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Microfinance in Northeast Thailand: Who Benefits and How Much?

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Summary. — This paper evaluates the outreach and impact of two microfinance programs in Thailand, controlling for endogenous self-selection and program placement. Results indicate that the wealthier villagers are significantly more likely to participate than the poor. Moreover, the wealthiest often become program committee members and borrow substantially more than rank-and-file members. However, local information on creditworthiness is also used to select members. The programs positively affect household welfare for committee members, but impact is insignificant for rank-and-file members. Policy recommendations include vigilance in targeting the poor, publicly disseminating the program rules and purpose, and introducing and enforcing eligibility criteria.

Key words — microfinance, microcredit, impact, poverty targeting, Asia, Thailand

1. INTRODUCTION

Historically, efforts to deliver formal credit and financial services to the rural poor in developing countries have failed. Commercial banks generally do not serve the needs of the rural poor because of the perceived high risk and the high transactions costs associated with small loans and savings deposits. To fill the void, many governments have tried to deliver formal credit to rural areas by setting up special agricultural banks or directing commercial banks to loan to rural borrowers. However, these programs have almost all failed because of the political difficulty for governments to enforce loan repayment, and because the relatively wealthy and powerful, rather than the poor, received most of the loans (Adams, Graham, & von Pischke, 1984; Adams & Vogel, 1986; World Development Report, 1989).

The recent proliferation of innovative microfinance programs, often based on group-lending methods, has been inspired largely by the belief that such programs reach the poor and have a positive impact on various measures of their welfare, including economic measures (e.g., wealth and income), social measures (e.g., educational attainment and health status), and less tangible measures such as "empowerment." The popular press has waved the banner of microfinance as perhaps the most important recent tool to reduce poverty, [1] and the 1997 Microcredit Summit called for the mobilization of $20 billion over a 10-year period to support microfinance (Microcredit Summit Report, 1997). The United Nations proclaimed 2005 as the "Year of Microcredit." Much of this faith in microfinance is based on the highly selective anecdotal evidence of individuals

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who are reported to have pulled themselves and their families out of poverty with the benefit of microcredit. On the other hand, prominent dissenters to the popular view (Adams & von Pischke, 1992) have written that "debt is not an effective tool for helping most poor people enhance their economic condition—be they operators of small farms or micro entrepreneurs, or poor women." They argue that access to credit is not a significant problem faced by small agricultural households and that factor and product prices, land tenure, technology, and risk are the factors limiting small farmer development. Yet, despite the proliferation of these programs and the outpouring of support by donors, there has been little sound empirical research that tests the hypotheses that they are reaching and benefiting the poor. [2]

To justify such a significant investment to reduce poverty, compared to alternative investments in other poverty alleviation programs, the proposition that microfinance reaches the poor and positively affects their welfare should be proven and not just assumed. This paper attempts to contribute to overcoming this shortcoming in the literature by examining the results of a survey of two Northeast Thailand "village bank" programs that target the poor. The survey was designed and conducted in 1995–96 with the express purpose of measuring outreach and impact on the poor, while controlling for the endogeneity biases that have plagued other studies.

The NGO programs studied in this paper targeted "the poorest of the poor" according to project documents and donor policy. The ability of any program to achieve this goal depends on the institutional context in which it is implemented, and the main premise on which microfinance programs are based is that the poor are credit constrained and have limited access to formal sector credit. In Thailand, however, the Bank for Agriculture and Agricultural Cooperatives (Bank for Agriculture & Agricultural Cooperatives, 1997) claims to serve over 80% of rural households. Hence, it is possible that the rural poor in Thailand are not credit constrained. However, the BAAC's outreach in the Northeast, the country's poorest region, is smaller than the rest of the country. In the fourteen villages surveyed for this study, 63% of village households were BAAC members. Moreover, as is often the case in government-led credit programs, the BAAC's clientele is largely male; only 29.5% of BAAC members surveyed by the author were women. Hence, only 18.6% of surveyed households included women who had access to BAAC loans. On the other hand, 25.8% of surveyed households included women who were in debt to moneylenders. At the time of the surveys, BAAC's annual interest rate varied from 3% to 12%, whereas moneylenders charged between 60% and 120% per year, and the NGO programs evaluated in this paper charged 24% per year. Hence, there is evidence that women in Northeast Thailand may be credit constrained and may benefit from access to lower-cost institutional credit.

Two main problems plague attempts to evaluate the impact of microfinance programs. [3] The first is self-selection of participants. To illustrate this source of bias, consider a sample of households drawn only from villages with a village bank: some households will have selected to be village bank members, while others will have selected not to be members. It is likely that there are significant differences between self-selected village bank members and nonmembers. To the extent that such differences can be observed and measured (e.g., age, education, and wealth endowment), they can be statistically controlled for when estimating village bank impact. However, to the extent that such differences cannot be observed (e.g., entrepreneurship, risk preferences, trustworthiness, attitudes regarding the role of women in the household, and attitudes toward belonging to a program targeting the poor), direct comparison of village bank members and nonmembers will yield biased estimates of village bank impact. This bias arises because the same unobservable characteristics that lead some women to become village bank members will also affect impact measures such as income, accumulation of assets, and spending on education and health care. For example, women who are more entrepreneurial (a characteristic that is virtually impossible to measure) would be expected to have a tendency to self-select into the program, but such women would also be expected to have higher welfare measures such as income and expenditures even without the program. Uncontrolled comparisons between members and nonmembers, therefore, might incorrectly attribute such higher incomes to the village bank program. Alternatively, the relatively poor might self-select into the program if being poor is a publicly known selection criterion, and the relatively wealthy might not join to avoid any stigma related to being poor. If the program has positive impact on participants but this impact is not strong enough, then an