



Technical Assistance Consultant's Report

Microfinance Supply-Side Assessment Report



Kingdom of Thailand: TA7998 (THA) Development of a Strategic Framework for Financial Inclusion in Thailand (Financed by the Japan Fund for Poverty Reduction)

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CURRENCY EQUIVALENTS (As of May 2013)

Currency Unit		
THB 1	=	\$ 0.0345
\$1.00	=	THB 29

ABBREVIATIONS	
ADB	Asian Development Bank
ADM	Automated Deposit Machine
ATM	Automated Teller Machine
BAAC	Bank for Agriculture and Agricultural Cooperatives (http://www.baac.or.th/baac_en/)
BMA	Bangkok Metropolitan Authority
BOT	Bank of Thailand
CAD	Cooperative Auditing Department
CAR	Capital Adequacy Ratio
CDD	Community Development Department
CPD	Cooperative Promotion Department
CSR	Corporate Social Responsibility
DPA	Deposit Protection Agency
DSDW	Department of Social Development and Welfare
DTAC	Total Access Communication Public Company Limited
FIDP	Financial Inclusion Development and Policy Bureau
FSMP	Financial Sector Master Plan
FPO	Fiscal Policy Office
GHB	Government Housing Bank (http://www.ghbank.co.th/en/index.php)
GSB	Government Savings Bank (http://www.gsb.or.th/index-en.php)
I-Bank	Islamic Bank of Thailand (http://www.ibank.co.th/2010/en/main/)
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
KTb	Krung Thai Bank (http://www.ktb.co.th/ktb/en/index.aspx)
LGP	Local Government Pawnshops Committee
MAP	Making Access Possible
MFI	Microfinance Institution
MNO	Mobile Network Operator
MOF	Ministry of Finance
MOI	Ministry of Interior
MRR	Minimum Retail Rate
NBFI	Non-Bank Financial Institution
NESDB	National Economic and Social Development Board
NIM	Net Interest Margin
NPL	Non-Performing Loan
NSFI	National Strategy for Financial Inclusion
NSO	National Statistical Office
NVUCF or VF	National Village and Urban Community Fund, also referred to as Village Fund
OIC	Office of Insurance Commission
PPP	Purchasing Power Parity
ROA	Return on Assets
ROE	Return on Equity
RTG	Royal Thai Government
SCB	Siam Commercial Bank
SGP	Savings Groups for Production
SEC	Securities and Exchange Commission
SES	Household Socio-Economic Survey of the NSO
SFI	Specialized Financial Institution
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TCRB	Thai Credit Retail Bank
UNCDF	United Nations Capital Development Fund

Asian Development Bank Technical Assistance

TA 7998: Development of a Strategic Framework for Financial Inclusion

(Funded by the Government of Japan through the Japan Fund for Poverty Reduction (JFPR))

The Royal Thai Government (RTG) requested technical assistance from the Asian Development Bank (ADB) in 2010 to support the Government's initiative to promote financial inclusion in Thailand through a highly consultative process. Approved at the end of 2011 and initiated in early 2012, the process of developing a framework for financial inclusion began with a comprehensive diagnostic of the current state of financial inclusion in the country. The diagnostic was conducted through a collaborative effort with the United Nations Capital Development Fund (UNCDF) using its Making Access Possible (MAP) methodology to support expanding access to financial services for individuals and micro and small businesses. The first part of this diagnostic investigated supply-side and regulatory environment issues including the payments infrastructure. A qualitative and quantitative demand survey was conducted which provided valuable insights on access to finance and client behavior. Other parts of the assessment investigated fields including microinsurance, financial literacy and consumer protection. The final synthesis report brings together the assessment findings and provides key recommendations for going forward.

Reports in Thailand Financial Inclusion Series

1.	Microfinance Supply Side Assessment Report
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*Finscope Thailand (funded by UNCDF) is available at:

<http://www.uncdf.org/sites/default/files/download/Thailand%20booklet%20final%2006%20August%202013.pdf>

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EXECUTIVE SUMMARY

This report reviews the existing microfinance options in Thailand, with special emphasis on loans, savings, payments and remittances. Thailand is a developed economy and the range of topics to be covered, even when limited to these four aspects of microfinance are extremely broad. Therefore this report serves as an overview of the main institutions and products within the field. As a very quick benchmark, Thailand has a population of 66 million, per capita income of 5,000 USD or 9,000 on a Purchasing Power Parity (PPP) basis and its economy is about 350 billion USD or roughly ½ of a percent of world GDP. Income inequality is high with a Gini coefficient of .40¹. The informal sector is very large, with only a small minority of the population paying income tax.

In terms of its financial sector, Thailand has a strong, developed, commercial banking sector that has little to do with microfinance. The large commercial and industrial sectors are a much more profitable market for the banks accounting for a large share of all loans and savings and credit cards, housing loans and most other retail services are primarily directed at the much wealthier Bangkok population. Financial services are not excluded to the rest of the country, per se, but, with the exception of transfers, commercial banks play a small role in the financial lives of most non-city dwellers as well as the urban poor/ informal sector.

Thailand is a cash-driven society that relies heavily on ATM cards. It has a tradition of having working age people having jobs in the city, while their elders take care of the children in the countryside. This results in high levels of transfers through ATM cards. In order to make an ATM transfer, both parties must maintain a passbook saving account, although it will likely see little activity each year. This contributes to a phenomenon of high savings account ownership with low balances and low transaction frequency.

The political process in Thailand strongly supports the financial needs of the poor, the rural population, farmers and those who live outside Bangkok. This emerges both from cultural values and a political system in which politicians often promote greater access to low-cost credit for their constituents. Consequently, it has been formal government mechanisms that have generally dominated provision of financial services to the poorer parts of the country. This has been done through the very large and influential government banks (the specialized financial institutions – SFIs) and the Village Fund, a 2001 government-initiated program that provides rotating credit to villagers.

While some SFIs offer the same deposit-taking and loan products as the commercial banks, these subsidized and closely controlled government banks are generally considered a policy vehicle to bring economic and social benefit to villagers through loan programs, savings programs, insurance programs etc. SFIs have a greater presence than commercial banks in rural and remote areas. Village Funds penetrate further into rural areas than both commercial banks and SFIs and bring microfinance services in the form of loans to the lower income population who live there. NGOs also play a role in promoting financial services to the poor, but they are very small in scale compared to the government's own activities and play a very limited role relative to NGOs in other countries.

In recent years bill payments (that in the past were often collected door to door in the countryside), have been the domain of 7-11 convenience stores² and to a lesser degree, superstores such as Tesco-Lotus. This service comes with a small cost to the user of 5-15 baht (15-50 US cents). The payments service has strengthened the market position of 7-11 in the countryside while providing a convenient service. Cash transfers at ATMs to pay for services are more common in urban areas.

¹ For comparison Sweden 0.25, Australia 0.30, United States 0.45, Malaysia 0.46 and South Africa 0.63

² A subsidiary of Charoen Pokphand (CP), one of Thailand's largest conglomerates

Savings have not been heavily emphasized by recent governments and savings of the poor are fairly small (about 12% of yearly income³) not including the value of their limited household and personal assets. Savings are as likely to take the form of gold or other assets as they are to be held in cash or in a bank account. This report recommends a greater policy emphasis especially in microfinance service delivery, on promoting savings amongst low income households.

Finally, there is a large and growing source of loans by Non-Bank Financial Institutions (NBFIs) who are gradually supplanting the traditional village moneylenders and pawnshops. They are similar to the moneylenders and pawnshops in that they accept collateral in the form of movable and immovable property, but they are different in that they are often large chains (sometimes internationally owned) with offices in most small towns. These NBFIs remain within government mandated interest rates of 15 to 28% per year depending on loan size. They are useful in the low to middle income economy that is otherwise restricted to the informal sector as a result of having few official records of income and earnings. They are especially important in urban areas where social capital, on that informal financial systems often rely, is scarce. Nevertheless the report recommends that they need to be better regulated to protect consumers.

The report makes the following conclusions and recommendations:

- Financial inclusion policy needs to be regarded as a set of strategies that respond to the need for universal access to quality financial services for women and men. Such access has an important role to play in the sustainable reduction of poverty.
- Financial inclusion should include consideration of the needs of up to five million illegal foreign workers and to guard against their exploitation. Most of them are excluded from banking services including transfers, since documents required for opening a bank account and obtaining an ATM card, include a valid foreign work permit, or citizenship papers/ passport.
- Making new product development an inherent requirement of SFIs and the Village Fund service delivery would aid financial inclusion. Loans to the poor tend to be subsidized or underwritten through a variety of government supported institutions, such as the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Village Fund, Government Savings Bank etc. Proactive development of new products and support to reduce delivery costs (for example by wholesaling) is frequently under-addressed in such subsidized environments and normally progresses on the basis of the personal interest of management in the equity issue.
- There are both un-served and under-served strata within the population, who need the benefit of financial products designed to closely accord with their needs, are priced to reach them and are conveniently available. Development of demand led products for poorer households is not seen as high priority to commercial institutions and they do not attract the same creative energy that goes into the banks' marketing effort for middle and high income clients. Development of demand led products for the underserved market must be an important part of the efforts on behalf of financial inclusion.
- NBFIs should be better and more thoughtfully regulated. Non-Bank Financial Institutions (NBFIs) are an important source of funds for lower and middle income Thais. Currently lightly regulated, they make loans secured by titles to automobiles and motorcycles and other movable and immovable property. Since they do not accept deposits, the risk to the monetary system is small, negating the usual need for full prudential regulation by the Bank of Thailand. However, since NBFIs are

³ From SES data.

emerging as institutionalized replacements for the moneylenders and pawnshops, important regulatory issues include consumer protection measures such as clear product disclosure, prevention of over indebtedness, protection from unfair fees and appropriate loan collection practices.

- The Government Savings Bank is an important instrument for provision of micro-savings particularly in urban areas. The utility and sustainability of its role needs to be safeguarded through prudent financial management. Currently it appears that most of its loans are funding non-commercial government programs which may adversely impact upon its financial sustainability.
- Microfinance as a development tool ought to promote savings and intelligent consumption at its core. Government programs, NBFIs and the popular consumer culture all conspire to lure consumers into easily accessing consumer loans with little regard for the difficulties resulting in loan repayment, particularly amongst low income households. Meanwhile encouragement of savings is mostly ignored in current policies. In its approach to financial inclusion, RTG may find it suitable and timely to take a more visible role in promoting realistic family expectations and good financial practices, compatible with a Sufficiency Economy. Such an approach may reduce the ease with which certain individuals slide into indebtedness and support the well-being, happiness and financial stability of Thai families. Some examples include, requiring consumer warnings with advertisements for credit cards and consumer loans. Promoting financial literacy should not be in the hands of institutions that benefit from loans such as commercial banks.
- The Village Fund should be encouraged to continue its efforts to reach the poorest of the poor. It has been successful at reaching the poorest of the poor as evidenced by SES data. However, anecdotal evidence suggests that the benefits of this program are limited to a relatively small number of households as most loans are rolled over with the same borrower year after year restricting revenue available for fresh loans for new clients. Expanding the Community Bank wholesale approach of BAAC towards Village Funds in favor of new clients would be an option to improve this. This oversight by BAAC may also improve financial discipline and management practices within the Village Funds.
- BAAC should be encouraged to further its focus on wholesaling microfinance and community business service provision. BAAC currently plays the most important role in providing microfinance services to those in the countryside, having developed beyond its original mandate of being an agricultural bank, to provide loans and other services to rural people in all occupational groups. It is, however, often enlisted as an agent of various short term campaigns that hurt its profitability and its ability to manage its core business.
- Linking electronic banking development to the needs of the poor should be an important part of financial inclusion. Electronic banking has great potential to reduce transaction costs for low value financial services. Ensuring that specific product innovations and institutional changes also meet the needs of the poor requires careful attention in financial inclusion policy. Innovations are often introduced by commercial banks and telephone networks whose target constituency is the well-off urban middle class. For instance, there is strong interest in incorporating payment technology into smart phones that would be out of reach financially for the poor and could reduce the number of ATMs that currently provide a valuable service to low income households.
- The effective use of new technology is important to keep financial inclusion policies relevant. Making sure that evolving technologies and applications fit the financial service needs of the rural poor, needs to be a concern of government policy.

I. INTRODUCTION

A. **Purpose**

The Royal Thai Government (RTG) requested Technical Assistance from the Asian Development Bank (ADB) in 2010 to support the Government's initiative to promote financial inclusion in Thailand through a highly consultative process. Approved at the end of 2010 and initiated in early 2011, one of the project components includes a comprehensive diagnostic of the current framework of financial inclusion in Thailand. The first part of this diagnostic investigates supply-side and regulatory environment issues. While other components of the process investigate the fields of micro-insurance and enabling structures such as microfinance and micro-insurance policy and regulation, financial literacy and consumer protection, this paper looks specifically at the available supply of microfinance in the country.

The supply-side studies that support this report, will be followed by a demand-side assessment that will examine the impact of financial services from a consumer perspective. At the conclusion of this process, we will integrate the findings and analysis of all studies into a single synthesis report on a Diagnostic on Financial Inclusion in Thailand. This will provide a detailed analysis of the strengths and deficiencies of financial service provision to low income groups in Thailand and will provide sound evidence-based recommendations to support the development of a National Strategy for Improving Financial Inclusion.

B. **Scope**

Financial inclusion requires that all people, including the *poor and disadvantaged*, have access to a broad range of financial services delivered in a *responsible manner* at a *reasonable cost*. Financial inclusion was raised as a concern in 2003 by then UN Secretary-General Kofi Annan, who described a world in which large groups of individuals remained without access to high-quality and affordable financial services such as savings, credit or insurance. Since then, the term financial inclusion has grown to include 1) savings, 2) short and long-term credit, 3) leasing and factoring⁴, 4) mortgages, 5) insurance, 6) pensions, 7) payments, 8) domestic money transfers and 9) international remittances (UN 2003). Adequate regulation (including provision for consumer protection) and the promotion of financial literacy are key components that allow financial inclusion to work effectively.

This paper focuses on current domestic financial services that cater to low income groups, the institutions that provide them and some new innovations that have a bearing on the future of financial inclusion. The financial services of particular interest include loans, savings, payments and remittances. Micro-insurance is covered in a separate report. In this microfinance supply-side paper, we will assess the three main categories of microfinance institutions (MFIs) namely;

- a. Formal MFIs
- b. Semi-formal MFIs
- c. Informal independent and self-help groups

Data has been obtained through desk based research and as well as interviews with industry experts and financial service providers. The interviews have included government agencies in charge of regulating financial institutions, government departments that support microfinance groups and independent organizations that also play supporting roles with microfinance service providers.

⁴ Factoring is a financial transaction in that a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount.

The paper is divided into five parts. Section 0 provides Thailand's macro- and socio-economic context and an overview of the Thai Financial Sector. Section II presents information on the array of different providers of microfinance products and services in the country. Section III has information about the microfinance products and services currently existing in the country. Finally, Section IV provides concluding thoughts as to the implications of the report's findings for improving financial inclusion in Thailand.

Thailand Country Overview

The purpose of this section is to provide the relevant background context necessary to the understanding of financial inclusion in Thailand. The section begins by providing a brief macro- and socio-economic context of the Thai economy, followed by a short overview of historical developments in the financial sector prior to the important 1997 crisis years up to the present time. This is followed by a summary of the policy landscape that is currently available for improved financial inclusion in Thailand.

C. *Thailand's Macro- and Socio-Economic Context*

Thailand is an Upper Middle Income country⁵ with the midrange HDI⁶, having a population of approximately 66 million people⁷. The country is divided into four geographic regions plus Bangkok with population as shown in Table 1 below.

Table 1: Population per region

Region	Population (million)	Per cent
Northeastern	18.97	28.7
Central	18.18	27.6
Northern	11.66	17.7
Southern	8.87	13.4
Bangkok	8.3	12.6
Total	65.98	100

Thailand's present social and economic conditions owe much to the post-World War II years of rapid economic growth and industrialization. The Thai economy grew at an average 7.8 percent per year in the 1960s, 6.8 percent in the 1980s and a staggering 8.2 percent in the early 1990s before it was disrupted by the Asian Financial Crisis in 1997 that first hit Thailand and then spread throughout the region⁸ (see Figure 1). While the era of high growth has ended, decades of participation in worldwide industrialization has transformed the economy from a primarily agricultural economy to one based on industrial activity and manufactured exports. In 1960, agriculture contributed 36 percent to the country's GDP and industrial activity accounted for 19 percent. The reverse is true today. Industrial activity now contributes 41 percent to GDP while agricultural activity accounts for 12 percent⁹. The agricultural sector continues to be a significant employer accounting for 35.5 percent of the labor force¹⁰.

Relative stability of prices has been a notable feature of the post-WW2 Thai economy. Although the country experienced high growth for several decades and suffered badly from the 1997 Financial Crisis, price levels were kept at manageable levels. With the exception of

⁵ According to World Bank classification.

⁶ According to UNDP, Thailand's Human Development Index (HDI) in 2011 was 0.682

⁷ NSO Population Census 2010.

⁸ Disruptions to the financial sector resulting from the 1997 crisis are discussed in the financial sector overview in this section.

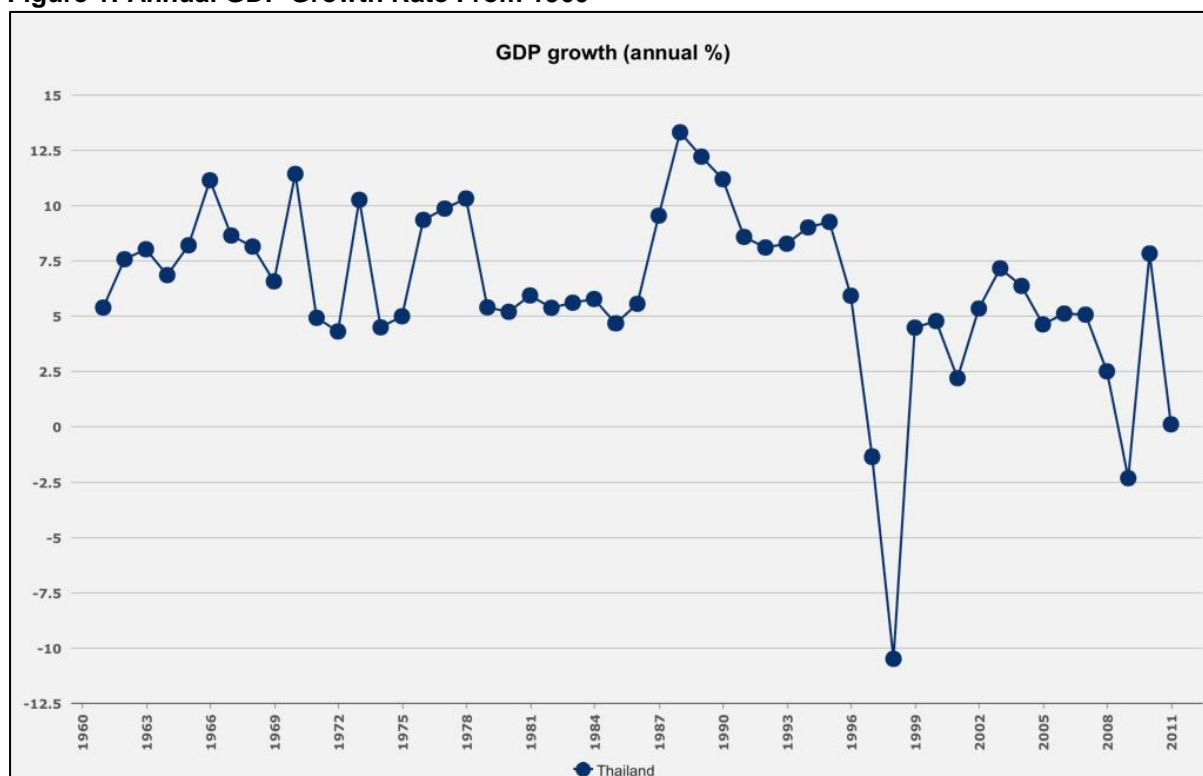
⁹ Calculated as a percentage of the sector's value added to GDP. Data from World Bank Databank.

¹⁰ NSO Labor Force Survey, February 2013.

1973, 1974, 1980 and 1981 when the consumer price index increased at lower double-digit levels¹¹, inflation based on the consumer price index, has been fluctuating at single-digit levels since 1960, despite the 1997 crisis. The inflation level in 2012, at 3.02 percent¹², is in line with this long trend of stable prices (see Figure 2).

Unemployment in the country has been low in recent years, with the figure for February 2013 at 0.6 percent¹³ despite a 40% increase in minimum wage increase to 300 Baht per day. This that became effective in Bangkok, five surrounding provinces and Phuket province on April 1, 2012 and on January 1, 2013 nationwide. In response, underemployment figures have risen, indicating that employers have adjusted, not by firing people, but by reducing the number of hours people work¹⁴.

Figure 1: Annual GDP Growth Rate From 1960



Source: World Bank

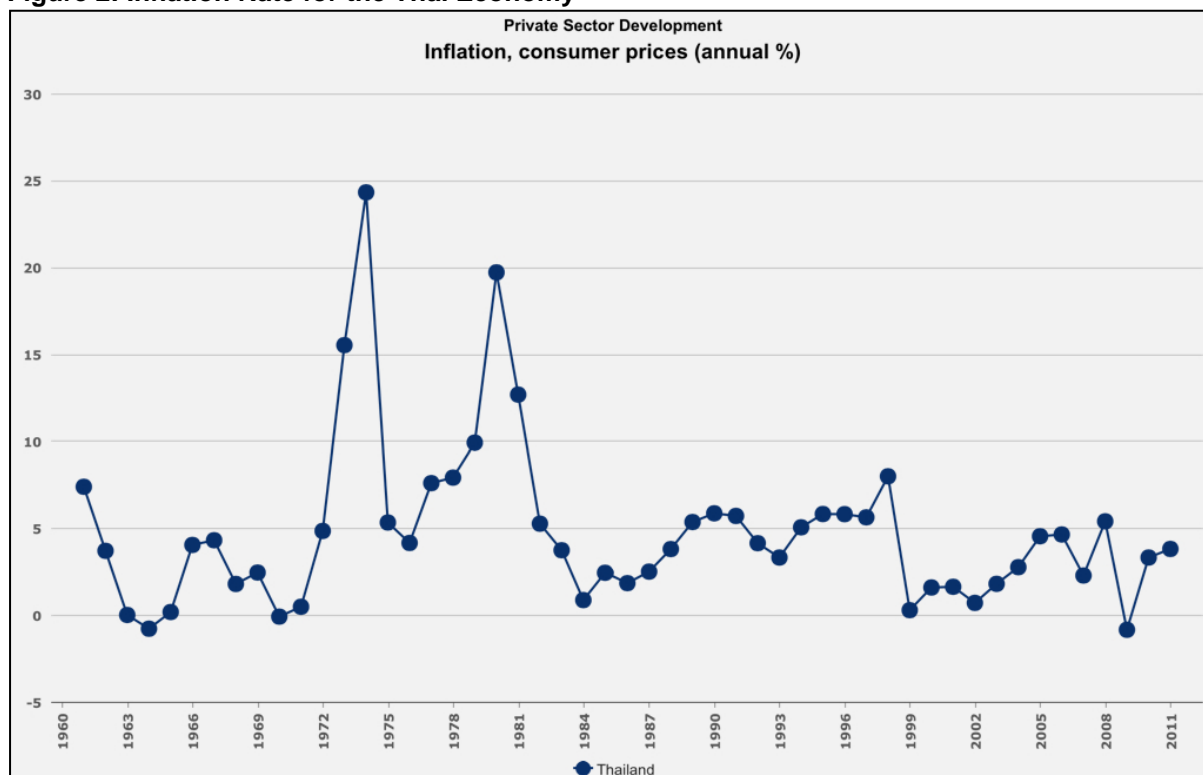
¹¹ Inflation was 15.5% in 1973, 24.31% in 1974, 19.7% in 1980 and 12.7% in 1981. Source: World Bank Databank.

¹² Bank of Thailand. Figures are for common consumer price levels.

¹³ NSO Labor Force Survey, February 2013.

¹⁴ World Bank 2012: Thailand Economic Monitor, December 2012

Figure 2: Inflation Rate for the Thai Economy



Source: World Bank

While a lengthy postwar period of high growth with stable prices and low unemployment resulted in an improvement in poverty indices¹⁵, inequality is a concern for the government. World Bank data shows that the Gini Index for income inequality in the country has been fluctuating in the .40 – .50 range since 1981, despite great increases in both GDP and GDP per capita over the same period¹⁶. When adjusted for *inequality in the distribution of human development*, Thailand's 2010 Human Development Index falls to 0.537 worsening by 21.3 percent. Income inequality accounts for 34 percent of this change.¹⁷

Poverty in Thailand is mostly a rural phenomenon. Statistics collected by both the World Bank and the country's National Economic and Social Development Board (NESDB), consistently show that a higher proportion of those living in rural areas fall under the poverty line when compared with those in urban settings. According to NESDB, of the 5 million people who live under the poverty line in Thailand, 88.76 percent live in rural areas, while the urban poor account for 11.24 percent (see Table 2). While the absolute level of poverty has more than halved, the predominance of poverty as a rural phenomenon has remained consistent in the past decade (see also Table 2). For Thailand, where 45.62 million people, or over 60 percent of the total population live in rural areas¹⁸, a higher incidence of poverty in rural settings indicate that rural poverty is still a problem that needs to be addressed.

¹⁵ In 1981, the proportion of the population living on less than 2 US Dollars a day was 44.05 percent. In 2009, the figure was reduced to 4.58 percent. (Values calculated using 2005 international prices.) (World Bank Databank.)

¹⁶ World Bank Databank.

¹⁷ UNDP (2011). Human Development Report, Explanatory Note on 2011 HDR Composite Indices: Thailand.

¹⁸ Data for 2010. World Bank.

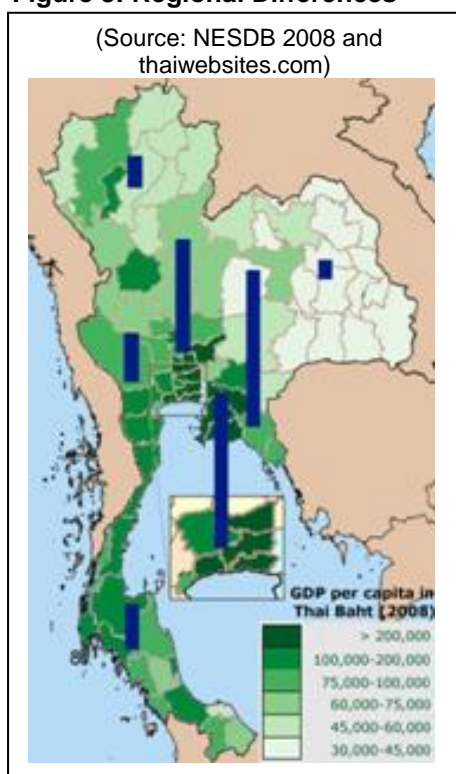
Table 2: Urban and Rural Individuals Living under the Poverty Line in Thailand (2002 to 2010)

Region	Urban Area (Unit = 1000 people)						Rural Area (Unit = 1000 people)					
	2002	2006	2007	2008	2009	2010	2002	2006	2007	2008	2009	2010
Bangkok	145	29	64	42	48	36						
Central	243	98	119	85	84	92	848	428	377	403	321	362
North	318	147	134	155	145	144	1972	1263	1384	1451	1205	1143
Northeast	464	319	216	231	278	264	4363	3301	2614	3019	2776	2740
South	88	85	102	65	52	36	695	387	410	322	370	261
Whole Kingdom	1257	678	636	577	607	517	7878	5379	4785	5195	4672	4506
Percent of Total Poor Population	13.76	11.19	11.73	10	11.49	11.24	86.24	88.81	88.27	90	88.51	88.76
Percent of Total Population	2.054	1.069	0.995	0.895	0.934	0.789	12.873	8.484	7.488	8.054	7.188	6.879
National Poverty Line (THB/month)	1,190	1,386	1,443	1,579	1,586	1,678	1,190	1,386	1,443	1,579	1,586	1,678
National Poverty Line (USD/month)	39.67	46.20	48.10	52.63	52.87	55.93	39.67	46.20	48.10	52.63	52.87	55.93

Source: National Social and Economic Development Board (NESDB) 2010 Poverty and Inequality Report¹⁹

¹⁹ Data in the report is based on the NSO's Socio-Economic Survey for 2010.

Figure 3: Regional Differences



National income data and poverty statistics indicate that Thailand is far from homogenous in terms of level of development. Average GDP per capita is dramatically higher in Bangkok (8.3 million people) compared to the Northeastern Region (18.97 million people) (see Table 1). The richer regions (Bangkok and Central) are also areas that contain most of the industrial and commercial activity, while the poorer regions in the North, Northeast and South are primarily agrarian. Household poverty has been consistently shown to correlate with low levels of financial inclusion²⁰, so the focus of increasing financial inclusion in the country is to target those living in poverty who currently have limited access to financial services.

Regional disparities²¹ also extend to the labor force. A labor force survey conducted in 2012 shows that of Thailand's 39.55 million workers²², 63 percent (25 million people) are employed in the informal sector and have no access to work-related social security²³. The majority of these people (65.1 percent) has primary education or lower, and work in the

Northeastern region (41.5 percent). The Northern region has the second largest informal labor force (21.4 percent), followed by the Central region (18.7 percent), the South (13.3 percent) and Bangkok (5.1 percent). Differences in regional economies and financial infrastructure play a key role in determining the types of financial services supplied and demanded and will be explored further in this paper.

D. Overview of the Thai Financial Sector

1. Present-day Financial Sector

The Thai financial sector has a diversity of service providers ranging from large commercial banks to medium-sized cooperatives and credit unions, to small self-help savings and credit groups, each providing a variety of deposit, credit, remittance and payments collection services. While there is considerable market overlap among service providers, they are favored by different market segments. This section gives a broad overview of the Thai financial service providers and the important historical developments that have shaped them. Detailed discussions on institutions that provide microfinance services and the market segments they target are in Section II below.

²⁰ Hickson, Robert; Alip, Aniceta; Medina, Lourdes (2007) Building Trust: "Unlocking Latent Demand for Small Savings Deposit Among Poor Households in Rural and Urban Cambodia, Asian Development Bank. Manila, ADB.

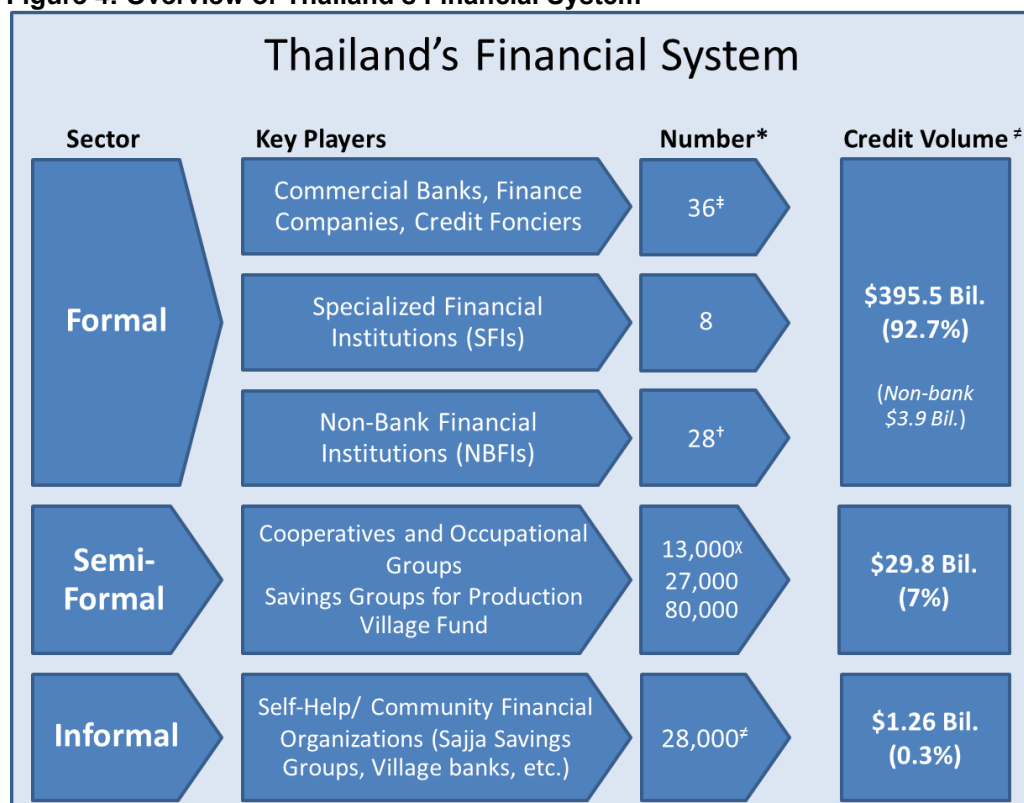
Rutherford, Stuart; Hickson, Robert, (1996) *Impact evaluation - TRDEP microfinance programme*, Bangladesh Research and Development Technical Assistance, Asian Development Bank. Manila, ADB

²¹ NESDB's classification of geographical regions differs slightly from that used in this report, that adopts the definition used by BOT and NSO. Classified according to the definition used in this report, the Central region would include both the Eastern and Western regions.

²² NSO Labor Force Survey 2012

²³ NSO Informal Economy Survey 2011.

Figure 4: Overview of Thailand's Financial System



Source: Authors' estimates, BOT, CAD, CDD, FIPD, FPO, Village Fund Office

Note: * Numbers for semi-formal and informal institutions are rounded

[‡] Estimated

[‡] Includes Thai commercial banks (15), foreign subsidiaries and foreign bank branches (16), credit fonciers (3), and finance companies (2)

[†] NBFIs registered with BOT only. Non-banks offering credit services not registered with BOT are not included.

^x Includes cooperatives (7,000), and agricultural and occupational groups (6,000)

As described in Figure 4 above, typically, financial institutions in Thailand are divided into formal, semi-formal and informal providers; based on whether or not they are supervised by the Bank of Thailand (BOT) or the Ministry of Finance (MOF), whether or not they are legislated and whether or not they are subjected to prudential²⁴ and non-prudential²⁵ regulation (see Box 1). However, this categorization of financial institutions adopted by BOT and MOF excludes non-traditional providers of financial services such as mobile network operators (MNOs) and modern trade outlets shown in Table 3 that now offer stored value cards and payment collection services. We have grouped these providers under "Other Service Providers" below. We discuss the services provided by these players in detail in Section III of this report.

²⁴ Prudential regulation and supervision addresses the financial soundness of licensed financial institutions, in order to (i) prevent financial system instability and (ii) avoid losses of deposits held by unsophisticated depositors who are not experienced investors. Prudential regulatory requirements include capital adequacy requirements, liquidity requirements and loan loss provisioning mandates.

²⁵ Non-prudential regulation and supervision addresses the behavior of financial institutions with respect to their conduct of business. Non-prudential regulation and supervision does not address the financial soundness of individual financial institutions. Examples of non-prudential regulatory requirements include: reporting and disclosure requirements, "fit and proper" requirements for directors and officers and restrictions on interest or deposit rates. Unlike prudential regulation and supervision, non-prudential regulation and supervision may apply not only to licensed financial institutions but also to registered financial service providers.

Box 1: Definition of Formal, Semi-formal and Informal Financial Institutions in Thailand

Formal financial institutions are financial intermediaries or financial institutions that are legislated and under the supervision of the Bank of Thailand or the Ministry of Finance. These institutions include commercial banks, finance companies, credit fonciers, government-owned specialized financial institutions (SFIs) and non-bank financial institutions (NBFIs). They operate under prudential and non-prudential regulations issued by the Bank of Thailand or Ministry of Finance.

Semi-formal institutions are legal, member-based financial institutions set up for the purpose of promoting savings and investment within communities. They operate under only (if anything at all) non-prudential regulations and may receive funding from the Government. This category of providers include cooperatives and credit-unions, the National Village and Urban Community Fund (Village Fund – VF), that was set up by the Government in 2001 and Savings Groups for Production, that is associated with the Community Development Department (CDD).

Informal providers include self-help savings and credit groups, which are created by the communities to serve community members. These providers do not have legislations for their setting and are not subjected to prudential or non-prudential regulations.

Table 3: Financial Service Provided By Different Types of Service Providers

Table 6: Financial Service Provided By Different Types of Service Providers

Credit <ul style="list-style-type: none"> Many households, especially farmers, regarded these as a "cash flow lifeline" Borrowers are prepared to accept widely divergent interest rates 	Savings <ul style="list-style-type: none"> 80% of people feeling they can trust banks with their money, but majority use for moving cash (remittances) Deposits at SFI's (GSB) are growing at more than 30% a year 						Insurance <ul style="list-style-type: none"> Majority of risks covered are by the community and the state Private insurers cover motor vehicles and credit-life 	
	Institution	Consumer Loans	Micro- Loans (<THB 200k)	Deposits	Remittances	Payments Collection	Pre-paid / Stored Value Cards	Insurance /risk protection
	Government							✓✓✓
	Commercial Banks	✓✓✓	✓	✓✓✓	✓✓✓	✓		✓✓✓
	SFI: BAAC	✓✓✓	✓✓✓	✓✓	✓	✓		✓✓
	SFI: GSB & GHB	✓	✓✓	✓✓✓	✓			✓
	NBFIs	✓✓✓	✓✓✓					
	Credit Unions / Co-Ops	✓✓	✓	✓✓				
	Village Fund	✓	✓✓✓	✓				
	Moneylenders / Pawnshops	✓	✓✓					
	Post Office				✓✓	✓		
	Private Insurers							✓
	Community-based institutions							✓✓✓
	Modern Trade Outlets				✓✓✓	✓✓		
	Mobile Network Operators				✓✓	✓✓✓		

Payments

- 65% of utility payments are made at 7-Eleven stores
- Mobile payments are growing exponentially

Note: ✓✓✓ indicates a dominant role, ✓✓ a moderate role and ✓ a small role in providing a financial service

Source: Authors' estimates, SES, BOT; comment boxes and % usage from Finscope

2. Key Historical Developments in Thailand's Financial Sector

The existing membership and infrastructure of the financial sector today has been forged over a number of years, with the 1997 financial crisis leaving its distinct mark. While informal financial institutions such as pawnshops and moneylenders had facilitated finance

in Thailand for hundreds of years²⁶, the modern financial system with commercial banks, finance companies and a central banking system did not emerge until much later²⁷.

Commercial banking began in Thailand in 1888 when the Hong Kong and Shanghai Bank established a branch in the country. The following decade saw the arrival of other foreign banks and the first Thai bank, Siam Commercial Bank (SCB), began operation in 1906. Before the Second World War, foreign commercial banks dominated the formal financial sector and played a dominant role in facilitating international trade. The financial landscape changed during the Second World War with the establishment of the Bank of Thailand (BOT) in 1942 and the emergence of Thai banks such as Bangkok Bank and Kasikorn Bank, as it became more difficult for foreign banks to operate in the country during that conflict. When the country's economy took off in the postwar years, the Thai financial system prospered. With the legal restriction of foreign banks to a single branch, the family-owned Thai banks benefitted from the booming economy. They grew rapidly and expanded into merchant capital groups, setting up many subsidiary companies²⁸. Also at this time, the Government encouraged banks to expand into the rural areas and banks became instrumental in channeling savings from rural regions to finance the rapidly expanding urban economic activities. The post WW2 economic boom also saw a boom in finance companies²⁹, which attracted funds from depositors, offering very high interest rates of close to 20 percent during boom times.

The booming economy, fixed exchange rates and high domestic interest rates had led to foreign funds flowing quickly into the country following greater degrees of financial liberalization that began in the 1980s. The same factors also facilitated local businesses to borrow from offshore banks. Thai banks borrowed from overseas then on-loaned those funds and benefitted from a wide interest rate differential. In 8 years, private sector foreign debt rose from 8 billion baht (0.3 billion USD) in 1988 to 74 billion baht (2.5 billion USD) in 1996.³⁰

The 1997 financial crisis that hit Thailand before spreading through Asia dramatically changed the operations of banks and finance companies. When Thailand abandoned the pegged exchange rate regime on July 2, 1997, the baht sank from 25 baht to the dollar to 56 baht by January 1998. Private sector debt doubled, businesses went bankrupt and nonperforming loans rose to an estimated 40 – 50 percent in that year³¹. What started off as a currency crisis became a full blown crisis in the formal financial sector and the country had to turn to the International Monetary Fund (IMF) for support.

As confidence in the financial sector waned, the State stepped in to guarantee most deposits and closed bankrupt financial institutions. In all, a total of 56 finance companies were closed and 4 commercial banks had to be bailed out by the government. While the number of commercial banks today has not changed much from pre-crisis times, the number of finance companies was drastically reduced from 91 to 2 today.³² The government also opened up the Thai financial sector to foreign competition by removing some restrictions on foreign banks, allowing them to acquire shares of up to 49 percent in

²⁶ Laws regulating pawning practices date back as far as 1691 in the Ayudhaya period.

²⁷ The Bank of Thailand was established in 1942.

²⁸ Phongpaichit, P. and C. Baker, Eds. (2008). *Thai Capital After the 1997 Crisis*. Thailand, Silkworm Books.

²⁹ Finance companies can take deposits by issuing certificates of credit to depositors.

³⁰ Phongpaichit, P. and C. Baker, Eds. (2008). *Thai Capital After the 1997 Crisis*. Thailand, Silkworm Books; Fitchett, D. (1999). Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand (Case Study) CGAP.

³¹ *Ibid.*

³² Menkhoff, L. and C. Suwanaporn (2007). "10 Years After the Crisis: Thailand's Financial System Reform." *Journal of Asian Economics* 18: 4 – 20. Classification of financial institutions used here are those used by BOT and FPO - reference the Financial Institutions Businesses Act B.E.2551.

domestic banks. As a result, domestic banks are no longer wholly owned by local banking families.

The financial crisis of 1997 and subsequent governments' populist policies also had implications for the state-owned specialized financial institutions (SFIs)³³. Established to help implement the RTG's social and economic policies, the 8 SFIs³⁴ played increasing roles in the Thai financial sector following the crisis years. SFIs' market share expanded from 10 percent in 1996 to 18 percent in 2002³⁵ to 22 percent in 2010³⁶.

However, cooperatives, first established in 1916, were largely unaffected by the disruptions in the formal financial sector as they lent mostly to cooperative members and were prohibited from borrowing abroad. Savings Groups for Production and self-help groups were also unaffected for the same reasons as the cooperatives. A semi-formal institution, the Village Fund was established after the crisis in 2001 to make credit available to villagers³⁷.

As the financial sector began to stabilize, an increasing interest in the problems of the poor resulted in reforms that have begun to target financial inclusion. As detailed in the Financial Sector Master Plan (FSMP), the first phase of that was implemented in 2004 – 2008, the aim was to increase the efficiency of the financial sector and broaden access to financial services. The second phase of FSMP is currently being implemented (2010 – 2014) and aims at reducing system-wide operating costs, promoting competition and financial access and strengthening financial infrastructure. The two phases of FSMP aim to *utilize SFIs as a vehicle for increasing access to financial services* and to *support the roles of semi-formal and self-help groups* in serving those with little or no access to financial services. In between the two FSMPs, the Fiscal Policy Office (FPO)'s Microfinance Master Plan (2008 – 2011), was put in place to provide support for the *development of sustainable (i.e. profitable) community-based financial institutions and self-help groups*³⁸.

The following section focuses on the roles played by commercial banks, SFIs and other players in providing financial services to the low income population in Thailand 16 years after the 1997 crisis. We also include in our analysis, service providers who were not traditionally in the financial sector such as modern trade outlets and mobile network operators (MNOs).

³³ Satsanguan, P. (2006). Specialized Financial Institutions: A Policy Tool to Fill the Gap Left by Commercial Banks? *TDRI Annual Conference*. Chonburi, Thailand.

³⁴ These are the Bank for Agriculture and Agricultural Cooperatives, the Government Savings Bank, the Government Housing Bank, , the Islamic Bank of Thailand, the Export-Import Bank of Thailand, the Small and Medium Enterprise Development Bank of Thailand, the Secondary Mortgage Corporation and the Thai Credit Guarantee Corporation.

³⁵ Satsanguan, P. (2006). Specialized Financial Institutions: A Policy Tool to Fill the Gap Left by Commercial Banks? *TDRI Annual Conference*. Chonburi, Thailand.

³⁶ IMF Country Report No. 12/124. (June 2012).

³⁷ Boonperm, *et al.* (2012). *Appraising the Thailand Village Fund*. World Bank Policy Research Working Paper 5998. World Bank.

³⁸ FPO (2008). Accessible at: <http://www.fpo.go.th/FPO/index2.php?mod=Content&file=contentview&contentID=CNT0003064&categoryID=CAT0000146>, accessed March 2013.

II. PROVIDERS OF MICROFINANCE PRODUCTS AND SERVICES

As noted in Section 0, financial service providers are commonly classified into three types in Thailand– formal, semi-formal and informal. This typology is expanded as follows in this section in order to provide a more detailed analysis of financial service providers in Thailand:

- (1) Commercial Banks, finance companies and credit fonciers³⁹;
- (2) Specialized Financial Institutions (SFIs);
- (3) Credit Only Financial Institutions: such as NBFIs and the Village Fund
- (4) Cooperatives and Credit Unions ;
- (5) Moneylenders and Pawnshops
- (6) Savings Groups and Self-Help Groups; and
- (7) Other Service Providers: Modern Trade Outlets and Retailers, Mobile Network Operators and Post Offices

Figure 5 below illustrates and elaborates on this categorization of financial service providers.

Figure 5: Classification of different financial service providers

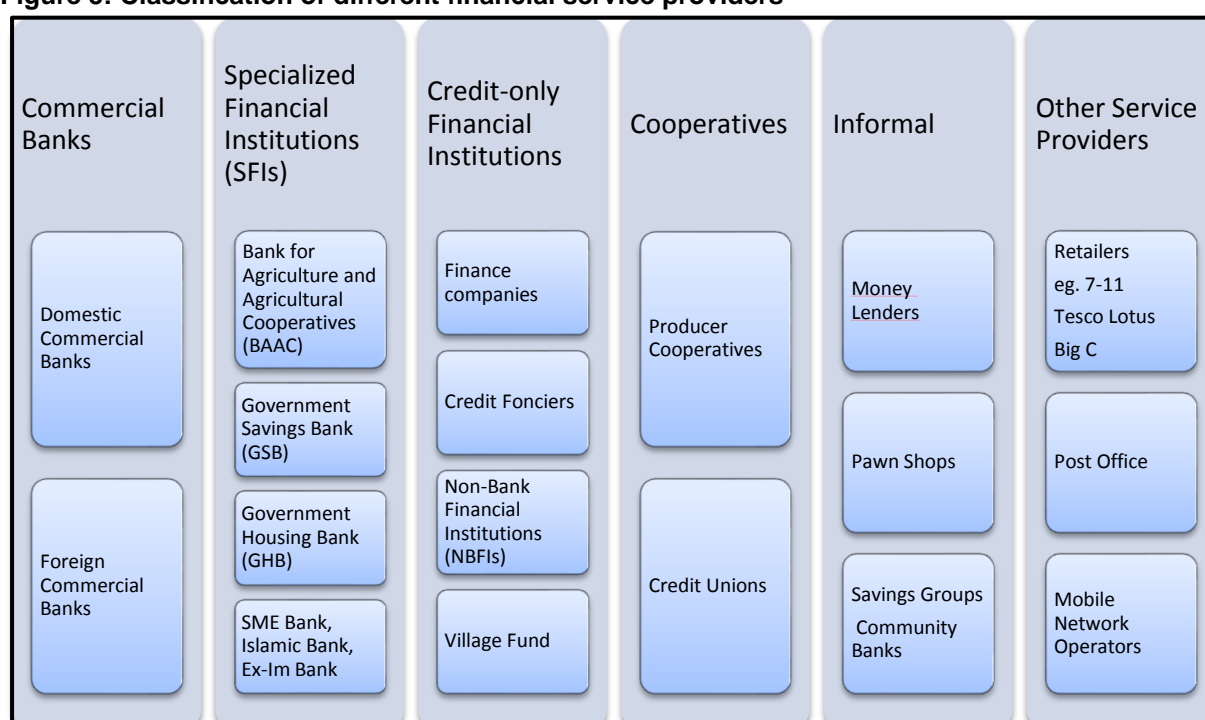


Table 4 summarizes of the relative market share for loans and savings for different institution types.

³⁹ Credit foncier – A “credit foncier” loan is one for a fixed period with regular repayments that each includes components of both principal and interest, such that at the end of the period the principal will have been entirely repaid. This is to be contrasted with an “interest only” loan where the repayments are of the interest only. (http://en.wikipedia.org/wiki/Cr%C3%A9dit_Foncier_de_France)
Also: A company licensed for the purpose of carrying out improvements, by means of loans or advances upon real securities) (<http://www.definitions.net/definition/credit+foncier>)

Table 4 Loans and savings provision in Thailand by different institution types

Institution	Value of loans	No. loan accounts	Average loan size	Value of savings	No. savings accounts	Average deposit size
Commercial Banks	12,013,990	15,749,372*	762,823	10,617,479	83,623,482	126,968
Saving Cooperatives	1,210,766	11,519,141**	N/A	1,377,346	N/A	N/A
BAAC	831,994	3,987,149	208,669	997,311	N/A	N/A
GSB	1,325,695	2,807,866	472,136	1,762,182	N/A	N/A
GHB	758,580	1,480,613	512,342	579,886	N/A	N/A
Islamic Bank	169,242	199,551	848,114	100,371	N/A	N/A
SME Bank	124,200	99,532	1,247,842	NAP	NAP	NAP
Regulated NBFIs	138,107	6,851,030	20,159	NAP	NAP	NAP
Village Fund	184,189	12,801,444**	N/A	19,402	N/A	N/A

*No. of borrowers; **No. of members; N/A = not available

NAP = not applicable Data Source: FIPD/MOF records June 2013

In addition BOT reports the loans shown in Table 5 made from other financial corporations (ref note 1 above; data Q1 2013).

Table 5: Loans made from other financial corporations (million baht)

Credit Card, Leasing and Personal Loan Companies	880,653
Insurance Companies	72,388
Securities Companies	56,832
Asset Management Corporations	51,453
Pawnshops	61,710
Others	6,632
Total (million baht)	1,129,668

Table 6 provides a breakdown of deposits and credit among commercial banks from Jan 2010 to Feb 2013. As can be seen, the commercial banks now hold over 10.2 trillion Baht in deposits and are extending 11.3 trillion Baht in loans. These figures have grown at an average of 15% per annum since 2010.

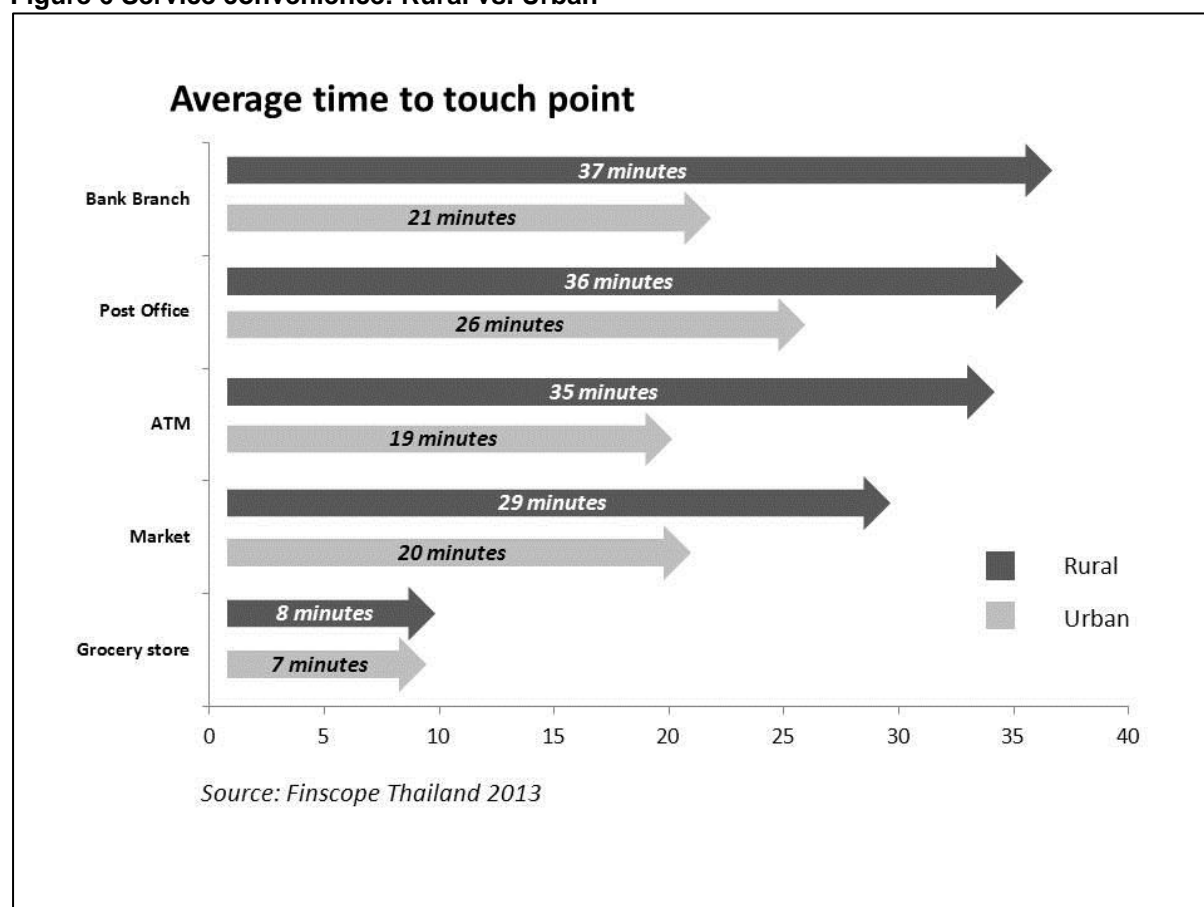
Table 6 Breakdown of Commercial Bank Deposits and Credit

(Unit: millions of Baht)	JAN 2010	JAN 2011	JAN 2012	JAN 2013	FEB 2013
No. of Branches	5,809	5,981	6,217	6,424	6,447
Total Deposits	6,970,028	7,391,498	7,994,481	10,167,313	10,202,976
Demand deposit	349,801	445,709	432,542	495,942	505,214
Saving deposit	3,347,142	3,756,979	4,164,280	4,919,425	4,956,093
Time deposit	3,267,759	3,183,743	3,392,393	4,742,560	4,731,989
Promissory Note	69	61	61	0	0
NCD	5,259	5,006	5,205	9,387	9,680
Total Credits	7,754,848	9,044,256	9,707,454	11,181,241	11,321,733
Overdraft	557,862	613,799	683,104	755,557	773,335
Loan	5,762,892	6,892,098	7,110,069	8,436,444	8,531,481
Bills	1,427,571	1,532,060	1,908,353	1,983,579	2,011,172
Others	6,523	6,299	5,928	5,661	5,743
Credits/Deposits (Percentage)	111.26	122.36	121.43	109.97	110.96

Source: BOT website (May 2013)

Of further interest is the convenience factor in accessing financial services. The bulk of Thais use bank accounts only for cash deposits and withdrawals. Yet, the cost to send money via the banking system is significant, particularly for smaller amounts.

Figure 6 Service convenience: Rural vs. Urban



FinScope (see Figure 6) revealed 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. In contrast, it took them only 8 minutes to reach a local grocery store. This would suggest that

there is space to reduce the indirect transaction costs of payments for rural communities. The relatively higher cost of bank-based payments also inhibits savings (the bulk of which is mediated through commercial banks and SFIs) and formal credit - both of which will be facilitated if the cost of payments involving formal financial institutions is reduced. One of the most important opportunities to improve the extent, cost and quality of financial access therefore lies in the payments space.

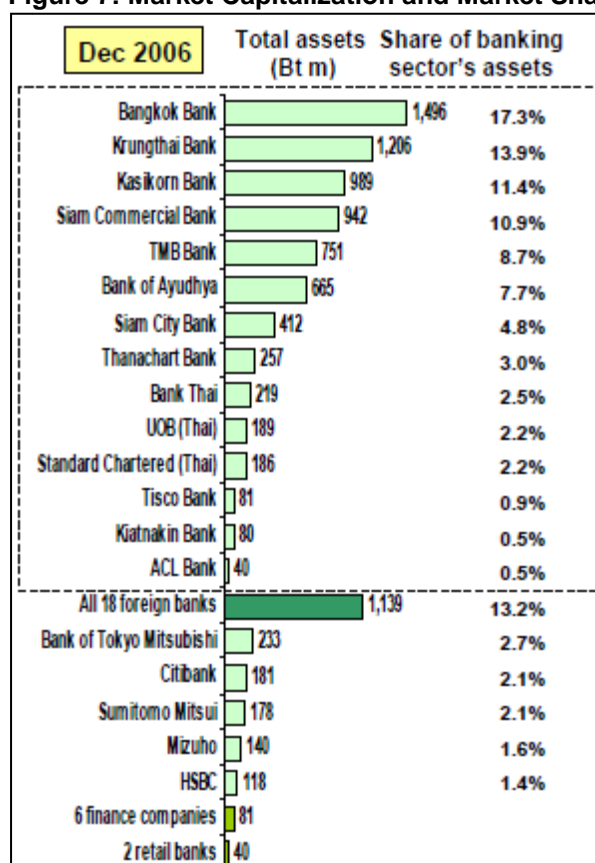
A. Commercial Banks

Commercial banks dominate the financial landscape in Thailand with approximately 84 percent of total assets and responsibility for 78 percent of the value of credit issued in the country. The four biggest banks (all domestic) have a market share of 54 percent (see Figure 7). Foreign banks play a less dominant role, as Thailand has a policy of restricting the number of branches for such banks⁴⁰. In all there are 15 domestic commercial banks and 16 foreign bank branches and subsidiaries. Thai owned businesses largely utilize the four biggest commercial banks: Bangkok Bank, Krung Thai Bank, Kasikorn Bank and Siam Commercial Bank. Foreign bank branches and subsidiaries generally cater to multinational businesses in Bangkok or have adapted to supply other services, such as the credit card business of Citibank, the largest credit card provider. There are also a number of smaller commercial banks with smaller market shares who occupy some more niche market.

All commercial banks provide comprehensive banking services and are involved in all sectors of modern banking, providing deposit, credit, remittance, leasing and payment services, and, in some cases, insurance products. Although commercial banks provide services to all customers, they have no particular focus on services to the poorer sectors of the economy, given the much greater volume and profits to be found in the business sector, foreign exchange services and the accounts of wealthy and middle class customers.

⁴⁰ Although the single branch policy has been revised, foreign banks are still restricted to 3 branches and foreign bank subsidiaries are restricted to 4 (1 in Bangkok and 3 outside Bangkok). As a result, foreign banks have also sought participation in the Thai financial system as joint partners (no more than 49%) in domestic commercial banks. The Financial Crisis in 1997 began this process as undercapitalized domestic banks sought foreign partners to avert bankruptcy. Unlike other areas of the world such as in Latin America, very few banks sold out entirely to foreign banks (Bank of Asia to United Overseas Bank (UOB) and Bank Thai to CIMB are exceptions) instead they sold large minority positions to foreign groups. Most banks managed to keep their management teams intact through the crisis.

Figure 7: Market Capitalization and Market Share of Thai Commercial Banks



Source: Thai Banks One Decade after the Crisis, Nakornthap 2007

1. Performance

One and a half decades after the 1997 crisis, the performance and stability of Thai commercial banks have improved significantly. In 2012, banks recorded a net profit of 173.9 billion baht (5.8 billion USD) driven by growth in fees and interest incomes. Return on Assets (ROA) increased by 1.2 percent and total loans had expanded by 13.7 percent year-on-year⁴¹ (see Figure 8). Increased stability is reflected in decreased non-performing loans (NPL) from the peak of nearly 50 percent in 1998 to 8 percent in 2006⁴² and 2.3 percent in 2012⁴³. Capital adequacy ratio (CAR) rose from 10 percent in the post-crisis 1990s, to 16.3 percent in 2012. Overall, the Thai banking sector in 2012 remains healthy, although liquidity has tightened slightly due to consumer credit expansion. Loan quality remains sound, but BOT remains vigilant as household debt has increased by 21 percent since 2011⁴⁴ and NPLs have started to rise⁴⁵.

⁴¹ BOT Press Release No.6/2013. Performance of the Thai Banking System in 2012.

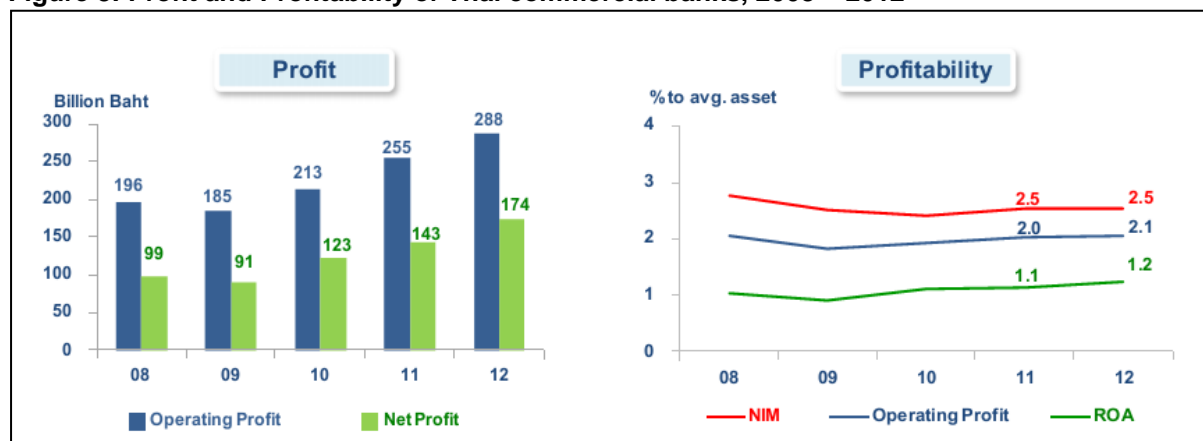
⁴² Nakornthab, D. (2007). Thai Commercial Banks One Decade after the Crisis: Assessment of Risk to Financial Stability. *Bank of Thailand Discussion Paper (DP/03/2007)*. Bangkok, Thailand, Bank of Thailand.

⁴³ BOT Press Release No.6/2013

⁴⁴ "Surging Household Debts Unsettle Central Bank". The Nation Newspaper, February 2, 2013

⁴⁵ NESDB (2013). State of Thai Society Report 2012.

Figure 8: Profit and Profitability of Thai commercial banks, 2008 – 2012



Source: BOT Press Release No.6/2013.

2. Reach of Commercial Banks

Customers can access commercial bank products and services through bank branches and automated teller and deposit machines (ATMs and ADMs). A small number of banks also allow customers to deposit, transfer and collect money transfers through post office branches. More recently, banks have started offering cash transfers and payments through internet banking. Although the popularity of online banking is growing, the use of online banking is still not widespread.

Distribution of bank branches tracks both population and income growth with commercial bank branches heavily concentrated in Bangkok and the Central region. The Northeast has the fewest branches for its population (see Figure 9). The location of ATMs and ADMs follow the same pattern as commercial banks, being located mostly in urban areas with Bangkok and the Central region comprising the largest proportion of ATMs countrywide (see Figure 10).

Although not evenly distributed, Thailand does have a very large and widespread network of ATMs as Thai commercial banks have invested in expanding their ATM networks and capabilities starting in the late 1980s. By 2004, the number of ATMs per 100,000 adults in Thailand was 20.18, a figure that is slightly lower than the average of 21 for Upper Middle Income countries. By 2010, there were many more ATM terminals per capita in Thailand than in East Asia and the Pacific and the average of all Upper Middle Income countries (see Figure 11). At the end of 2011, Thailand had close to 48,000 ATM and ADM (Automated Deposit Machine) terminals, an increase of 7.4 percent from 2010 levels⁴⁶. ATM terminals provide not only cash withdrawals, but also payment and remittance services, while ADM stations offer cash deposit service.

⁴⁶ BOT Payments Report 2011 (in Thai).

Figure 9: Population and Bank Branches by Region

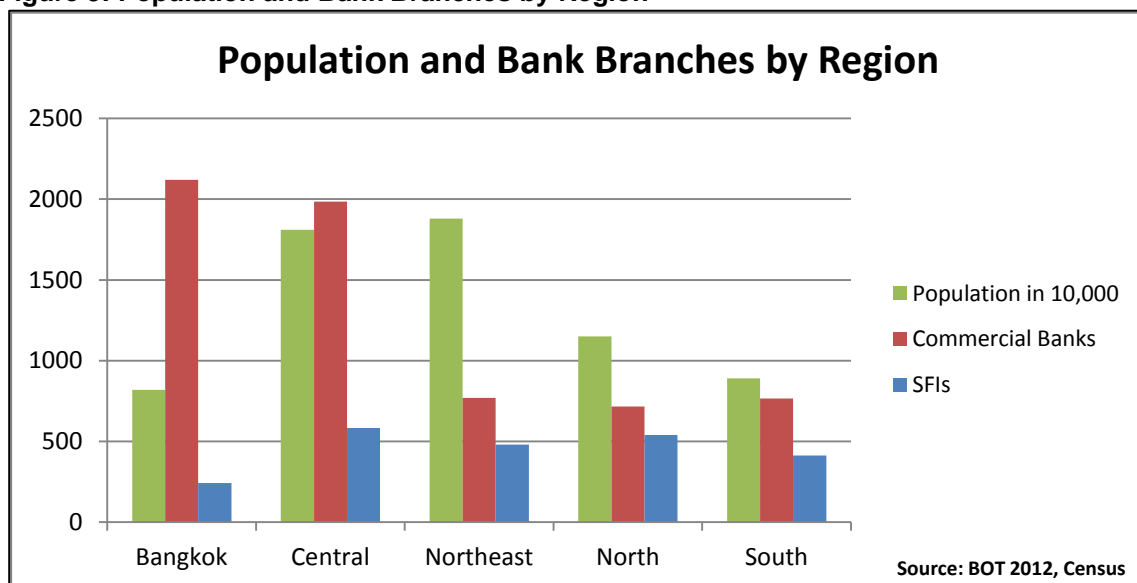
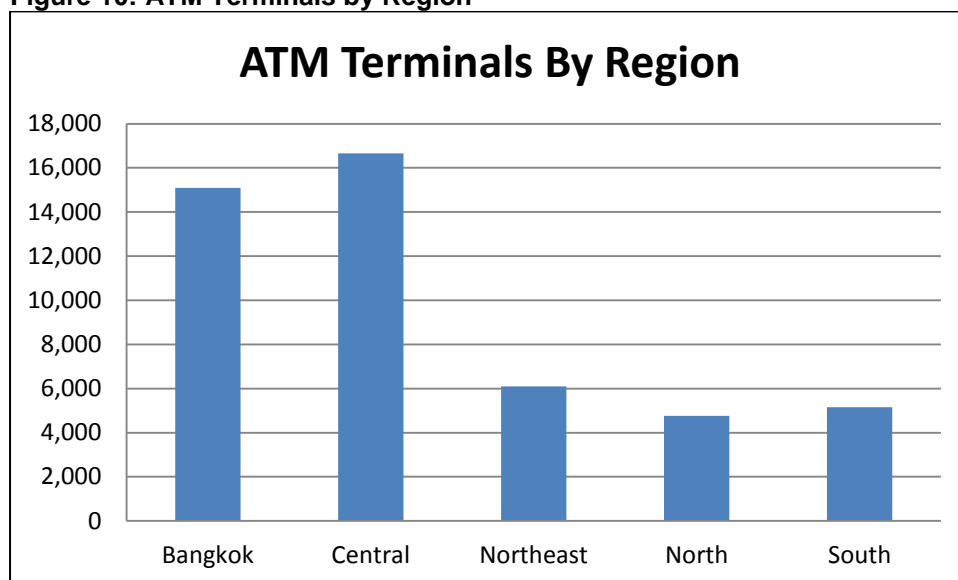
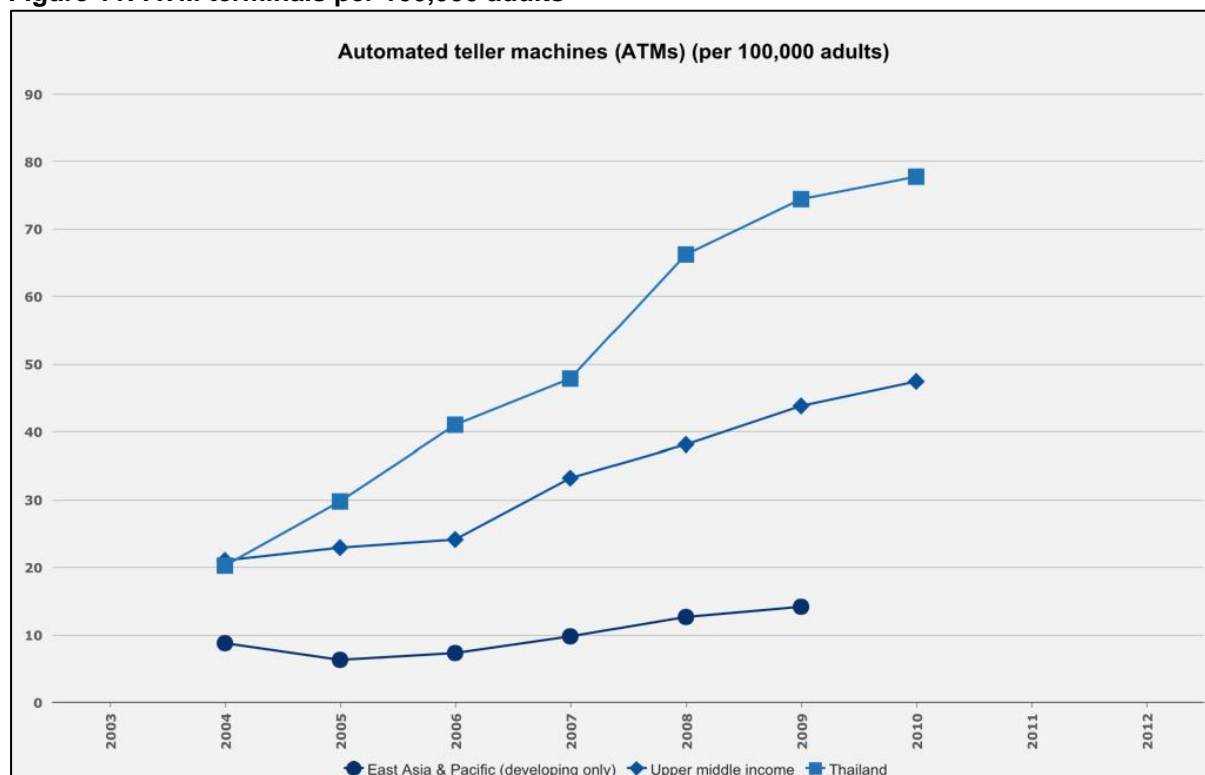


Figure 10: ATM Terminals by Region



Source: BOT 2012

Figure 11: ATM terminals per 100,000 adults



Source: World Bank

3. Banks That Offer Microfinance Services

As mentioned above, while some of the products and services offered by commercial banks are open to those with low income, banks do not particularly target the low income group that consequently tends to be excluded from their services and loans in particular. To fill this gap, two banks are offering services to target the lower income groups, albeit in different ways. Their programs are detailed below.

a. Krung Thai Bank

Although Krung Thai Bank (KTB) operates as a commercial bank and is regulated by BOT, it stands out from other banks in being majority state-owned. As such, KTB's microfinance services fall into two categories; government-affiliated activities and KTB's own initiative. Through its affiliation with the government, KTB is one of the banks Village Funds use to deposit their operating capital. In addition to BAAC, KTB also serves as an additional financing channel for triple-A (AAA) rated⁴⁷ Village Funds should the Funds wish to expand. These loans are wholesaled to the Funds themselves, which then provide loans to Fund members for occupational or other income-generating purposes⁴⁸. These loans are to help realize the government's plan of upgrading Village Funds into community financial institutions. Initial loan size is not more than 1 million Baht, but this figure can be reconsidered after one year. As of June 2012, the MRR (Minimum Retail Rate) for Village Fund loans range between 5.25 – 6.00 percent per annum (p.a.).

⁴⁷ Rating for Village Funds has not been done regularly and the criteria used do not wholly coincide with the bank's own internal credit scoring. As a result, banks usually apply an additional set of screening measures before they approve loans to Village Funds.

⁴⁸ These are stated purposes of loans. However, since the money allocated is managed directly by Village Funds themselves and they are not required to report usage of funds to the banks, it remains unknown whether or not the loans are really used for these purposes.

KTB-initiated microfinance loans are extended under the bank's Community Bank project umbrella begun in 2002, which is operated as part of the bank's corporate social responsibility (CSR) activities. The aim of the Community Bank project is to support government policy in developing the grassroots economy⁴⁹ by providing various credit products and the policy is to add new products in response to needs.

KTB's target group of microfinance customers are urban micro-business operators and the main credit product for this group are loans for marketplace vendors. These loans are capped at 50,000 Baht in the first year of the loan with the minimum retail rate (MRR) of 14.5 percent per annum. Loan duration is not more than three years and those who have been timely in their payments earn the right to obtain larger loans in future installments. BOT does not define microfinance but uses the term "microcredit" to mean loans of less than 200,000 Baht (approximately 6600 USD).

In its program of lending to marketplace vendors, KTB use the owner/manager of the market to provide character references for individual vendors and provides a commission for this service⁵⁰. In the first nine months of 2012, KTB issued microcredit loans totaling 900 million baht to 12,500 vendors in 800 fresh markets nationwide⁵¹.

KTB is expanding its microcredit service after piloting it in 20 geographic areas in 2011 and intends to expand services to 200 areas across the country by 2012. The aim is to help provide inexpensive financing (less than 20 percent p.a. interest rate, well below BOT's maximum interest rate cap of 28 percent p.a.) that is easy-to-access for grassroots vendors, to prevent them from resorting to higher priced informal providers. Targeted customers include vendors who have no bank accounts. In providing this service, KTB officers work in collaboration with fresh market owners who help identify potential clients. Locals are employed to collect payments. KTB plans to expand its retail banking portfolio to 60 percent from the current 40 percent in three years, although microfinance loans would not be more than 1 percent of KTB's total retail banking portfolio.⁵²

KTB has also unveiled 'KTB Micro Bank for Women,' to provide loans to members of Thai Women's Empowerment Funds⁵³ and 'KTB Micro Banking for Supply Chains' to provide loans to small suppliers of larger companies that are also KTB customers. In the first instance, the bank is readying itself to provide credit to growers of trees for paper-production under contract to Kanna Company, a subsidiary of Double A (1991) company⁵⁴.

KTB's non-performing loans (NPLs) in micro-credit, accounted for 0.75 percent of their value as of July 2011⁵⁵. At the same date, Village Funds had absorbed 668 million Baht from KTB's program, with their NPLs slightly higher at 0.86 percent.⁵⁶ As can be seen from these statistics, a large proportion of KTB's microcredit portfolio goes through Village Funds with KTB's own 'Community Bank' project disbursing a smaller amount.

⁴⁹ KTB website.

⁵⁰ It would better be based on loans recovered on time, not loans made. However, the value of loans are very small compared to the value of KTB's other loans.

⁵¹ "Krung Thai Bank Pushes Microfinance" Bangkok Post article, October 22, 2012. The average loan size of 72,000 THB reflects the practice that, although loans are capped at 50,000 THB for the first year, they can be raised in subsequent years.

⁵² *Ibid.*

⁵³ Thai Women Empowerment Funds is a new government initiative unveiled in 2012.

⁵⁴ "Krung Thai Goes Ahead With Microfinance Loans To Help Alleviate Informal Debt Problems," *Krungthep Turakij*, 9 October 2012.

⁵⁵ FPO (2011). The Roles of Microfinance in Promoting Financial Access. Fiscal Policy Office, Ministry of Finance Report. (In Thai).

⁵⁶ *Ibid.*

Overall, only about 1% of KTB's overall lending, reported as 1.43 trillion Baht (4.7 Billion USD) in the 2011 fiscal year⁵⁷ goes to microcredit.

4. Thai Credit Retail Bank

The Thai Credit Retail Bank (TCRB) is a public company that developed from an earlier company incorporated in 1970 (Krungthep Sin Thawee). TCRB originally provided credit services⁵⁸, but expanded into banking services when it obtained a retail banking license in 2004. TCRB is the only privately owned bank that specifically targets lower-income customers – salaried workers earning between 7,500 to 60,000 Baht (250 – 2,000 USD) per month and small business operators with total assets of between 5 – 200 million Baht (160,000 – 6.6 million USD).

The bank also offers deposit savings products as well as foreign exchange services. TCRB's main business is in credit and leasing operations. In the credit aspect, the bank strives to serve customers, who do not usually qualify for loans with other commercial banks such as those whose loan sizes are too small or small business owners with irregular income, or whose proposed loan amount is too small for commercial banks⁵⁹. TCRB offers loans for various purposes including the purchase of motor vehicles, housing, businesses, education and medical care⁶⁰. One interesting and unique product of TCRB is their gold-backed loan, which allows customers to use gold as collateral.

In its 2011 Annual Report, TCRB reports that over 99 percent of its deposit and credit customers are considered to be 'small' according to its definition. In 2011 TCRB had 56,953 deposit accounts, a 64.3 percent increase from 2010 levels. The Bank also reports an increase in its retail credit customer base of 36.7 percent from 2010 level (to 60,060 contracts). TCRB has also sought to expand its reach and access to customers by offering deposit services at post office counters. At the end of 2011, TCRB reported a total of 18 Billion Baht (600 million USD) in deposits and a total loan value of 19.6 Billion Baht (650 million USD). This indicates an average deposit size of 316,050 Baht (10,535 USD) and an average loan size of 324,675 Baht (10,822 USD) that suggests many of these loans are above the 200,000 Baht threshold used by BOT as the definition of microcredit.

In addition to credit services, TCRB also owns a subsidiary leasing company, Thanaban, which specializes in the leasing of motorcycles⁶¹. This business has been in operation for over 30 years and targets the hire-purchase of motorcycles in Bangkok and surrounding areas. As of 31 December 2011, the company has six main branches, over 280 staff and 100 trade partners.⁶²

B. State Banking: Specialized Financial Institutions

SFIs are state-owned financial institutions set up to facilitate the implementation of government economic and development policies and programs. At present, there are a total of eight SFIs, four of which offer banking services such as deposits, credit and bill payment, two offer credit services only and two others are corporations⁶³. They were set up

⁵⁷ In that year microcredit stood at THB 920 million.

⁵⁸ After first registering as Krungthep Sin Thawee, the company that is now TCRB changed its name in 1980, 1981 and 1983 to Credit Foncier Krungthep Sin Thawee and Paiboon Khe-ha Credit Foncier Company, Thai Khe-ha Credit Foncier Company respectively. The company has been operating under the TCRB name since 2007.

⁵⁹ Interview with Roy Agustinus Gunara, Managing Director, TCRB.

⁶⁰ Loan for medical care payment is capped at 500,000 baht per customer, to be repaid in 36 months.

⁶¹ The provision of motorcycle loans use for with difficulty. The National Credit Bureau reports that one in 3 of these loans are non-performing and in one in 10, fraudulent activity has been identified.

⁶² Thanaban webpage. <http://www.thanabanbike.com/en/index.php>, accessed 17 May 2013.

⁶³ The four banks that offer full banking services are the Bank for Agriculture and Agricultural Cooperatives (BAAC), Government Housing Bank (GHB), Government Savings Bank (GSB) and Islamic Bank of Thailand (I-Bank). The two banks that offer only credit services are Small and Medium Enterprise Development Bank

with specific purposes and to fill market gaps left empty (at the time of their founding) by formal financial institutions. SFI operations range from agriculture to housing, to SMEs and trade financing. While the intent was for SFIs to occupy their own unique market niche, in practice there are some overlaps (see Table 7).

Table 7: Market Segmentation of 6 SFIs

<i>Customer Group</i>	<i>SFIs that offer banking services</i>					
	GSB	BAAC	GHB	SME Bank	EXIM Bank	I-Bank
Government Sector and State Enterprises	✓					
Business Sector (SMEs and Corporations)	✓			✓	✓	✓
General Public (Retail Customers)	✓	✓	✓			✓
Low-Income Individuals	✓	✓	✓			✓

Source: Modified from GSB table

The largest SFIs, Government Savings Bank (GSB), Bank for Agriculture and Agricultural Cooperatives (BAAC) and Government Housing Bank (GHB), are deposit-taking institutions with total assets accounting for 90 percent of all SFIs assets⁶⁴. SFIs have played an increasing role in the Thai financial market since the 1997 crisis, extending credit during the crisis times when commercial banks were saddled with NPLs and credit was tight. Further expansion of the role played by SFIs has resulted from populist policies of consecutive governments. Many of these policies have targeted the needs of rural families such as through the establishment of the Village Funds, debt moratoriums for farmers and other low-income households and the establishment of a farmers' credit card⁶⁵. As a result, the SFIs' market share expanded from 10 percent in 1996 to 18 percent in 2002⁶⁶ to 22 percent in 2010⁶⁷.

SFIs are the biggest formal players in the microfinance market in Thailand, carrying out various relevant government schemes and initiatives. Two SFIs that are the most prominent providers of microfinance services are BAAC and GSB. Both BAAC and GSB target low income groups, however BAAC's main customer base is farmers, while GSB has a larger share of urban customers. I-Bank has only recently been targeting the low-income market, while GHB is related to the microfinance market through government policies that aim to provide affordable housing to lower income groups. I-Bank's core customers are Muslims mainly in the South, while the GHB specializes in home loans.

When the Yingluck Shinawatra government came into power in 2011, they initiated a series of policies to encourage consumer spending to stimulate the economy. Two policies that have impacted on consumer spending and consequently consumer debt are the policies that exempt first-time home-owners and car-buyers from tax. Details of these schemes are provided in Appendix 4.

1. Performance

SFIs are regulated under SFI specific laws with MOF holding supervision authority. Although MOF delegates monitoring of SFIs to BOT, only MOF has the power to sanction SFIs. This means that the regulatory requirements that BOT applies to commercial banks under its jurisdictions, are not applied to SFIs. SFIs also enjoy an advantage over

of Thailand, Export Import Bank of Thailand. The two other financial institutions are Thai Credit Guarantee Corporation and Secondary Mortgage Corporation.

⁶⁴ IMF Country Report No. 12/124. (June 2012).

⁶⁵ For details of roles played by SFIs during and after the 1997 crisis see Satsanguan, P. (2006). Specialized Financial Institutions: A Policy Tool to Fill the Gap Left by Commercial Banks? TDMI Annual Conference. Chonburi, Thailand; and IMF Country Report No. 12/124.

⁶⁶ IMF Country Report No. 12/124. (June 2012).

⁶⁷ *Ibid.*

commercial banks in that they are exempt from tax and do not have to contribute funds to Thailand's Deposit Protection Agency (DPA)⁶⁸. In addition, as SFIs are used to implement government economic and development policies, their operations are not geared towards profit maximization.

As Figure 12 indicates, overall performance of SFIs is weaker than commercial banks in all aspects. In terms of profits and profitability, SFIs as a group have higher net interest margin (NIM) compared to commercial banks (5.2% compared to 2.5%). Net profits for SFIs were 8.5 billion baht (0.29 billion USD) in the third quarter of 2012⁶⁹, only 5% of commercial banks' profits of 174 billion baht (5.8 billion USD) in 2012. SFIs appear to pass BOT supervision standards but as BOT has no ultimate authority to sanction non-compliance, the impact of this situation on SFIs' long term stability is unclear. SFIs also have lower operating efficiency than their commercial counterparts, as measured by ratios of operating costs to total revenues. However, some of this apparent inefficiency will be a function of the higher cost of providing the smaller loan and savings account sizes that their government mandated market requires.

The SFI loan portfolios are growing, but overall performance is weak (as shown in Figure 12). With the exception of GSB, the ratio of NPL to total loans for other deposit-taking SFIs are at least twice as high as those of commercial banks that offer similar services (see Table 8). I-Bank and SME bank are especially troubled as their NPL ratio has skyrocketed to 22.6 percent and 40 percent respectively⁷⁰. While NPLs are high, deposit-taking SFIs have a lower capital adequacy ratio when compared with commercial banks. This is a cause of concern, especially since recent government policies such as the rice pledging scheme and debt moratorium for farmers and low-income people are adding stress to SFIs, particularly BAAC (see Box 2 and Section II.B.3.a).

Table 8: Performance of Selected SFIs Compared With Commercial Banks

Financial Institution	Capital Adequacy Ratio	NPL Ratio
GHB	16.5	9.0
GSB	11.4	0.9
BAAC	10.3	7.9
Islamic Bank	10	22.6 ⁷¹
SME Bank	1	40
All SFIs	10.2	4.2
Commercial Banks	16.3	2.3

Source: FPO, SEPO, Bangkok Post

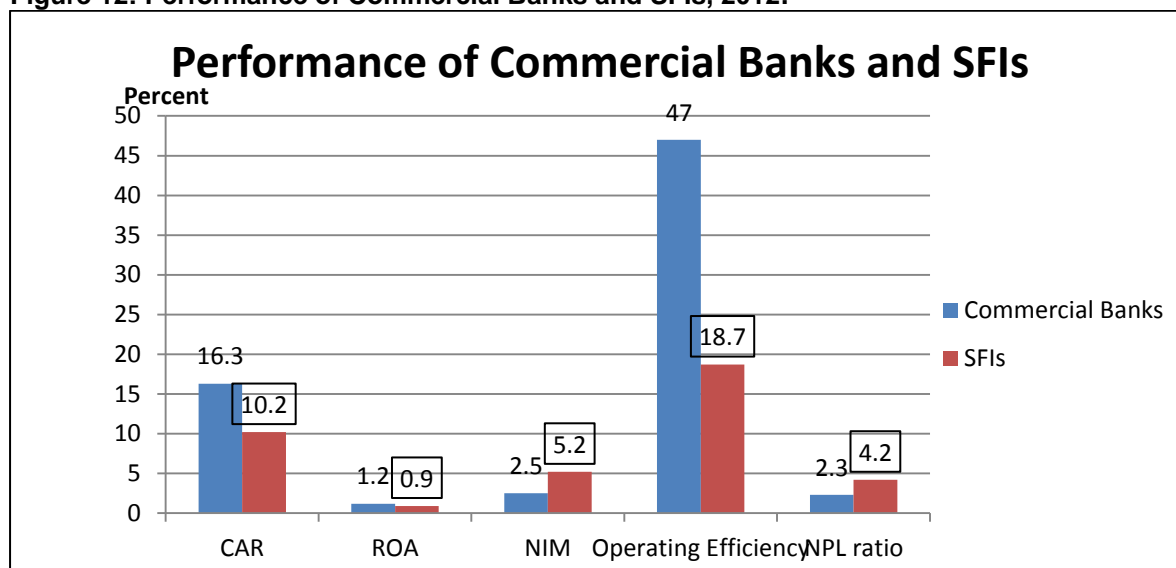
⁶⁸ Contribution to DPA was 0.4 percent of deposits from January 1 – March 26, 2012. Beginning on March 27, 2012, this ratio of contribution was reduced to 0.1.

⁶⁹ FPO Statistics.

⁷⁰ "State Bank Woes Lead to Revision, Ministry Urges Greater Transparency, Refocus," Bangkok Post, February 26, 2013.

⁷¹ 90% represent loans to just 100 large companies according to <http://socclaimon.wordpress.com/2013/02/page/19/>

Figure 12: Performance of Commercial Banks and SFIs, 2012.



Source: BOT, FPO

Box 2: 2012 Debt Moratorium Policy

One government initiative that is expected to adversely affect the profitability and cash flow of SFIs is the debt moratorium for performing loans⁷² approved by the cabinet in April, 2012; targeting farmers and people with uncertain income (i.e. those with salaries are not eligible). Eligible people are those who have performing loans of not more than 500,000 Baht (16,700 USD) per SFI (BAAC, GHB, GSB, SME Bank and I-Bank), an amount more than twice as large as the government's 200,000 baht cutoff point for microfinance loans. Under the scheme, participants pay 3 percent less interest per year on their loans and can choose whether to place a moratorium on their principle or not. Those who opt for the latter option cannot borrow additional money from the SFI in the meantime. The program is effective for 3 years and participants are offered debt management courses to ensure they are able to pay back their loans after the program is over.

Financing of the reduced interest payment is covered half by the government and half by the SFI. For BAAC, which caters to many farmers and low income people, the program is expected to cost the Bank an estimated 3.8 billion baht (127 million USD).⁷³ This will severely impact BAAC's finances as the Bank's net profit in 2011 was an estimated 4.3 billion baht. For GSB, that has a smaller number of eligible loans, the program is expected to cost the bank 700 million baht per year (23.3 million USD).

2. Reach of SFIs

SFIs were set up to facilitate the country's economic development and implement government policies that often deal with the rural sector, SFIs thus extend the reach of banking services beyond those of commercial banks. According to BOT's financial access survey for 2010, of the 878 districts in Thailand, 302 (34.4 percent) do not have commercial bank branches. However, when SFI branches are included, the number of districts with no branch service drops to 92 (10.48 percent). This is especially due to BAAC's strong rural presence. Table 9 shows the predominate presence in the regions. This is especially true for BAAC, which has the highest number of branches in the Northeast and the fewest branches in Bangkok.

⁷² Debt moratorium policies for farmers and low income people are not new in Thailand. However, the debt moratorium approved on 24 April 2012 is the first time there has been moratorium on *performing* loans.

⁷³ BAAC Government Policy Department Interview.

Table 9: Distribution of Financial Institution Branches in Thailand

Financial Institution Type/ Name	Region					
	Bangkok	Central	North	Northeast	South	Total
Commercial banks	2,099	1,978	719	759	748	6,303
BAAC*	15	207	234	264	186	906
GSB	152	279	193	222	149	995
Islamic Bank	32	16	14	5	38	105
GHB	39	51	22	26	20	158
SME Bank	5	31	18	23	19	96

Source: [BOT 2012](#) and Data From Individual SFIs

Note: * Figure is for BAAC's main branches and provincial offices only. Including all sub-branches BAAC has 1,118 service points⁷⁴.

3. SFIs That Offer Microfinance Services

a. BAAC – a Financial Institution for Farmers and Rural Areas

i. Objectives

BAAC was founded in 1966 with the purpose of supporting farmers by making loans to them for agricultural inputs. Their original joint liability group approach predates that of even Bangladesh's well known Grameen Bank. Since then it has expanded to offer a range of products similar to commercial banks. The bank has always had a leading role in implementing government's agricultural development policies. If there is a policy to promote cassava production, BAAC will be the active agent to fund investment in cassava alongside its normal services. Since Thailand has some 36 percent of its workforce in agriculture, agricultural policy still has a most significant place in Thai politics and BAAC has always taken a leading role in its application.

BAAC's vision is: "To be a secured rural development bank with modern managerial technology focusing on the uplift of small-scale farmer's quality of life." Clearly BAAC sees itself as a development bank and not as a profit driven institution.

The primary objective of BAAC has always been to make agricultural loans to farmers and agricultural cooperatives, typically loaning money for inputs at the beginning of the growing season and being paid back at the harvest. However, over time the role of BAAC has expanded beyond agriculture and it could be said that BAAC is now the dominant financial institution in rural areas. Many rural people have loans and savings accounts with BAAC even if they are not farmers.

ii. Relationship with Government

Because of its key role in implementing government policies in the countryside, there are strong impacts on BAAC from the government's initiatives designed for farm families and the rural poor. Although the Village Fund is a free-standing project supported directly by government money, in recent years some expansion of finance for the Village Fund has been sourced by loans through both the BAAC and KTB. For other recent projects such as the recent rice pledging scheme⁷⁵, BAAC operates the program⁷⁶ and is reimbursed by government. The scale of the rice-pledging scheme is large, estimated at 12 billion USD

⁷⁴ BAAC website accessed May 18, 2013

⁷⁵ In practice, this is a price guarantee scheme as the price offered by the government is higher than the market rate.

⁷⁶ BAAC finances the service and is later reimbursed by Government.

dollars. This has placed considerable pressure on BAAC finances and liquidity in 2012. This comes on top of the 2012 debt moratorium on performing loans mentioned above.

BAAC is also currently implementing the government's farmers' credit card initiative. BAAC clients can apply for credit cards, used for the purchase of agricultural inputs at participating stores⁷⁷. One million cards were issued in the initial 18 months of this program. The RTG seeks to expand these cards by a further 3.8 million by end 2013⁷⁸.

As of February 2013, BAAC had approved 2.2 million farmer credit cards, with a total credit limit of 42.7 billion baht (1.5 billion USD). 1.9 million (86 percent) of which have been approved for farmers. 44 percent of distributed cards have been used in February 2013 and total expenditures from the cards stand at 2.9 billion baht (97 million USD).⁷⁹

iii. Competitive Position

The unique role of BAAC in delivering government policy also serves to limit commercial banks' entry and profitability in rural areas. Government support includes subsidies that allow BAAC to provide low interest loans, opportunities to implement politically inspired programs such as the debt moratorium and an implicit government guarantee of client deposits. However, loans in the countryside are also likely to be small and not very profitable given the government imposed maximum interest rates (15 percent for business loans, 28 percent for personal and microfinance loans), that results in the fact that commercial banks are generally content to let BAAC play the primary lending role in rural areas. Competition for BAAC loan products comes from; the Village Fund (another government subsidized microfinance program), moneylenders (providing easier to obtain loans at higher interest rates) and NBFIs (that use personal assets such as motorcycles as collateral). BAAC is less used in rural areas for savings and although BAAC has emphasized its deposit programs and has savings accounts associated with its loans program, commercial banks still dominate in terms of value of savings deposits in rural areas.

iv. BAAC's Microfinance Products

BAAC offers a range of loan and savings products for their target market. In 2012, BAAC loans were extended to a total of 6.72 million farm households or 92.7 % of all farm households in Thailand. Loans to individual farmers (organized into joint liability groups), currently account for 74.5 % of the total loan portfolio (950 billion baht for the 12 months ending March 2013). Currently BAAC total deposits are 985,039 million Baht made up of deposits from the general public of 577,425 million Baht (54%), the government sector 305,136 million Baht (31%) and reward earning deposits of 102,478 million Baht (10%).⁸⁰

Loan products offered include those that support agricultural production such as loans for agricultural assets, other investments and working capital. They also include personal loan products aimed at bettering the quality of life of clients such as loans for education purposes and loans to help farmers meet household expenses (often allowing them to postpone the sale of agricultural products until higher prices are available). BAAC also has a loan product that helps farmers redeem or repurchase ancestral/ family agricultural land. This product not only provides loans for redemption or repurchase of the land itself, but also provides financing to cover expenses of the first planting season, investments in farm assets and expenses regarding the mortgage of immovable property.

⁷⁷ BAAC also has loans for the purchase of machinery and equipment, loans for those coming back home to work in agriculture (among other things), etc.

⁷⁸ BAAC 2013.

⁷⁹ BAAC 2013.

⁸⁰ BAAC website May 2013

Deposit products of BAAC include current accounts, savings accounts, fixed-term savings accounts and savings accounts with special conditions. These latter accounts include Om Sap Thawichoke Savings Deposits⁸¹ that induce people to save by offering incentives such as income tax exemptions on the amount deposited and the chance for account holders to win prizes such as automobiles, motorcycles, gold, televisions, etc. To be eligible for entry in a prize draw, of that there are three per year, customers must have a balance of at least 2,000 Baht over the preceding three months and for each 2,000 Baht above this initial amount, customers get an additional draw card, increasing their chances of winning the prize. There is also Om Sap Thawisin that offers savers the chance to enter into a prize draw and win cash prizes.⁸²

While the BAAC has been fairly successful in attracting and serving rural customers, the Bank recognizes that there are still those who are not served by its service channels and that these people tend to be the poorest of the poor⁸³. In order to better serve this group of people and to reduce their need to go to higher priced informal providers, BAAC initiated the Community Bank Project in 2010 in line with government's new policy initiative of reducing informal sector debt.

Under its Community Bank project, BAAC aims to cater to the previously financially excluded group by helping them set up community-based financial organizations. BAAC also provides loans, charging these organizations an interest rate of 12 percent per year⁸⁴. Credit is provided for various purposes and granted both directly to individuals (not more than 50,000 baht (1,670 USD per person) and to community financial organizations (not more than 20 million baht (660,000 USD per organization)⁸⁵. Loans provided can be for occupational purposes, loans for the purchase of homes or real estate, educational loans, loans to improve quality of life and loans to help customers pay off their debt to moneylenders.

Developed in line with the government policy at the time to enlist SFIs to help reduce informal sector debt, the program effectively converted informal debt to formal debt at a much lower interest rate. There may be a hazard with this strategy as it is difficult to determine whether these loans actually reduced total informal debt or whether they simply facilitated additional indebtedness by filling an unmet demand for credit, albeit at a cheaper price.

Figures for Community Bank Project operation for 2010 / 2011 show it has enabled underserved groups such as the disabled and AIDS patients to obtain access to financial services through local community finance organizations. Over that period, BAAC provided financing to 63 such organizations, disbursing 221.92 million baht (7.4 million USD) in loans and providing 28,454 of their members with access to funds⁸⁶.

b. The Government Savings Bank (GSB)

GSB has its roots in the Savings Office established in 1913 to promote savings habits among Thais. GSB in its present form was founded in 1947⁸⁷ as a way to build capital for

⁸¹ Depositors must open a new account with a minimum of 50 Baht and continue depositing up to 2,000 and hold it for 3 months in order to get 1 coupon. This coupon is used for a lucky draw every 6 months at BAAC branches across the country. Currently there are 8,181,240 accounts with a total of 128,247 million Baht.

⁸² This practice of offering prize draws to incentivize savings is discouraged by BOT as it makes it difficult for customers to calculate the interest rates on deposits. (BOT Interview).

⁸³ Interview with Mr. Morakot Pitharat, Executive Vice President, BAAC.

⁸⁴ FPO Microfinance Report 2011.

⁸⁵ BAAC Annual Report 2011.

⁸⁶ *Ibid.*

⁸⁷ GSB, however, has its roots in the Savings Office set up by King Rama VI in 1913.

the Kingdom and to encourage savings behavior in individuals for providence and capital accumulation. As the first SFI, it served as a way for the average person in Thailand to learn how banks work in an era when they were less common. More recently, due to its prominent role as a popular savings bank, GSB has attracted much attention as a government backed bank that is not required to pay premiums to the deposit insurance scheme⁸⁸ providing it with an a competitive advantage over commercial banks. GSB loans are made to the public sector as well as private individuals. GSB sees itself as a “bank for society and the environment” and tries to “give back to society” through a variety of corporate social responsibility projects. GSB has about 950 branches around the country including mobile branches (see Table 10, Table 11 and Table 12) and has an ATM network that is also available on these mobile branches.

i. GSB’s Mobile Branches

In addition to offering customers accessibility through bank branches and ATM machines, GSB has a long tradition of utilizing mobile units to provide added access. The bank began with its buses in 1942 and introduced boats in 1964. The mobile units offer a full range of services such as deposits, withdrawals, payments and use of ATM cards. Units can also receive loan payments and credit applications, although the processing of applications is done at affiliated bank branches. All except 4 mobile vans are now equipped with ATM machines and some vans also offer a foreign exchange service. The units are equipped with computers and wireless routers that allow them to offer online services via GPRS technology.

Banking with Mobile Boats

As of November 2012, GSB has two boats in operation – “Rua Thanakarn Omsin 42” (GSB Boat 42), that runs along Bangkok Noi canal and “Rua Thanakarn Omsin 9” (GSB Boat 9), that travels along the Chao Phraya River. Both boats operate in the Bangkok area and cover the parts of Nonthaburi adjacent to Bangkok. As of November 2012, GSB had 700 handheld units with online connectivity and 2,000 older models without online access.



Banking with Mobile Vans

⁸⁸ Contribution to DPA was 0.4 percent of deposits from January 1 – March 26, 2012. Beginning on March 27, 2012, the ratio of contribution was reduced to 0.1.

Mobile buses ceased operation in 2001 but GSB revived the idea by introducing mobile van branches in 2005. As of November 2012, GSB has 120 vans in operation in 68 provinces with plans to add another 9 vans in 2013 to cover all 77 provinces.

Each van is affiliated with a bank branch, that makes decisions regarding the vans' operating hours, route/service location and amount of cash reserves. GSB uses these vans to access customers in areas where there are no GSB branches in order to build customer base. Once the bank is assured of a customer base in the area, it then opens a branch and the van moves on to penetrate another area.

Table 10: Mobile Boat Statistics

	GSB Boat 42	GSB Boat 9
Officers on Board	3 (one teller, one driver and one general officer)	
Customer Number (Average)	40 – 50 persons per day	90 – 100 persons per day
Cash reserves	110,000 baht per day (customers can contact bank branches beforehand to request a higher amount of reserves if needed)	

Source: GSB

Table 11: Number of users of mobile vans by service type as of September 2012

All Savings	Electronic Cards	Online Payments	Loan repayments	Loan applications
112,755	1,215	1,740	4,013	147

Source: GSB

As a government bank, GSB is also responsible for implementing government initiatives. Current projects include carrying out government policies in helping flood victims and on projects for flood prevention. GSB along with BAAC is also charged with offering the debt moratorium to small farmers and people with uncertain income. However, as the number of customers eligible for the program in GSB is lower than BAAC, the program is estimated to only cost GSB 700 million baht (23.3 million USD) per year⁸⁹.

As GSB's objective is to promote savings and to support lower income households, it offers a variety of products and services that cater to the retail customers and grassroots people. GSB has a tradition of going to schools to induce students to start saving early (youngest is 7 years of age). A standard GSB deposit account can be opened in the student's name and is provided free-of-charge. Such an account typically comes with a bankbook (as is standard for banks in Thailand) and oftentimes a piggy bank is provided to encourage the student to save.

Deposit products at GSB can be divided into regular deposit accounts (demand deposits and term deposits) and GSB lottery savings accounts, all of that have no account maintenance fee. This latter type takes deposits in units (one unit is 50 baht) and the account holder gets a set interest plus a chance to win cash prizes (one's chance increases with the amount of money deposited). A draw is done every 16th day of each month and the first prize can be as high as 10 million baht (approximately 333,000 USD) for some type of lottery savings accounts.

GSB also provides an array of micro-credit products. These are loans required to support government policy including:

- Loans for rural development that (financing community development initiatives);

⁸⁹ "GSB Responds to Government Policy By Spending Out-of-pocket" Thairath, April 26, 2012.

- loans under the People Bank scheme⁹⁰, that provide funds to individuals who run Small and Medium Enterprises (SMEs) or to low-income individuals who want to start their own businesses; and
- Loans for row house businesses⁹¹.

Given these products, it is clear that GSB distinguishes itself from BAAC by targeting non-agricultural businesses and providing financial services to low income individuals who are vendors or small entrepreneurs.

As with other commercial banks, GSB also provides payment services. Customers can pay their internet, mobile telephone, credit card and public utilities bills online. Customers can also make life insurance payments as well as leasing payments online.

GSB also provides money transfer services through BAHTNET⁹². In addition to the internet, access to GSB payment services can be obtained through ATM machines, GSB boats and GSB vehicles, which provide some of the services offered at GSB branches to those living in areas that are far from main GSB branches.

c. The Islamic Bank of Thailand

I-Bank began operation in 2003 to provide financial services that are in accordance with the Sharia principle in order to serve Muslim customers. Like other SFIs, I-Bank is responsible for implementing government policies. Similar to BAAC and GSB, I-Bank also provides a channel for small farmers to enter into the government's debt moratorium program.

I-Bank offers several products (mostly loans) that serve the microfinance market. These include community bank loans, I-Bank Grassroots Loans and loans for refinancing informal debts. Community bank loans are offered to small enterprise owners to finance their business operations or for them to expand their businesses, while grassroots and informal debt refinancing loans are offered on an individual basis. This latter product is in line with the previous government's policy of bringing informal sector debt into the formal sector and charges much lower interest rates. Community bank loans are not restricted to Muslims and are capped at 200,000 baht. Grassroots loans are capped at 50,000 baht and informal debt refinancing loans are capped at 100,000 baht.

I-Bank also provides occupational training for small entrepreneurs, sometimes in partnership with other agencies, in order to ensure that businesses thrive and borrowers are better able to pay back their loans. For example, I-Bank paired up with the Thailand Textiles Institute to provide training for textile entrepreneurs. I-Bank also has invested in a leasing company, Amanah Leasing, in 2010 in order to provide automobile purchase financing that is in accordance with Islamic financial practices.

I-Bank started its microfinance operation a few years ago at the behest of the government. It has been cautious in operating its microfinance business, preferring to grow slowly rather than taking a greater risk of expanding quickly. The bank's microfinance business service model is to use information from local people, thereby solving the problem of not knowing a

⁹⁰ Unlike BAAC's Community Bank Project where financial organizations are set up in the communities, GSB's People Bank scheme is operated through its branch networks. Customers wishing to take out micro-loans under the scheme must go to one of GSB branches in order to apply.

⁹¹ Shop-houses in Thailand are usually built as terrace buildings and are locally called 'row houses'. Thus, the term row house refers to small to medium sized businesses. Such row houses are found in commercial districts that are usually located near main roads or in town centers.

⁹² BAHTNET is short for Bank of Thailand Automated High-value Transfer Network. BAHTNET was developed and is operated by BOT. Interbank transfers, third person transfers and interbank messaging services are provided.

new client well enough. I-Bank first approaches leaders of strong Islamic communities and appoints them as bank coordinators who serve to recommend customers to the bank. Field officers are then recruited from the local community and are hired by I-Bank to follow up on loans already made and to introduce new customers to the bank. With such close attention, the bank is able to discover why customers might fail to pay back their loans at early stages and, in the majority of cases, are able to remedy the problem⁹³.

In 2011, I-Bank provided a total of 5.2 billion baht in loans to 32 projects (4.5 percent of total loans) that support social development in the Muslim community with microfinance projects forming a part⁹⁴.

4. Other SFIs

a. The Government Housing Bank (GHB)

GHB was founded in 1953 as a way to “help secure appropriate housing finance” for Thai people. In the beginning, the bank acted mainly as a housing developer and constructed and financed public housing projects. In 1972 this responsibility was taken over by the National Housing Authority and GHB changed to be more of a full service bank, making loans to the real estate sector during Thailand’s boom years. After the Asian Financial Crisis in 1997, GHB took the lead in restructuring mortgages affected by the crisis and offered 30 year fixed interest mortgages. In its latest incarnation, GHB focuses on offering mortgages to anyone in the employ of the government, filling a function similar to a credit union, but for public employees. GHB is not much affected by the debt moratorium on performing loans of less than 500,000 baht, as most of its loans are larger in value. The bank is not particularly focused on development projects at this time.

b. The Small and Medium Enterprise Bank (SME Bank)

SME Bank is a development bank focused on a higher level of financing than that required for microfinance. Founded in 2002, the SME Bank has a mandate “to conduct business with the aim of developing, promoting and assisting small and medium enterprises to start-up expand or improve their businesses by providing loans, guarantees, venture capital, counseling and other necessary services.” According to their definition, a small enterprise has 50 employees or less and has assets less than 50 million baht (1.7 million USD) while a medium sized enterprise has 51-200 employees and assets from 51-200 million baht. From this definition it is unlikely that the SME bank would play a significant role in microfinance.

The other SFI that operates as a bank, the Export-Import Bank of Thailand (Exim Bank), targets the more affluent export – import business operators and will not be discussed here.

C. Credit-only Financial Institutions

1. Non-Bank Financial Institutions (NBFIs) – credit for those without land

NBFIs make loans generally secured by some movable assets of the borrowers. An example would be Cash-for-Cars that uses the title of a car as collateral for a short term loan. Even more common, are loans secured by motorcycle titles, or secured by any asset including jewelry and mobile phones. As such, the smallest NBFIs differ little from pawnshops, while the larger ones look like banks that use movable property rather than immovable property as collateral.

⁹³ Interview with I-Bank executives, 28 June 2012.

⁹⁴ SEPO (2012). State Enterprise Review 2011.

NBFIs are made up of several types, classified primarily by scale and the degree to that they are regulated. The BOT lists 28 large credit companies referred to as “NBFIs”⁹⁵. They also record the existence of approximately 1,000 other smaller financial companies registered with the Ministry of Commerce and acknowledge that there are many smaller companies that are not registered anywhere. All of these companies might fall under the classification of NBFIs under the general international terminology, but only the first 28 are referred to as NBFIs in Thailand.

Both the large BOT-regulated and the small non-regulated NBFIs are most common in urban areas. They are a source of finance for those who do not have land or other fixed assets to use as collateral, a situation common for many urban dwellers. They do, however, still require some form of collateral. Household Socio-Economic Survey (SES) data shows that NBFIs have expanded rapidly in recent years, somewhat replacing more traditional forms of informal microfinance such as pawnshops and moneylenders. It is likely that the poor are well served by this transition, as these larger NBFIs are likely to:

- offer lower interest rates (those registered by BOT must charge below 28 percent per annum),
- have more professional management and
- have more of a reputational risk at stake if they abuse a client (resulting in greater consumer protection)⁹⁶.

NBFIs cannot accept deposits by law and are financed in a variety of ways including:

- investment by a wealthy individual or group,
- acting as subsidiary of a larger organization including commercial banks (e.g. Bank of Ayudhya (BAY) or foreign finance companies (AEON) or
- simply taking out corporate loans that they will repay through payments by their clients.

NBFIs offer both credit card and personal loan services involving consumer credit, leasing and hire-purchase services. Credit card and personal loan companies provide short-term financing, while leasing and hire-purchase companies provide medium-term loans. Typically, a company under the large NBFIs category provides many, if not all, of these different types of services. Many companies provide personal loans together with credit card loans and cash card services⁹⁷. These include Ayudhya Card Services, Capital OK, Easy Buy, Krungsri Ayudhya Card, KTC, Promise (Thailand), and Tesco Card Services (see Appendix 3 for services offered by each of the 28 NBFIs regulated by BOT).

Some companies provide a wider range of services, offering a combination of personal loans, credit card, leasing and hire-purchase services. For example, AEON Thana Sinsap provides credit card services with personal loans, motorcycle leasing and even payment services provided through its AEON card⁹⁸. Asia Sermkij Leasing provides three types of leasing services – personal financial leases for machines, office supplies and automobiles, automobile financial leases for companies and factor leases. KTB leasing provides consumer product leasing for items such as mobile phones, home electrical appliances,

⁹⁵ NBFIs that provide credit-card services are required to register with BOT and the company's registered capital must be 100 million Baht and above. For personal loan operators, the amount is 50 million Baht.

⁹⁶ This is especially true of the 28 large NBFIs regulated by BOT as BOT has a financial consumer protection center that receives complaints from disgruntled customers.

⁹⁷ Cash card services are essentially cash loans, but instead of giving customers cash up-front, customers are given plastic cards, that they can use to draw cash from the company's or affiliated-financial institutions' ATM machines.

⁹⁸ AEON customers can apply to pay their bills through their AEON card accounts by deducting the payment amount from their credit limit.

motorcycles, jewelry, furniture, sports equipment and cameras. KTB Leasing also offers automobile leasing.

A number of the 28 NBFIs also specialize in providing automobile-related financial services. Leasing provides a hire-purchase service for buying and leasing automobiles and for used car financing. Toyota Leasing, Krungsri New Car and Ayudhya Capital Auto Lease provide different types of automobile-related services that include the purchase of new cars. Financing the purchase of used cars is also possible for example by Krungsri Used Car and Krungsri Cash to Car as well as obtaining loans using cars as collateral (Krungsri Car for Cash) and financing motorcycle purchase (Krungsri Motorcycle).

Other institutions that provide leasing services in addition to the 28 listed under NBFIs by BOT include: commercial banks such as Kasikorn, Tisco and Kiatnakin banks, Industrial and Commercial Bank of China (ICBC), GSB, SME Bank; Phatra Leasing, Honda Leasing, Isuzu Leasing and the leasing companies of most major automobile companies also provide a similar service.

Of the 28 NBFIs listed with BOT, three provide industrial leasing services that finance the purchase of agricultural tools. These are Asia Sermkij Leasing, KTB Leasing and Siam General Factoring. In addition to these 28 NBFIs, other companies also provide leasing services for their products. Siam Kubota, a large agricultural equipment supply company, provides leasing services for its products that include tractors, farming implements, combine harvesters, trans-planters and power tillers. The leasing services are available to all farmers, large and small.

As the majority of NBFIs currently in operation in Thailand are not required to report to BOT, there is no direct information on the total loans provided by these NBFIs. However, an indication can be obtained by looking at figures from the 28 NBFIs that report to BOT⁹⁹. As can be seen from Table 12, NBFIs are big providers of consumer credit, holding a total of almost 7 million loans accounts, or 75.7 percent of the total *number* of consumer credit accounts reported by commercial banks and the 28 NBFIs. The value of loans offered is also substantial, with the 28 listed NBFIs reporting an outstanding balance of 111 billion baht (3.7 billion USD) for June 2012. This number is only slightly lower than the outstanding balance reported by commercial banks. The figures indicate that the average loan size for NBFIs is substantially lower than both foreign and Thai commercial banks, at about 16,000 baht (530 USD). The figures for Thai and foreign banks are 58,100 baht (1,940 USD) and 31,900 baht (1,060 USD), respectively¹⁰⁰. These are roughly 3.6 and 2 times the size of the average outstanding balance per account of the 28 NBFIs.

NBFIs cater to a large customer base, but grant smaller loans than either Thai or foreign commercial banks. These numbers only pertain to the bigger NBFIs that are registered with BOT (as described above) and that have links to department stores and larger commercial businesses. As the smaller, non-registered NBFIs are not subjected to the 28 percent interest rate cap, it would be reasonable to infer that non-registered NBFIs deal with smaller average loan size and perhaps higher default risk, as they can charge higher rates to cover the costs of both. As these smaller NBFIs are more numerous and can be found nationwide, the aggregate loan amount could well be larger than the 28 NBFIs combined.

⁹⁹ As mentioned, BOT only regulates large ones and smaller ones are not required to register with BOT.

¹⁰⁰ Figures are rounded.

Table 12: Volume of Consumer Credit Provided By Commercial Banks and NBFIs that Report to BOT, June 2012

Institution Type	Number of Accounts	Outstanding Balance (million baht)	Average Outstanding Balance Per Account (baht)	NPLs (million baht)
Thai Commercial Banks	1,744,341	101,399	58,130	3,218
Foreign Commercial Banks	487,424	15,537	31,875	392
Non-Bank Financial Institutions	6,964,919	111,237	15,971	3,139
Total	9,196,684	228,173	24,810	6,749

Source: BOT

a. Unsecured Loans

The smaller NBFIs occasionally do make unsecured loans, borrowers well known to the lender, as is the case for moneylenders. Amongst unregulated lenders, loans secured only by evidence of income flows are not common in Thailand, perhaps due to weak legal support for debt collection. Bankruptcy laws require lots of time and effort and are thus infrequently used for the recovery of small debts. Tracking the whereabouts of debtors is also a challenge in a country where it is sometimes easier to disappear than to pay back debts.

The 28 large NBFIs do provide non-collateralized loans in the form of credit card and personal loans¹⁰¹. Application for such products requires evidence of income flows. At Krung Thai Card, one of the major credit card and personal loan providers in Thailand, to be eligible for a credit card, the client must earn at least 15,000 Baht (500 USD) a month. The ceiling for personal loans is slightly lower at 10,000 Baht (330 USD) per month, but still requires users to have steady income. AEON, another large provider of non-collateralized loans, caters to those with smaller incomes than most of the 28 NBFIs, but still require a documentable monthly income of 5,000 baht (167 USD). This eligibility requirement means that non-collateralized credit card and personal loans are inaccessible to those with irregular income such as the informal sector, farmers and casual laborers.

2. Village Fund – Bringing Microfinance to Every Village

The Village Fund was a 2001 initiative of the Thaksin Shinawatra government, founded. The scheme provided 1 million baht (33,000 USD) to each village in Thailand, altogether numbering about 80,000. Each village was to manage the funds using a committee that would decide eligibility and size of loan, generally from 10,000 baht (330 USD) to 20,000 baht (670 USD). Because the loan size was small, only 50 to 100 people can borrow at a time from the revolving fund. Each village received the same amount of money regardless of the number of residents, giving smaller villages a higher benefit from the scheme

The National Village and Urban Community Fund Committee was set up to oversee the Fund. As a direct initiative of the Prime Minister at the time, the Committee reports directly to him/her or someone appointed in this role. The National Village and Urban Community Fund Office, provides guidelines on how to set up Village Funds. As a result, Village Fund operators do not have to report to either BOT or MOF. In practice, local operators have discretionary power in the management of Village Funds. Within certain limits, they can set interest rates, maximum loan amounts and the terms of the loans. With much of the

¹⁰¹ Personal loans can either be secured loans, or unsecured. We refer to the unsecured loans here. Figures do not include leasing loans for automobiles, educational loans and medical care loans.

operation run by locally, there is limited information on risks and liabilities or income and expenditures available centrally to guide improvements in targeting and management.¹⁰² New loans can be taken out by new customers once existing loans are repaid. A common problem however is that clients holding loans have little incentive to repay given that they are likely to wait a long time before it is again their turn to borrow. Even in the unlikely event that demand for these loans is low and the borrower can renew his or her loan, loan size remains the same. This reduces the incentive to repay. Typically, loans can be used for any purpose and carry a low interest rate of 6 percent.

The Village fund has worked reasonably well in terms of adding diversity to village loan capital. The small size of the loan and lack of collateral requirements has meant that these loans can potentially be utilized by poorer households even those having no assets at all provided two people are willing to act as guarantors. The project enjoyed some success in reaching those who, in the past, had to rely only on moneylenders¹⁰³. However, it was not as successful in restricting loan eligibility only to poorer households.

The program appears to have a low rate of NPLs. This may be related to the small size of the villages where social capital is high and because future eligibility meant that loans had to be paid back. NSO's socio-economic survey data¹⁰⁴ reports that over 90 percent of loans taken out are paid back in full. This is consistent with reported figures by the Village and Urban Community Fund Office and with previous studies¹⁰⁵. Nonetheless, the program has a critical design flaw: loan monies paid back in January can be immediately re-borrowed. Therefore according to anecdotal evidence, it became common for some borrowers to roll over their loans, using money borrowed for a day or two from another source to repay the Village Fund – and then to renew the same loan for a further year.

Where this has occurred, it has meant that capital does not become available to new customers. This fact is supported by 2010 Household Socio-Economic Survey data that reports that many people who borrowed from the Village Funds did so steadily for up to 8 years or more. (SES 2010)

Although it is possible to save with Village Funds, very few people do so and the program remains capital starved. Boonperm et al. (2012) reported that while the Village Fund was one of the largest microfinance programs in the world when it began, the program stagnated by 2004 and no longer stood out from other microfinance programs worldwide, that had grown in the meantime. The current government has doubled the original capital to 2 million baht (67,000 USD) per village, but this does not resolve the inherent problems of the scheme.

While research shows that Village Funds have extensive reach¹⁰⁶, Fund operations are constrained on the demand side, as Village Funds cannot operate outside village boundaries. This limitation has been recognized and two ideas have been proposed to increase flexibility and to help the Funds better serve the needs of those in the surrounding areas. The first idea is to link all community financial groups together under one management committee, creating a multi-village community financial institution that has

¹⁰² Boonperm, et al. (2012). *Appraising the Thailand Village Fund*. World Bank Policy Research Working Paper 5998. World Bank.

¹⁰³ Menkhoff, Lukas; Rungruxsirivorn, Ornsiri (2009) "Village Funds in the Rural Credit Market of Thailand," *Proceedings of the German Development Economics Conference*, Frankfurt a.M. 2009, No. 45, <http://hdl.handle.net/10419/40243>

¹⁰⁴ Boonperm et al. (2012) for 2004, 2009 and 2010,

¹⁰⁵ Information from Village and Urban Community Fund Office, as of August 2012. Data report findings for 2004 – 2006.

¹⁰⁶ Menkhoff, Lukas; Rungruxsirivorn, Ornsiri (2009) "Village Funds in the Rural Credit Market of Thailand," *Proceedings of the German Development Economics Conference*, Frankfurt a.M. 2009, No. 45, <http://hdl.handle.net/10419/40243>

larger operating capital and uniform practices in an enlarged area. The second idea is to link all Village Funds together at the Tambon (sub-district) level with each Village Fund contributing a sum to a separate Tambon Fund.

Two methods are also proposed by the Village and Urban Community Fund Office to develop the size and capacity of Village Funds. Firstly, to create more financially viable community financial institutions through 'parenting arrangements' with commercial banks or SFIs. This approach would encourage Village Funds with strong performance to upgrade themselves into community financial institutions. The second proposal is to allow Village Funds to grow by themselves without any 'babysitting' from other financial institutions, although it is unclear as to how this would be achieved.

On the whole, the existence of nearly 80,000 Village Funds and a 12.8 million membership all over Thailand shows that the initiative has been successful in reaching villages and urban communities and that Village Funds could be an important vehicle in delivering microfinance services. However, as the Funds are autonomous, they are not covered by prudential regulations and are not required to report to any financial authority. In the absence of any oversight, it is thus difficult to assess operational quality and determine which Funds require help.

In order to strengthen the capacity of Village Funds in delivering microfinance products and services and to ensure their viability without further government injection of funds, a classification of Village Funds based on strength and performance is necessary. Regular assessments of the Funds should also be done to ensure that information of Funds are up-to-date and to detect poor performing Funds at an early stage. Further training of the management of the Village Funds in terms of accounting practices, risk management, developing further financial products and fund management would ensure the viability of Village Funds as sound financial institutions. Furthermore, the Village and Urban Community Fund Office should take the leading role in ensuring that information from individual Village Funds are collected and are regularly updated. This could also be achieved through training of the Office's staff and personnel.

D. *Cooperatives and Credit Unions*¹⁰⁷

Cooperatives are semi-formal financial institutions set up by members of the same occupation, or by those who live in the same area in order to help each other. Various types of cooperatives exist in Thailand including agricultural cooperatives, fishery cooperatives, land settlement cooperatives, service cooperatives, credit union cooperatives, savings cooperatives, and farmers groups. As of 2012, there were over 13,000 cooperatives in Thailand, with the most numerous (in both numbers and members) being agricultural cooperatives (4,362 coops with 6.1 million members) and farmers groups (5,618 groups with 10.7 million members) (see Figure 13).

The objective of credit union cooperatives and savings cooperatives is to promote savings, improve members' quality of life and develop strong communities.¹⁰⁸ A member buys shares in the cooperative or the group, in return for voting rights and a proportionate share in the cooperative's yearly profits. Services offered are mainly deposit and credit, but there are also often popular welfare benefits associated with cooperative membership.

The objective in creating a production cooperative for farmers, fishermen and people who live in government-granted land settlements; is to help each other in their farming/agricultural work. Agricultural cooperatives and farmers groups essentially offer the same

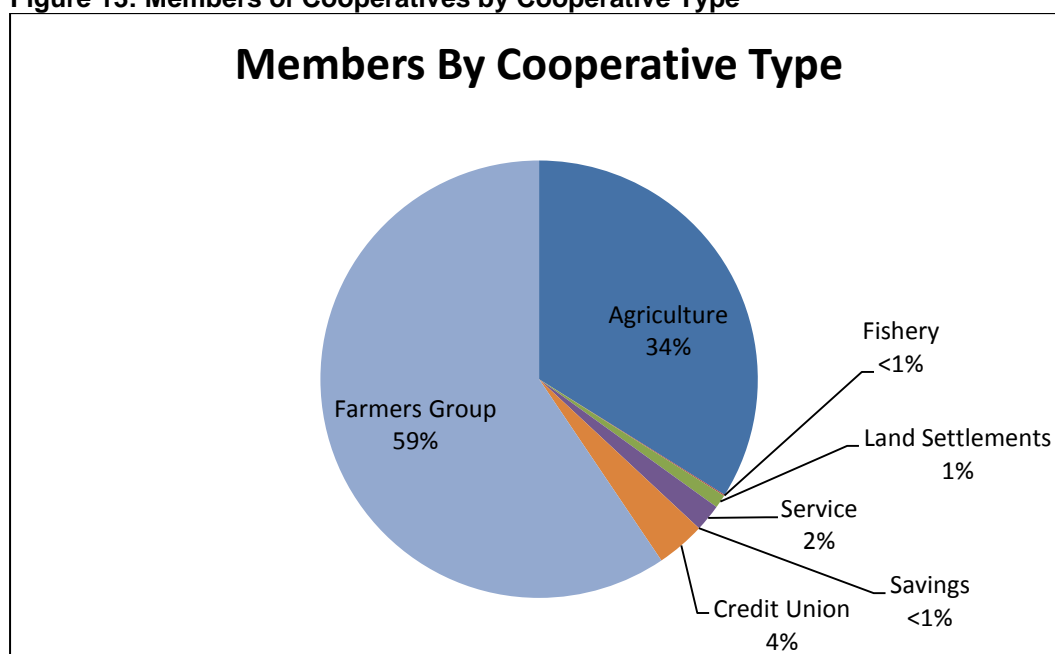
¹⁰⁷ Credit Unions in Thailand adopt the cooperative model and are thus called 'Credit Union Cooperatives'. As such, they are included in the cooperatives discussion.

¹⁰⁸ FPO (2011).

services to the same membership group; however the two types differ in scale. Farmers groups are startup groups of no fewer than 30 farmers who wish, but are not yet able, to register as a fully-fledged cooperative. Both agricultural cooperatives and farmers groups are located chiefly in the North and Northeast (see Figure 14). These regions are primarily agricultural, with a high poverty incidence and are areas least served by commercial banks and large NBFIs. As such, financial services in these regions are dominated by semi-formal institutions including Village Funds and cooperatives as well as informal institutions such as savings groups and moneylenders. Savings cooperatives, credit union cooperatives and service cooperatives have more of a presence in the more urbanized Central region and in Bangkok.

Agriculture-related cooperatives are closely affiliated with BAAC that provides loans to these groups. Members of fishery cooperatives who do not own land that can be used as collateral for loans with commercial banks can apply to BAAC for loans in the cooperative's name. The cooperatives then use the funds from BAAC to on-lend to their members. This arrangement allows the cooperatives to screen the credit worthiness of members, therefore, addressing information asymmetry problems for BAAC. Lending to agriculture-related cooperatives accounted for 4.6 percent of BAAC's total loans in 2011¹⁰⁹.

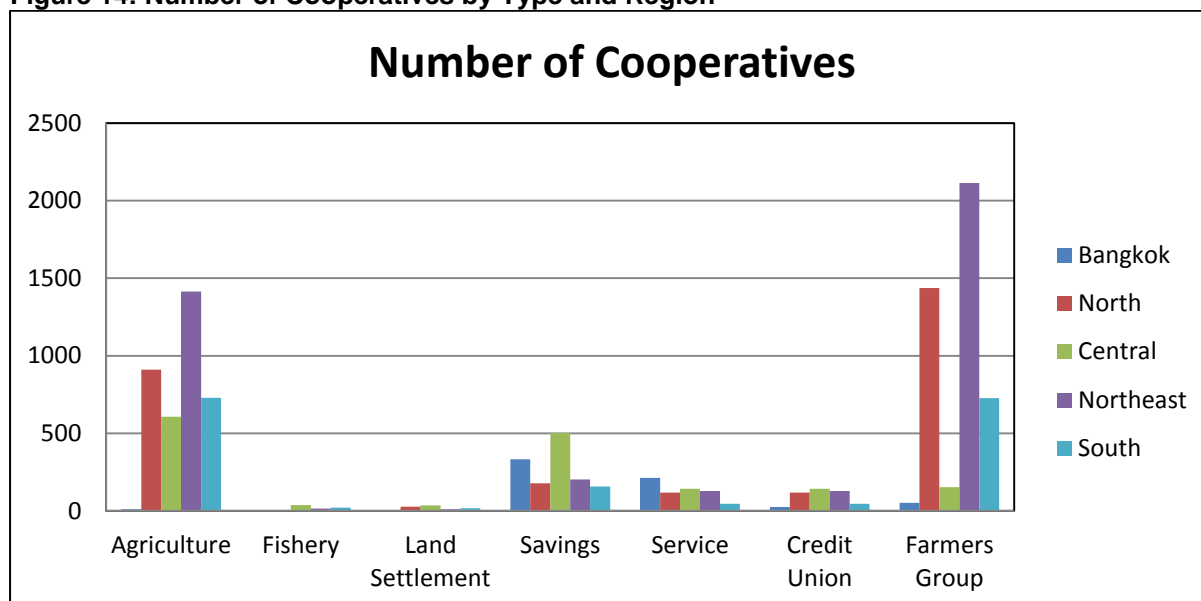
Figure 13: Members of Cooperatives by Cooperative Type



Source: CAD 2012.

¹⁰⁹ BAAC 2011 Annual Report.

Figure 14: Number of Cooperatives by Type and Region



Source: CAD 2012

As Table 13 shows, cooperatives vary greatly in terms of volume of business. Farmers groups have the lowest average volume of business and registered capital per member, at just a little under 1,000 baht and over 260 baht respectively. Savings cooperatives, on the other hand, have averages for business value and registered capital that are substantially higher than the other types of cooperatives. Credit union cooperatives have the second highest values per member, but they still operate on a much smaller membership scale than savings cooperatives. This reinforces the observation that savings cooperatives cater to a richer clientele, while farmers groups and agricultural cooperatives serve those on the lower end of the market.

Table 13 Groups and Members for Select Cooperative Type, Whole Kingdom

Parameter	Type of Cooperative							
	Agriculture	Fishery	Land Settlements	Service	Savings	Credit Union	Farmers Group	Total
Number of Cooperative Groups	4,362 (33%)	101 (1%)	95 (8%)	1,118 (11%)	1,386 (4%)	518 (4%)	5,618 (43%)	13,198
Members x 1,000	6,109.5 (29%)	14.4 (<1%)	177.3 (1%)	361.7 (2%)	2,683.1 (13%)	651.3 (3%)	10,722.8 (52%)	20,720.3
Registered Capital (m baht)	148,440 (28%)	643 (<1%)	5,491 (1%)	9,559 (2%)	328,187 (61%)	43,566 (8%)	2,828 (1%)	538,714
Volume of 110Business (m baht) ¹¹¹	272,533 (16%)	740 (<1%)	11,205 (1%)	8,723 (1%)	1,357,578 (80%)	43,454 (3%)	10,667 (1%)	1,704,900
Average volume of business per member (baht)	44,608 (6%)	51,262 (7%)	63,208 (8%)	24,117 (3%)	505,964 (67%)	66,719 (9%)	995 (<1%)	756,873 (Average of totals)
Registered Capital per member (baht)	24,296 (8%)	44,583 (14%)	30,974 (10%)	26,426 (8%)	122,314 (39%)	66,891 (21%)	264 (<1%)	259,994 (Average of totals)

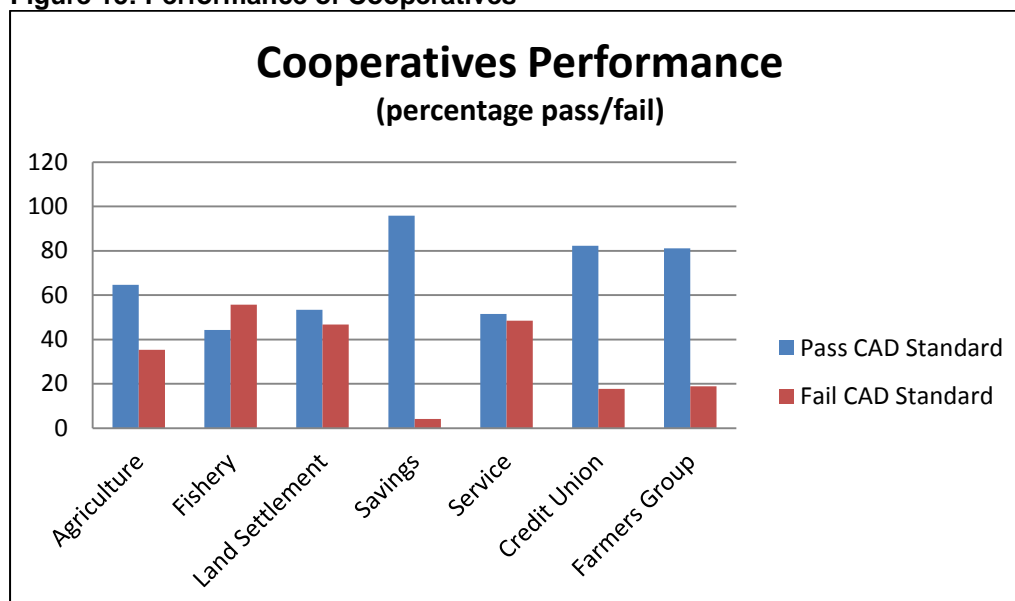
Cooperative performance varies greatly among the different types but larger registered capital and volume of business per member do not necessarily translate to superior performance. CAD audits¹¹² find that savings cooperatives farmers groups and credit union cooperatives have the best performance of all. Although farmers groups they have the smallest averages of registered capital and volume of business per member overall, 80% pass the CAD standard and they are rated in third place (Figure 15). This is no doubt related to their popularity as 52% of all coop members are to be found in these groups.

Other cooperatives do not fare as well. Over half of fishery cooperatives fail the CAD standard and nearly half of all service and land settlement cooperatives also fail. Agricultural cooperatives, that form 33% of cooperatives in the country, have a 65 percent audit pass rate. These figures suggest that, while the majority of cooperatives catering to lower income groups are doing well by CAD standards, the performance of some cooperatives urgently needs to be addressed.

¹¹¹ Volume of business incorporates deposits, loans and other income generating activities such as sale of produce and sale of products and services.

¹¹² CAD assesses cooperatives on various aspects including financial performance, prevalence of fraudulent activities, participation of cooperative members and internal management practices. Over 90 percent of savings cooperatives and around 80 percent of credit unions and farmers groups pass CAD standards.

Figure 15: Performance of Cooperatives



Source: CAD 2012

E. **Moneylenders and Pawnshops**

1. **Moneylenders**

Traditional moneylenders and pawnshops have been losing market share gradually to NBFIs and SFIs, but still command about a 7 percent market share in terms of numbers of loans nationwide¹¹³. A moneylender makes an unsecured loan on the basis of a previous relationship with the borrower, often at a high interest rate— as high as 3 percent per day or 1,095 percent per year¹¹⁴, much higher than BOT's 28 percent cap for microfinance loans. Going to moneylenders is seen as the least desirable option for obtaining loans as the rates are high, consumer protection is low (the money lender is generally a powerful member of the community) and the service is not always fair and professional. However, for lower-income people in need of quick cash and who have no collateral to offer, moneylenders are often turned to as a lender of last resort.¹¹⁵

2. **Pawnshops**

Pawnshops are also typically lenders of last resort. Here acceptable personal possessions can be used as collateral for a short term loan. In this case the collateral serves as security and a personal relationship, or knowledge of income, is not necessary. If the monthly interest is not paid on time or if the loan is not paid back within the agreed period of time, the possession is forfeited. It is often the case that a person will pay monthly interest payments on an item for many months without being able to raise the principal amount to recover their possession before the repayment deadline. Pawnshops provide an alternative source of short-term financing for people who are short of cash, but still own some property that can be pawned. At times when ready cash is needed, such as at the beginning of the school year, pawnshops are a popular destination and there have been announcements of special rates especially for such an occasion in Thailand for the 2012 school year¹¹⁶.

¹¹³ SES 2011.

¹¹⁴ "1095 % Interest. Informal Sector Debt Crisis," *Krungthep Turakij*, 18 December 2012.

¹¹⁵ Interestingly, the qualitative demand-side study has indicated even moneylenders avoid lending to very low income individuals, especially those without long-standing residency in the community.

¹¹⁶ See, e.g.,

http://www.thanonline.com/index.php?option=com_content&view=article&id=115200&catid=176&Itemid=524, accessed 18 Aug 2012 and <http://www.thairath.co.th/content/edu/250144>, accessed 18 Aug 2012.

Eligible customers are those over 15 years of age and each pawn ticket is valid for approximately 5 months¹¹⁷.

Pawnshops in Thailand are separated into public and private pawnshops, depending on their source of financing and the regulating body. Public pawnshops can be divided into those run by the Public Pawnshop Office within the Department of Social Development and Welfare (DSDW), Ministry of Social Development and Human Security. Those that are operated by municipalities are overseen by the Office of Local Government Pawnshops Committee (LGP)¹¹⁸. DSDW pawnshops are eligible for financing from the government budget, as well as from GSB. As a state enterprise, DSDW pawnshops also report to SEPO within MOF. Private pawnshops, like municipality pawn businesses, fall under MOI, but receive no financing from government. According to LGP, there are 257 pawnshops in the Bangkok area (29 DSDW shops, 20 BMA sanctioned shops and 208 private pawnshops). An additional 320 pawnshops are found in other provinces (4 DSDW pawnshops, 222 municipality pawnshops and 94 private pawnshops)¹¹⁹ (see Table 14).

Loan sizes from pawnshops are capped according to their type. For DSDW pawnshops, the loan size is capped at 60,000 baht (2,000 USD) per pawn ticket. For municipality and private pawnshops, the cap is at 100,000 baht (3,300 USD) per pawn ticket. Interest rates charged also vary depending on the loan principle and the type of pawnshop (see Table 15 and Table 16). It is interesting to note that, contrary to normal practice, interest rates increase with the size of the loan.

Table 14: Pawnshop Numbers

Pawnshop Type	Bangkok	Provincial
Municipality pawnshops	0	222
Private pawnshops	208	94
DSDW shops	29	4
BMA-operated shops	20	N/A
All	257	320

Source: Local Government Pawnshops Committee (LGP)

Table 15: Interest Rate for Municipal Pawnshops

Principle	Interest Rate (per cent per month)
Less than 5,000 Baht	0.5
5,000 – 15,000 Baht	1.00
More than 15,000 Baht	
First 2,000 Baht	2.00
Any remaining amount	1.25

Source: BOT

¹¹⁷ The exact time period is 4 months and 30 days.

¹¹⁸ Of the Department of Local Administration, Ministry of Interior (MOI).

¹¹⁹ Office of Local Government Pawnshops Committee (LGP) <http://www.lgp.go.th/index.php?p=6&lang=th>, accessed 18 Aug 2012.

Table 16: Interest Rate for DSDW Pawnshops

Principle	Interest Rate (per cent per month)
Up to 5,000 Baht	0.25
5,001 – 10,000 Baht	0.75
10,001 – 20,000 Baht	1.00
20,001 – 100,000 Baht	1.25

Source: BOT

Information provided by the Bangkok Metropolitan Administration (BMA), that oversees pawnshops in the Bangkok area, shows that in 2011 alone these pawnshops have issued 9,213.43 million baht (307 million USD) to 561,320 customers, or an average of 15,574 baht (520 USD) per customer. The seven month figure at the end of July 2012 was 7,932 million baht (264 million USD) for 427,739 customers, or 17,505 baht (583 USD) per customer. Both the value and average size of these loans is growing each year.

F. *Savings Groups and Other Self-Help Groups*

Savings groups are informal financial institutions that operate at the village level. There are two main types of savings groups in Thailand – Savings Groups for Production (SGPs) and Sajja savings groups. Other types of savings groups also exist, but these are not as widespread. Members come from the local community and the objectives of the groups are to promote savings and to provide credit. Profitable savings groups also usually channel some of their profits to provide different types of welfare benefits to members.

1. *Savings Groups for Production*

SGPs are community financial organizations initiated by the Community Development Department (CDD of the MOI). Through CDD's support, SGPs have been established in all regions of Thailand¹²⁰ (see Table 17). SGPs offer another important mechanism for providing microfinance services to low income rural families. The largest number of SGPs is located in the Northeast (13,673 groups or approximately 51 percent of the total). Northeastern SGPs also have the largest membership at 1.5 million people. The Northern region has the second largest numbers of SGPs and members, at 7,103 groups and 980,041 members, respectively. This is probably related to the fact that the North and Northeast, two of the poorest regions in Thailand, have previously had limited access to formal financial services resulting in a proliferation of alternative types of financial services.

Table 17: Statistics for CDD's Savings Groups for Production¹²¹

Region	Number of Groups	Total Savings (million Baht)	Members	Members/group	Average Savings per Member
Central†	3,191	7,081.30	447,295	140	15,831
North East	13,673	4,905.90	1,502,514	110	3,265
North	7,103	14,991.30	980,041	138	15,297
South	2,852	9,888.40	667,245	234	14,820
Total	26,819	36,867.00	3,597,095	134	10,249

† Excludes Bangkok Source: CDD

According to the CDD, the challenge is to develop SGPs in such a way as to make them strong and self-reliant, with the CDD only playing a supporting role. This has been

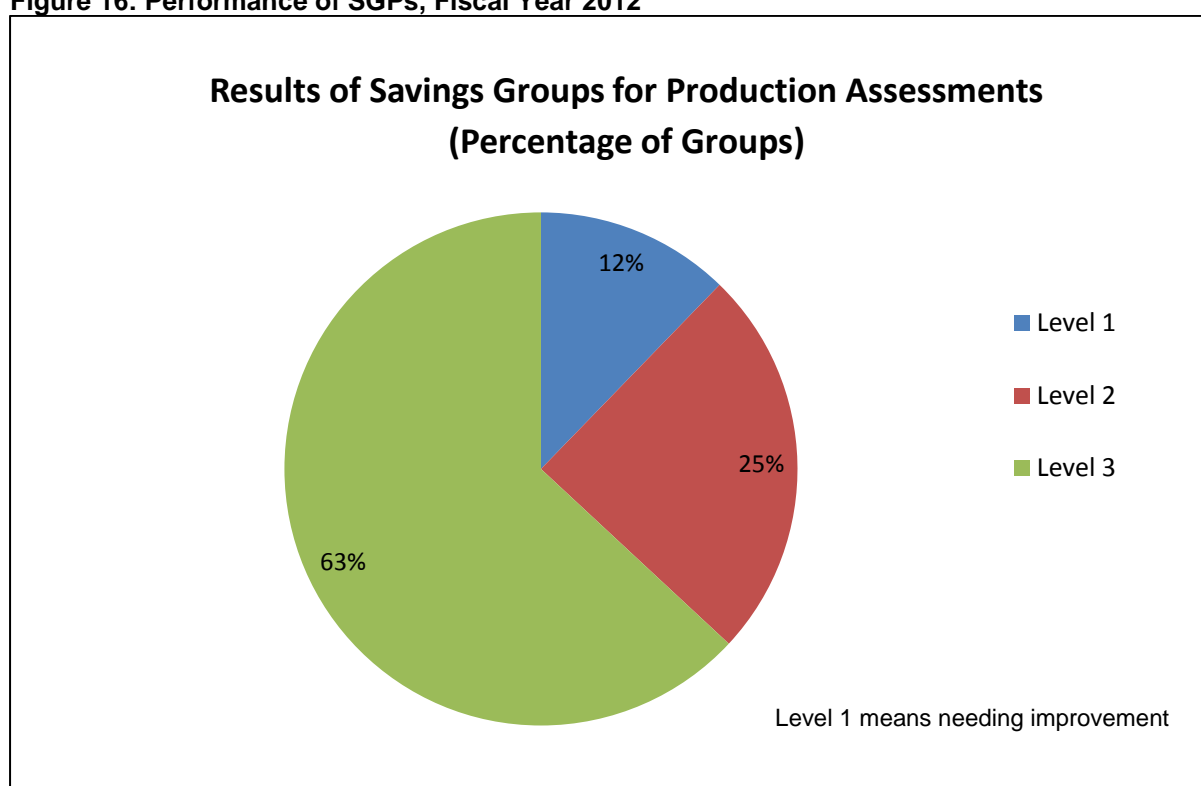
¹²⁰ With the exception of Bangkok that (CDD's objective is primarily to support and develop rural communities).

¹²¹ Data as of 30 Jul 2012.

attempted by encouraging SGPs to network at the district, provincial and regional levels. The primary purpose of this networking is to provide an avenue for sharing knowledge and experience and to improve performance that varies greatly¹²². SGP training schools have been set up in 8 locations across Thailand in order to provide further training to members in financial and group management, accounting skills and ways and means to expand SGPs' services.

CDD officers assess SGPs twice yearly and rate them as Level 3 (good performance), Level 2 (satisfactory performance) and Level 1 (requiring improvement and development). For the second assessment round in the 2012 fiscal year, CDD reports that 63% of SGPs have good performance, 25% have satisfactory performance and 12% require improvement (see Table 17 and Figure 16). These figures indicate that, about 90% of SGPs are sound and have potential for providing a broader and deeper level of financial services in rural areas.

Figure 16: Performance of SGPs, Fiscal Year 2012



Source: CDD

2. Sajja and Other Savings Groups

Sajja savings groups are community-run savings groups aimed at encouraging people to save. Some of these groups also provide welfare to members that for hospital and funeral expenditures, education and community development. As community-based and community-run organizations, the precise objectives and the operations of Sajja savings groups differ depending on the needs of the communities and the practices adopted by the management committees of the groups.

As highly informal and community-based financial institutions, it is difficult to determine how many such groups there are, the extent to which they have penetrated urban and rural communities and the total funds accumulated by the different groups. However, it is

¹²² CDD Interview.

generally understood that they have a countrywide presence and that many of the groups have joined together to form many networks.

As self-run community organizations, Sajja savings groups are able to understand and meet the needs of their local communities more effectively than government-run programs and members have true ownership of funds available in the savings groups. However, beyond the noted networks there has been limited knowledge-sharing. A national forum would help the groups to become stronger and to better serve their communities.

Box 3: A Community-Operated Savings Group

The SGPs initiated by CDD inspired a local community to apply the model to solve its long-standing debt problem. This was the community of Khlong Pia Sub-district, Chana District, in Songkhla province. In 1980, Mr. Amporn Duangparn founded Khlong Pia's savings group in order to combat the community's poverty and indebtedness problem. At its inception, the group had 51 members and 2,850 baht (95 USD) of capital. Membership has since grown to 7,200 members from 11 villages with an accumulated capital of over 252 million baht (8.4 million USD). Members save up to 1,000 baht (33 USD) each month and can apply to the group for loans. Profits from the savings group's operations are put into 20 community welfare funds for various purposes. These include funeral funds, medical expenditures funds, disaster funds, orphan funds, elderly funds, scholarship/education funds, occupational development funds, festival funds, water fees funds, youth sports funds, retirement funds, etc.¹²³



Source: Thailand Social Enterprise (2010).

¹²³ Thailand Social Enterprise 50 (2010). Krungthep Turakij Bizbook Press.

Box 4: Two Successful Sajja Savings Groups

Chana Savings Group

The now extensive Songkhla Sajja savings group network grew from a small initiative by a local school teacher in 1981 that induced people to save and provided welfare to its members. Chob Yodkaew, a teacher in Chana District of Songkhla province first implemented his idea of encouraging teachers and students to save by asking them to give their word that they would save a certain amount regularly. To support the operations of the group, fund members pay a 'maintenance' fee of 5 baht per month. One baht is paid back as benefits to members, while the remaining 4 baht are used to provide welfare to students and to support school activities. The group also allows teachers to apply for credit from the fund. The initiative proved to be a success and when word got out that the school has accumulated money in a fund, locals began approaching the group to ask for loans. As a result, Chob introduced the idea of Sajja savings groups to the local community and the first community Sajja savings groups began operating in 1983.¹²⁴ The savings groups based on Chob's idea have since spread and the groups now offer community welfare services such as scholarships and grants to help with medical and funeral expenses. At present, there are 132 community welfare funds under the Songkhla Sajja savings group umbrella, providing services to approximately 140,000 people, with roughly 103 million baht (3.4 million USD) in operating capital.

Wat Pai Lom Savings Group

The savings group centered around Wat Pai Lom, or Pai Lom Temple originated from the initiative of a local monk, Phra¹²⁵ Subin Maneeto as a means for solving the problems faced by the surrounding Pai Lom community, the majority of whom are advanced in years, have meager income and have little or no formal education. Established in 1990, the savings group is open to community members and those who join are required to save from 10 – 100 baht (30 cents – 3 USD) per month. Interest is paid on deposits and those with a demonstrated ability to save can apply for loans, which are provided at an interest rate just over the deposit interest rate. The group uses funds earned from this differential rate to finance needed welfare activities for members. As of 2010, the group has over 58,000 members with a capital of over 700 million baht (23 million USD).

Wat Pai Lom Savings Group Activity



Source: Thailand Social Enterprise (2011).

3. Groups Promoted By Community Organizations Development Institute (CODI)

CODI is a public organization formed in 2000 through the merging of the Urban Community Development Organization (UCDO), that specialized in addressing urban poverty and the Rural Development Fund, which focused on rural poverty. Although a public organization, CODI has independence in its operations and the Institute can still be allocated funding from government budgets, should it need financing for additional programs.

¹²⁴ Social Fund Office (2002). Community Financial Management: Case of Songkhla Sajja Savings Group Network.

¹²⁵ 'Phra' is the Thai word for 'monk', while 'wat' means temple.

While CODI addresses both urban and rural poverty, the Institute counts UCDO as its direct predecessor. As a result, in the initial phases of its operations CODI relied on UCDO's expertise in the areas of urban community organization, housing finance, welfare funds and savings groups and extended them to suit rural settings. At present CODI's microfinance activities include welfare funds and housing loans affiliated with its Ban Mankong Collective Housing Program.

a. Ban Mankong Collective Housing Program

The Ban Mankong Collective Housing program was initiated in 2003, aimed at helping slum dwellers to improve or construct new housing. CODI uses a participatory process with community members. Participating communities must first form their own savings groups to demonstrate financial responsibility. Soft loans are then made to these groups for housing improvement or to purchase land. Interest rates are subsidized by government, allowing communities to pay 4 percent. Combined land and housing loans are capped at 300,000 baht (1,000 USD) per family and loans for housing only are capped at 200,000 baht per family. CODI loans are made to the community cooperative that must first save 10 percent of the amount to be borrowed and retain the funds in a community savings account.¹²⁶ Cumulative loans under the Ban Mankong Project are shown in Table 18.

Table 18: Cumulative Loans Provided under Ban Mankong Project, 2003 – 2012

Region	Projects	Communities	House-holds	Total Loans (million Baht)	Average Loans Per Community (million Baht)	Average Loan Per HH (Baht)
Bangkok and Surrounding Provinces	274	359	33,486	1,629	4.54	48,657
Central	174	346	17,386	1,041	3.01	59,882
Northeast	214	363	18,564	976	2.69	52,609
North	106	395	11,123	517	1.31	46,546
South	106	174	11,246	571	3.28	50,841
Total	874	1,637	91,805	4,734	2.89	51,566

Source: CODI

b. Welfare Funds

CODI's Community Welfare Funds (CWFs) Project was initiated in 2005 with the goal of providing 'social safety nets' in order to take care of community members who are in need of funds and to mitigate against loan defaults. Operating capital comes from the community members themselves, who are encouraged to make daily contributions of 1 baht (0.03 USD), as well as from local and national governments that match another 1 baht for each 1 baht deposit made by members. Fund members receive pay-outs to cover expenses related to named benefits including childbirths, deaths, natural disasters, fires, illnesses, etc.

CWFs operate at the Sub-District or municipal levels in both rural and urban areas and have a countrywide presence. As of August 2012, there were a total of 4,994 CWFs with total capital estimated at 2,365 million baht (79 million USD). The fewest number of funds

¹²⁶ CODI. <http://www.codi.or.th/housing/FrontpageHousing.html>, accessed 28 Aug 2012.

are in Bangkok and the five surrounding provinces, while the Central region has the largest number of funds (see Table 19).

Table 19: Details of Community Welfare Funds

Region	Total Sub Districts	No of Funds	Villages		Members		Funds (m Baht)	
			Total	Participating	Before 2012	As of August 2012	Before 2012	As of August 2012
Bangkok & 5 surrounding Provinces	333	190	4,472	1,423	21,928	38,876	19.19	43.48
Central	1,971	1,216	9541	8,668	224,729	486,571	264.93	680.89
South	1,085	941	5,206	6,131	146,741	471,972	296.92	506.46
North	1,364	917	8,132	7,755	214,774	473,626	146.63	465.85
Northeast	2,755	1,730	14,544	13,117	382,133	688,545	350.44	668.46
Total	7,508	4,994	41,895	37,094	990,305	2,159,590	1,078.11	2,365.12

Source: CODI

G. *Other Providers of Financial Services*

In addition to commercial banks, NBFIs, SFIs, semi-formal and informal institutions detailed earlier, Thailand also has an array of non-financial companies and organizations that provide payments and mobile banking services. This includes Thailand Post, Counter Service, Tesco Lotus and Jay Mart. Mobile telecommunications companies such as True and AIS also have subsidiary companies that provide e-money, bill-payment and remittance services. Typically, consumers can pay their utilities and credit card bills through the company's channels. They can also make loan payments; pay their insurance dues, top up their mobile phones and pay for certain products. Tesco Lotus even offers customers the convenience of paying their taxes at Tesco Lotus counters nationwide.

1. **Trade Outlets and Retailers**

Counter Service, Tesco Lotus and Big C including 7-11, and retailers such as Jay Mart have taken the lead in payment services in Thailand.

Counter Service's main business is payments and customers' point of contact is with agents the more than 700 Counter Service franchise holders. Counter Service has also partnered with the convenience store 7-11. In addition to the usual utilities, credit card, loan, insurance and mobile phone payments, customers can also pay for bus tickets, air tickets, concert and movie tickets, hotel rooms and university course registrations through Counter Service. Payment through 7-11 stores is the most popular channel and its business greatly exceeds that of its competitors¹²⁷.

Jay Mart's main business is the sale of mobile phones and related items. However, the company also offers 109 of its stores¹²⁸ as payments points for certain products and utilities, credit card, loans and insurance bills. Jay Mart has also partnered with Family Mart to use the supermarket chain's stores as Jay Mart pay points¹²⁹.

Tesco Lotus is a major operator of supermarket and convenience stores in Thailand operating supermarkets under the 'Tesco Lotus' and 'Tesco Lotus Express' brands.

¹²⁷ Ipsos 2012.

¹²⁸ Source: Jay Mart website: <http://www.jaymart.co.th/paypoint.asp> <http://www.jaymart.co.th/paypoint.asp>, accessed May 2012.

¹²⁹ Source: Family Mart website: <http://www.familymart.co.th/>, accessed May 2012.

Payment services for utilities, credit cards, loans, insurance and product purchase bills can be made at their in-store service counters. As of August 2012, Tesco operates 791 outlets in various parts of the country¹³⁰.

2. Mobile Network Operators

Thailand also has a growing mobile banking market, which is currently offered through major mobile network operators – AIS and True. Both operators offer both bill payment and money transfer services through their subsidiary companies, AIS M-Pay and True Money. In addition to using mobile phones to make payments customers can use the company's machines found across Thailand, but mostly in more urban settings. For example, AIS M-Pay stations exist in over 100,000 locations nationwide¹³¹. Customers can also make payments at the company's stores and its agent network. DTAC has experimented with mobile banking through partnership with Kasikorn Bank and is in the midst of launching its own mobile banking and bill payment service¹³².

The value and number of transactions have grown substantially over the years. In 2006, there were only about 238 thousand transactions. However, in 2011, this number has grown to almost 20 million worth 186.5 billion baht (6.2 million USD) (see Table 20). At present, the government is looking into the possibility of offering mobile banking services through government banks as a means of combating the problem of debts to informal moneylenders¹³³. DTAC and True Money are also looking to offer microfinance loans in addition to bill payment services and both are in discussions with BOT¹³⁴.

Table 20: Use of Mobile Banking*

	2006	2007	2008	2009	2010	2011
Number of Agreements	133,419	168,434	232,758	257,677	519,450	706,439
Number of Transactions	238,501	228,578	4,670,377	11,107,223	15,884,571	19,941,530
Value of Transactions (Unit = million Baht)	155	112	25,218	63,363	109,816	186,511

*Data include mobile banking transactions using credit cards, debit cards and account numbers

Source: BOT

3. Post Office / Post Bank

Thailand Post Company offers payments, remittances and banking services as an agent of commercial banks. Thailand Post's Pay@Post product allows customers to pay loans, credit card bills, and utilities bills at post offices and post office stores throughout the country.

Another product, Bank@Post, allows customers to use the company's network of 1,295 post office branches to perform banking operations such as depositing, transferring and receiving money for customers of TCRB, BAY, CIMB Thai, UOB, TISCO Bank and Thai Military Bank. Thailand Post also offers both domestic and international remittance services. International money orders are operated through Euro Giro Credit and Western

¹³⁰ Source: Tesco Lotus website:

http://tescolotus.com/left.php?lang=th&menu=location_th&data=searchlocationhttp://tescolotus.com/left.php?lang=th&menu=location_th&data=searchlocation, accessed August 2012.

¹³¹ Interview with, AIS M-Pay.

¹³² Interview with DTAC.

¹³³ Kunakornpaiboonsiri, Thanya. 'Thailand Considers Mobile Banking for Govt Microfinance' 4 August 2012.

FutureGov Magazine. Accessible at <http://www.futuregov.asia/articles/2012/aug/04/thailand-consider-mobile-banking-govt-microfinance/>, accessed 6 Sep 2012.

¹³⁴ DTAC Interview. True Money Interview.

Union and are capped at 2,000 USD per person per day. Domestic money orders are capped at 50,000 baht (1700 USD) per order.

In addition to the services mentioned, there have been thoughts of offering micro-credit products through 'Post Banks'. There is important potential here since there are 1,295 service points existing countrywide and post office savings is a well know model in many other countries¹³⁵. The idea of providing micro-credit services through the post office was approved by the Cabinet in December 2010 and Thailand Post Credit Company was subsequently established with the objective of providing access to funds to low income people. The intention is to reach three groups of people defined so far only as those with income, those with income below the poverty line and those with or prone to informal sector debts. Loan size is envisioned to be not more than 5,000 Baht per loan. A pilot was undertaken in 2011 providing micro-credit in 40 locations. However, as of April 2013, this service is not yet operational and it remains unknown whether the scheme will be rolled out.

¹³⁵ The first nation to offer such an arrangement was Great Britain in 1861. Post office savings banks exist in at least 10 other countries including: Japan, Germany, China, Brazil, Israel, France, Korea, India, South Arica and Kenya. (Source: Wikipedia)

III. MICROFINANCE PRODUCTS AND SERVICES IN THAILAND

This section of the paper examines the current financial service providers by product type (loans, deposits, payments and remittances). Emphasis is on the number rather than on the value of transactions, to determine the service providers that most individuals access.

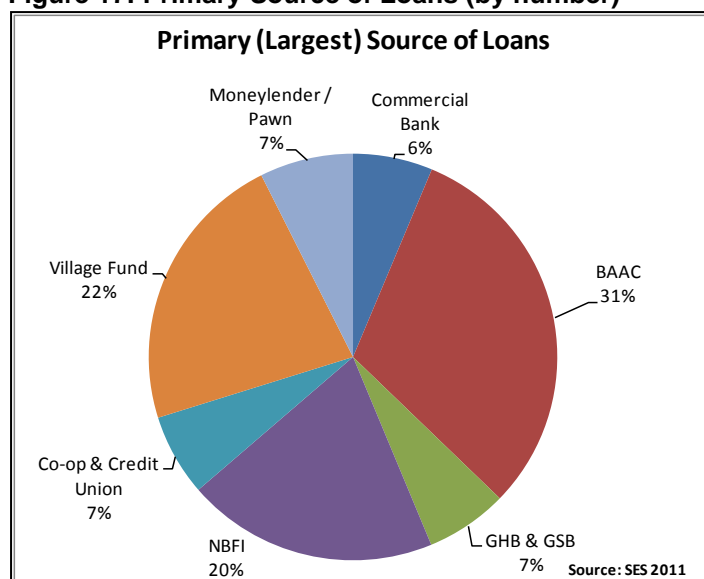
A. Loans

Most Thai people have access to credit from a variety of providers. The exceptions are the elderly, the urban poor without collateral and some migrants¹³⁶. 95 percent of households say they could obtain credit if they needed it in an emergency¹³⁷.

According to Thailand's NSO's 2011 Household Socio-Economic Survey (SES 2011) of about 42,000 households, approximately 56 percent have a loan from a financial institution. This is slightly down from 61% in 2009. The value of outstanding loans varied by region reflecting differing needs and average incomes. The median level of borrowing was 42 percent of household yearly expenditure while the mean was 87 percent of household expenditure, implying that some households are very heavily in debt. This is discussed in more detail in Section III.A.2.

As reported in the SES survey, the most frequent borrowing was from: 1) BAAC, 2) the Village Fund, 3) NBFIs, 4) Informal Moneylenders, 5) Cooperatives and Credit Unions and 6) other SFIs such as GSB and GHB in that order. The least frequent borrowing, ranking seventh, was from Commercial Banks, with about 6 percent of the market (see Figure 17).

Figure 17: Primary Source of Loans (by number)



SES data captures numbers of loans or the number of people reporting each institution as the primary source of loans. Looking at loan value, Commercial Banks dominate the financial landscape with loans to businesses and wealthy individuals accounting for approximately 76 percent of total private-sector debt and 84 percent of total loan portfolio assets in the country. However since many Thais do not have access to commercial banks,

¹³⁶ The Office of the National Security Council, estimates that there are at least 3 million illegal immigrants in Thailand. Other estimates place the number at 1.8 million registered and legal foreign workers and as many as 5 million illegal immigrants. These individuals have access only to informal forms of credit.

¹³⁷ SES 2009.

microfinance by SFIs, NBFIs and others play a more significant role, especially outside Bangkok.

The SES reports a second source of loans. 59 percent of respondents reported the Village Fund as the second most important source of loans for their households. However, since the maximum loan size from the Village Fund is only 20,000 baht, it is undoubtedly not the largest source of loans in value terms. Although BAAC is the most common source of loans countrywide, it is mostly restricted to the agricultural sector.

Figure 18 shows the primary source of loans to different income deciles based on household income levels, with the poorest (decile 1) at the bottom and the wealthiest (decile 10) at the top for each institution. The horizontal axis shows the percentage of each income decile that uses each category as its primary source of loans.

Figure 18: Primary Source of Loans by Income

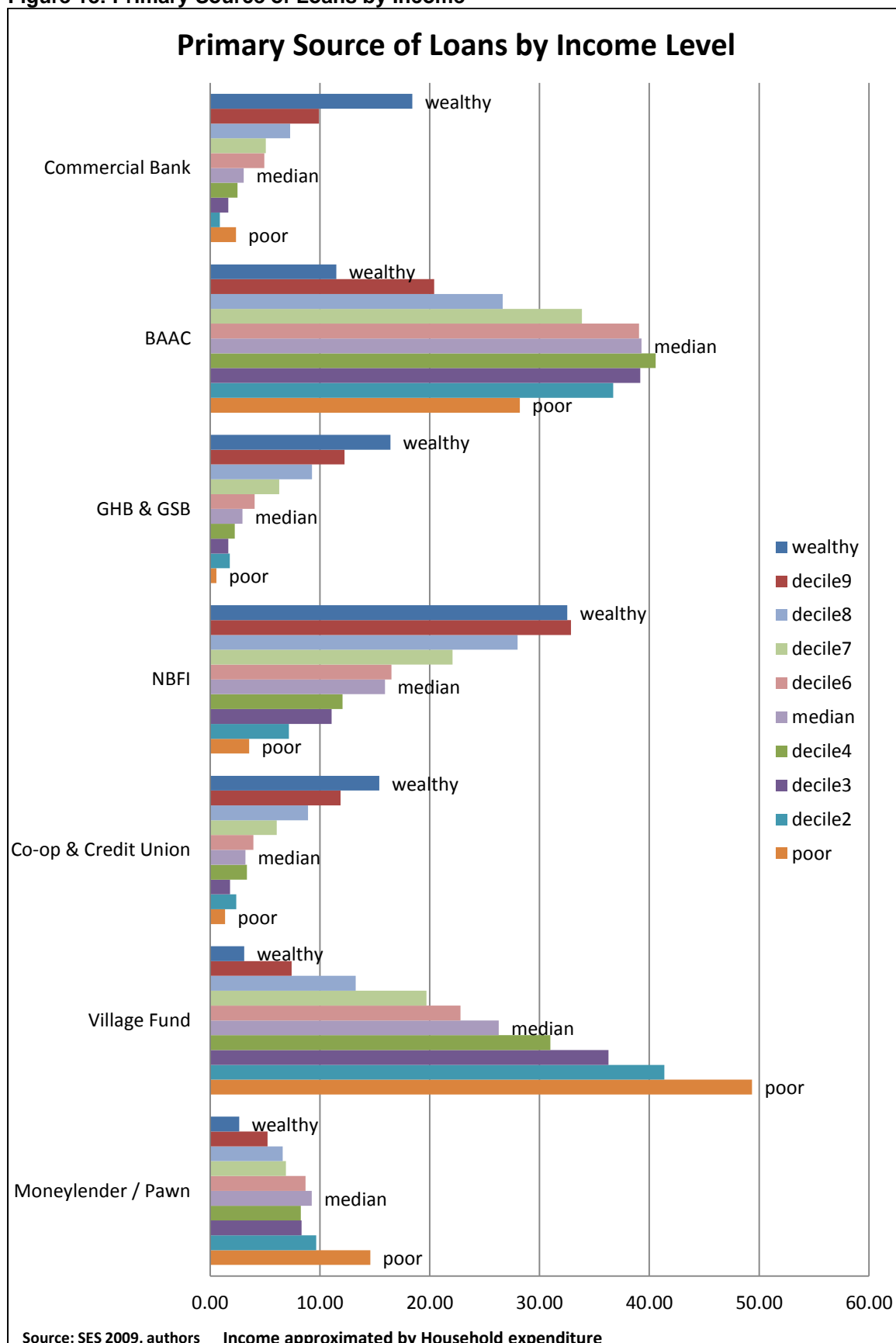
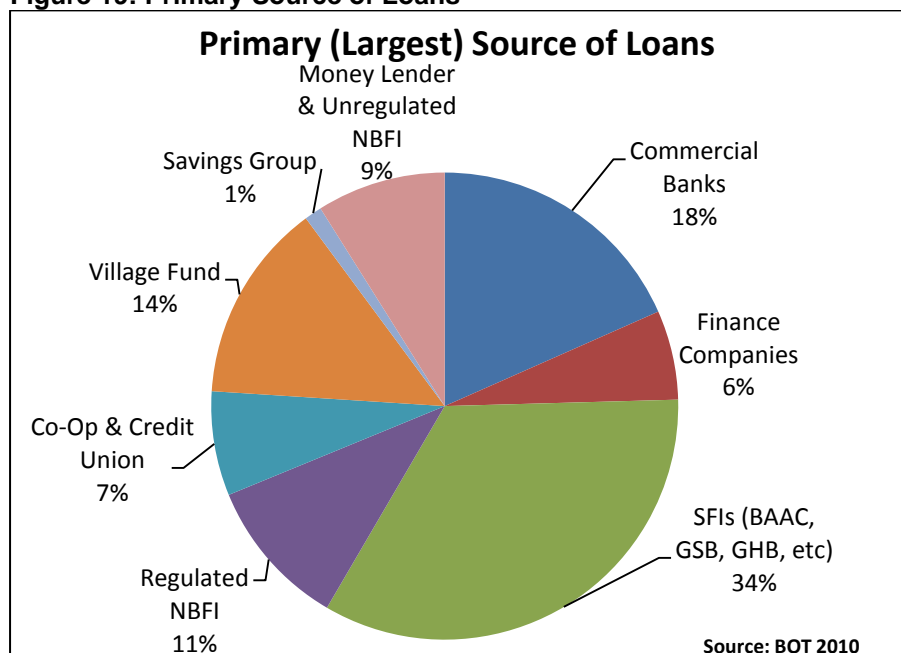


Figure 18 shows the wealthiest decile made frequent use of commercial banks (19 percent), GSB and GHB (17 percent) and Cooperatives and Credit Unions (16 percent), although the largest source of funds was still the NBFIs (32 percent). The poorest decile made greatest use of the Village Fund (42 percent), BAAC (34 percent) and moneylenders (17 percent).

The largest source of loans for most income deciles was BAAC. Other large issuers of loans are the Village Fund, NBFIs and moneylenders. Although Commercial Banks issued by far the highest value of loans, they were the 2nd most popular sources of funds for the wealthiest decile (and not far ahead of GHB and GSB).

Data from BOT support that of the SES. BOT recently undertook a survey of approximately 11,000 households to determine access to banking services¹³⁸. Their data shows that about 42 percent of households were carrying loans with a financial institution, 4 percent could not get credit and 54 percent chose not to borrow. Of the indebted households, the primary source of loans was with SFIs (see Figure 19).

Figure 19: Primary Source of Loans

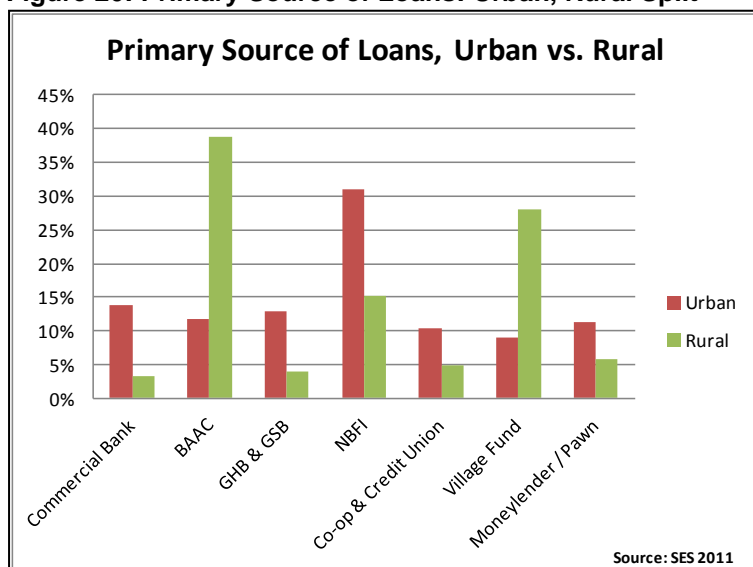


BOT data generally shows similar statistics to the SES data but differs in pointing to a somewhat larger role for commercial banks. This may relate to a bias in sample selection as BOT is most interested in the commercial banking sector.

Rural and urban borrowers rely on different sources for their loans as described in Figure 20. Urban borrowers use formal, semiformal and informal sources while rural dwellers rely more on the government-initiated institutions such as BAAC and the Village Fund. By combining the information from the graph in Figure 20 with that shown in Figure 18 we might infer that wealthier urban dwellers more frequently use commercial banks, NBFIs, cooperatives and credit unions and GSB and GHB, while poorer urban dwellers are relying heavily on the informal sector.

¹³⁸ BOT 2010. Financial Inclusion Survey Report. (In Thai).

Figure 20: Primary Source of Loans: Urban, Rural Split



A further perspective can be gleaned from looking at loan sources favored by five major occupations (see Figure 21). Commercial banks play a small role in finance for most of the Thai population. Only for two - the small business and professional occupational groups - did commercial banks provide more than 10% of total loans. These borrowers turned to NBFIs as their primary borrower.

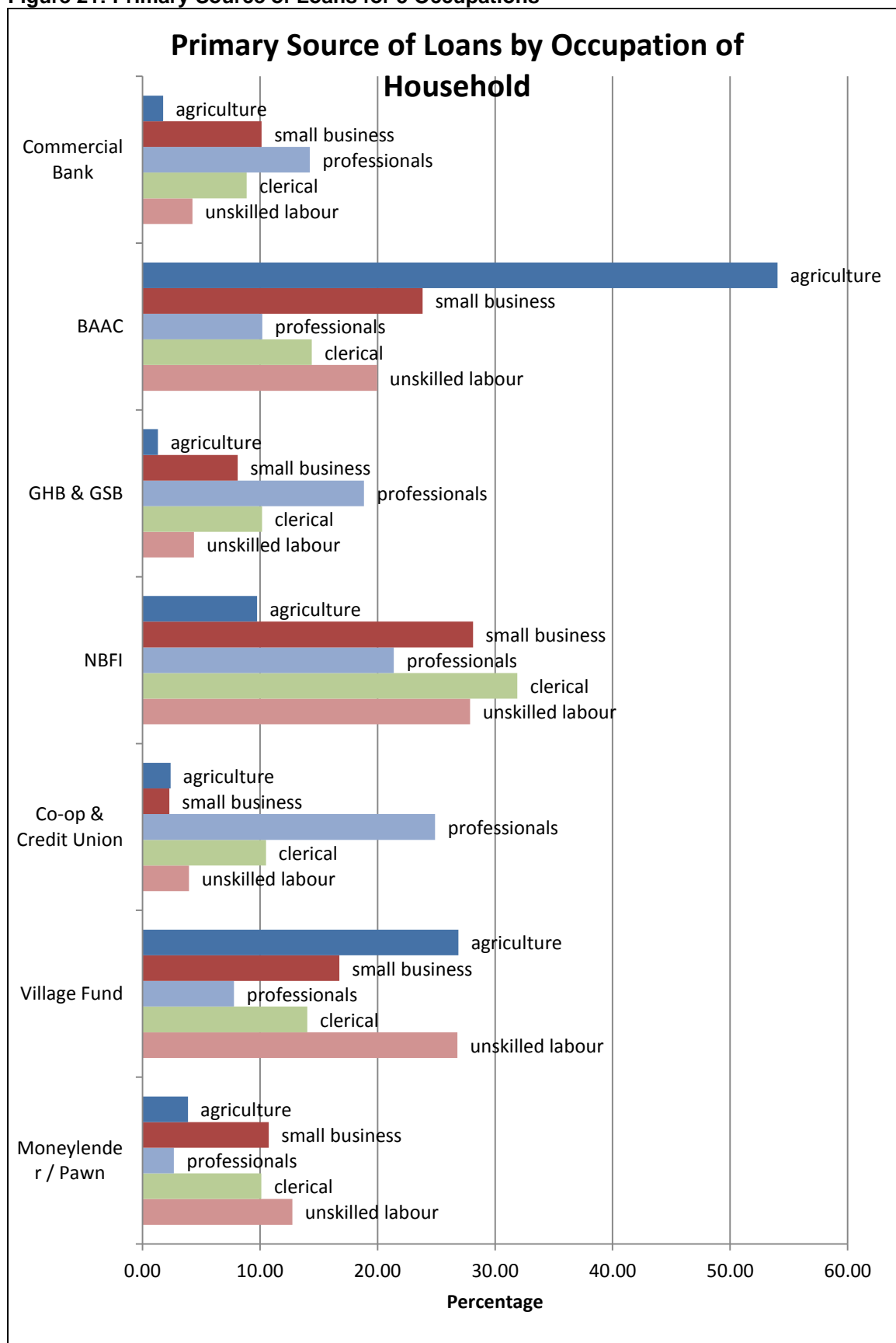
The BAAC dominates loans to agriculture of course, being favored by 54% of this occupational group. It was also a major source of loans for all other occupations. GHB and GCB served as a loan source for about 18% for professionals, the wealthiest of the occupational groups. Other relatively wealthy groups (clerical and small business owners) also used these two SFIs. &NBFIs were the second largest source of funds overall and were the most predominant lender to the non-farm working class as well as a major source of funds for all groups.

The loan business of cooperatives and credit unions is mostly dominated by professionals employed by large institutions whose membership is often provided as an employment benefit. Clerical occupations may also have access to a credit union through their employer. Lower interest loans are often taken by these occupational groups for their housing or other needs. Co-ops and credit unions are rarely used by self-employed professionals, small businesses or other occupational groups.

The Village Fund has good loan coverage to the lowest income groups (agriculture and unskilled occupational groups) despite flaws in its design discussed earlier.

The final loan source is the informal sector made up of moneylenders, pawnshops and loans between unrelated individuals. Loans from this source are again predominantly to the poorest income classes, especially the poor without collateral. They still play a significant role in microfinance but as reported, they are being increasingly supplanted by the more competitive NBFIs and the Village Fund.

Figure 21: Primary Source of Loans for 5 Occupations



Source: SES 2009, authors

1. Access to Credit

Credit from commercial banks relies on eligibility systems that are more rigorous and demanding. The BOT survey found that about 23 percent of Thais believed they could not get access to commercial bank credit, while 30 percent of residents of Bangkok believe the same. Commercial banks specific collateral requirements that many low income people cannot satisfy. For credit card eligibility and personal loans, banks often require the individual to have a documentable monthly income which is impossible for most low income people who are often employed in Thailand's large informal sector. Nonetheless, a variety of other options are available and simple access to credit seems to not be a major problem in Thailand. Of greater concern are the quality, consumer safety and appropriateness of credit products to the needs and capabilities of low income customers.

SES data suggests that approximately 5 percent of households believe they could not borrow in an emergency. These numbers are somewhat higher in urban areas and are highest in Bangkok with 13.5 percent believing they could not borrow in an emergency. Loans for small business are considered difficult to obtain with about 10 percent of respondents believing a loan for business would be unavailable, again much higher in Bangkok at 29 percent. BOT survey results are similar with about 4 percent saying that they could not get access to credit, with the numbers being slightly higher in urban areas and highest in Bangkok at about 7.5 percent.

2. Indebtedness

Indebtedness appears to be a problem in Thailand. Severe indebtedness often results in loss of land and unmanageable debt payments and this, according to BOT and NESDB, has been growing in recent years. BOT studies find that those whose family income is less than 15,000 baht monthly (500 USD) are experiencing higher debt-to-household income ratios. NESDB reports that outstanding household debt from consumer loans in the last quarter of 2012, amounted to 2.9 trillion baht (91 billion USD), a 21.6 percent increase from the previous quarter and approximately equivalent to 29 percent of the country's GDP.

Similarly, Finscope found that access to formal financial services among rural households may be leading to high levels of indebtedness. This is a particular problem in the Northeast where 73% of rural and 58% of urban households are in debt. Among the top five reasons for borrowing money from either the Village Fund or the BAAC is to pay off other debt. The debt picture that emerged from Finscope is shown in Table 21 below.

Table 21 Current debt patterns (debt from all sources for clients of the stated institution)

Institution	# of people	Mean Monthly Income	Total debt	Reasons	Region
Commercial bank	2 088 926	THB 27 217	THB 176 034	Means of transport Buying/building dwelling	Bangkok 24% Central 24% South 24%
SFI	7 146 243	THB 17 012	THB 189 361	Farming expenses Living expenses	North East 44% North 29%
NBFI under BoT	1 374 340	THB 18 456	THB 229 255	Vehicle Living expenses	Central 41% Bangkok 21%
Savings Group	1 566 990	THB 14 148	THB 237 038	Farming expenses Living expenses	North East 41% North 25%
Village Fund	7 423 963	THB 10 177	THB 322 366	Farming expenses Living expenses	North East 51% North 32%
Cooperative	1 043 897	THB 24 322	THB 222 506	Farming expenses Living expenses	Central 33% North 27%

Note: Income refers to reported mean monthly income, Total debt refers to total outstanding debt, regardless of institution

Finscope Thailand 2013

Looking at the ratio of debt to mean monthly income and considering the stated reasons for entering into debt, gives an indication of the very different picture of indebtedness between clients of commercial banks and others¹³⁹. It can be seen that clients of commercial banks (wealthier individuals) are borrowing predominantly for investment and asset creation while in almost all other cases, borrowing is a way of financing gaps in household expenditure as well as to finance farming expenses. The practice of using credit to provide bridging finance for household expenses has become a fact of life for rural and poor borrowers and one that causes them high levels of anxiety. The FinScope survey found that 20% of respondents say that without a loan they would not be able to feed their families. The top reason for not borrowing is fear of debt reported by 61% of respondents.

The implications of this may point to the need to improve returns for agriculture. However, within the scope of financial services, opportunities to reduce indebtedness may be provided through the provision of loan products that target improved productivity and asset accumulation and savings products (such as high yielding annuities) that provide strong incentives for farming households to move towards expenditure from accumulated savings rather than debt.

¹³⁹ Note that the total debt refers to loans from all sources and not just the debt with the stated institution.

Table 22 Debt as a percentage of income for financial institution clients

Institution	Mean monthly income	Current borrowing	Debt as number of months income
Commercial banks	27,217	176,034	6.5
SFIs	17,012	189,361	11.1
NBFIs	18,456	229,255	12.4
Co-ops	24,322	220,506	9.1
Village fund	10,177	322,366	31.7
Savings groups	14,148	237,038	16.8

What is significant in Table 22 is the very high debt to income ratio and in particular for clients of the Village Fund where it is approaching three years.

Indebtedness is encouraged in part by easy access to credit, especially by government programs and NBFIs. Demand for loans has also been high recently and may be tied to recent government policies that waive taxes on first time purchases of homes and vehicles (see Section Appendix 4 below). These well intended policies result in some individuals being lured into buying goods beyond their means to afford and falling into unmanageable debt. According to recent SES data, approximately 56 percent of households are in debt, with the level in rural areas being higher. A large component of this may be easier access to credit in rural areas. A study of the impact of the Village Funds by Kaboski and Townsend (2012)¹⁴⁰ found that, among other things, the Funds increased total short-term credit, but decreased overall asset growth.

Figure 22 shows indebtedness by regions and area. The figure shows that the Northeastern region has the largest proportion of indebted households accounting for over half of all households in the most populous and one of the poorest regions in the country. There are more indebted households in the rural areas but the absolute and relative level of debt seems to be higher in urban areas as Figure 23 suggests.

¹⁴⁰ Kaboski, J. P. and R. M. Townsend (2012). "The Impact of Credit on Village Economies." American Economic Journal: Applied Economics 4(2): 98 - 133.

Figure 22: Indebted Households by Region

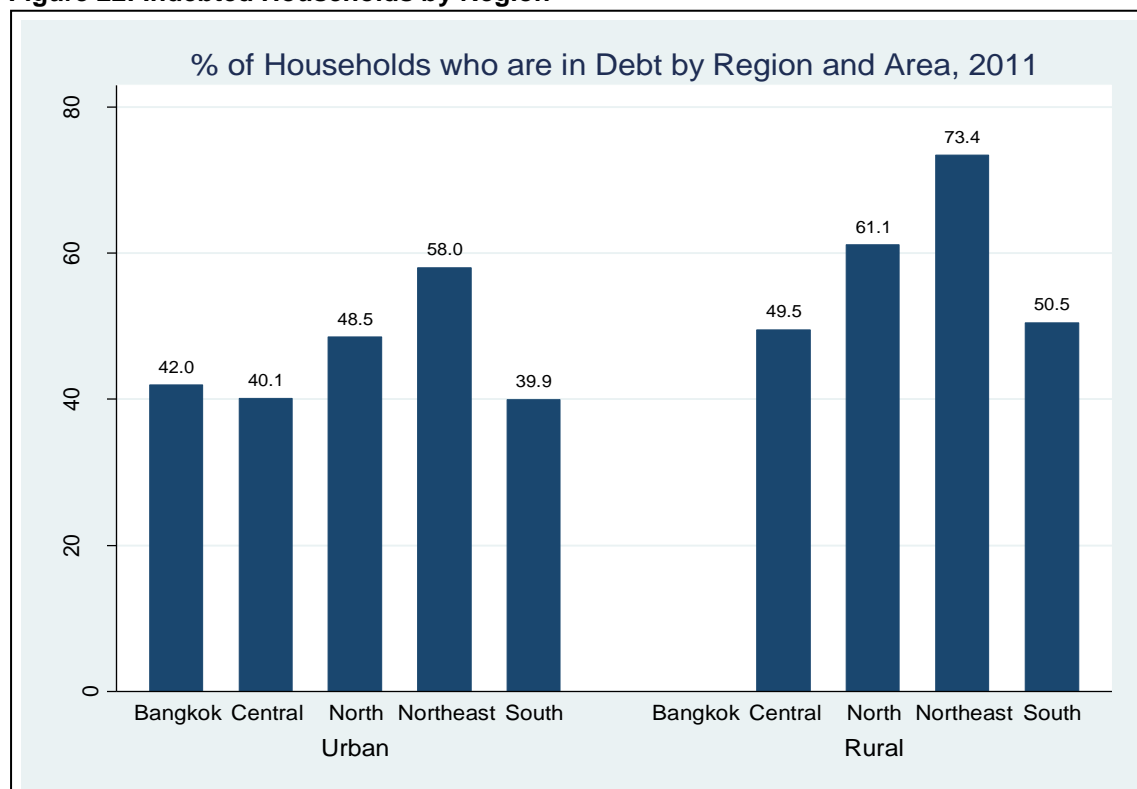
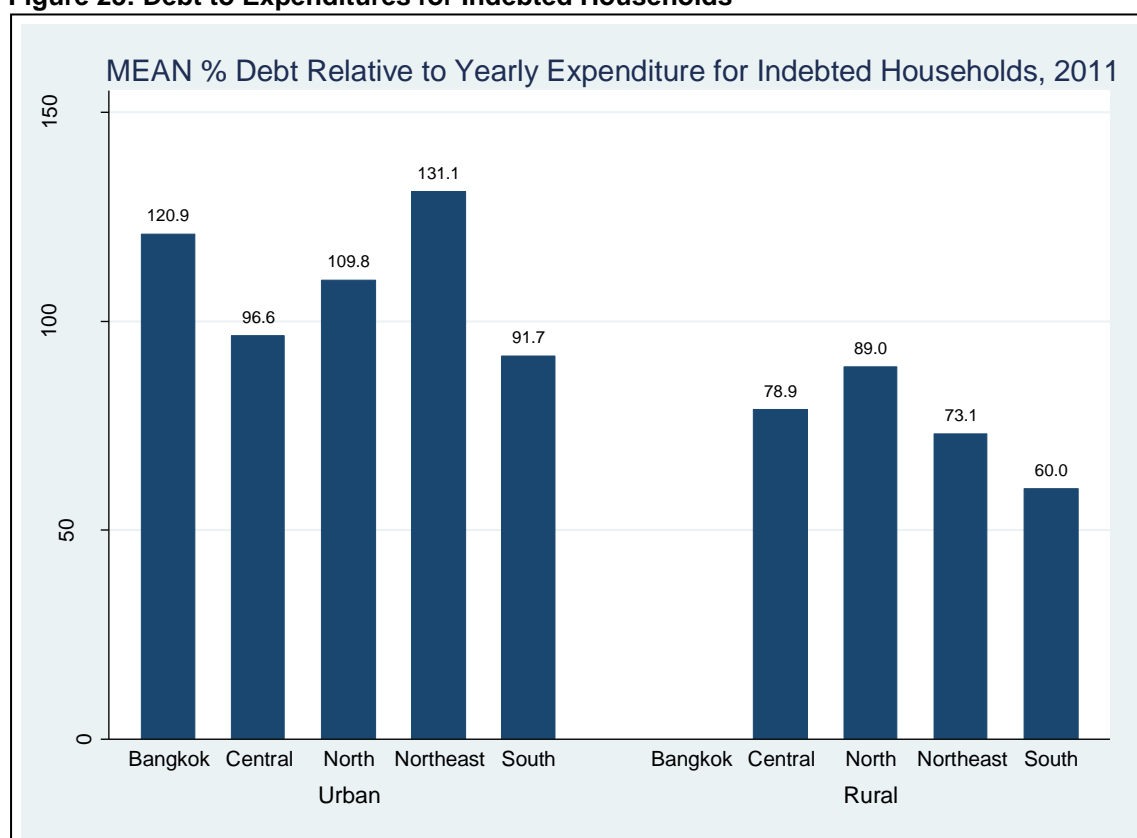


Figure 23: Debt to Expenditures for Indebted Households



The negative aspects of too easy access to credit is also evident in Thailand's high levels of personal debt, a high percentage of loans being for consumer goods rather than

productive investments and heavy advertising campaigns from companies actively pushing increased debt on persons who alarmingly, find it too easy to obtain. As one of the means to rein in household debt, BOT has recently requested cooperation from commercial banks and NBFIs to limit their advertising of credit products.

B. **Deposits**

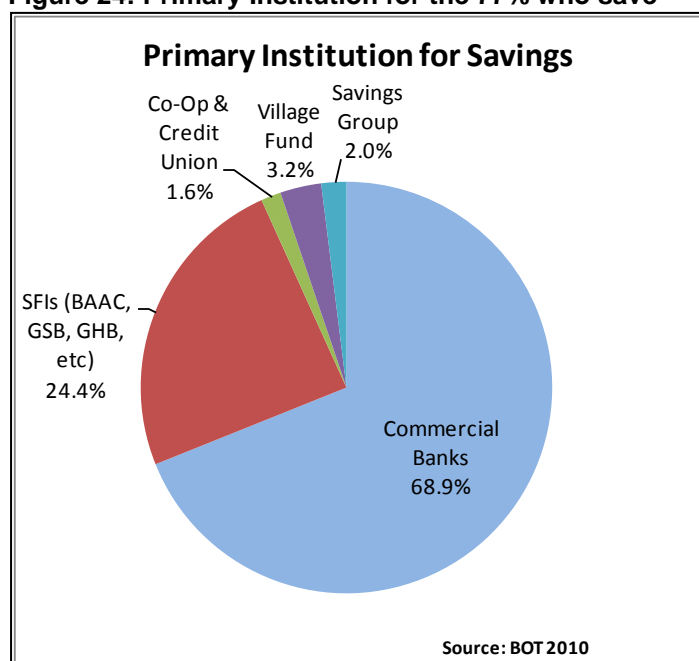
According to NESDB Deputy Secretary-General Suwannee Khamman, household savings were 7.8 percent of GDP in 2011, low compared to other ASEAN countries¹⁴¹.

A recent BOT financial services survey¹⁴² found that 76.8% of Thais had some form of institutionalized savings. The remaining 23.1% said that they had no savings in any institution. Of those with no savings, 17.0% said that they chose not to save while 6.1% said they did not have access to a savings option.

Figure 24 shows the chosen institutional option for those who save. Altogether 95% have savings accounts with either a commercial bank or an SFI. Most have a bankbook savings account in a commercial bank although savings deposits are low. For rural dwellers these accounts are more difficult to access, as there are fewer bank branches and ATM machines where they live. Bank account savings normally are used as a source of emergency funds and provide access to low cost ATM money transfers between relatives.

Another common place to save is with BAAC and other SFIs. Other non-formal savings options such as the Village Fund and Savings Groups make up about 5 percent of the total. In comparison to the BOT data¹⁴³, Finscope data shows that only 68% of Thais believe they "can" save, while only 31% actually consider that they "do" save due to the informal instruments they use. Fifty three percent (53%) of Thais have less than one month's household expenditure accumulated in savings¹⁴⁴.

Figure 24: Primary Institution for the 77% who save



¹⁴¹ Bangkok Post, November 27, 2012.

¹⁴² Of 8,619 households.

¹⁴³ BOT 2010. Financial Inclusion Survey Report. (In Thai)

¹⁴⁴ Finscope Consumer Survey Highlights 2013 - page 22.

Data from the Finscope study below provides insight into the relative size of savings in comparison to debt within Thai households.

Table 23 Income and savings data by financial institution

Institution	# of people	Personal Monthly income	Mean savings
Commercial banks	16,689,557	THB 18,531	THB 5,438
SFI's	15,262,221	THB 13,182	THB 4,106
NBFI	117,222	THB 10,997	THB 3,898
Credit Union/ Co-op	2,029,637	THB 17,080	THB 4,980
Village Fund	5,287,301	THB 10,043	THB 1,763
Savings group	7,549,652	THB 11,933	THB 2,522

Note: Income refers to reported mean monthly income, Savings refers to mean savings held at that point in time, regardless of institution

Table 23 above shows reported mean monthly income of depositors and their savings at the time of the survey. Calculating the number of months of savings compared to income yields Table 24.

Table 24 Months of savings compared to income

Institution	Mean monthly income (THB)	Current savings (THB)	Savings as number of months income
Commercial banks	18,531	5,438	0.3
SFIs	13,182	4,106	0.3
NBFIs	10,997	3,898	0.4
Co-ops	17,080	4,980	0.3
Village fund	10,043	1,763	0.2
Savings groups	11,933	2,522	0.2

As one might intuitively expect, the Village Funds which cater to a lower income population, have the lowest savings as a proportion of income at about 0.2 months although the differences are not particularly significant. Overall this table neatly illustrates the low proportion of savings of Thai families compared to their income. This provides a clear indication of the desirability of creating additional savings products. Opportunities exist for the development of targeted long-term savings products aimed at significant and predictable life cycle events such as children's education, weddings housing etc.

Table 25: Commercial Banking Deposits Classified by Size as of December 2010

Size of Account	No. Of Accounts	Total Deposits (Million Baht)	Per cent of Accounts	Per cent Deposit Amount
Not exceeding 50,000 baht	69,736,458	311,399	88.1	4.2
50,001 - 100,000 baht	3,146,906	223,710	4.0	3.0
100,001 - 200,000 baht	2,344,857	306,155	3.1	4.5
200,001 - 500,000 baht	2,000,726	630,173	2.5	8.5
500,001 - 1,000,000 baht	895,603	648,557	1.1	8.8
Not exceeding 1,000,000 baht	78,213,550	2,149,984	98.8	29.1
1,000,001 - 10,000,000 baht	882,101	2,241,538	1.1	30.3
10,000,001 - 25,000,000 baht	47,566	713,538	0.1	9.6
25,000,001 - 50,000,000 baht	13,598	477,286	0.0	6.5
50,000,001 - 100,000,000 baht	5,600	386,557	0.0	5.2
100,000,001 - 200,000,000 baht	2,233	306,269	0.0	4.1
200,000,001 - 500,000,000 baht	1,186	357,944	0.0	4.8
Above 500,000,000 baht	518	764,544	0.0	10.3
Total	79,166,352	7,397,662	100.0	100.0

Source: Supervision Report 2010 - Bank of Thailand

Table 25 shows that most deposits in Thailand are small with 88 percent of deposit account having less than 50,000 baht (1,700 USD); however the average of this account size is only about 4,500 baht or 150 USD. Unfortunately BOT data does not provide more detailed analysis of deposits. The value of all deposits in this lowest category is only 4.2 percent of all deposits. Indicative commercial bank deposit interest rates are provided in Table 26.

Table 26 Indicative Fixed Term Deposit Interest Rates

Deposit Account Type	Term	APY	Account Details
• SCB 1 Year Fixed deposit	1 year	2.60 %	Siam Commercial Bank 12 month / 1 year Interest rate for fixed deposit depends on amount deposited
• Bangkok Bank Fixed Deposit	1 year	2.50 %	Rate is fixed for 12 months for a local Individual
• Krung Thai Bank 1 Fixed Deposit	1 year	2.50 %	KTB Interest rates are applicable for a 12 month / 1 year term
• Kasikorn Bank 1 Year Fixed Deposit	1 year	2.45 %	This annual interest rate is for 'individuals' and is for a 12 month term

The total number of bank accounts at 79 million, is slightly greater than the total population of 67 million. However it is common for people in Bangkok to have multiple accounts as

changing jobs often entails changing banks as well, due to salary payment systems¹⁴⁵. It may be surprising to some that Thai banks have so many small inactive bank accounts open. The answer could lay partially in the system of ATM remittances that Thais practice between family members and also that banks tolerate small balances since they can make profits on transfers, or it could just be that the Thai passbook system has very low transaction costs since banks do not send monthly paper statements to customers. Banks have automatic passbook update machines, which customers use to keep their passbooks up-to-date.

Figures from the Global Findex Report for 2011 indicate that 72.7 percent of Thais aged 15 and over have accounts at a formal financial institution. Gender is not a factor in access to a banking account as 72.6 percent of females have accounts at banks. However, income is a factor and only 61.3 percent of the lowest 40 percent of income earners have bank accounts.

C. Payments

The general mode of payment for goods and services in Thailand is cash. Even large payments such as monthly rent or car payments are commonly made using cash. For very large amounts, cashier checks and cash transfers via ATM are popular.

Utility bills and other regular bills were traditionally paid at the utility company, or in rural areas, through door-to-door collection. Increasingly, however, these bills are paid through payments services. A survey of 1,800 individuals¹⁴⁶ across Thailand by market research firm Ipsos, shows that 65 percent of respondents pay utility bills at 7-11 stores, 27 percent were collected door-to-door by a utility agent, 26 percent were paid at a large retail chain, 11 percent were paid at the utility companies office, 3 percent were paid at the post office, 2 percent were paid at ATMs and 2 percent at commercial bank branches¹⁴⁷.

Withdrawals are generally made through ATMs and the per capita number of ATMs is high relative to other countries at the same income level¹⁴⁸, supporting the largely cash culture. ATMs are common in all municipal areas even in distant provinces, but are less common in the countryside, where consumers tend to use SFIs or abstain from using banking services entirely (see Figure 10 and Figure 11 above and Table 27 below).

Bank-issued ATM cards are by and large debit cards, although they can be used for some Point of Sales (POS) purchases (see Table 27). Purchases of gasoline are normally made using cash and there are few uses for debit cards other than at an ATM.

¹⁴⁵ This mostly depends on which bank the company transfers its compensation payments from. Transferring from one bank to another incurs a fee, but intra-bank transfer within the same region does not incur fees.

¹⁴⁶ Individuals interviewed are between 14 – 55 years of age.

¹⁴⁷ Ipsos 2012.

¹⁴⁸ As mentioned previously, Thailand had close to 48,000 ATM and ADM machines at the end of 2011. When looking at ATM per 100,000 adults, this yields a number of 77.95, much higher than the average for Upper Middle Income countries of 45.77.

Table 27: Payment System Statistics

Number of Thai commercial banks/ branches	6,183	branches
Number of foreign commercial banks/ branches	18	branches
Number of Specialized Financial Institutions/ branches	2,240	branches
Number of post office branches	1,295	branches
Number of Automated Teller Machines (ATM)	47,759	terminals
Number of EFTPOS machines	261,167	Terminals
Number of credit cards	15,328,291	Cards
Number of debit cards	38,733,246	Cards
Number of ATM cards	23,756,810	Cards

Source: Payment Systems Report 2011 (Bank of Thailand)

Credit cards are a common payment method used by higher income people. Generally there is a minimum monthly income requirement (15,000 baht or 500 USD) for obtaining a credit card and this excludes the majority of the population. However, credit card use is very popular among more affluent members of society and would be the normal way to pay for such items as hotels, at supermarkets and buying luxury items. The government-sponsored farmer's credit cards distributed through BAAC are tied to purchase of factors of agricultural production only.

Internet banking and internet-based payment systems are still in their infancy in Thailand. The exception would be the purchase of items online, airline tickets and hotel rooms that have rapidly been switching away from the tradition travel agencies in the past several years. Foreigners are also more likely to buy restaurant food with credit cards and to use them to buy services online. This has helped in building the necessary infrastructure for internet sales in Bangkok.

D. *Remittances*

In Thailand, the most frequent kind of remittance is payments for support of family members who live in the countryside. It is very common for families to be divided between working aged people living in the larger urban centers and surrounding industrial estates and grandparents and children staying back in the villages. There are several cultural and social reasons why this has emerged, but a principal one is that school location is based on the child's inclusion in house registration document and because parents do not have time to attend to children when they are working. To support this system, remittances to the village are required frequently.

The most common method of transferring money to the village is via a bank transfer, either using an ATM card or through a paper transaction from bank branches/ financial institutions. Another common form of remittance home is the use of postal orders that can be cashed at any of 1,295 post offices. Sometimes, the money is sent back with a returning friend or family member. The Ipsos survey found that 65 percent of respondents transfer money via ATM machines and 42 percent use bank branches/ financial institutions. The post office is at a distant third at 14 percent and 2 percent of respondents asked someone to hand-carry the money¹⁴⁹.

Some eligible workers will provide a credit card for parents to facilitate family expenses at home. For remitting payments of such third-party credit card bills, the most common

¹⁴⁹ Totals add to more than 100% reflecting that more than one method of transfer is used by some people.

method is payment at the various retail chains (73 percent at 7-11, 27 percent at Tesco Lotus and Big C), followed by a transfer between accounts at bank branches/ financial institutions (14 percent) and payments at the post office (6 percent). Payment at an ATM accounts for only 2 percent¹⁵⁰.

The post office charges a fixed fee of 70 baht (2.4 USD) for transfers of from 1,000 to 10,000 baht (33 to 330 USD). It is generally believed that the post office is used when the sender does not want the recipient to have an ATM card, for example if there are concerns about the security of the card and the account. Interestingly, BOT data suggests that the younger generation is using postal orders more.

Cost for an ATM transfer ranges from free - if the two accounts are with the same banks - to about 30 baht (1 USD) if the banks are different. Bank transfers are normally limited to no more than 30,000 baht (1,000 USD) per transaction, but multiple transactions can be made on the same day up to some authorized daily ceiling.

Table 28 summarizes the services of different financial institutions by customer type.

Table 28: Typical Financial Service Provision by Customer Type

Customer Type	Loans	Savings	Utility Payments	Remittances
Farmer	BAAC	BAAC	7-11, Door-to-door	ATM, Postal Orders
Poor Villager	Village Fund, BAAC, Moneylenders	BAAC, Banks, Informal or CDD Savings Group	7-11, Door-to-door, Utilities office	ATM, Postal Orders
Poor Urban Dweller	NBFI, Moneylenders, Pawnshops	Banks	7-11, Trade Outlets	ATM
Middle Class	Banks, NBFI, Credit Union	Banks	7-11, Trade Outlets, Banks	ATM, Cashiers' Checks
Businessman	Banks, NBFI	Banks	Banks	ATM, Cashiers' Checks

Source: Author's synopsis

E. *Innovations in Payments and remittances*

Thailand is very much a cash-based society and more so out of Bangkok, but that is beginning to change as mobile phone banking, internet banking, stored value cards and debit and credit cards all jockey to play a role in the payment system. The relative importance of each of these in the financial architecture of 5-10 years from now remains to be seen. However, it seems clear that financial services will become more diversified. Retail chains such as 7-11 and Tesco Lotus already play a major role in payment systems and may next venture into credit cards. Other large manufacturers, such as motor vehicle manufacturers, are likely to provide their own (or contracted) financing to support and promote sales.

Franchised payment mechanisms give an important competitive edge to modern trade outlets such as 7-11 and Tesco Lotus over competitors. This is especially true in rural areas where 7-11 mainly compete with "mom-and-pop stores", that so far do not offer such payment mechanisms. As such, payment services may not need to be financially profitable in their own right, as they can serve as a loss leader, bringing customers in also buy other products.

¹⁵⁰ Ipsos 2012.

In the past, electronic card companies have targeted market segments believed to be untapped business opportunities and capable of adopting the required technologies. Normally these have been the higher income households in Bangkok. Electronic and new technology services could have a significant positive impact on financial inclusion if lower income and rural households can be shown to represent a commercially viable market and/or if regulatory conditions are made to favor them.

1. The Current System Provides Good Financial Access

The current widespread network of ATMs in Thailand (47,759 terminals), the ubiquitous 7-11 (with 6,800 stores), as well as the 1,295 post offices, have made access to payments, withdrawals and remittances very easy even for poor rural dwellers. Some parts of that infrastructure, such as the network of ATMs, are expensive for the commercial banks to maintain and this may further encourage the provision of payment services by institutions having nationwide networks.

2. Internet and Mobile Phone Banking

At present, neither internet banking nor mobile phone banking is much used in Thailand. Internet banking may have been slower to take off due to low levels of internet usage in the country (see Figure 25). This is despite the fact that Internet access through mobile networks is very good across the country and that mobile phones ownership is widespread (see Figure 26).

The development of a single-purpose mobile phone banking system will take time and as smartphone technology becomes cheaper and these phones become more dominant in the market, it is quite possible that internet banking via smartphones will become more attractive or negate the need entirely for dedicated SMS-based mobile phone banking systems. Although any telephone can be configured to participate in an SMS-based mobile phone banking system and used for payments or transfers, the customer interface of the systems is often not particularly easy or intuitive and is likely to rapidly lose appeal with the increasing availability of low-cost Internet connected mobile devices.

Figure 25: Internet Users

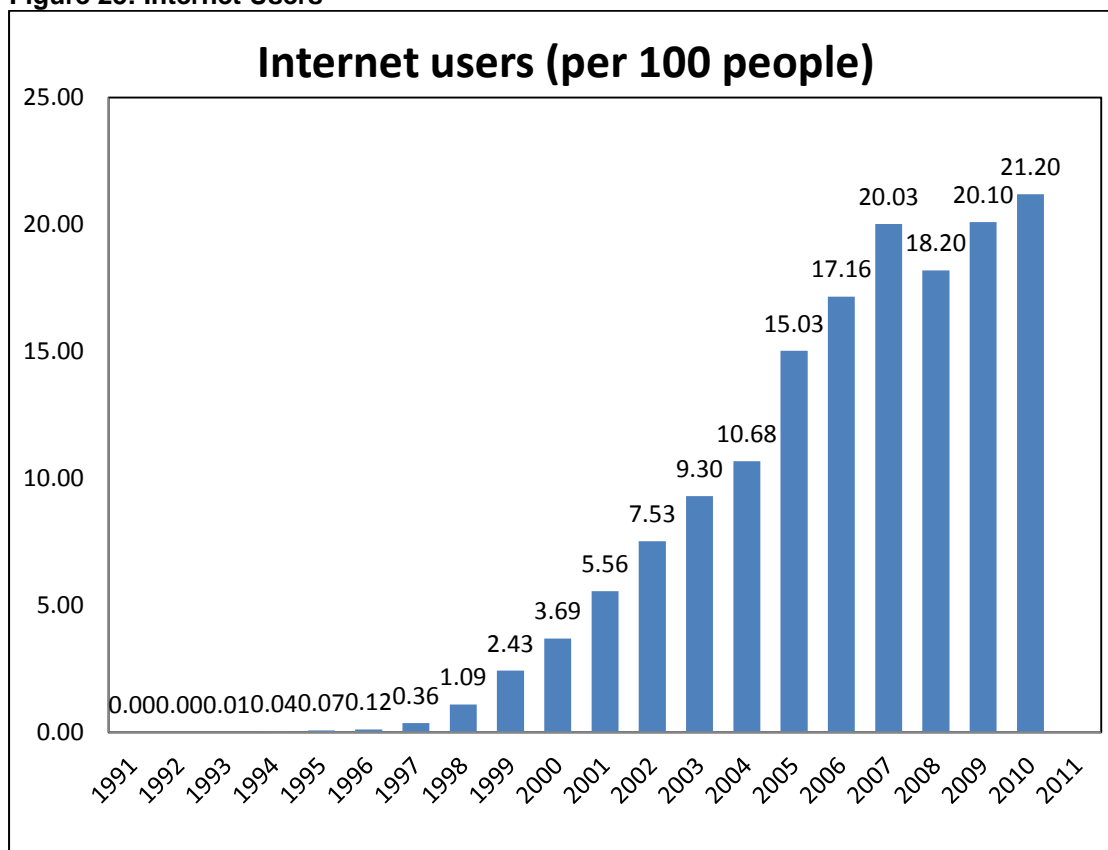
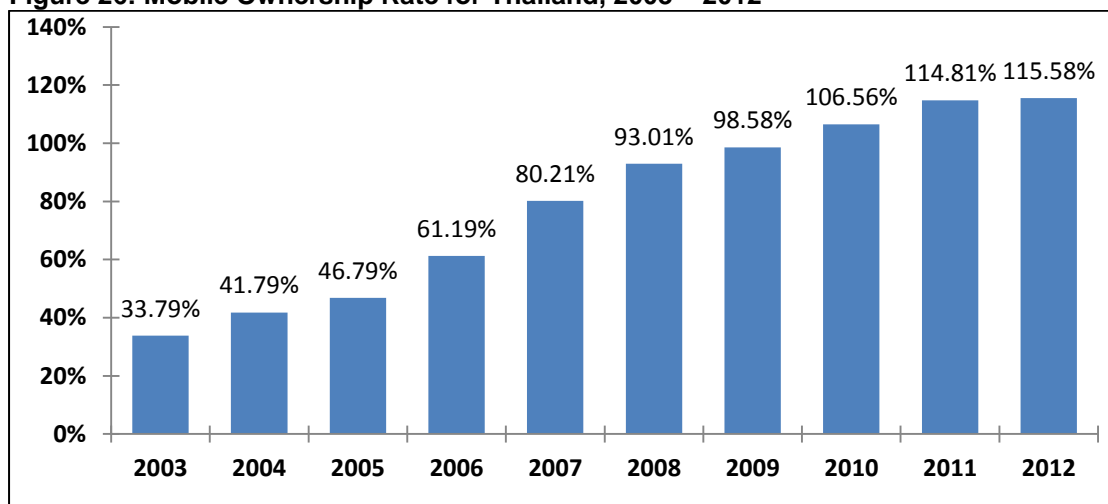


Figure 26: Mobile Ownership Rate for Thailand, 2003 – 2012



Source: National Broadcasting and Telecommunications Commission

Total Access Communication Public Company Limited (DTAC) is currently interested in building an e-money network in the countryside, building on its network of DTAC mobile phone users, agents in the countryside and a business model from M-Pesa in Kenya. The mobile telephone network would be used for remittances particularly from Bangkok to rural recipients. Although many logistic problems remain to be solved, this is a very interesting initiative.

Commercial banks are interested in taking advantage of the capabilities of Smart Phones to transmit wireless data and to allow customers to hold their phone up to a terminal and

transfer money through it¹⁵¹. However at this stage only the more affluent (the commercial bank's primary target market) use smart phones. Although this would be a welcome innovation, smart phones are currently too expensive to be very popular outside Bangkok.

3. Stored value cards

There are two competing stored value card networks in Thailand at present. The Smart Purse card (a joint venture involving 7-11 and several commercial bank partners) and the Rabbit Card (Carrot Rewards Co. Ltd) used principally by the Bangkok Transport Service (BTS) rapid transit system. Both are stored value cards, with the problems and advantages that they confer. No bank account is necessary and no information is kept about the owner, but the card requires a positive balance that is lost if the card is misplaced or stolen.

a. 7-11 - Smart Purse

7-11 (Thailand) is a subsidiary of Charoen Pokphand (CP), one of the country's largest and most internationally oriented conglomerates. 7-11 has been very successful in the convenience store market, emerging from a much more crowded convenience store market of the 1990s to become the clear leader with 6,800 branches throughout the Kingdom. Significantly, 7-11 has managed to extend its reach to most parts of rural Thailand, competing strongly with the more traditional "mom-and-pop" shops that used to dominate the sector. 7-11's competitive advantage in the countryside includes consistency of product line and customers' experience (as for all chains), but also the ability to engage in activities that require coordination and economies of scale such as bill payments. 7-11 is recognized as the premier place to pay bills.

One campaign to extend this network advantage was to introduce a Smart Purse Card that could be used at any 7-11 in the country. In 2006, all 7-11s nationwide were equipped with card readers and a promotional campaign to get people to use the cards was launched, offering a small free item (instant noodles) to anyone who signed up for a card, as well as the ability to accumulate points to redeem on free items and to be eligible for a prize draw. Currently, 7-11 sells their cards for 180 baht (6 USD) with a zero balance on them. Card users get discounts on some items and collect points towards free items. The card can be used at about 30 different types of stores including CP's own True Coffee brand, but they are most commonly used at the many 7-11 outlets. The card appears to be widely accepted by customers and is used frequently.

b. Rabbit Card

Modeled after the successful Octopus Card in Hong Kong, the Rabbit Card is used on the BTS rapid transit network and can also be used for POS purchases at a limited number of vendors including McDonalds, Starbucks, Mr. Donut, etc. It seems to be aimed at a slightly higher income customer base than the Smart Purse.

As of December 2012, it appears that acceptance by merchants is low and the card can only be used at a very limited number of locations. However, since it is the commonly used metro card, it is not in danger of being rejected entirely. Success probably depends on better acceptance by merchants, who may be reluctant to purchase the required reader without clear evidence that this will be a popular card. There is also the strong disadvantage that the reader is proprietary and is not compatible with the many debit cards that Bangkok residents currently carry.

¹⁵¹ This is called "near field communication". It uses a set of standards for smartphones and similar devices to establish radio communication with each other by touching them together or bringing them into close proximity, usually no more than a few centimeters. (Source: Wikipedia)

4. Integration Issues

There is strong competition between the different bank networks and/or business groups in Thailand and connection to one major business group makes a card less desirable to other banks. The Rabbit card with ties to Bangkok Bank makes other banks less accepting of it. 7-11 (Thailand) is owned by the Charoen Pokphand Group (CP) as is True Move, the third-largest mobile phone operator in Thailand. It may be preferable if the BOT intervened and proposed standards for a common network supporting both the stored value cards and the bank debit cards.

IV. CONCLUSIONS

Thailand is an upper middle income country with GDP growth rates of about 5% per year over the past decade and a current income per capita of about 5000 USD per year. Development within the country is uneven, with many people in lower income levels. 7.6 percent of people are considered to be living below the poverty line. The most recent poverty line estimate in 2010 was about 56 dollars a month or 672 dollars a year. Eighty-nine percent of people below this poverty line live in rural areas, while only 60 percent of the total population lives in rural areas. Therefore most poverty in Thailand is in rural areas but there is also a significant poverty issue for the informal sector and among factory/industrial workers in urban areas.

Despite the continued incidence of poverty, the problem is not related to unemployment, or even underemployment. Thailand has the lowest unemployment rate in the world except for Qatar and Monaco and with unemployment at 0.5%, most companies have trouble finding workers. When asked on the labor force survey if they would prefer to be working more hours most respondents said no. Sixty-three percent (25 million people) of the labor force work in the informal sector so have no access to work-related social security.

The scope of this paper is to focus on the poorest members of Thailand's population, many of whom may be limited in financial access to one or none of the services available to more affluent members of Thai society. The median Thai household in 2011 had income of 6,000 USD a year, while the median person had about 1,500 USD at their disposal.

A. ***Financial Service Provision***

The Thai financial sector is populated with a diversity of service providers ranging from large commercial banks to government financial institutions to medium-sized cooperatives and credit unions, to small self-help savings groups. Together, they provide deposit, credit, remittance and payments collection services. Differences in regional economies and financial infrastructure play a key role in determining the types of financial services supplied and demanded.

Typically, financial institutions in Thailand are divided into formal, semi-formal and informal providers; based on whether or not of Thailand (BOT) or the Ministry of Finance (MOF), whether or not they are legislated and whether or not they are subjected to prudential and non-prudential regulation.

B. ***Formal financial institutions***

Large commercial banks have a Kingdom-wide presence but due to their motivation for higher profits, they focus their attention on commerce, industry and to wealthier clients, many of whom are located in Bangkok. Their role outside Bangkok is to provide services to provincial businesses and to wealthy clients and more broadly to provide support for savings and transfers through a country wide network of ATMs and savings accounts. Transfers in Thailand are often within-bank transfers between savings accounts, so that both parties will have a (rarely used) passbook and a (frequently used) ATM card. It is hard to capture the effect of microfinance in the accounts of commercial banks as any services provided are dwarfed by other more profitable business operations. However the large number of passbook accounts is evident, out-numbering the population with most of them having small balances (about 70 million accounts, each under 50,000 baht or 1,650 USD). The network for their use is extensive with 48,000 ATMs and ADMs.

State-Owned Specialized Financial Institutions (SFIs) dominate the landscape in rural areas where banking is less profitable. Especially important is the ubiquitous Bank for Agriculture and Agricultural Cooperatives (BAAC) that is the largest source of loans for

people in the countryside (39% of loans in the countryside but only 12% of municipal loans), according the Socio-Economic Survey (SES). This can be compared to commercial banks with 3% of loans in the countryside and 14% in municipal areas. Although the charter of the BAAC is to provide support for farmers, its scope has evolved and is a much broader provider of loans in general and acts as an agent for a number of government programs and financial services.

Non-Bank Financial Institutions (NBFIs) are the third biggest source of loans according the Socio-Economic Survey. The very largest of these are regulated by the Bank of Thailand, but most others are regulated very lightly and often not at all. They accept vehicle titles or other movable or immovable collateral for loans. Obviously profitable, there is strong competition in all towns amongst the Non-Banks and heavy advertising to attract people to borrow. They are more prevalent in urban areas where people have lower social capital. Profits come from interest rates of sometimes 15% but often 28% per annum, much higher than the rates of government supported institutions.

Other special function SFIs such as the Islamic Bank, the Small and Medium Business Bank, the Government Housing Bank and the Government Savings Bank provide special functions to a sector of the economy both inside and outside Bangkok and are implicitly supported by the government in terms of an implicit guarantee on savings but often in other ways as well. None of the SFIs except the Government Savings Bank plays a dominant role in savings and as they generally specialize in low-interest loans.

The Government Savings Bank (GSB) has a charter to encourage savings among Thais, originally emphasized saving by the young. Nowadays, savings at GSB competes with commercial banks due to implicit guarantees and attracts a wealthier clientele. Savings groups and NGOs are active in promoting savings among those in the countryside, in response to a perceived lack of savings behavior among Thais.

Foreign banks are limited in the number of branches they are allowed to open and are thus mostly limited to Bangkok. Although they are not small in size (they hold 13% of banking assets), their client base is mostly limited to foreigners and foreign companies.

Finance companies and credit fonciers barely exist in Thailand at this time and do not play an important role in the economy.

C. *Semi-formal sector*

Cooperatives have been in operation in Thailand for a number of years and cater to different types of customers depending on cooperative type. Farmers groups and agricultural cooperatives are the most prevalent forms and also the ones that cater mostly to lower income people in the agricultural sector. While cooperatives extend the reach of financial services to those with lower income, their performance has not been good, especially the agriculture-related cooperatives. Farmers groups do better according to audits.

The Village Fund is a government initiated program that granted 1 million baht per village to facilitate loans to the poorest residents. According to the SES this program has had a very broad reach among the poorest deciles of the economy and is the second biggest lender in terms of number of loans. The Village Fund only makes loans and does not provide other financial services.

D. *Informal Sector*

About 7% of loans are still obtained from local moneylenders and pawnshops, although this percentage has been dropping. They are nearly unregulated and may charge exorbitant and illegal interest rates of 3% or more per day.

In summary, commercial banks support big business and dominate loans in Bangkok, BAAC, the Village Fund and other government programs dominate loans in the countryside, Non-Banks make loans throughout the country especially to the urban poor and middle class in the informal sector, commercial banks facilitate transfers and small savings accounts throughout the country, 7-11 and other modern trade outlets dominate payments. Small savings groups and NGOs try to encourage savings at the local level.

E. **Products**

The primary products discussed within this report are loans, savings, payments and remittances. Micro-insurance is primarily addressed in another report. As discussed in the body of the report, the primary providers of financial services are outlined in Table 29 below.

Table 29: Financial Service Provided By Different Types of Service Providers

Institution	Consumer Loans	Microfinance Loans	Deposits	Remittances	Payments Collection	Pre-paid / Stored Value Cards
Commercial Banks	✓✓✓	✓	✓✓✓	✓✓✓	✓	
SFI: BAAC	✓✓✓	✓✓✓	✓✓	✓	✓	
SFI: GSB & GHB	✓	✓✓	✓✓✓	✓		
NBFIs	✓✓✓	✓✓✓				
Credit Unions / Co-Ops	✓✓	✓	✓✓			
Village Fund	✓	✓✓✓	✓			
Moneylenders / Pawnshops	✓	✓✓				
Post Office				✓✓	✓	
Modern Trade Outlets					✓✓✓	✓
Mobile Network Operators				✓	✓✓	✓✓✓

Note: ✓✓✓ indicates a dominant role, ✓✓ a moderate role and ✓ a small role in providing a financial service

Table 29 is based on evidence from a compilation of surveys including SES and BOT data for loans, BOT data for savings, the IPOS survey for payments and collections, authors' estimates based on interviews and indirect evidence for remittances and there are only two stored value cards at present, but this is more based on intentions.

Although in the past, utility payments were generally made either to door to door collectors, or at the local utility office or at commercial banks - at this time Seven-Eleven (65%) and to a lesser extend other modern trade shops (26%) dominate payments, charging a small service fee. At the present time, regular electronic payments such as payments of utility bills are rare, although larger amounts may be transferred directly via ATM on occasion.

Another table from the body of the report gives an indication of how different types of individuals meet their financial needs. Again the data in Table 30 come from a combination of statistical data from the SES and interviews.

Table 30: Typical Financial Service Provision by Customer Type

Customer Type	Loans	Savings	Utility Payments	Remittances
Farmer	BAAC	BAAC	7-11, Door-to-door	ATM, Postal Orders
Poor Villager	Village Fund, BAAC, Moneylenders	BAAC, Banks, Informal or CDD Savings Group	7-11, Door-to-door, Utilities office	ATM, Postal Orders
Poor Urban Dweller	NBFI, Moneylenders, Pawnshops	Banks	7-11, Trade Outlets	ATM
Middle Class	Banks, NBFI, Credit Union	Banks	7-11, Trade Outlets, Banks	ATM, Cashiers' Checks
Businessman	Banks, NBFI	Banks	Banks	ATM, Cashiers' Checks

Source: Authors' synopsis from SES and interviews

V. RECOMMENDATIONS

Financial inclusion policy needs to be regarded as a set of strategies that respond to the need for universal access to quality financial services for women and men. Such access has an important role to play in the sustainable reduction of poverty.

Financial inclusion should include consideration of the needs of up to five million illegal foreign workers and to guard against their exploitation. Most of them are excluded from banking services including transfers, since documents required for opening a bank account and obtaining an ATM card, include a valid foreign work permit, or citizenship papers/passport.

Making new product development an inherent requirement of SFIs and the Village Fund service delivery would aid financial inclusion. Loans to the poor tend to be subsidized or underwritten through a variety of government supported institutions, such as the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Village Fund, Government Savings Bank etc. Proactive development of new products and support to reduce delivery costs (for example by wholesaling) is frequently under-addressed in such subsidized environments and normally progresses on the basis of the personal interest of management in the equity issue. The current pattern of borrowing to finance family expenses, points to the need for better quality loans and savings products.

There are both un-served and under-served strata within the population who need the benefit of financial products designed to closely accord with their needs, are priced to reach them and are conveniently available. Development of demand led products for poorer households is not seen as high priority to commercial institutions and they do not attract the same creative energy that goes into the banks' marketing effort for middle and high income clients. Development of demand led products for the underserved market must be an important part of the efforts on behalf of financial inclusion.

NBFIs should be better and more thoughtfully regulated. Non-Bank Financial Institutions (NBFIs) are an important source of funds for lower and middle income Thais. Currently lightly regulated, they make loans secured by titles to automobiles and motorcycles and other movable and immovable property. Since they do not accept deposits, the risk to the monetary system is small, negating the usual need for full prudential regulation by the Bank of Thailand. However, since NBFIs are emerging as institutionalized replacements for the moneylenders and pawnshops, important regulatory issues include consumer protection measures such as clear product disclosure, prevention of over indebtedness, protection from unfair fees and appropriate loan collection practices.

The Government Savings Bank is an important instrument for provision of micro-savings particularly in urban areas. The utility and sustainability of its role needs to be safeguarded through prudent financial management. Currently it appears that most of its loans are funding non-commercial government programs which may adversely impact upon its financial sustainability.

Microfinance as a development tool ought to promote savings and intelligent consumption at its core. Government programs, NBFIs and the popular consumer culture all conspire lure consumers into easily accessing consumer loans with little regard for the difficulties resulting in loan repayment, particularly amongst low income households. Meanwhile encouragement of savings is mostly ignored in current policies. In its approach to financial inclusion, RTG may find it suitable and timely to take a more visible role in promoting realistic family expectations and good financial practices, compatible with a Sufficiency Economy. Such an approach may reduce the ease with which certain individuals slide into indebtedness and support the well-being, happiness and financial stability of Thai families.

Some examples include, requiring consumer warnings with advertisements for credit cards and consumer loans. Promoting financial literacy should not be in the hands of institutions that benefit from loans such as commercial banks.

The Village Fund should be encouraged to continue its efforts to reach the poorest of the poor. It has been successful at reaching the poorest of the poor as evidenced by SES data. However, anecdotal evidence suggests that the benefits of this program are limited to a relatively small number of households as most loans are rolled over with the same borrower year after year restricting revenue available for fresh loans for new clients. Expanding the Community Bank wholesale approach of BAAC towards Village Funds in favor of new clients would be an option to improve this. This oversight by BAAC may also improve financial discipline and management practices within the Village Funds.

BAAC should be encouraged to further its focus on wholesaling microfinance and community business service provision. BAAC currently plays the most important role in providing microfinance services to those in the countryside, having developed beyond its original mandate of being an agricultural bank, to provide loans and other services to rural people in all occupational groups. It is, however, often enlisted as an agent of various short term campaigns that hurt its profitability and its ability to manage its core business. BAAC should use its institutional capacity to expand research and development into better quality loan products for agriculture and value-added activities in agriculture. Close collaboration with other micro finance service providers would be highly desirable and BAAC is in an excellent position to take this role.

An open access mobile phone e-money platform could revolutionize financial service provision. A system that could be accessed by the Village Funds and all other community based financial organisations would put electronic payments within reach of every household at the lowest possible cost. This would need to be coupled with cash-in and cash-out facilities through nationwide retail outlets such as 7-Eleven, Tesco Lotus and fuel outlets. The ease and efficiency provided by an e-money platform for financial transactions will transform the provision of microfinance and microinsurance services in a similar way to that which ATMs have transformed banking operations. While this platform may be operated by a commercial provider(s), it should remain open to a variety of microfinance and microinsurance providers.

Linking electronic banking development to the needs of the poor should be an important part of financial inclusion. Ensuring that specific product innovations and institutional changes also meet the needs of the poor requires careful attention in financial inclusion policy. Innovations are often introduced by commercial banks and telephone networks whose target constituency is the well-off urban middle class. For instance, there is strong interest in incorporating payment technology into smart phones that would be out of reach financially for the poor and could reduce the number of ATMs that currently provide a valuable service to low income households.

The effective use of new technology is important to keep financial inclusion policies relevant. Making sure that evolving technologies and applications fit the financial service needs of the rural poor, needs to be a concern of government policy.

APPENDIX 1. : LIST OF PERSONS INTERVIEWED

Organizations	Meeting With
Advanced Info Service (AIS)	Sunitaya Shinawatra, Senior Vice President
	Pratthana Leelapanang, Vice President
Advanced MPay	Paradorn Wichayapinyo, Business Development Manager
	Thanobol Cenphakdee, Business Planning Manager
Bank for Agriculture and Agricultural Cooperatives	Morakot Pitharat, Executive Vice President
	Chamnong Siriwongyotha, Team leader office of international cooperation
	Mahochai Sudjit, Director, Credit Card Department
	Wanchai Charoenmongkol, Assistant Vice President, Government Policy Department
Bangkok Metropolitan Administration Office of Pawnshop	Chatchaval Srinon, Director, BMA Office of Pawnshop
Bank of Thailand	Salinee Wangtal, Assistant Governor, Supervision Group
	Jaturong Jantarangs, Senior Director, Payment Systems Policy Department
	Titanun Mallikamas, Senior Director, Office of Corporate Strategy
	Chitkasem Pornprapunt, Division Executive, Financial Institutions Policy Department
Community Development Department	Seng Singthothong, Director, Bureau of Community-based Capital and Financial Organization Development
	Samane Mahattanasomboon, Asst. Director
Community Organizations Development Institute	Nutta Ratanachaichan, Financial Management Adviser
	Panthip Petchmark, Assistant Director
Cooperative Promotion Department	Somchai Channarongkhun, Director
	Thammasiri Chairat, Expert on Thrift and Credit Cooperative Development
Counter Service	Weeradej Ackapolpanich, Assistant Vice President
Credit Union League of Thailand	Dabchai Jaisusuk, General Manager
	Kruewan Chonlanai, Manager Central Finance Facility Dept.
Total Access Communications (DTAC)	Pichit Jongsaliswang, Vice President Strategy Group
Easy Buy	Takeharu Uematsu, Chairman
	Poonlap Chantavongviriya, Executive Vice President
	Sompong Anekvisudwong, Vice President
	Shigeo Yamanoi, Director
Federation of Cooperatives	Maneerat Munkitcharoen, Chief of Human Resource Management Section
Government Housing Bank	Chatchai Sirilai, Senior Executive Vice President Credit Business Unit
	Nuanla-orr Vajanabukka, Senior Vice President Public and Social Policy Department
	Porta Yimtraiporn, Assistant Senior Vice President

Organizations	Meeting With
	Public and Social Policy Department
Government Savings Bank	Rosarin Sojiphan, Executive Vice President Community Bank
	Ubolwan Changkaindee, Secretary to S.E.V.P. Marketing Group
	Wichai Choowisetsuk, Expert, Community loan department
Islamic Bank	Dheerasak Suwannayos, President
	Dr.Kunchit Singsuwan, Senior Executive Vice President
	Bodin Adulphakdee, Vice President microfinance department
	Dr.Klangjai Juisiri, Deputy Vice President
	Gorgiat Wong-aree, Executive Vice President
Klongchan Credit Union	Monthon Kunlom, President
	Aree Yamboonying, General manager
Krungthai Bank	Arisara Dharamadhaj, First Executive Vice President Government and State Enterprise Relationship Group
	Nisanard Yothasmut, Senior Vice President and Manager of Community Bank Program
Krungthai Card (KTC)	Rathian Srimongkol, President and Chief Executive Officer
	Rapeepanee Phoobuapean, Senior Manager President & CEO office
	Terapoj Choke-a-nantang, Senior Vice President, Credit Card Business
	Sudaporn Janwatanagool, Executive Vice President, Personal Loans Business
	Piyasak Tejasen, Senior Vice President, Products and Distribution
National Village and Urban Community Fund	Assoc.Prof.Natee Khlibtong, Chief Executive Officer and Secretary-General
Post Office	Somchai Thammavech, Manager financial market
SME Bank	Sotos Sakornvisava, President
Thai Credit Retail Bank	Mongkorn Leelatum, Chief Executive Officer and Managing Director
	Roy Augustus Gunara, Managing Director
	Kittipant Sriwannawit, Assistant Managing Director
Thammasat University	Dr.Anya Khantavit, Professor
Thai Military Bank	Rarana Lengsiriwat, Senior Vice President
True Money	Punnamas Vichitkulwongsa, Managing Director
	Israbhol Cheawiriyabunya, Deputy Director

APPENDIX 2. : FINANCIAL INSTITUTIONS REGISTERED WITH BOT

Table 31: Thai Commercial and Retail Banks

<i>Institution Type</i>	<i>Name</i>
Thai Commercial Banks (14)	BANGKOK BANK BANK OF AYUDHYA CIMB THAI BANK INDUSTRIAL AND COMMERCIAL BANK OF CHINA (THAI) KASIKORN BANK KIATNAKIN BANK KRUNG THAI BANK LAND AND HOUSES BANK SIAM COMMERCIAL BANK STANDARD CHARTERED BANK (THAI) THANACHART BANK TISCO BANK TMB BANK UNITED OVERSEAS BANK (THAI)
Retail Bank (1)	THE THAI CREDIT RETAIL BANK*

Source: BOT

*Thai Credit has recently applied for a full banking license.

Table 32: Foreign Subsidiary and Foreign Bank Branches

<i>Institution Type</i>	<i>Name</i>
Subsidiary (1)	MEGA INTERNATIONAL COMMERCIAL BANK
Foreign Banks Branches (15)	BANK OF AMERICA, NATIONAL ASSOCIATION BANK OF CHINA BNP PARIBAS CITIBANK, N.A. CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK DEUTSCHE BANK AG. INDIAN OVERSEA BANK JPMORGAN CHASE BANK, NATIONAL ASSOCIATION MIZUHO CORPORATE BANK OVER SEA-CHINESE BANKING CORPORATION RHB BANK BERHAD SUMITOMO MITSUI BANKING CORPORATION THE BANK OF TOKYO-MITSUBISHI UFJ THE HONGKONG AND SHANGHAI BANKING CORPORATION THE ROYAL BANK OF SCOTLAND N.V.
Foreign Bank Representatives (34)	AUSTRALIA & NEW ZEALAND BANKING GROUP

Source: BOT

Table 33: Foreign Bank Representatives

<i>Institution Type</i>	<i>Name</i>
Foreign Bank Representatives (34)	AUSTRALIA & NEW ZEALAND BANKING GROUP BANK OF BARODA CATHAY UNITED BANK CHINATRUST COMMERCIAL BANK COMMERZBANK AKTIENGESELLSCHAFT CREDIT INDUSTRIEL ET COMMERCIAL (CIC) CREDIT SUISSE DBS BANK DEG - DEUTSCHE INVESTITIONS - UND ENTWICKLUNGSGESELLSCHAFT MBH FIRST COMMERCIAL BANK ICICI BANK ING BANK N.V. JAPAN BANK FOR INTERNATIONAL COOPERATION JAPAN FINANCE CORPORATION KFW IPEX-BANK GMBH NATIXIS PHONGSAVANH BANK RESONA BANK, SHINKIN CENTRAL BANK SUMITOMO MITSUI TRUST BANK THE BANK OF FUKUOKA, THE BANK OF NEW YORK MELLON THE BANK OF NOVA SCOTIA THE BANK OF YOKOHAMA THE HACHIJUNI BANK, THE HIROSHIMA BANK THE HOKURIKU BANK THE HYAKUGO BANK, THE OGAKI KYORITSU BANK THE SHANGHAI COMMERCIAL & SAVINGS BANK THE SHIGA BANK THE SHOKO CHUKIN BANK UBS AG WELLS FARGO BANK, NATIONAL ASSOCIATION

Source: BOT

Table 34: Specialized Financial Institutions (SFIs)

<i>Institution Type</i>	<i>Name</i>
Specialized Financial Institutions (8)	BANK FOR AGRICULTURE AND AGRICULTURAL COOPERATIVES EXPORT-IMPORT BANK OF THAILAND ISLAMIC BANK OF THAILAND SECONDARY MORTGAGE CORPORATION SMALL AND MEDIUM ENTERPRISE DEVELOPMENT BANK OF THAILAND THAI CREDIT GUARANTEE CORPORATION THE GOVERNMENT HOUSING BANK THE GOVERNMENT SAVINGS BANK

Source: BOT

Table 35: Credit Foncier and Finance Companies

<i>Institution Type</i>	<i>Name</i>
Credit Fonciers (3)	ASIA CREDIT FONCIER LYNN PHILLIPS MORTGAGE CREDIT FONCIER SAHAVIRIYA CREDIT FONCIER
Finance Companies (2)	ADVANCE FINANCE BANGKOK FIRST INVESTMENT AND TRUST

Source: BOT

http://www.bot.or.th/english/financialinstitutions/websitefi/_layouts/application/bot%20financial%20institutions/financialinstitutions.aspx.

Table 36: Non-Bank Personal Loan and Credit Card Companies

<i>Institution Type</i>	<i>Name</i>
Personal Loan Company (26)	AEON THANA SINSAP (THAILAND) ASIA SERMKIJ LEASING AYUDHYA CAPITAL AUTO LEASE AYUDHYA CAPITAL SERVICES AYUDHYA CARD SERVICES CAPITAL OK CFG SERVICES CINMIT CITICORP LEASING (THAILAND) CYBER NETICS EASY BUY FAST MONEY GENERAL CARD SERVICES K T B LEASING KRUNG SRIAYUDHYA CARD KRUNG THAI CARD MUANGTHAI LEASING PROMISE (THAILAND) SAKSIAMPANICH LEASING SIAM COMMERCIAL LEASING SIAM GENERAL FACTORING SINGER THAILAND TESCO CARD SERVICES TOYOTA LEASING (THAILAND) V CASH ENTERPRISE WATTANA THANA SINSAP
Credit Card Company (11)	AEON THANA SINSAP (THAILAND) [†] AMERICAN EXPRESS (THAI) AYUDHYA CAPITAL SERVICES [†] AYUDHYA CARD SERVICES [†] CAPITAL OK [†] CITI CONSUMER PRODUCTS (THAILAND) EASY BUY [†] GENERAL CARD SERVICES [†] KRUNG SRIAYUDHYA CARD [†] KRUNGTHAI CARD [†] TESCO CARD SERVICES [†]

Source: BOT

[†] indicates that company also operates personal loan business.

APPENDIX 3. SERVICES OFFERED BY 28 NBFIS

Name of Company	Services Provided						
	Credit Card	Personal Loans	Leasing			Hire Purchase	Other Services
			House	Car/Motor cycle	Other		
Aeon Thana Sinsap (Thailand)	X	X		X			Payments
Asia Sermkij Leasing		X		X	X		Insurance
American Express	X						
Ayudhya Capital Auto Lease		X		X			
Ayudhya Capital Services	X	X					Cash Card
Ayudhya Card Services	X	X					
Capital OK	X	X					
CFG Services		X				X	
Cinmit	N/A ¹⁵²	N/A	N/A	N/A	N/A	N/A	N/A
Citi Consumer Products	X						
Citicorp Leasing (Thailand)		X					X Transfer credit card and leasing debts
Cyber Netics	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Easy Buy	X	X					Cash Card
Fast Money	N/A	N/A	N/A	N/A	N/A	N/A	N/A
General Card Services	X	X					
KTB Leasing				X	X		
Krungsri Ayudhya Card	X	X					
Krung Thai Card	X	X					
Muangthai Leasing		X					
Promise (Thailand)		X					
Saksiam Panich Leasing	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Siam Commercial Leasing		X	X	X			Auction (cars and non-performing assets)
Siam General Factoring		X					
Singer					X		Direct sale of

¹⁵² N/A = information unavailable

Note: [†]Table does not include Siam Kubota, which is an agricultural equipment seller that provides leasing services to finance the purchase of its products.

Thailand							electrical appliances
Tesco Card Services Limited	X	X					
Toyota Leasing (Thailand)		X		X		X	
V Cash Enterprise	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wattana Thana Sinsap	N/A	N/A	N/A	N/A	N/A	N/A	N/A

APPENDIX 4. GOVERNMENT POLICIES TO STIMULATE CONSUMER SPENDING

A. *First-Car Policy*

The first-car policy is a populist policy that was effective from mid-September 2011- end of December 2012. Its objective is to encourage people who have never owned a car, to buy their first car¹⁵³ by giving first-time car owners vehicle-tax refunds. This policy stimulates growth in the automobile industry, car insurance businesses and car loan businesses. These serve to accelerate growth, increase employment and improve financial sector business.

First-time car owners receive tax refunds one year after their application and the eligibility criteria are as follows:

- The buyer must be more than 21 years old
- The buyer has never bought any cars before
- The period of car purchasing is between September 16, 2011- December 31, 2012
- The price of the car must be lower than 1 million baht
- The engine of the car is not more than 1,500 cc. (except pick-up trucks: no limit cc.)
- The car must be produced in Thailand
- New car only
- Non-transferable within 5 years (in the case of non-payment loan: the proprietary right can be transferable)

The policy was popular among consumers and well-liked by automobile-related businesses. The number of Thais who participated in this policy was more than the government expected. Even though the policy cost the government about 91 billion baht (3 billion USD) of tax revenue, in 2012 (see Table 37), increases in household spending and car production generate corporate tax will affect government revenues positively.

One the other hand, since this policy encourages people who plan to own cars in the future to buy a car today, future sales might be reduced. Moreover, there is a chance that people who have joined the first-car policy will decrease their spending on other consumer goods. In some families with a weak financial position, they might not be able to pay back all the debts from buying a new car and this will have a negative impact on the financial institutions that offer the loans. For the public sector, government might not have enough money to pay all tax refund due to the overestimated amounts of participants. Therefore, government has to make sure that there is a contingency plan to moderate unpredictable financial outcomes.

Table 37 Total amount of cars from the first-car policy

Type	Number of cars (units)	Amount of tax refund (million Baht)	Percentage
Sedan	737,991	66,181	58.7
Pick up	258,692	4,359	20.6
Double Cab	257,406	20,541	20.5
Others	2,205	7	0.2
Total	<u>1,256,294</u>	<u>91,088</u>	<u>100.0</u>

Source: Excise Department (31 December 2012)

¹⁵³ up to the value of 100,000 baht (33,000 USD)

B. ***First-Home Policy***¹⁵⁴

First-home policy is another populist policy that encourages first time home owners. This policy ran parallel to the first-car policy and was effective from mid-September 2011 to the end of December 2012. The policy offers incentives for people to buy their first home by offering a five-year exemption of personal income tax for first-time owners of property with a maximum value of 5 million baht (167,000 USD). The amount of personal income tax exemption must not exceed 10% of the property value.

Eligibility criteria for the first-home policy:

- The buyer has never bought any house and never received any property tax exemption before
- The buyer has to exercise the tax exemption within 5 years starting from the day that the property is transferred
- Personal income tax exemption has to be spread equally over 5 years
- The house is non-transferable for 5 years
- The period of transferring property ownership is between September 21, 2011 to December 31, 2012

Penalty: if the buyer fails to fulfill any one of the above criteria, the buyer has to pay a fine and the right of personal income tax exemption will be cancelled.

To further this policy, the government instructed the Government Housing Bank to encourage low-income people to buy a new house by offering low-interest rate loans. GHB launched a campaign of offering loans to buyers in the government's first home program 0% interest rate for three years. The period of the loan must not exceed 30 years and the financial amount must not exceed 1 million baht (33,000 USD). It was effective between September 30, 2011 to March 29, 2013.

According to the information from the Excise Department, after one year government lost income totaling 4 billion baht (133 million USD) stemming from the tax exemptions, although the expected amounts were forecasted at 20 billion baht. This program fell short of forecasted uptake. This could be due to the fact that even with the government income tax rebates, low-income people still could not afford to buy property as the credit limits they face in obtaining a mortgage, are much lower than the property price. This deterred some people and increases the chance of non-performing loans for both GHB and other financial institutions for those buyers who buy because of the one-time nature of the government's program.

¹⁵⁴ Source: MOF, GHB, Krungthep Turakij