is being generated for the financial institutions to establish its relevance, increasing scope and thereby a sustainable demand driven financing structure. The other qualitative supporting elements of the institutions are evident from the individual case analysis like the honesty, commitment and truthfulness of the leaders who take the community institutions forward. However, it can be seen from the case studies that once systems are in place the above elements can find its roots for growth and sustainability of individuals and institutions.

CHAPTER 6

Conclusions, Policy Recommendations and Way Forward

6.1 Conclusions

This report in a systematic frame of analyzing the effectiveness of financial institutions establishes the scope of community empowered financial inclusion models. Hence the best practices are documented for its replication in wider contexts. Consequently it explored the prevailing literature on the evidences of such systems and also carried out primary level in-depth investigations into the operational patterns of specific community driven institutions to arrive at the best and replicable practices which are self sustaining. Accordingly it has brought out the system dynamics and the interactions across social and economic variables that enable the scaling of such institutional models in wider contexts.

The review of literature (from both the published and unpublished sources) has established the first level of evidence on the scope of financial innovations in providing sustainable rural finance (services). It pointed out to a number of successful and not-so-successful government interventions in the credit markets and community driven financial systems. A distinct lesson that came out from these experiences is the importance of community driven systems and the providing the financial institutions a greater role in rural financial markets. The government continues to play the role that it alone can effectively play, that of providing a policy and regulatory environment conducive to sector-wise participants in the market. This is however proved not sufficient to make a difference. Experience shows that financial institutions can lend and provide a variety of other financial services to areas or clients wherein risk can be properly assessed and managed. Empowering the community and enabling them to perform the roles of financiers can reduce the risks significantly.

As the case studies indicated community empowerment in financial management, provision of credits in a joint liability framework and credit enhancements through loan guarantee and risk protection schemes (like micro-insurance) play a critical role in addressing financial access and its perceived risks simultaneously. The best practices in sustainable rural finance that are encapsulated in the case studies are really different types of financial innovations, which have been instrumental in providing the excluded segment of the population with access to financial services. It establishes the scope of community financial institutions in catering to the various social segments meets its financial requirements and create a viable and responsible usage of such funds for welfare enhancement and standard of living improvement. It further conveys the scope of such models in consumption smoothing, investment promotions, risk reduction and protection of families and individuals from catastrophic losses. The handholding of government agencies makes the credibility of community institutions and for its expansion.

The specific instances of the case studies discussed in this report provide insights into a rich menu of best practices in rural finance in Thailand which are worth and suitable for other countries to follow. One important observation in this regard has been the increasing emphasis on providing various types of financial services to the members and community by the system and not on credit provision alone. This makes the success pattern possible in an innovative frame of rural financing. Rural financial institutions are concerned with outreach, an adequate fund base, cost recovery and responsive financial products and services. The case studies indicate that attaining these objectives is highly feasible with the use of financial innovations, described as product, process and institutional innovations.

6.2 Policy Recommendations

In the light of the above, the following recommendations are made, which essentially reiterate specific inferences drawn from the case studies:

- Tailor made savings products with added features (as in case on *Thaweesook* Deposit product of BAAC) will attract more savings in the rural areas
- Establishing community financial institutions (CFIs) at rural areas help to reduce the burdens on the banking system to open brick and mortar branches
- Intensify efforts to persuade the commercial banks to participate in the agricultural lending programme partnering with the CFIs
- As the CFIs are playing the role of the Microfinance Institutions in Thailand, there is a requirement to develop strong monitoring and evaluation system and institution for the existing CFIs either by the Bank of Thailand (BOT) or by the independent body created by the ministry of finance
- The mature CFIs now need to develop more professionalism by inducting Information Technology (IT) and simplify the loan processing system
- As CFIs have proven to be a very successful tool for streamlining the rural finance, revival packages is necessary for the not so good functioning CFIs and provide professional support
- Linking the CFIs with the mainstream banking system will help them to support the rural entrepreneurs who need bigger loan size to upgrade the activities and implement the innovations
- Develop and implement a more strategic information/communication plan for the CFIs at the National level to maintain a common standard for them
- Capacity building of the CFIs on various aspect of financial management, Information technology, Monitoring and Evaluation and other related aspects will build a strong system and reduce the probability of their failure to serve the rural population in Thailand

With the rate of access to financial services rather high in Thailand, the country study found that over 90 percent of adult population has saving accounts, while only 25 percent of adult population has access to credit services. Even BAAC outreach is over 90 percent of farm households. This constitutes to approximately 30 million people throughout the country as BAAC is mandated to provide credit services to farmer households. As such, there are millions of people who are yet unserved in any of the formats. The RGT and BOT have developed National Strategy for financial inclusion under the technical Assistance of ADB. In line with the national strategy for financial inclusion, BAAC adopted this strategy and started implementation of CFIs. The mission is to develop the existing village funds to CFI. Some CFIs are under the auspices and support of GSB.

A study by the World Bank (*Boonperm et al., 2012*) reveals that Village Funds (VFs), unlike other financial institutions in Thailand, has shown no internally-driven organic growth. Four out of five VFs do little more than allocate loans from their available pool of funds at the beginning of the year, and collect the money with interest at the end. The constraints are mainly on the supply side. VF cannot operate across village lines, which is inherently limiting. Most of VF committee appears to work conscientiously. However, they are very cautious about borrowing to lend. VFs in rural areas appear to be stronger than those in the urban.

6.3 Way Forward: Pilot testing of good practices

Developing countries strongly emphasize for empowering its people particularly the rural poor. Many efforts have been made in terms of financial and technical services to enhance their incomes and quality of life. However, the lack of access to formal financial services makes the exploitation persist. CFI

therefore is considered as an alternative in empowering rural people by providing them with the opportunity to manage their own resources, using the local wisdom supported by modern knowledge and technologies. As mentioned above this is considered to be effective because, CFI is of, by and for the people or the community. It is therefore highly recommend that this may be applied and replicated across countries in the region for improved and sustainable growth in the human development space. Moreover, these models have become the channel for members/clients and their dependents to avail the benefits of micro-insurance. This strategy therefore calls for collaboration between regulator and the MFI. There is a view in this context that the regulators need to be open and encouraging to innovative measures in the rural sectors.

Further, it is established that there remains great potential for the financing models explained above to expand given the fact that agricultural value chain financing can be viable provided that the market for agricultural produce is assured. It involves linking small producers to lead actors in the value chain to enable them to secure technical, financial and marketing assistance. More importantly, it highlights the crucial role of coordination and adherence to quality standards to sustain market access. Piloting experiences have shown that farmers can be linked to big urban/corporate markets for as long as farmers would stay competitive in terms of cost of production and ensure a competitive price with consistent volumes and quality of produce. Linking the farmers to the supply chain of food corporations and local markets provides vast opportunities for sustaining farm incomes. The identified success factors as well as lessons learned show the way to replicate this highly successful scheme.

It is also established that the development of micro-insurance has been supported by the following pillars: (i) establishment of an appropriate policy and regulatory environment, (ii) strong coordination and collaboration by key government agencies to adopt reform measures in the insurance industry, (iii) active public-private sector participation in developing appropriate and affordable micro-insurance products, (iv) emphasis on education, awareness campaign and advocacy and (v) efficient use of scarce donor resources (and technical assistance) in improving the regulatory framework for micro-insurance. These pillars are not silos but are integrated activities spearheaded and coordinated by the National level agencies with support from key government agencies.

Despite its complexity involving many parties and agencies, in pursuing sustainable development, it is recommended that this model be pilot tested in interested country or community across the region. All the cases included in this document are piloted in different locations of the country and found its varying levels of outcome efficiency deepening on the levels of relations and interaction efficiency of the qualitative and quantitative variables identified for the succeeds of such modes. It is perhaps true that the community finance institutions are comparatively more complex and required multi-tasking to establish and sustain the activities. The community enterprising experience showed that there is a simultaneous mobilization of savings on the one hand and its productive investment promotion on the other side. This creates a rural economic equilibrium for its long run viability and sustainability thereof.

The microfinance systems are relatively less complicated and it demands less of innovations. This is given the fact that they are mainly deposit/saving mobilizes and do not really engage in the enterprising mode. This however, offers less return as compared to an enterprising structure which is market linked and value adding in nature for higher returns to the members and the community. For instance *Thaweesook* deposit is less complicated among the case studies and may be more smoothly applied and replicated in less developed areas. This intervention however shows that financial institution can care of its customers and clients through linkages and mutual help. Perhaps they are treated as partners rather than customers.

Establishing financial structures for the aged is of high innovation. This is visionary in nature and provide for the future planning. In countries which do not have a proper social security and safety net, this community institution model provides the much needed social and economic support for the aged

population. This model is innovative in the sense that it does not incur any charity aspects rather enable the citizens to plan for their future and accordingly provide them with the financial services and a sense of protection. It is observed that these products have not only provided for the security of the aged population rather it has added much value to the next generation of the population in terms of wealth and lessons.

In essence the piloting of the community financial services and products detailed in this report revealed the imperative of financial inclusion in social development. The empowerment of the people and the community has multiple advantages in ensuring desired outcomes. On the one hand it enables the mobilization of resources and leadership for socially inclusive development programmes. On the other hand it enables the platform for growth oriented investments for employment and income generation. This automatically leads to improved standard of living of the people and the community to create social and economic mobility in a cohesive and sustainable manner. This will create the concrete relationship and brand (institution) loyalty among our customers.

Bibliography

- Abeywickrema, C. (2005). Innovations in Rural Finance, Design and Practices of Hatton National Bank of Sri Lanka. APRACA Conference on Innovative Rural Finance Design and Practices. APRACA, Bangkok, Thailand.
- Abdulsuko, D. (2008). Zakat community welfare in Southern Border of Thailand Province. http://k4ds.psu.ac.th/k4ds_search/pdf/books/1286.pdf (Accessed on 14 January 2015).
- AFD (2012). Creating Access to Agricultural Finance: Based on a horizontal study of Cambodia, Mali, Senegal, Tanzania, Thailand and Tunisia; A Savoir Publication of AFD Vol-14; Available at <http://recherche.afd.fr> (Accessed on 15.02.2016).
- Archawanuntakul, S. and Pochanukul, P. (2013). Community's Financial Institute Management Guideline; National Health Foundation, Bangkok.
- Asian Development Bank (2013). Thailand Financial Inclusion Synthesis Assessment Report; Project Number: 45128; September 2013; Manila, Philippines.
- BAAC (2013). Bank for Agriculture and Agricultural Cooperatives Annual Report 2013; BAAC, Bangkok, Thailand.
- Boonperm, J.; Houghton, J.; Khandker S.R. and Rukumnuaykit, P. (2012). Appraising the Thailand Village Fund; Policy Research Working Paper 5998; The World Bank: Washington DC.
- Bank of Thailand (2013). BOT Annual Report 2012; Bangkok, Thailand.
- _____ (2014). BOT Annual Report 2013; Bangkok, Thailand.
- Delbert, F. (1999). Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand, Case Study; A CGAP (working group on savings mobilization) publication, Eschborn, Germany.
- FinScope Thailand (2013). Survey Highlights; Joint Publication of UNCDF and FINMARK TRUST; Available at http://www.uncdf.org/sites/default/files/download/thailand_booklet_final_06_august_2013.pdf (Accessed on 15.02.2016).
- Fiscal Policy Research Institute Foundation (2015). Proceedings of Brainstorming on "Determining the basic financial literacy curriculum for those on a low income"; Bangkok, Thailand.
- Govt. of Thailand (1982). Implementation Manual: Saving group for production; Department of Community Development; Ministry of Agriculture and Cooperatives; Bangkok.
- Jureewan, P. (2012). The Development of Village Fund into an Integrated Community Financial Institution; *Silpakorn University Journal of Social Sciences, Humanities, and Arts*; Vol. 12(2): 7-34.
- Koch, E., Maharjan, R.C., Sharma, J.K. and Ulrich, W. (2004). A Decade of Pro-Poor Institution Building in Nepal: Innovations and Lessons from the Small Farmer Cooperatives, Ltd. (SFCLs); Rural Finance Nepal (RUFIN) Working Paper No. 6; Kathmandu, Nepal.
- Leturque, H. and Wiggins, S. (2011). Thailand's progress in agriculture: Transition and sustained productivity growth; Development Progress: Overseas Development Institute, ODI publications, 111 Westminster Bridge Road, London SE1 7JD, UK.
- Lewis, S.; Tambunlertchai K.; Suesuwan E.; Adair, M. and Hickson, R. (2013). Microfinance Supply-Side Assessment Report; Technical Assistance Consultant's Report (TA 7998-THA); Asian Development Bank, Thailand.
- Majorano, F. (2007). An Evaluation of the Rural Microfinance Development Centre as Wholesale Institution in Nepal. ADB Working Paper Series No. 8; Manila, Philippines.

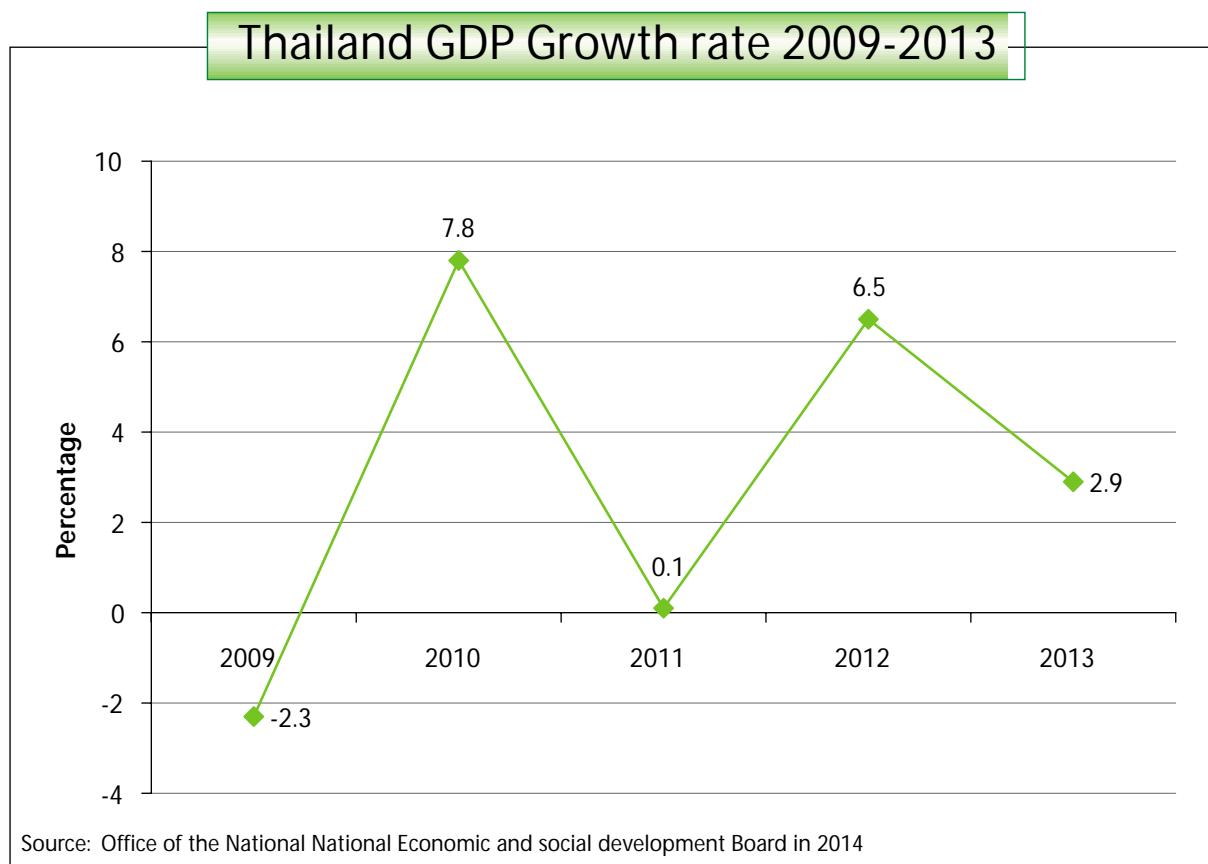
- Maurer, K.; H.D. Seibel and S. Khadka. (2000). Agricultural Development Bank Reform: The Case of Bank for Agriculture and Agricultural Cooperatives (BAAC). IFAD Rural Finance Working Paper B-6 (2000/12); Rome, Italy.
- Meagher, P., (2013). Microfinance Regulation and Supervision Recommendations Report; Technical Assistance Consultant's Report (TA 7998-THA); Asian Development Bank; Thailand.
- Na Koh Sak Saving Community Enterprise* (2014). Annual Report of *Na Koh Sak Saving Community Enterprise* 2008-2014: *Trang*; Thailand.
- Na Koh Sak Saving Community Enterprise* (2007). Rules and Regulations: *Trang*, Thailand.
- Sarng Thor Noi Community Bank and Enterprise* (2005).The establishment of community bank guideline: *Amnart Charoen*; Thailand.
- Nguyen, T.H.G. (2004). Bank on Wheels: A recent experiment has brought banking services to Vietnam's poorest Finance and Development; Vol. 14(6): pp. 41-43; June 2004; Available at <https://www.imf.org/external/pubs/ft/fandd/2004/06/pdf/hung.pdf>; (Accessed on 14 January 2015).
- Richardson, D. and Lennon, B. (2001). Teaching Old Dogs New Tricks: The Commercialization of Credit Unions. Microfinance Best Practices (MBP). Development Alternatives Inc. Bethesda, MD.
- Sarng Thor Noi Community Bank and Enterprise* (2013). Annual Report of *Sarng Thor Noi Community Bank and Enterprise* 2007-2013: *Amnart Charoen*, Thailand.
- Sasuman, L. (2001). Rural Financial Institutions: Restructuring and Post Restructure Results; Credit Union Empowerment and Strengthening (CUES) Philippines Case Study. Paving the Way Forward for Rural Finance: International Conference on Best Practices. WOCCU Publication; Manila, Philippines.
- Seibel, H.D. (1998). Recent Development in Microfinance. Working Paper 1998-05. University of Koeln.
- Seibel, H.D. (2000). Agricultural Development Banks Close Them or Reform Them? Finance & development; Vol. 37(2); Available at <http://www.imf.org/external/pubs/ft/fandd/2000/06/seibel.htm#author>.
- Yendra, R. (2007). A review of Rural Finance Innovations in Asia: New Approaches, Best practices and Lessons. An APRACA-IFAD joint publication, *Bangkok*, Thailand.
- World Bank (2015). The Global Findex Database 2014: Measuring Financial Inclusion around the World; World Bank Policy Research Working Paper 7255; April 2015.

Web Sources

- Interest zakat: The Sheikhul Islam. Available at <http://www.skthai.org/index.php?mo=3&art=42049705> (Accessed on 21 January 2015).
- Islamic legislation and regulations. Available at <http://www.islamshia.net/Portal/Cultcure/Thai/CategoryID/9110/CaseID/53001/71243.aspx> (Accessed on 14 January 2015).
- National Savings Fund. Available at <http://www.thaingo.org/thaingo/node/2126> (Accessed on 14 January 2015).

Annexures

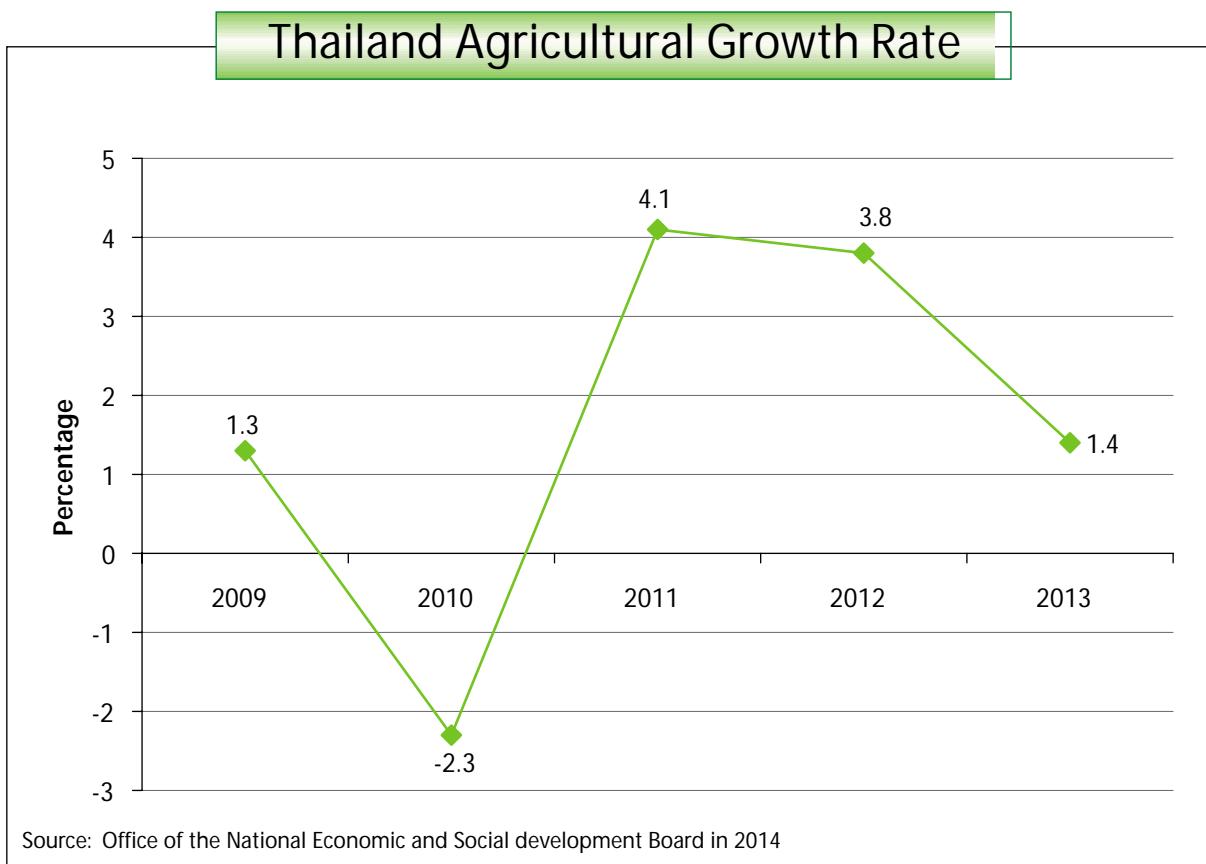
ANNEXURE 1: Growth Rate of GDP in Thailand from 2009-2013



Important Indicators	2012	2013	2014 (Estimated)
1. GDP Growth Rate (% per year)	6.5	2.9	3.0-4.0
2. Total consumption (% per year)	6.8	1.0	1.6
a) Private	6.7	0.2	1.4
b) Government	7.5	4.9	2.0
3. Total Investment (% per year)	13.2	-1.9	3.1
a) Private	14.4	-2.8	3.8
b) Government	8.9	1.3	0.3
4. Export Value (Billion US dollar)	225.9	225.4	241.0
5. Import Value (Billion US dollar)	219.9	219.0	231.6
6. Current Account Balance per GDP	-0.4	-0.6	-0.2
7. Trade Balance (Billion US dollar)	6.0	6.4	9.6
8. Inflation rate (% per year)	3.0	2.2	2.4 (1.9-2.9)
9. Policy Interest Rates at the end of the year (%)	2.8	2.3	2.3
10. Exchange Rate (THB per US dollar)	31.1	30.7	32.0-33.0

Source: Office of the National National Economic and social development Board (NESDB)

ANNEXURE 2: Agricultural Growth rate of Thailand during 2009-2013



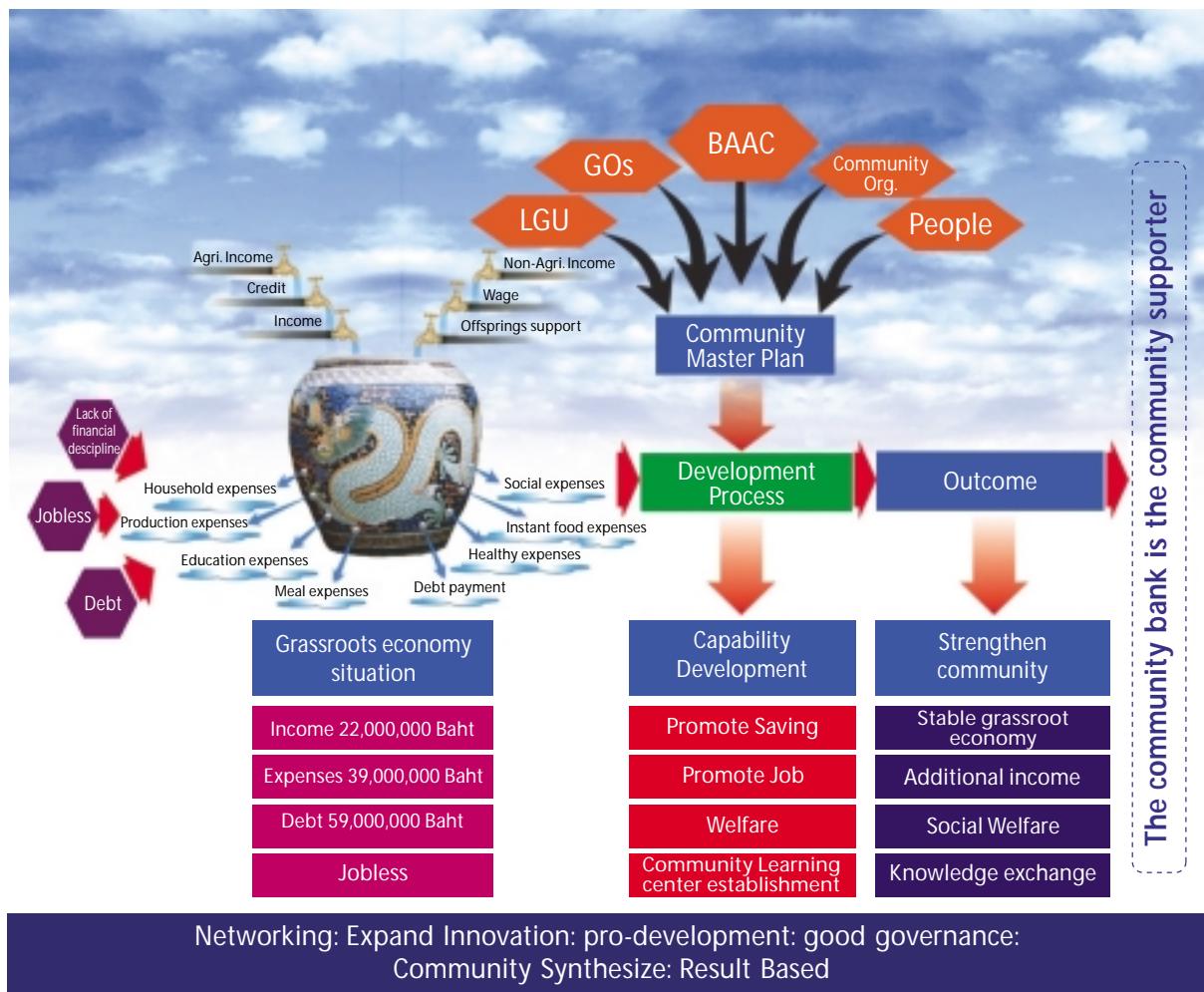
ANNEXURE 3: Terms used in the document and scope of its meaning

Terms	Scope of the meaning
Saving products	<ul style="list-style-type: none"> • Saving type and conditions • Role of woman or man in saving initiative • Interest rate etc.
Credit product	<ul style="list-style-type: none"> • Credit type and conditions • Credit Customer • The service delivery system
Legal structures and regulation	<ul style="list-style-type: none"> • Rules and regulations • Symbol of organization • The advisory domain • Formal and informal commitment, agreement etc.
The appropriate managerial and administrative structure	<ul style="list-style-type: none"> • Organization structure • Role and responsibility • Strength or weakness of the management • The management
Operational and outreach structures-wholesale and retail	<ul style="list-style-type: none"> • The way of reach the customer • Networking • The responsiveness of the service
New innovation	<ul style="list-style-type: none"> • New technics, tool, process, service creativity • The initiatives and develops
Collateral	<ul style="list-style-type: none"> • The legal guarantee
Financial and management and reporting	<ul style="list-style-type: none"> • The strategic planning and budgeting • Business return • Risk management • Auditing • The monitoring, evaluation and reporting • Business model
Governance	<ul style="list-style-type: none"> • Leader and leadership succession • Participation • Morality
Special themes	<ul style="list-style-type: none"> • The special practices etc.

ANNEXURE 4: Sample question used in the forum and in-depth interview

Lead question	Additional question
How was the farmer funding developed?	<ul style="list-style-type: none"> • When did it start? Why? Who? How? • Who is the leader? How he/she is? • How many year of service?
How the farmer fund committee is functioning?	<ul style="list-style-type: none"> • Who are the committee? • How did they come on the position? • What is their responsibility? • How leadership are they?
What kind of management?	<ul style="list-style-type: none"> • What kind of the structural management? • How is the participation? • Do they have the plan? Risk management? How does it work? • Do they have the human resource development plan? How?
Are there a rule or regulation?	<ul style="list-style-type: none"> • Is it flexible or rigidity? • How was it developed? • What kind of morality of the group?
What kind of the financial services are there?	<ul style="list-style-type: none"> • How many services? How does it work? • What is the condition of service? • How is the delivery service system? • What is it result?
Is there other services?	<ul style="list-style-type: none"> • What is it? How does it reach the customer? • Is there any networking?
Is there any initiative of service?	<ul style="list-style-type: none"> • What is the inspiration or ideas? What are the objectives? How does it work? • What is the special practice? What are the objectives? How does it work?
What is the community benefit or satisfaction?	<ul style="list-style-type: none"> • Do they satisfy the services? • Why do they come to the services? • How accessibility or responsiveness of the bank or group?
What is the key success of the organization management?	<ul style="list-style-type: none"> • How does it work?
Are there any problems or constraints left?	<ul style="list-style-type: none"> • How to solve the problems and constraints? • Do you need any external help?

ANNEXURE 5: The Development framework of the CFI towards sustainable grassroots economy





**ASIA-PACIFIC RURAL AND
AGRICULTURAL CREDIT ASSOCIATION (APRACA)**
Room A303, Bank for Agriculture and Agricultural Cooperatives (BAAC)
469 Nakhonsawan Road, Dusit, Bangkok 10300, Thailand
Tel: (+662) 282-0639, 282-1365
Fax: (+662) 280-1524
E-mail: apraca@apraca.org
Website: www.apraca.org

June, 2016

ISBN 978-616-92335-6-5