

Founding and Membership of Local Financial Institutions in Semi-Urban and Rural Thailand

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This report summarizes survey results relating to the founding and membership of local-level financial institutions in four changwats (subregions) of Thailand – the semi-urban changwats of Chachoengsao and Lopburi in the Central region and the more rural Sisaket and Buriram in the poorer Northeast region. The data used for this purpose are from an institutional survey administered in May 1997 (before the financial crisis hit). The 161 institutions surveyed consisted of rice banks, production credit groups (PCGs) and other financial institutions in the villages (90.6 percent) and/or tambons (9.4 percent) of these areas. This report addresses only the section of that survey that pertains to savings services offered.

The aims of this report are to describe the policies and experiences of the institutions with respect to their founding and membership over time. Section I focuses on the founding, specifically who started the institutions, when and with what resources they were established, and what types of training were involved with the founding. Section II examines the policies and history of the institution concerning membership. Where applicable, we attempt to compare the results from this institutional survey with those of the household survey. Both surveys are components of a larger survey project entitled Growth, Inequality and Organizational Design in Thailand.

I. Founding

A. Founders

All of the 161 institutions interviewed were established between 1976 and 1997. However, as Table 1 shows, the vast majority of the institutions were established more recently. While the mean founding year was 1991, at least 60 percent of the institutions were established since 1991, and 20 percent since 1996. This skew of the distribution toward more recent founding years is at least partially a result of the fact that older institutions have failed, but could also be caused in part by institutions being established at an increasing rate in more recent years.

The institutions tended to have multiple founders (an average of 2.1 founders per institution) and many of the founders tended to be village members. 71.3 percent of all the founders were village residents, while only 11.8 percent of the institutions had no

villagers among the founders. Thus, many of the institutions had founding groups comprised of both villagers and non-villagers.

Most (68.5 percent) of the founders have continued on with the institution in some capacity. Table 2 shows the distribution of the founders' current positions with the institution. Since the average institution had just over two founders, it is clear that over half of the institutions have founders who are still leading the institution in the role of either president or chairman. Other common offices for founders were vice-president/vice-chairman, treasurer/comptroller/accountant, committee member and advisor.

Many founders also tended to hold other leadership positions within the village as Table 3 shows¹. Nearly 40 percent of the founders were either village headman or assistant headman at the time of the survey. In contrast, however, nearly half of the founders held no position within the village.

In general, these village-level institutions provided services that had not been provided by other local institutions. Only 9.3 percent of the institutions responded that similar services were available at the village level and an additional 0.6 percent answered that they were available at both the village and tambon level. The remaining 90.1 percent of the institutions provided previously unavailable services to their communities. Table 4 displays the institution's responses on how villagers dealt with financial need before the institution was founded.² The percentages are fairly high which indicates that villagers responded to financial need in many different ways. Most commonly villagers received help from family in the village (60.6 percent), borrowed from others outside the village (60.0 percent), or borrowed from others in the village (51.3 percent). It was also common for villagers to work more and receive help from relatives not in the village. Withdrawing savings, although less commonly mentioned, was still mentioned by 15 percent of the institutions surveyed.

B. Initial Funds

Table 5 shows various forms of assets/funds and the percent of institutions that had this each form in their initial fund. Again, many of the institutions had initial assets in multiple forms; thus the columns sum to over 100 percent. Cash was the most common form with over two-thirds (68.1 percent) of the institutions having cash in their initial fund. Rice was a distant second, but was at least part of the fund for 19.4 percent of institutions. Certainly many of these institutions are rice banks. Interestingly, none of the institutions had land as part of their initial fund.

Just as there were many forms that the initial funds took, there were also a number of different sources for initial funding. Table 6 shows the distribution of the fraction of

¹ Table 3 shows the distribution of those responses for people who held at most one position. This comprised 94.7 percent of the entire sample, so it should be fairly representative. Of course, the fraction of founders holding no position is slightly exaggerated in Table 3.

² Columns sum to over 100 percent because institutions gave multiple responses.

initial funds that came from different sources. Initial savings from members and donations from organizations outside the village tended to contribute the most to the initial fund (27.0 percent and 21.0 percent on average, respectively). A number of institutions apparently had only one source for their initial fund. The “Highest” column indicates that there were cases in which an institution’s sole source was donation from members, the investment of members, donation from a village organization, loans from an organization outside the village, or other sources of funds. In contrast, not a single institution reported receiving funds via a loan from another village organization, investment from another village organization, or investment from an organization outside the village.

The size of the initial funds varied widely and the distribution was skewed toward the left, as shown in Table 7. While the average initial fund totaled 76,300 baht, 60 percent of the institutions started with 14,000 baht or less. Donations from organizations outside the village averaged 177,200 baht, which was the highest average amount from any source. This average is high, in part, because the CDD and other government agencies provided many institutions with amounts of 280,000 baht for seed funding. Many institutions reported this funding as a donation from organization outside the village, but others reported it as a loan from an organization outside the village, and still others as “other sources of funds”. In general, funding amounts from sources within the village, especially from members, were quite small compared to those from sources outside the village.

The length of time needed to collect the initial fund also varied greatly. Table 8 shows that the average was 51 days, but over 60 percent of the institutions were able to build their fund within a month or less. One institution needed over two years for the fund to be collected. For the twenty-nine institutions that needed over 60 days to collect the initial fund, a number of explanations for the delay were given. The distribution of these causes of delay is shown in Table 9. Almost one-third (31.0 percent) of these institutions reported that government red tape and/or delay was the source of their problem. Others were delayed in trying to raise publicity or membership, getting project approval, constructing a building, or, in the case of crops, waiting because of the seasonal nature of fund.

C. Training

Training of both officers and members seemed to play an important role in the founding of these institutions. 84.2 percent of the institutions trained their officers at the time of foundation and at least 40 percent of the institutions provided additional training to officers after the founding. The initial officer training lasted just over two (2.1) days on average with an average of about twenty (20.3) people attending. The typical (median) training session had only ten people and lasted just a single day, however. The median amount of additional training that the officers received was also one day. The vast majority (80.4 percent) of institutions trained members at the time of foundation too, but this training tended to be larger scale. The typical member training session lasted one day and had thirty-four people in attendance.

Table 10 examines who was responsible for organizing and carrying out the various training sessions. CDD officers were common providers of training, but tended to play a relatively larger role in training officers and giving initial training, while the officers of the institution, once trained, tended to play a relatively larger role in providing member training and additional training. Agricultural officers were also large providers of officer training, while headmen were common trainers of members.

The institutions that trained their officers and members tended to teach multiple topics in the training as displayed in Table 11. Officers were most commonly taught how to organize the group and the benefits of the institution. 75.6 percent of institutions who trained included these topics in their initial training to officers. Loan management (58.7 percent), accounting (65.5 percent), application for membership (52.7 percent), and motivation for savings/investment (40.5 percent) were also common topics. Since the numbers for member training are lower in general, it is clear that member training covered fewer topics on average than officer training did. The benefits of the institution was easily the most common training topic for members (84.3 percent), but still the other topics were all covered by more than one-fifth of the institutions. Training of “other” topics for both officers and members was more commonly given in the additional training, while the benefits of the institution, which were presumably already known, were taught relatively less often.

II. Membership

The memberships of local-level financial institutions tend to often be concentrated among certain target populations. Table 12 sheds insight into which demographic groups these institutions serve. Clearly most (85.6 percent) of these institutions allow membership only to villagers. Since membership is usually necessary to utilize an institution's services³, it is clear that most institutions are designed almost exclusively to service villagers. Although the data are fairly evenly split between the sexes, a majority of institutions (54.0 percent) indicated that their current memberships are mostly men. Institutions generally (77.1 percent) had memberships of mostly landowners, but very rarely characterized their memberships as mostly wealthy people (just 3.3 percent). Thus, the typical institution served mostly poor to middle class, landowning villagers.

One can also see that the average changes in these demographic groups over time have been slight. More groups originally started out with mostly male memberships than currently. Also over time there has been a slight shift away from mostly poor memberships toward the middle class and even slightly towards the wealthy. Finally, there was a very slight shift toward groups with mostly non-landowners.

In addition to the above demographic categories, 94.4 percent of the institutions reported that their members were mostly from the same occupational group. Table 13 shows the distribution of institutions over various occupations. Nearly all (93.5 percent) of these institutions serve farming populations of some sort with rice farmers being the

³ See, for example, Kaboski and Townsend (1999).

most common (62.3 percent). Laborer was the only non-agricultural category that was commonly mentioned and was the prevailing member occupation for 6.2 percent of institutions with a dominant occupation trend.

The local-level institutions surveyed tended to have fairly lax policies in terms of recruiting and evaluating members. Table 14 summarizes the percent of institutions having three key recruiting policies. As the table shows, only a minority of institutions (40.5 percent) interviewed applicants for membership, while less than one-third (31.4 percent) had written policies for recruiting and even fewer (24.5 percent) had member application forms. Table 15 shows the reasons for institutions not interviewing applicants. For most of these institutions an interview is considered unnecessary since the applicants are already known. Many other institutions had either automatic or unrestricted membership.

A list of various applicant evaluation criteria and the percent of institutions that use them in their membership decisions is presented in Table 16. Expected amount of saving is the most common criteria. It is used by 55.1 percent of institutions and almost all (52.6 percent overall) of these institutions consider it among the two most important criteria. The next two most commonly used criteria were occupation and reputation, with 19.9 percent of institutions ranking each of them as one of the top two criteria. Education level, religious affiliation and the number of years a person had lived in the village were rarely used in evaluating applicants. Apparently, while village residence is very important for becoming a member (recall Table 12), people are considered villagers immediately upon moving in.

Not surprisingly, the committee and the head of the institution (usually the chairman or president) are generally responsible for evaluating new applicants and deciding whether membership is granted. As Table 17 shows, a total of 84.9 percent of the institutions reported that either the head of the institution, the committee or both were responsible for applicant evaluation with the committee being the most common response. 4.1 percent of institutions give this responsibility to the headman, however.

Application fees were required from 23.3 percent of institutions. After being accepted into the organization, membership fees were far less common, however. Just 6.3 percent of institutions charged membership fees, which were almost always a one-time fee. Only one of the ten institutions with membership fees reported charging an annual membership fee.

The distributions and amounts of application and membership fees are shown in Table 18. Clearly, these fees were typically small amounts of ten to fifteen baht, but ranged as high as a 1400 baht (56 dollar) application fee for one institution.

Table 19 summarizes the membership growth experiences over the first ten years of institutions' existence. The mean size of the group at establishment was 63 people, while the median group was just 38 people. Although the table shows that over 80 percent of groups started with less than seventy people, the data contains at least sixteen

institutions over one hundred members at the time of establishment. The group with the largest initial membership had 723 members.

Table 19⁴ also shows that institutions had mixed experiences with respect to membership growth, but many showed little change. The mean annual growth rates for the first five years was a less than dramatic negative one percent, while the mean annual growth rate for those institutions that have existed for at least ten years was one percent. The middle twenty percent of the distribution over both the first five years and the second five years showed little very little growth of just zero to one percent. Still, the lowest growth rate for the first five years was -100 percent, which indicates that some institutions failed. Twenty percent of the institutions grew at annual rates of 10 percent or more over the first five years, so high growth instances also exist in the data.

The reasons given for growths and declines in membership are given in Tables 20 and 21, respectively. Growth in publicity of the institutions were a major reason for growth in membership either through self-promotion (11.8 percent of all increases) or because people realized the benefits of the institution on their own (32.4 percent). Additionally, in some cases good financial years for the institution helped in growth by both attracting new members (3.9 percent) and/or allowing the available supply of loans to increase (8.8 percent). Finally, growth in the village population also was a source of membership growth in many cases (8.8 percent).

Changes in village population played an even larger role in declining membership, however, as Table 21 shows. Nearly one-fifth (19.1 percent) of all decreases in membership were caused by declines in population. This number includes members leaving the village, but also members dying. The fund size and availability of loans again played a role in membership changes (12.8 percent), as did decreased demand for loans (8.5 percent), poor management of the institution (8.2 percent), bad financial years (6.4 percent) and competition from other institutions (6.4 percent).

III. Conclusion

⁴ The growth rate data is summarized by the age of the institution, rather than the chronological year. The sample sizes and the actual samples vary between years 1-5 and years 6-10, since many institutions were younger than ten years old, while others lacked older data.

Bibliography

Kaboski and Townsend, *Saving Services in Semi-urban and Rural Thailand*, unpublished report, 1999

1. Year of Establishment of Institutions

Mean Founding Year	Most Recent Founding Year	Earliest Founding Year	20 th percentile	40 th percentile	60 th percentile	80 th percentile
1991	1997	1976	1985	1991	1994	1996

2. Current Position of Founder with Institution

	Chairman/ President	Vice-Chairman/ Vice President	Treasurer/ Comptroller/ Accountant	Committee Member	Member	Advisor	None	Other	Total
Percent of Founders	25.8	5.6	8.3	11.0	3.9	4.5	31.5	9.5	100.0

3. Current Position of Founder in Village

	Headman	Assistant Headman	Kannan	PCG Committee Member	Rice Bank Committee Member	Head of BAAC Group	Women's Group Committee Member	Housewife's Group Member	Village Committee Member	Tambon Committee Member	Health Volunteer	None	Other	Total
Percent of Founders	17.1	12.5	2.8	2.1	0.9	0.6	0.6	1.5	0.3	2.8	2.1	48.6	8.0	100.0

4. Villager Responses in Times of Financial Need Before Institution

	Helped by family in the village	Helped by family outside the village	Withdrew Savings	Borrowed from others in the village	Borrowed from others outside the village	Worked as laborer in the village	Worked as laborer outside the village	Other
Percent Mentioning	60.6	32.5	15.0	51.3	60.0	31.3	33.8	13.1

5. Forms of the Institution's Initial Fund

	Cash	Other Crops	Animals	Fertilizer	Materials for Construction	Labor	Rice	Other
Percent of Institutions	68.1	5.6	4.4	2.5	6.3	5.0	19.4	3.1

6. Percent of Initial Fund Coming from Various Sources

Percent of Fund => Source V	Mean (Std. Dev.)	Highest	60 th percentile	70 th percentile	80 th percentile	90 th percentile
Donated from Members	5.8 (21.1)	100.0	0.0	0.0	0.0	9.7
Initial Savings of Members	27.0 (43.6)	100.0	0.0	5.0	100.0	100.0
Investment of Members	6.7 (23.8)	100.0	0.0	0.0	0.0	0.2
Donation from Another Village Organization	2.3 (14.4)	100.0	0.0	0.0	0.0	0.0
Loan from Another Village Organization	0.0 (0.0)	0.0	0.0	0.0	0.0	0.0
Investment from Another Village Organization	0.0 (0.0)	0.0	0.0	0.0	0.0	0.0
Donation from an Organization Outside the Village	21.0 (39.8)	100.0	0.0	0.0	89.3	100.0
Loan from an Organization Outside the Village	3.7 (18.7)	100.0	0.0	0.0	0.0	0.0
Investment from an Organization Outside the Village	0.0 (0.0)	0.0	0.0	0.0	0.0	0.0
Other Sources of Funds	16.0 (35.1)	100.0	0.0	0.0	7.3	100.0

7. Value (in thousands of baht) of Initial Fund & Amount from Source (if any)

	Mean (Std. Dev.)	Highest	Lowest	20 th percentile	40 th percentile	60 th percentile	80 th percentile
Total Fund	76.3 (264.3)	3,000.0	0.2	2.0	5.0	14.0	80.8
Donated from Members	6.0 (10.1)	40.0	0.4	1.3	1.5	2.1	9.0
Initial Savings of Members	4.2 (9.4)	62.0	0.2	0.7	1.5	2.4	3.8
Investment of Members	8.9 (8.6)	34.3	0.1	2.6	4.9	9.6	12.3
Donation from Another Village Organization	7.4 (5.1)	12.5	1.5	1.5	3.3	10.6	12.5
Loan from Another Village Organization	-	-	-	-	-	-	-
Investment from Another Village Organization	-	-	-	-	-	-	-
Donation from an Organization Outside the Village	177.2 (478.9)	3,000.0	0.5	5.0	12.5	67.5	280.0
Loan from an Organization Outside the Village	77.2 (102.9)	280.0	18.0	20.8	25.0	38.0	204.0
Investment from an Organization Outside the Village	-	-	-	-	-	-	-
Other Sources of Funds	97.8 (126.8)	280.0	0.6	1.2	10.0	35.2	280.0

8. Number of Days Needed To Collect Initial Fund

Mean (Std. Dev.)	Maximum	Minimum	20 th percentile	40 th percentile	60 th percentile	80 th percentile
51 (112)	750	0	3	10	30	50

**9. Reasons For Delay In Collecting Initial Fund
(if longer than 60 days)**

	Government Red Tape/Delay	Trouble Building Publicity/Membership	Trouble Raising Funds	Seasonal Nature of Funds	Member Project Submission and Approval	Building Construction	Other	Total
Percent of Institutions	31.0	10.3	10.3	10.3	10.3	10.3	17.2	100.0

10. Distribution of Organizers of Various Types of Training

	Agricultural Officer	CDD Officer	BAAC or Agricultural Cooperative	Other government ministry	Officer of institution	Head of other village institution	Headman	Government official outside of the village	Outside financial institution	Military Personnel	Other	Total
Initial Officer Training	10.6	59.1	2.3	5.3	5.3	3.0	3.0	3.0	0.0	2.3	6.1	100.0
Additional Officer Training	12.5	37.5	1.6	4.7	23.4	6.3	1.6	1.6	1.6	0.0	9.4	100.0
Initial Member Training	5.5	37.8	0.8	2.4	20.5	4.7	16.5	3.1	0.0	2.4	6.3	100.0
Additional Member Training	5.1	20.3	1.7	5.1	33.9	10.2	13.6	0.0	0.0	0.0	10.2	100.0

11. Percent of Institutions Covering Various Topics in Training Sessions

	Accounting	Loan management	How to organize group	Application for membership	Motivation for savings and/or investment	Benefits of institution	Other
Initial Officer Training	56.5	58.7	75.6	52.7	40.5	75.6	16.8
Additional Officer Training	56.3	53.1	71.9	51.6	42.2	54.7	29.7
Initial Member Training	20.5	26.8	26.8	43.3	34.6	84.3	28.3
Additional Member Training	22.0	28.8	32.2	35.6	32.2	59.3	37.3

12. Percent of Institutions with Various Membership Characteristics

	Only villagers	Only tambon residents	Anybody (incl. non-tambon residents)	Mostly men	Mostly women	Mostly poor people	Mostly middle class people	Mostly wealthy people	Mostly non-landowners	Mostly landowners
Original Membership	85.6	7.5	6.9	58.6	41.4	50.6	46.9	2.5	20.6	79.4
Current Membership	85.6	7.8	6.5	54.0	46.0	45.1	51.6	3.3	22.9	77.1

12. Percent of Institutions with Various Primary Occupations

	Rice Farmer	Cassava Farmer	Corn Farmer	Farmer (Other or General)	Laborer	Other	Total
Original Membership	63.0	3.4	8.2	17.8	6.2	1.4	100.0
Current Membership	62.3	3.6	8.7	18.8	5.8	0.7	100.0

13. Percent of Institutions with Various Member Recruitment Policies

	Have written recruitment policies	Have a member application form	Interview applicants for membership
Percent of Institutions	31.4	24.5	40.5

14. Reasons Given For Not Interviewing Applicants

	Anyone can become a member	Applicants are already known	Membership is automatic	Other	Total
Percent of Institutions Who Don't Interview Applicants	9.9	67.0	13.2	9.9	100.0

15. Percent of Institutions Using Various Membership Criteria for Evaluation

	Age	Sex	Education level	Occupation	Landholding	Crops grown	Income	Wealth	Religious affiliation	Nationality	Reputation	Family size	Marital status	Number of years in village	Membership in other organizations	Recommendation of current members	Expected amount of saving
Considered	13.9	5.7	1.9	25.3	10.1	9.5	10.1	13.3	0.6	4.4	22.2	2.5	13.3	0.6	15.2	9.5	55.1
One of top two criteria	8.3	5.1	0.6	19.9	6.4	5.8	5.1	8.3	0.0	1.9	19.9	1.9	7.1	0.6	7.7	7.1	52.6

16. Person Responsible for Evaluating Applicant Qualifications

	Chairman, President or Head of Institution	Committee	Chairman and Committee	Headman	Other	Total
Percent of Institutions	21.9	45.9	17.1	4.1	11.0	100.0

17. Application and Membership Fees (in baht) of Institutions With Fees

	Mean (Std. Dev.)	Highest	Lowest	20 th percentile	40 th percentile	60 th percentile	80 th percentile
Application Fee	61 (228)	1400	5	10	10	15	20
Membership Fee	21 (29)	100	5	6	10	10	28

19. Initial Membership and Five-Year Growth Rates of Membership

	Mean (Std. Dev.)	Highest	Lowest	20 th percentile	40 th percentile	60 th percentile	80 th percentile
Initial Membership	63 (95)	723	1	22	31	42	69
Annual % Growth (Years 1-5)	-1 (26)	35	-100	-3	0	1	10
Annual % Growth (Years 6-10)	1 (10)	24	-34	0	0	1	5

20. Reasons for Increases in Membership

	Realized benefits of the institution	Institution self-promotion	In migration/increase in village population	Increased demand for loans/bad shock	Increased demand for saving/good shock	Increase in available funds for loans	Good year for institution attracted new members	Other	Total
Percent of Increases	32.4	11.8	8.8	2.0	2.0	8.8	3.9	30.4	100.0

21. Reasons for Decreases in Membership

	Total	100.0
	Other	29.8
	Bad year for institution so members leave	6.4
	Decrease in available funds for loans	12.8
	Decreased demand for saving/bad shock	2.1
	Decreased demand for loans/good shock	8.5
	Out migration/decrease in village population	19.1
	Competition from other institutions	6.4
	Poor management of institution	8.2
	Percent of Decreases	