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Financial Inclusion, Financial Regulation, and Financial Education in Thailand

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Abstract

This paper addresses the issue of financial inclusion in Thailand through the lens of an institutional analysis, which takes into consideration the desired outcomes, the service providers and enabling agencies, and the regulatory context that shape the existing provision of financial inclusion in Thailand. In discussing the achievement of the desired outcomes in terms of financial inclusion, the issues of financial education and financial regulation, which provide the contexts within which the provision of financial products and services occur, are also addressed. Using survey information and other evidence, the paper identifies the gaps between desired and existing outcomes, the gap in unmet demand for financial products and services, the gap in financial education provision, and the weakness of the existing regulatory institutional setting. The paper concludes with policy recommendations for achieving the desired outcomes in terms of financial inclusion within the context of Thailand.

JEL Classification: G21, G28, O16

Contents

1. INTRODUCTION

Financial inclusion is, and has been, an important goal in Thailand's development agenda. This is in line with the widely held view and recent empirical evidence suggesting that access to financial services has a positive impact on the lives, livelihoods, and well-being of low-income households, and on the income, size, and investments of micro-enterprises in low-income and emerging economies (see, e.g., Bauchet et al. [2011]; Cull et al. [2014]; and Honohan and King [2012]). While a recent survey by the Bank of Thailand (BOT) shows that the country has a relatively high rate of utilization of financial services at 88% (BOT 2014a), promoting access to appropriate and adequate financial services is still relevant given several features of the country's economy—the large informal sector, persistent income inequality, a large rural population below the poverty line, the proliferation of small and medium-sized enterprises (SMEs), and the high household debt to gross domestic product (GDP) ratio.

This paper addresses the issue of financial inclusion in Thailand from the perspective of an institutional analysis that takes into consideration the desired outcomes, the actors who provide or enable financial service provision, and the institutional contexts of financial regulation and education that shape financial inclusion in the country. The purposes of this paper are three-fold:

(1) To provide an overview of the current status of financial inclusion, regulation, and education in Thailand;

(2) To identify gaps and obstacles that prevent furthering the objective of financial inclusion in the country; and

(3) To provide policy recommendations based on (1) and (2) above.

In meeting the above three objectives, the paper primarily focuses on financial inclusion of the marginally included and the wholly excluded group, not including those who have the ability to access but choose not to (the self-excluded group). As the majority of those in the groups of concern are usually low-income individuals and small businesses, most of them operating in the informal sector, the main focus of the paper is on the provision of products and services specific to these groups, or microfinance.

The remainder of this paper is structured as follows. Section 2 provides the institutional analysis framework that serves as the lens through which financial inclusion in Thailand is analyzed, and provides the sources of data used in this paper. Section 3 provides background information on Thailand. Section 4 gives the desired outcomes in terms of financial inclusion, and provides an overview of the policies that govern the provision of microfinance services in the country. An overview of the service providers and enabling agencies of microfinance services is provided in Section 5 and Section 6 sets out the regulatory context. Section 7 provides the current status of financial inclusion and financial education in Thailand and Section 8 points out the remaining gaps in financial education. Section 9 concludes and provides policy recommendations.

2. INSTITUTIONAL ANALYSIS FRAMEWORK AND SOURCES OF SURVEY DATA

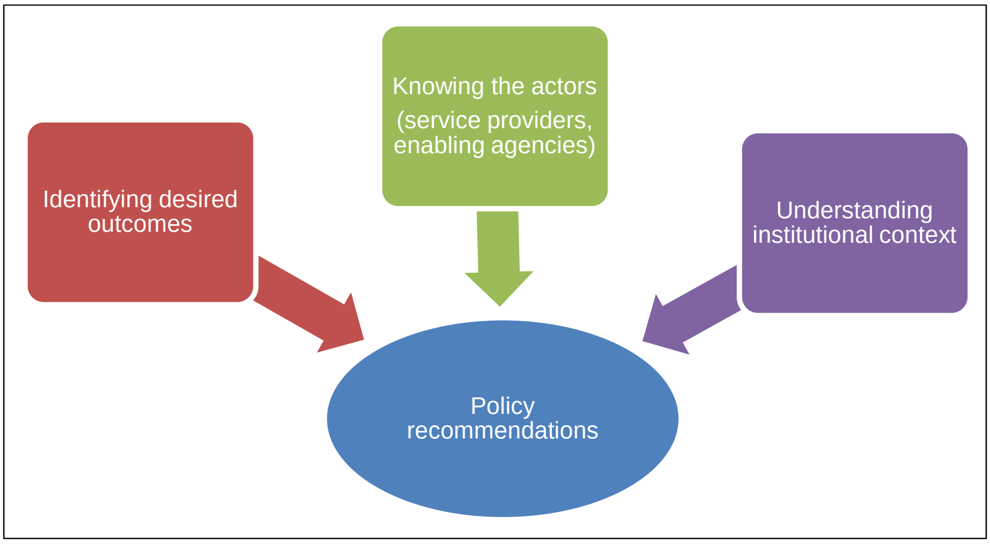
2.1 Institutional Analysis Framework

To understand and assess financial inclusion in Thailand in terms of access to financial services and the contexts of financial regulation and education, this paper draws on, and adapts to suit its purposes, the conceptual framework of institutional analysis provided by the International Fund for Agricultural Development (IFAD) (2009). In this paper, the term "institutions" is used in its broad definition to allow the analysis to encompass organizational actors, as well as the institutional contexts of financial regulation and education. Institutions is often defined by economists and others as the "rules of the game" (see, e.g., North [1993]). They are, as Douglass North (1991) puts it, "humanly devised constraints that structure political, economic and social interaction" (p.97). Institutions are distinguished from "organizations," which have been described as the "players" (North 1993). Organizations are often defined as formal or informal groups or associations with defined and accepted roles, positions, and responsibilities. Organizations usually have structured relationships with each other to achieve some specific objectives (Lobo 2008). These definitions are adopted here.

Several reasons exist for why the paper chooses to analyze the issue of financial inclusion through the lens of the institutional analysis framework proposed by the IFAD. First, there is an emerging consensus among economists and other social scientists that institutions matter, both in terms of a country's economic performance (North 1990) and in terms of determining access to resources, which, in turn, influence incidences of poverty (see, e.g., Uphoff [1992]; Dasgupta and Mäler [1994]; Grootaert and Narayan [2004]). Thus, an analysis of financial inclusion of which access to financial services of the low-income group is key, would require the analysis of the institutions and actors that are involved. Second, the theme of microfinance in this paper fits with the focus on poverty that is the objective of an IFAD institutional analysis. Third, as the issue of microfinance is multifaceted by nature, a holistic analysis is needed to comprehend and evaluate the many dimensions of the issue. The institutional analysis framework provided by the IFAD does this. Recognizing that poverty is a multidimensional issue, the IFAD has developed a tool for analyzing the array of institutional factors that affect poverty in a holistic fashion. It provides a coherent framework, which makes it possible to identify and assess the relevant institutions and organizational actors. Fourth, one of the goals of an IFAD institutional analysis is to allow the identification of development strategies that not only offer holistic solutions to the issue of poverty, but also allow for policy formulation that addresses the structural causes of poverty. This is in keeping with Objective 3 of this paper.

According to the IFAD (2009), the central concern of an institutional analysis should be the outcomes achieved, and the improvement in outcomes aspired to. One other key component of the analysis is to identify the main service providers and enabling agencies that offer and/or foster microfinance. Their roles should be identified and analyzed to ensure an understanding of the institutional factors that influence the outcomes. However, as the functions of these agencies also depend on the institutional context, it is also important to set out the underlying institutions, and assess the underlying institutional setting in the context of financial inclusion. In this paper, the regulatory context, and the enabling context of financial education are both set out. Only when these steps have been taken should strategies for institutional change be formulated. This process of institutional analysis is depicted in Figure 1.

Figure 1: Institutional Analysis Framework



Source: Author's illustration.

2.2 Sources of Survey Data

To supply information for an institutional analysis of financial inclusion for individuals, households, and small and medium enterprises (SMEs), this paper draws on a variety of databases that provide detailed information on financial access and financial literacy among individuals, households, and SMEs in Thailand. This includes information from the World Bank Global Financial Inclusion (Global Findex) database, and several in-country surveys of individuals, households, and SMEs.

Information on financial inclusion and financial literacy from the perspective of individuals and households are drawn from two main sources—the Bank of Thailand (BOT 2014a, 2014b) and the FinScope Thailand survey,[1] both of which are for 2013. The BOT survey samples 10,613 representatives of households in all regions of the country, and includes both urban and non-urban households. FinScope Thailand is a nationally representative survey of individuals who live in both urban and non-urban areas, and also covers all regions of the country. In the FinScope survey, households are first randomly selected and individuals within households are then selected using a Kish Grid. A total of 5,990 individuals were sampled.

Information on SMEs' access to financial services is taken from two main sources. The first source is from a survey conducted by the Office of Small and Medium Enterprises Promotion (OSMEP) in 2010 of 805 enterprises of small, medium, and large sizes in three main business sectors—wholesale, retail, and service. While enterprises of all sizes are included in the survey, small enterprises dominate the sample size, accounting for 85% of the total. Information on financial access for SMEs in the

[1] The FinScope Survey is a research tool developed by FinMark Trust. It forms part of the Making Access Possible (MAP) diagnostic and programmatic framework that supports enhancing access to financial services. MAP partners are the United Nations Capital Development Fund (UNCDF), FinMark Trust, and Cenfri. MAP Thailand represents a collaboration between MAP partners and ADB, and forms part of the ADB technical assistance for the Development of a Strategic Framework for Financial Inclusion in Thailand. The technical assistance is hosted by the Bureau of Financial Inclusion Policy and Development at the Ministry of Finance in Thailand. Inputs into adapting the FinScope questionnaire to suit the Thai context come from a task force involving various key government and research agencies in Thailand.

manufacturing sector is obtained from Punyasavatsut (2011) and is also for 2010. A total of 100 firms of all size categories were surveyed, but SMEs dominate the sample. A third source of data specifically focuses on small enterprises, and is from the OSMEP's Microenterprises Report for 2010 (OSMEP 2010). The sample is made up of 1,161 micro-firms[2] countrywide.

In addition to these sources of survey data, information for the institutional analysis is drawn from a review of the roles and objectives of existing microfinance organizations and enabling agencies, and from a survey of the relevant financial inclusion literature. This includes the literature concerned with access to financial services, skills and level of financial literacy, and financial regulation.

3. HISTORICAL AND SOCIO-ECONOMIC CONTEXTS

While the objective of this paper is to address the issue of financial inclusion, it is important first to set the context within which the issue is being considered. This section provides some information on Thailand, and highlights the key features of the economy that need to be taken into consideration in extending financial inclusion in the country.

Thailand is an upper-middle-income country with a population of approximately 67 million people and a gross domestic product (GDP) of $387.3 billion. Starting out as a primarily agricultural economy, Thailand underwent a rapid process of industrialization beginning in the 1950s. From the 1960s until the early 1990s, the country experienced sustained and rapid growth, achieved at low and stable rates of inflation. GDP growth peaked in the early 1990s, averaging 9.1% per year in the first half of the decade. The Asian Financial Crisis of 1997 put an end to the era of fast-paced growth, however, and the country's economy was hit hard, shrinking by 1.4% in 1997 and by a full 10.5% in 1998 (Economist Intelligence Unit 2012). While the economy has since recovered and growth has been positive, the rapid speed of GDP growth never reappeared.

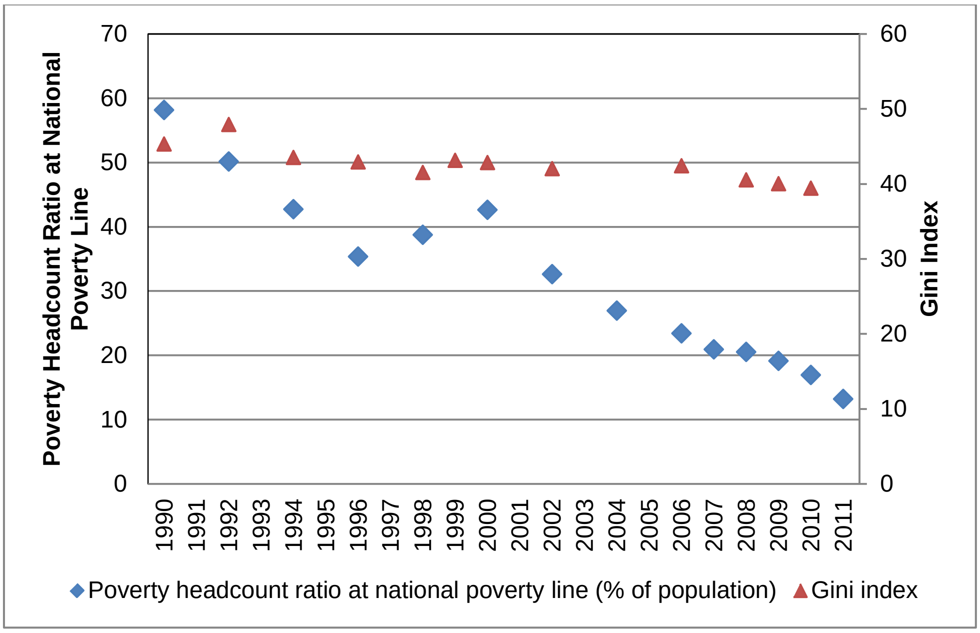
The Financial Crisis of 1997 resulted in permanent changes in the financial sector. At the height of the crisis, over 50 financial institutions were deemed insolvent and forced to close. Other institutions in the formal financial sector were acquired and recapitalized, and debt-restructuring mechanisms were established. Once the immediate crisis had been contained, reforms were undertaken in the financial sector, aimed first at stabilizing the sector and, afterwards, at strengthening and insulating the sector against any future repeats of the 1997 experience. It was only after the formal financial sector had been sufficiently strengthened that reform efforts began to focus on extending financial access, on consumer protection, and on financial education.

Sustained periods of rapid growth with moderate inflation resulted in a decline of Thailand's incidence of poverty, with 13.2% of the population living below the national poverty line in 2013 (World Bank 2014). Despite the marked reduction in poverty rates, income inequality has persisted, with the Gini index showing little change between 1990 and 2011, despite decided declines in the incidence of poverty over the same period (see Figure 2). Data shows poverty to be a rural phenomenon, with 88.8% of the poor living in rural areas and 11.2% living in urban areas (World Bank 2014). By region, Bangkok and the Central region, which are the ones with the most modern industrial and commercial sectors, have the highest per capita income (see Figure 3). On average, Bangkokians and those who live in the surrounding provinces earn more than

[2] Micro-enterprises are defined by OSMEP as enterprises with no more than five workers and that are not registered as companies.

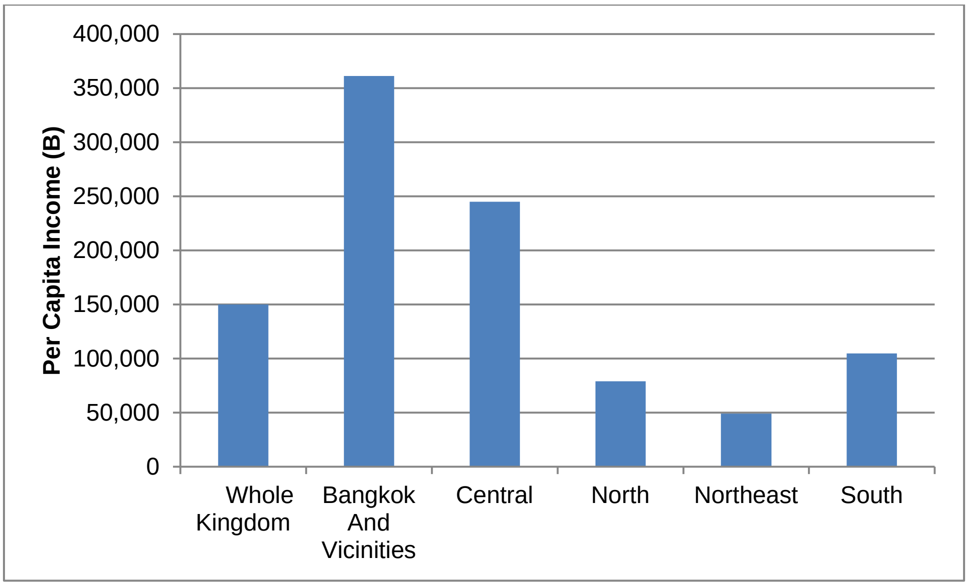
twice the national average, while per capita income for those in the Central region is 1.63 times the national average. The Northeastern, the Northern, and the Southern regions, which are primarily agrarian, are the poorest, with per capita income at one-third, one-half, and two-thirds of the national average, respectively. The Northeast is also the region with the highest migration to other regions, while Bangkok is the region that receives the highest proportion of migrant workers (85.2%) (NSO 2013).

Figure 2: Poverty Headcount Ratio at the National Poverty Line and Gini Index



Source: World Development Indicators 2014.

Figure 3: Per Capita Income by Region, 2010



Source: Author's calculations, NESDB data 2014.

Thailand has a large informal sector, and a large number of small enterprises. Of the total labor force of almost 40 million people, 62% work in the informal sector. While only 32.6% of the total labor force works in agriculture, the sector has a disproportionately large informal labor force[3] (with 62.5% of workers being informal workers). The two poorest regions in the country, the Northeast and the North, account for the largest shares of informal workers (41.5% and 21.4%, respectively) (NSO 2011). With such a large informal labor force, and with many of the low-income individuals living in rural settings and working in the informal sector, consideration of financial inclusion for individuals in Thailand requires providing financial services that cater to the lower-income group, to those working in the informal sector, and to those who live in rural areas.

Like many developing countries, SMEs form an important part of the Thai economy, and small enterprises comprise the lion's share of all SMEs (see Table 1). SMEs contribute to 37% of the country's GDP, and employ 80.4% of all workers employed by enterprises in Thailand (see Table 2). SMEs can be found in all business sectors, with the wholesale, retail, and automotive repair sector accounting for the highest number of businesses, followed by the service and manufacturing sectors. SMEs can be registered as juristic persons or not, and are mostly located in large cities such as the capital, Bangkok, in the Central plains, in the province of Chiangmai in the North, and in Chonburi province in the East (OSMEP 2013). As such, efforts to extend the provision of financial services to SMEs that are currently financially underserved or unserved should focus on service providers in more urban areas. This is in contrast to extension of financial access to low-income householders, who tend to live in rural areas.

Table 1: Numbers and Proportion of Enterprises of Different Size Categories

	Number of Enterprises	% of All Enterprises
Small and Medium Enterprises	2,739,142	98.5
- Small Enterprises	2,724,902	97.9
- Medium Enterprises	14,240	0.6
All Enterprises in Thailand	2,781,945	100.0

Source: OSMEP Annual Report 2013.

Table 2: Contribution to GDP and Share of Employment by Enterprise Size

	Contribution to GDP (%)	Share of Employment in All Enterprises (%)
Small and Medium Enterprises	37	80.4
- Small Enterprises	24.8	71.8
- Medium Enterprises	12.2	8.6

GDP = gross domestic product.
Source: OSMEP Annual Report 2013.

4. DESIRED OUTCOMES OF FINANCIAL INCLUSION AND THAI GOVERNMENT POLICIES

In terms of financial inclusion, the desired outcomes for Thailand can be drawn both from the international discussion on financial inclusion and from domestic development and financial sector-specific goals.

[3] Informal labor force is defined here according to the definition of the National Statistical Office (NSO). Informal workers are those who do not have any employment security and have no protection or benefits from their employers.

4.1 Desired Outcomes of Financial Inclusion: An International Perspective

According to the Consultative Group to Assist the Poor (CGAP), a collaboration of 34 organizations worldwide that seek to further financial inclusion, the term is taken to mean that

> "households and businesses have *access* and can effectively use *appropriate financial services*. Such services must be provided *responsibly* and *sustainably*, in *a well-regulated environment*." (CGAP website, italics added).

At a High-Level Side-Event at the United Nations Millennium Development Goals Summit in 2010, Queen Maxima of the Netherlands, the United Nations Secretary–General's Special Advocate for Inclusive Finance for Development (UNSGSA), defined financial inclusion as

> "*universal access*, at a *reasonable cost*, to a *range of financial services* for *everyone needing them*, provided by a diversity of *sound and sustainable institutions*. Financial inclusion recognizes that people and businesses require a range of financial services in addition to credit-savings, payment services, remittances, insurance, just to name a few." (Queen Maxima 2010, italics added).

Several common themes emerge from these two definitions of financial inclusion. Firstly, financial inclusion requires "universal access," i.e., the provision of financial services to everyone that needs them. The services should be "appropriate," or suited to the needs of the people, and provided at reasonable cost, so that costs would not be a barrier to usage. Service providers should have responsible and sound practices, and they should be sustainable institutions. All must operate within a well-regulated environment.

From this perspective, the availability of financial services which are physically accessible to all, but which are not suited to the needs of some, or are prohibitively costly for others, cannot be considered as meeting the objective of universal access. Furthermore, the above definitions suggest that it is not only the services provided and the costs that matter; the quality of financial services and the quality of the service providers themselves are just as important in furthering the goal of financial inclusion. Finally, to ensure a well-functioning system, good regulations and regulatory practices are also essential.

4.2 Financial Inclusion from the Domestic Perspective

Domestically, financial inclusion is seen as a means of achieving higher development goals. This can be seen from the Eleventh National Economic and Social Development Plan (11th NESDP),[4] the five-year plan that sets out the country's development agenda for 2012–2016. Under the 11th NESDP, the overall development vision of the nation is to foster "a happy society with equity, fairness, and resilience" (NESDB 2012). This would be achieved through six core strategies, two of which have identified different aspects of financial inclusion as measures for fulfilling the strategies. Under the strategy of promoting a just society, providing grassroots and SMEs with access to

[4] The 11th NESDP is effective from 2012–2016.

capital, enhancing SMEs' competitiveness, and improving and diversifying grassroots financing and savings institutions, are deemed important measures.

Under the strategy for restructuring the economy toward quality growth and sustainability, financial inclusion for both the grassroots and SMEs has been identified as an important component that would lead to the achievement of this strategy. The relevant aspects of financial inclusion are the encouragement of equal access to financial resources at reasonable cost, the encouragement of new financial products such as factoring and leasing, and the regulation of commercial banks regarding risk management to incentivize lending to SMEs, entrepreneurs and low-income groups. These have been identified as measures that would lead to sustainable and equitable growth, and for achieving resilience at both the individual and societal levels.

Also under the strategy of quality growth and sustainability are aspects of financial inclusion that pertain to the ability of microfinance service providers to maintain and sustain themselves. This would require not only increasing the capability, resources, and coverage of grassroots financial services, but also implementing mechanisms to link funds among microfinance groups and between such groups and financial institutions. These measures should be undertaken to foster sound financial management and savings habits at the household level.

In addition to the measures outlined above, financial education forms an important part of the strategy to promote equitable and sustainable growth. Recognizing the growing problem of over-indebtedness in Thailand, the 11th NESDP identifies promoting knowledge and information on finance for both households and SMEs, and encouraging low and middle-income households to save, as important measures to combat the indebtedness problem. More specifically, the plan identifies the provision of financial knowledge and information regarding savings, investment, risk management, personal financial planning, preparation of income and expenditure accounts, and knowledge on the risks of borrowing money outside the banking system as necessary measures to help prevent and resolve the problems of over-indebtedness in the country.

4.3 Other Government Policies to Promote Financial Inclusion in Thailand

In addition to the various aspects of financial inclusion identified in the 11th NESDP, several other policies to promote financial inclusion have been implemented by the Thai government through its various government agencies. In 2011, the Ministry of Finance (MOF) requested assistance from the Asian Development Bank (ADB) to further develop microfinance and promote financial inclusion for individuals and households in Thailand. One of the outputs of the project is a National Strategy for Financial Inclusion in Thailand, which has been approved.

In the existing setup, commercial banks are incentivized to extend their reach to the lower-income segments. This is part of broader reforms of the country's financial sector, and such measures are outlined in the Financial Sector Master Plans (FSMPs). The reforms are carried out in stages and the second phase of the FSMP runs from 2010 to 2014.[5] Extending financial access is one of three important pillars of the reform process. To give banks incentives to lend to the lower-income segment, rules have been modified, new service providers with microfinance expertise have been introduced, and support has been provided to the specialized financial institutions

[5] The first phase covered the period from 2004 to 2008; the third phase is expected to begin after 2014.

(SFIs) that already offer services for the lower-income segment (Meagher 2013). Incentives offered include the upward revision of the interest rate cap to 28% per year (interest and fees) for unsecured personal and microfinance loans,[6] and the issuing of further guidelines to facilitate microfinance loan approvals by commercial banks.[7]

Compared with the promotion of microfinance for individuals, efforts to promote SMEs in Thailand are more concerted and are organized through the SME Promotion Master Plan. Current promotion policies for SMEs are detailed in the third master plan, which came into effect in 2012 and covers a five-year period ending in 2016. The third plan has four main strategies, one of which is to promote factors conducive to the business of SMEs in Thailand. This includes promoting additional channels or opportunities for SMEs to access funds, such as through the money market, capital market, and other sources of funds. The issue of improving collateral requirements for SMEs is being addressed, and the promotion of a central database[8] that would help increase efficiency in SMEs' access to capital has also been identified as a means to improve the business environment for SMEs in Thailand.

To meet the objective of financial inclusion, it is important that access to appropriate financial products and services is coupled with adequate financial education, so that individuals and micro-enterprises are able to have the relevant knowledge, adopt desirable behavior, and an attitude conducive to making optimal use of available financial services. In a world where a proliferation of financial services are continually being provided and in the diverse financial landscape of Thailand with a multitude of institutions offering a great variety of products, financial education is an important part of financial inclusion. In light of this recognition, the Committee on Financial Literacy was established in 2012 through a ministerial regulation, with a vision of enhancing the financial capability of Thais through the improvement of their money management ability and financial discipline. The committee is chaired by the Permanent Secretary of the Ministry of Finance, and comprises public and private organizations involved in education, financial and capital markets, and those who work closely with the various target groups. The committee has been charged with the task of developing a Master Plan for Financial Education in the country, the gathering of information on financial education, and the development of a central database and channels for distributing financial education information. The committee has identified the target audience, and the parties responsible for reaching those audiences. At present, pilot work under the auspices of the committee is being carried out by the committee members and is aimed at college and university students.

5. SERVICE PROVIDERS AND ENABLING AGENCIES

Provision of microfinance services and financial inclusion activities in Thailand has been primarily driven by government policies and implemented by government agencies. Two features characterize financial service provision to lower-income households and small enterprises in the country. First, following the 1997 financial

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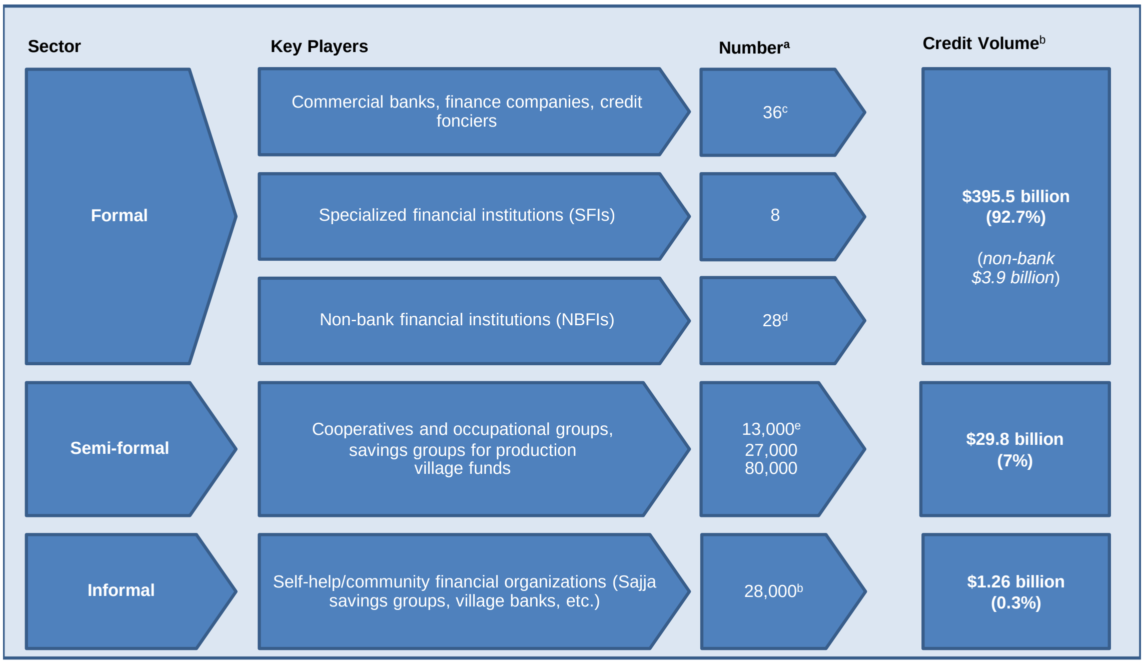
[6] Under the Civil and Commercial Code, there is a general interest rate cap of 15% to lenders outside the formal financial sector.

[7] BOT notification no.17/2554 Re. Policy Regarding Commercial Banks Microfinance Loans. Microfinance loans is taken to mean loans of no more than B200,000 issued for occupational purposes to persons or juristic persons.

[8] Thailand already has a National Credit Bureau, which provides information on loan accounts and credit for individuals and juristic persons. However, the information only covers those from member institutions, and does not yet extend to cover the whole of the financial system.

crisis, authorities worked hard to institute regulations and implement measures aimed at insulating commercial banks against a possible repeat of the Asian Financial Crisis, which hit the formal financial sector especially hard. Second, to cater to the needs of lower-income households and small enterprises, the government has relied on other policy instruments. Government-owned financial institutions were established, and lower-tier financial institutions were encouraged and supported. Together, these measures brought about the current financial landscape, which has a multitude of financial service providers. Classified broadly as formal, semi-formal, and informal institutions, these financial service providers have different characteristics and typically cater to different groups of the population, although there are some overlaps in the customer base across service providers (see Table 3). Together, they provide a wide variety of services, such as consumer loans, savings, deposits, remittances, payments, and insurance products (see Table 4).

Figure 4: Landscape of All Financial Service Providers (Microfinance and Non-microfinance) in Thailand



Notes:

[a] Numbers for semi-formal and informal institutions are rounded.

[b] Estimated.

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

[d] NBFIs registered with Bank of Thailand only. Non-banks offering credit services not registered with Bank of Thailand are not included.

[e] Includes cooperatives (7,000) and agricultural and occupational groups (6,000).

Source: Lewis et al. (2013).

Table 3: Profile of Financial Institution Clients (loans only)

Institution Type	Individuals Served	Average Monthly Income of Individual Served (B)	Average Total Debt of Individual Served (B)	Region
Commercial bank	2,088,926	27,217	176,034	Bangkok 24% Central 24% South 24%
SFI	7,146,243	17,012	189,361	Northeast 44% North 29%
NBFI under BOT	1,374,340	18,456	229,255	Central 41% Bangkok 21%
Savings group	1,566,990	14,148	237,038	Northeast 41% North 25%
Village fund	7,423,963	10,177	322,366	Northeast 51% North 32%
Cooperative	1,043,897	24,322	222,506	Central 33% North 27%

BOT = Bank of Thailand, NBFI = non-bank financial institution, SFI = specialized financial institution.

Source: FinScope Thailand (2013); Lewis et al. 2013.

Table 4: Financial Services Provided by Different Types of Service Providers

Institution	Consumer Loans	Microfinance Loans*	Deposits	Remittances	Insurance/ Risk Protection
Government					✓✓✓
Commercial banks	✓ ✓✓	✓	✓✓✓	✓✓✓	
SFI: BAAC	✓ ✓✓	✓ ✓✓	✓✓	✓	✓✓
SFI: GSB	✓	✓✓	✓✓✓	✓	
NBFIs	✓✓✓	✓✓✓			
Credit unions/Co-ops	✓✓	✓	✓✓		
Village funds	✓	✓✓✓	✓		
Moneylenders/Pawnshops	✓	✓✓			
Post office				✓✓	
Private insurers					✓
Community-based institutions		✓✓	✓✓		✓✓✓
Mobile network operators				✓	

BAAC = Bank for Agriculture and Agricultural Cooperatives; GSB = Government Savings Bank; NBFI = non-bank financial institution; SFI = specialized financial institution.

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

* Loans of less than B200,000.

Source: Modified from Lewis et al. (2013).

5.1 Formal Financial Institutions

Formal financial institutions have clear legal status, and have some form of oversight by financial authorities, i.e., either the BOT or the MOF. This includes most large privately owned financial institutions in the country, such as commercial banks, finance companies, credit fonciers, and the large non-bank financial institutions (NBFIs).[9] Also in this category are the eight state-owned SFIs, six of which operate as commercial

[9] Smaller financial institutions which offer products similar to the large NBFIs, but to lower-income groups are not included in this category. In Thailand, the term NBFIs typically refers only to the large NBFIs under BOT supervision.

banks.[10] Established to serve specific purposes, SFIs are typically used as tools for furthering the economic and development agenda of the state. Their services include commercial banking services, microfinance products, and credit guarantee products.

While formal financial institutions are by far the largest in terms of both individual and collective resources and capabilities, they typically cater to large corporations and higher-income households located in urban areas, and provide very little in terms of microfinance services. Loans data indicate that while the formal financial sector accounts for 93% of total credit in the country, it only provides 61% of total micro loans and most of this share is accounted for by SFIs (see Figure 5). Similarly, deposit data indicate that while bank accounts are widespread, most accounts are dormant or used for occasional transfers (Lewis et al. 2013). FinScope data indicates that many lower-income households open deposit accounts for remittance purposes, while semi-formal and informal channels are used to cater to the savings needs of the lower-income group.

Four SFIs play particularly important roles in providing financial access for lower-income households and small enterprises—the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Government Savings Bank (GSB), the Small and Medium Enterprise Development Bank of Thailand (SME Bank), and the Thai Credit Guarantee Corporation (TCGC). Due to its nature as a supporting institution, the role of the TCGC will be discussed in Section 5.4.

Established in 1966 to provide credit to individual farmers and agricultural cooperatives for the purchase of agricultural inputs, the **Bank for Agriculture and Agricultural Cooperatives** (BAAC) operates as a commercial bank, although the focus of its business is on farmers and agricultural cooperatives. In a country where 32.5% of the workforce works in agriculture, farming is seen as an important traditional activity. Agricultural policy has an important place in Thailand, and the BAAC has always played a leading role in implementing a number of the government's agricultural initiatives, or any financial policies aimed at supporting farmers. This includes granting debt moratorium to farmers,[11] paying out agricultural subsidies, and until most recently, the BAAC had been the primary means through which the previous government paid farmers who participated in its rice-pledging scheme. While the BAAC's primary role has been to cater to farmers, its role has expanded and it is now the dominant formal financial institution in rural areas.

The **Government Savings Bank (GSB)**, like the BAAC, also operates as a commercial bank, but is more focused on lower-income individuals living in more urban areas, such as vendors and entrepreneurs. The GSB has also played an important role in promoting savings habits amongst Thais. Children in Thailand typically have their first savings accounts with the GSB, since the bank has a tradition of going to schools to offer deposit services to students. As a government bank, the GSB has also been the vehicle through which policies are implemented. As with the BAAC, the GSB was asked by the state to offer debt moratorium to small farmers and people with uncertain income. To support the policy of the government in promoting loans to micro-enterprises, the GSB operates a People's Bank scheme, which provides funds to

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[10] SFIs which operate as banks are the Small and Medium Enterprise Development Bank of Thailand (SME Bank), the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Export Import Bank of Thailand (EXIM Bank), the Government Savings Bank (GSB), the Government Housing Bank (GHB), and the Islamic Bank of Thailand (IBank). The two other financial institutions are the Thai Credit Guarantee Corporation and the Secondary Mortgage Corporation.

[11] Thailand has had many debt moratoriums for low-income individuals and farmers. But the debt suspension policy approved by the cabinet in April 2012 is novel in that it suspends debt for *performing loans*, rather than non-performing ones.

individuals who run SMEs, owners of mom-and-pops shops, or to low-income individuals wishing to start their own businesses. These schemes are implemented in addition to the usual banking services offered by the GSB.

The **Small and Medium Enterprise Development Bank (SME Bank)** was founded to promote, develop, and assist SMEs in their establishment, expansion, or business improvements. In practice, to support and promote SMEs, the bank provides credit products, as well as guarantees and venture capital. The Small and Medium Enterprise Development Bank of Thailand Act of 2002 also permits the bank to provide counseling services, and any other necessary services that fit the objectives of the bank and are covered by the provisions of the Act. As an SFI, the bank is also involved in the 2012 debt moratorium policy on performing loans of no more than B500,000, although the burden of this policy on the bank is not as great as it is on the BAAC or the GSB. This is partly due to the fact that, based on the bank's definition of SMEs,[12] the enterprises covered include those which are larger in size and, as a result, loan sizes tend to be larger for SME bank customers than for individual clients of the BAAC or the GSB.

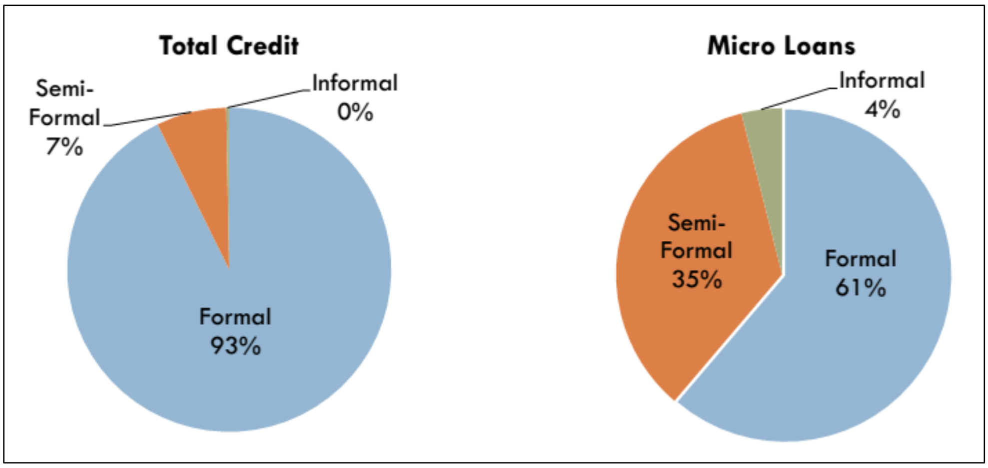
In addition to the BAAC, the GSB, and the SME Bank, the Islamic Bank of Thailand (IBank), another SFI, Krungthai Bank (KTB), and Thai Credit Retail Bank (TCRB) also provide some credit products that cater to lower-income groups and small-scale entrepreneurs, although the scale and scope of their microfinance operations are smaller than the SFIs mentioned above. As an SFI established to serve the banking needs of the Islamic community in the country, IBank's main targets have been to serve Muslim customers and to carry out government policies. The KTB is a commercial bank, but a state-owned enterprise, and as such it also offers products to support government policies in terms of offering microfinance products to low-income individuals and micro-enterprises. The TCRB is wholly private-owned, and occupies a niche market targeting customers and business owners that are smaller in size than the main customers of commercial banks. However, the TCRB's operations are mainly in urban areas, and collateral is still required for loan approvals.

In addition to deposit-taking institutions, there are also credit-only financial institutions, collectively termed **non-bank financial institutions (NBFIs)**. Formal NBFIs[13] are large corporations that offer personal loans, credit card services, and/or cash card products. Some companies also offer leasing and hire–purchase services. NBFIs are big providers of consumer credit, and are present mainly in urban town centers. Lewis et al. (2013) reported that 75.7% of the total number of consumer credit in the formal sector is in the hands of the large NBFIs. However, average loan size for NBFIs is much smaller, being only a third of the average loan size for Thai commercial banks. This suggests that the formal NBFIs cater to a wider base than commercial banks, and typically reach people with lower incomes than commercial banks in terms of their client base. Despite the lower reach of the formal NBFIs, the products offered by them are still inaccessible to people with irregular income and no collateral such as automobiles or homes. These people turn, instead, to institutions offering similar services to NBFIs, but are not regulated by the BOT due to the smaller size of their operations.

[12] Small enterprises are those with at most 50 employees and with fixed non-land assets of B50 million or less (B30 million for retailers). Thus, many enterprises the banks would classify as "small" would still be bigger than micro-enterprises. Medium enterprises are those with 51–200 employees with non-land fixed assets of more than B50 million–B200 million (the range is more than B50 million–B100 million for wholesalers and more than B30 million–B60 million for retailers.

[13] NBFIs which provide credit card services are required to register with the BOT. The company's registered capital must be B100 million or above. Personal loan service providers with registered capital of B50 million or above are required to be registered with the BOT.

Figure 5: Participation in Microfinance



Source: Author's illustration using data from Lewis et al. (2013) and Prayoonsin (2014).

5.2 Other Government Policies to Promote Financial Inclusion in Thailand

Like formal financial institutions, semi-formal institutions also have legal status, but are not regulated by financial authorities such as the BOT or the MOF. As such, many of them operate under non-prudential regulations.[14] These institutions tend to be smaller than the formal ones, are typically member-based institutions, and are either established by the state, or their establishment is encouraged by the government for the purpose of promoting savings and productive investments at the community level or for specific professional groups. Many of these institutions also receive funding and some form of assistance from the government agencies responsible for overseeing them.

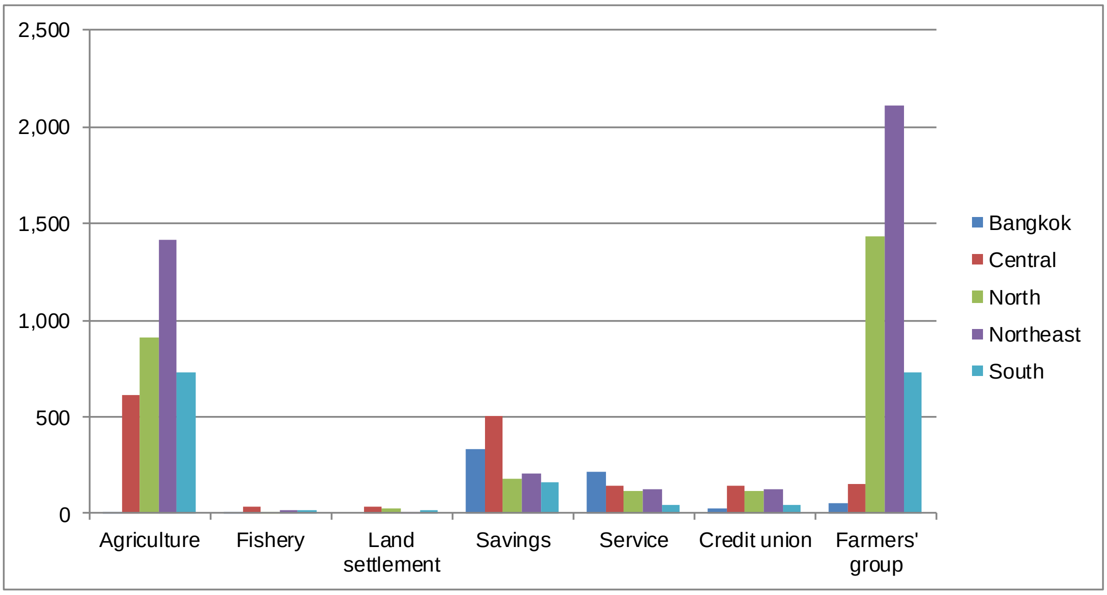
There are three main types of semi-formal institutions in Thailand—cooperatives and occupational groups, Savings Groups for Production (SGP), and the Village Funds. **Cooperatives** draw their member base from those of the same occupation or from those living in the same areas and were created so that the members can pool their resources to help each other. While cooperatives exist all over the country, the most numerous in terms of number of organizations and members are agricultural cooperatives and farmers groups, which operate mainly in the Northeastern and Northern regions of the country (see Figure 6).

Cooperatives primarily offer deposit and credit services to members, but differ from commercial banks in that they cater to a lower-income base, members purchase shares in the cooperatives. Subscribers typically enjoy services that are more tailored to their needs and are provided with certain welfare benefits. As financial institutions formed to serve occupational groups, products offered by cooperatives also serve the needs of small enterprises, especially those related to the farming sector. In addition, agriculture-related cooperatives and farmers groups have a close connection with the BAAC, which extends loans to cooperatives and which the cooperatives then on-lend to their members. Cooperatives are overseen by the Cooperative Audit Department (CAD) within the Ministry of Agriculture and Cooperatives (MoAC), which assesses

[14] As opposed to prudential regulations which ensure the financial soundness of financial institutions, non-prudential regulations are rules governing the operations of financial institutions, such as information disclosure, rules regarding interest rates, market conduct, etc.

them on various aspects such as financial performance, prevalence of fraudulent activities, member participation, and internal management practices.

Figure 6: Number of Cooperatives by Type and Region



Source: Lewis et al. (2013).

Savings Groups for Production (SGPs) are member-based community financial organizations established in rural areas countrywide with the support of the Community Development Department (CDD), Ministry of Interior (MOI).[15] SGPs, like the cooperatives, are locally run by members although they are periodically assessed by CDD and can turn to CDD for support. SGPs are most prevalent in the Northeast (51% of total SGPs), and the North (21%), cater to a lower-income group than the customers of those in the formal sector, and operate on a smaller scale than most cooperatives.[16] While CDD assessments indicate that the majority of SGPs have sound performance, performance varies greatly among different SGPs. As such, the CDD is encouraging the various groups to come together to network at the district, provincial and regional levels to facilitate the sharing of knowledge and experience among different SGPs, and improve overall performance (Lewis et al. 2013).

The **Village Fund** is a community-based and run financial institution launched by a government initiative in 2001, which provided B1 million in seed funds per village for village-based financial institutions. As a direct initiative of the Prime Minister at the time and with the B1 million per village ready to hand, Village Fund uptake was immediate and far-reaching, with 80,000 villages countrywide having one Fund. Oversight of the Village Fund is done through the National Village and Urban Community Fund Committee, which reports directly to the prime minister or a person appointed by the prime minister to that role. Guidelines are set by the National Village and Urban Community Fund Office, but Village Fund operators are not required to report to them. As such, there is little information on the income, expenditures, and overall performance and sustainability of Village Funds at the central level.

[15] The CDD's primary goal is to support and develop rural communities.

[16] Calculations based on figures from the CDD indicate that the average number of members per group for SGPs is around 130, while the average member size for the various types of cooperatives stands at 1,600 members per group.

Money from the Village Fund is primarily used to provide rotating credit to members of the village community, and while saving with the Village Fund is possible, few people do. A Village Fund loan can be used for any purpose, but is typically small—around B10,000–B20,000—in keeping with the lower income of Village Fund borrowers. Users mostly live in the Northeastern and Northern regions, where penetration by formal financial institutions has been limited. Menkhoff and Rungruxsirivorn (2009) showed that the Fund has had some success in reaching those who had previously limited access to credit and had to rely on informal moneylenders for loans. Nonetheless, Table 3 shows that the total debt burden held by Village Fund users is B322,366, the highest of all categories of financial institutions presented. This is a cause for concern as Village Fund users have the lowest income, but the largest debt burden of all institutional categories presented in Table 3.[17] In addition, given that the Village Fund only allows up to B50,000 in loans at a given point in time, the total debt incurred by Village Fund users comes not from a single source, but from multiple sources, one or a few of which could be unregulated informal moneylenders.

5.3 Informal Financial Institutions

Informal financial institutions are typically initiated by community members to serve the financial needs of the community. There is no legislation for their establishment, and such institutions are not subjected to regulatory controls. While financial institutions in this category are greatly varied in the scale and scope of their operations and the level of organization, they are typically smaller than those in the formal and semi-formal groups and are based at the village level. Sajja savings groups, for example, are community-based financial institutions, which encourage people to save by making a pledge to save a small amount regularly. Once the member has shown ability to save, loans can be taken out. As community-born and community-owned organizations, Sajja savings groups are better able to cater to the financial needs of their community members and successful Sajja savings groups have been known to invest their profits in welfare funds to serve their community members. These include funeral funds, medical expenditure funds, disaster funds, elderly funds, educational funds, etc. The range of services offered depends on the scale and success of the group's operations, as well as the needs of the community members of the groups.

In addition to Sajja savings groups, there is a variety of informal providers. In this category are the self-organized funeral funds, which are popular in the Northeast and North, other self-help groups, and local moneylenders. Also in this category are the NBFIs, which do not meet the minimum capital requirements to be overseen by the BOT. As they are created by the local communities, these service providers are largely unregulated, as there are usually no agencies overseeing their operations. This also means that they have no checks on their performance, and are not subject to any interest rate or fee caps imposed by the BOT. This exposes their clients to risks of institutional failure, and, for clients of informal moneylenders, high costs for financial services, and, oftentimes, harsh loan collection practices.

In sum, the informal savings groups are able to reach further than the formal and semi-formal financial institutions and many are successful at providing financial services at reasonable costs and offer welfare benefits to their members. Nonetheless, the lack of systematic guidelines governing the soundness, sustainability, and transparency of

[17] NSO Socio–Economic Survey data from 2010, which includes questions on Village Funds, indicate that the majority of Village Fund loans are repaid in full. The proportion of Village Fund borrowers who were overdue in their repayment is 7.7%. This could be due to the fact that eligibility to take out new loans depends on repayment of old loans.

their operations, the lack of control over the interest and fees charged, and the lack of guidance on appropriate market conduct, put both the institutions themselves and their clients at risk.

5.4 Enabling Agencies and Supporting Mechanisms: Credit Database and Credit Guarantee

The existing institutional arrangement of the agencies supporting microfinance reflects the long history of state involvement in this sector. One main obstacle to providing microfinance services, especially in terms of loans, is the high transaction costs resulting largely from the information asymmetry between suppliers and potential clients. This makes it difficult for potential service providers to assess the risks of microfinance loans, and often leads to requirements of collateral that low-income households and SMEs cannot provide. The problem is particularly acute for financial institutions in the formal financial sector that have limited experience in assessing the risks associated with loans to low-income individuals and SMEs. Such clients are excluded from formal financial services, therefore.

The **National Credit Bureau (NCB)**[18] helps to alleviate this problem by collecting credit information from member financial institutions and supplies credit reports to members upon their request.[19] Reports provided include both consumer and company credit history. At present, all Thai commercial banks and three SFIs—Government Housing Bank (GHB), Government Savings Bank (GSB), and SME Bank—are shareholders and members of the NCB. The BAAC, one of the largest microfinance service providers in the formal financial sector, has recently joined the NCB (Prachachat Turakij Online 2015).

As the NCB can only collect information from members that are large formal sector institutions, the existing credit database provides little credit information on low-income individuals and micro-enterprises (OSMEP 2012). This presents an obstacle to risk assessment, and often prompts banks to require real estate and/or a guarantor as collateral, which many low-income clients and small firms cannot provide. To address this problem, the BOT and the MOF has encouraged the BAAC to join the NCB. For SMEs, the issue of establishing a credit database for SMEs has been raised in the current SME Promotion Master Plan (2012–2016), and there have been talks, training sessions, and workshops in preparation for the establishment of a credit risk database for SMEs for the implementing agencies such as the Thai Credit Guarantee Corporation (TCGC), the BOT, and the Office of Small and Medium Enterprises Promotion (OSMEP).[20]

To address the credit constraints of SMEs, the government established two SFIs—the SME Bank and the TCGC. The SME Bank was created to offer loan products tailored to the needs of SMEs. In addition, the SME Bank also undertakes projects related to the collateralization of non-real estate assets such as machinery and intellectual property. Machinery capitalization allows the use of machinery registered with the Ministry of Industry's Central Machine Registry as collateral for financing, while intellectual property uses registered patents, utility models, trademarks, and copyrights

[18] The National Credit Bureau (NCB) started off as a central credit registration operated by the BOT in 1964, and gradually evolved into the present-day NCB.

[19] Individuals and companies can also submit requests to see their own credit reports to the NCB.

[20] Some of the activities include a brainstorming workshop on Credit Risk Database at the OSMEP by Japanese academics; a joint workshop between the Asian Development Bank Institute (ADBI), the BOT, and the Japan Financial Services Agency in Thailand; and the TCGC, the MOF, and the BOT's visit and consultation on credit risk databases, credit guarantee systems, and SME financing at ADBI.

as collateral (SMRJ et al. 2012). Moreover, discussions regarding the legal framework for secured lending, that allows for the use of non-real estate assets to be used as collateral for financing, has been under discussion since 1998 (SMRJ et al. 2012; Toomgum 2014), and a draft secured transaction law is being considered by the incumbent government.[21]

The **Thai Credit Guarantee Corporation** offers credit guarantee products that assist SMEs in obtaining commercial bank loans. The TCGC offers a variety of products tailored to different types of SMEs, ranging from micro-enterprises to newly established SMEs to regular businesses, and charges a fee for its services.[22] In 2009, the TCGC implemented the portfolio guarantee scheme as part of the government's economic stimulus measures in face of the global financial crisis, and the scheme was also used to help SMEs after the 2011 flood.[23] All in all, both the NCB and the TCGC are supporting institutions, which help with credit access. Nonetheless, there is still room for improvement, especially in terms of the scope of coverage of the existing credit database, the establishment of an SMEs credit database, and revision of rules regarding collateral requirements for loans.

6. REGULATORY CONTEXT

The main institutional context shaping the provision of financial services in Thailand is the regulatory context, as it shapes the key aspects of the desired outcomes of financial inclusion—soundness and sustainability of financial institutions, and the provision of a well-regulated environment within which the service providers operate. In this regard, Thailand has an array of regulatory agencies overseeing the many tiers of service providers ranging from formal, to semi-formal, to informal financial institutions (see Figure 7).

Formal service providers are mainly regulated by two key financial authorities—the BOT and the MOF. The BOT's authority is in the supervision and regulation of privately owned formal financial institutions, such as commercial banks, finance companies, credit fonciers, and the large NBFIs, which are big providers of consumer loans in urban areas. The BOT's authority also extends to state-owned banks, which were not established to serve specific purposes (non-SFIs).[24] Regulated entities are required to follow BOT regulations such as reporting and capital adequacy requirements aimed at increasing transparency and ensuring the soundness and sustainability of financial institutions. The BOT also has the power to monitor consumer protection, and, under the 2007 Financial Institution Business Act (FIBA), the BOT is given residual authority to address financial activities when they affect the overall economy of the country (Meagher 2013).

Following the 1997 Asian Financial Crisis, which severely hit the formal financial sector in Thailand, several reforms were implemented to strengthen the sector and to prevent any potential repeats of the crisis. With the formal financial sector greatly strengthened compared with the post-1997 crisis period, financial reforms from 2004 to 2014 set out in the two phases of the Financial Sector Master Plans (FSMP I and II) began to include provisions for the downscaling of banks to promote financial inclusion. Personal

[21] As of July 2015, the principle of the draft Secured Transactions Act has been approved by the National Legislative Assembly (NLA).

[22] Fees, amount of credit guarantee, and period of guarantee vary depending on the type of product.

[23] The scheme is currently operating for a limited period of 5–7 years.

[24] These are TMB (formerly the Thai Military Bank), and Krungthai Bank (KTB).

loan business was authorized during this period of reform with a BOT notification in 2006 (Meagher 2013), with provisions for a cap on interest and fees for unsecured loans to control costs for potential consumers in this segment.

Regulation of the state-owned SFIs is the primary responsibility of the MOF, although the MOF delegates the task of examination to the BOT. While the MOF generally takes BOT regulations as guidelines for its supervision of SFIs, they make provisions for the fact that SFIs are asked to help implement development policies by the state (Meagher 2013). While the BOT is assigned examination power over SFIs, the BOT has no power to sanction SFIs that fail to follow their rules and regulations. This power rests with the MOF, which can act on the recommendation of the BOT. The existing regulatory structure and the role of SFIs in implementing the government's development policies exposes them to certain risks, which means that de facto SFIs operate under weaker prudential regulations than commercial banks (IMF 2013). The performance of SFIs in terms of soundness and sustainability is generally weaker than that of commercial banks as they are obliged to help implement government policies aimed at helping low-income individuals and small businesses (Lewis et al. 2013).

As can be seen from Figure 7, financial institutions operating in the semi-formal financial sector are not required to abide by prudential regulations; they operate under non-prudential regulations.[25] Although such entities have legal status and their performance is supervised by the relevant government agencies, in practice the standards and requirements imposed on them are not as stringent as the ones imposed on formal service providers. One feature of the regulatory regime in this sector is the diverse array of regulations regarding the sustainability and soundness of institutions imposed on different types of service providers. There are no centrally determined non-prudential regulations for the institutions in this sector to abide by; the authority to issue rules lies with the overseeing agency. As many types of semi-formal institutions are overseen by different agencies, they are subject to different requirements with varying degrees of stringency. Performance also varies, even within the same type of institution. For example, information from the Cooperative Promotion Department shows a greatly varying performance among different cooperative types. Agriculture-related cooperatives have a lower pass rate for the standard set by the MOAC (64%), compared with non-agricultural cooperatives (79%) (CPD 2012).

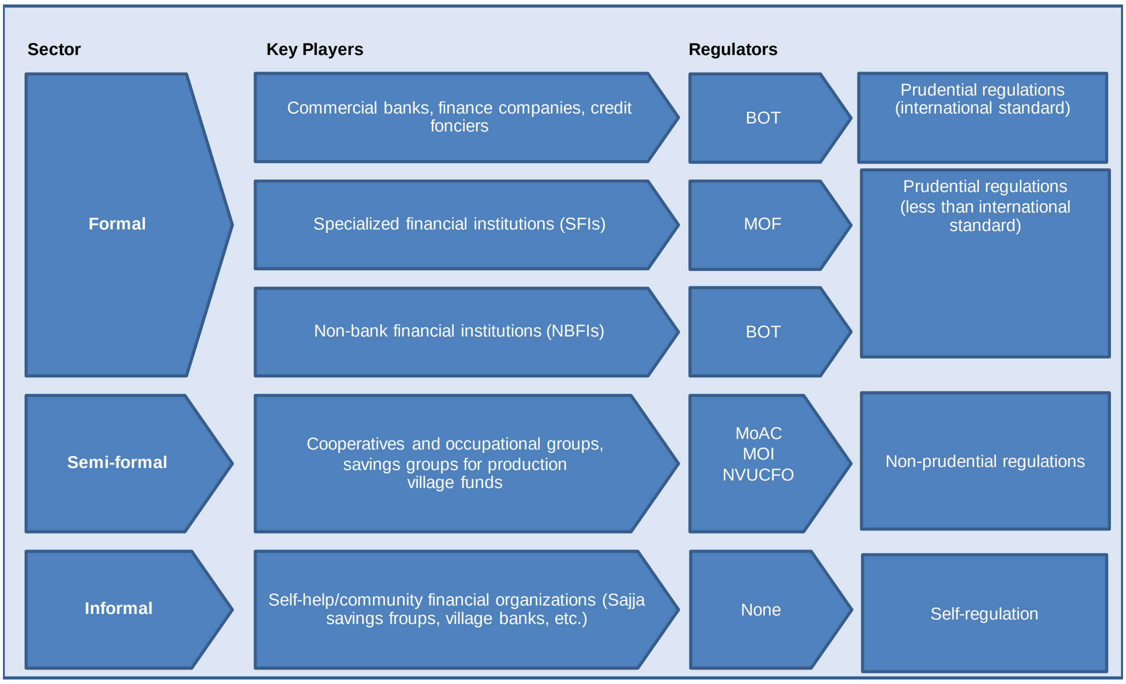
SGPs are assessed by the CDD within the MOI. Assessment is conducted twice a year, and SGPs are rated on a level of 1 to 3 with 3 being the highest score. Figures indicate that 90% of SGPs are sound (scoring 2 or 3) (Lewis et al. 2013). Village Funds have also been assessed, although the process is not carried out on a regular basis. Nonetheless, data shows that the Village Fund has a low rate of non-performing loans (NPLs). Boonperm et al. (2013) reported that over 90% of loans taken out from the Village Fund are repaid in full. However, this could be due to the fact that eligibility to take out new loans depends on the prompt return of old loans, and that, once returned, new loans could be taken out immediately. This provides incentives for Village Fund borrowers to lend from other sources to pay back the Village Fund on its due date and then re-borrow from the Fund the following day to pay back the loan, a practice not uncommon in Thailand.

Provisions for the regulation and supervision of financial institutions in Thailand gradually become less stringent as the financial institutions progress from formal to semi-formal to informal categories. In the informal sector, there is no designated

[25] Again, non-prudential regulations are rules governing the operations of financial institutions such as information disclosure, rules regarding interest rates, market conduct, etc. They do not govern provisions for the financial soundness of institutions.

authority to oversee the diverse range of service providers that offer financial services to some of the lowest-income households and micro-enterprises in the country. As such, these service providers operate on an unregulated basis. While the Civil and Commercial Code caps interest rates for non-formal lenders at 15%, in the absence of a designated regulator, interest rates can be much higher than the 15% or even the 28% cap, and debt collection practices can often be harsh. Thus, the soundness and sustainability of financial service providers in this category vary greatly and any regulatory structure governing this sector is largely self-imposed (see Figure 7).

Figure 7: Regulation of Financial Service Providers in Thailand



BOT = Bank of Thailand; MoAC = Ministry of Agriculture and Cooperatives; MOF = Ministry of Finance; MOI = Ministry of Interior; MOInd = Ministry of industry; NVUCFO = National Village and Urban Community Fund Office.

Note: The MOInd participates in overseeing two SFIs, the SME Bank, and the TCGC. Prudential regulations are rules which ensure the financial soundness of the financial institution. Non-prudential regulations are rules governing the operations of financial institutions such as information disclosure, rules regarding interest rates, market conduct, etc.

Source: Adapted from Prayoonsin (2014).

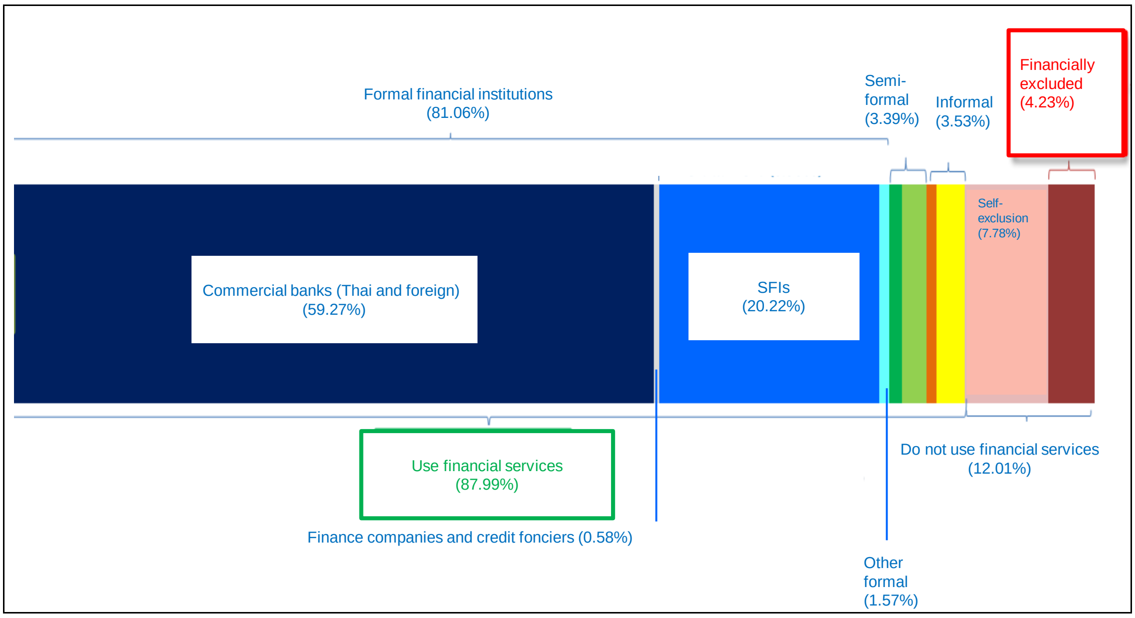
7. FINANCIAL INCLUSION IN THAILAND

Given the policies that promote financial inclusion for both individuals and SMEs, and the existence of a variety of service providers and enabling agencies that govern the provision of microfinance services in the country, this section considers the status of financial inclusion in Thailand, both in terms of financial access of households and of SMEs.

7.1 Financial Inclusion Status for Individuals and Households

Data from the 2013 BOT financial access survey revealed that households in Thailand have a relatively high level of financial inclusion, with a utilization rate of 88% for all types of service providers. If financial exclusion is defined as those wishing to utilize products, but do not have access, financial exclusion in Thai households is 4% (see Figure 8). The FinScope survey of individuals found an even higher rate of utilization of financial services (formal or informal), at 99%.[26] The findings from in-country surveys corroborate with Global Findex data.[27] The World Bank dataset puts access to accounts at formal financial institutions for those aged over 15 in Thailand in the second highest percentage range. Global Findex data also shows that Thailand performs well in terms of access to credit and deposit products from formal financial institutions.

Figure 8: Level of Financial Access for Thai Households



SFI = specialized financial institution.

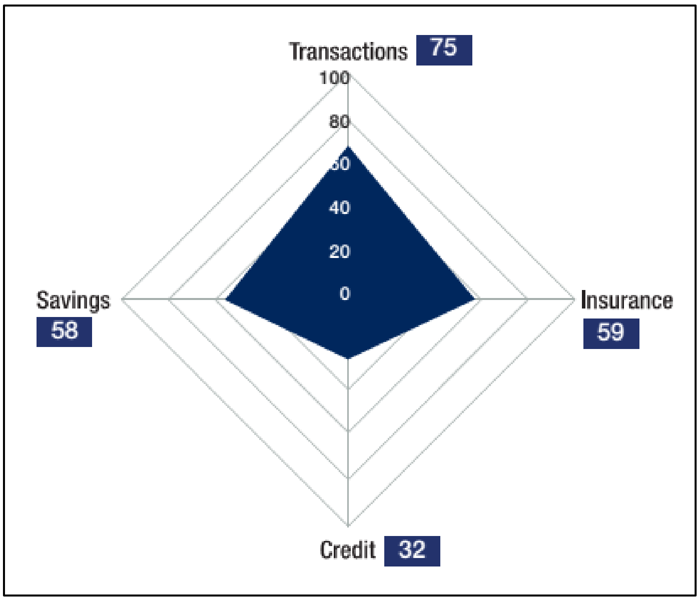
Source: BOT Survey 2013.

In terms of access to services by type, FinScope Thailand found that access to transaction services is highest. This is followed by insurance products, most of which are provided by the government, such as through the Universal Health Coverage scheme, the National Welfare fund for the employed and self-employed, and the civil servants' pension scheme. About the same proportion of the population have access to savings products. Credit products, on the other hand, have the lowest level of access, with about one-third reporting access (see Figure 9).

[26] Financial exclusion is defined by FinScope as individuals who do not use any financial products (either formal or informal) to manage their financial lives.

[27] The latest available data at the time of writing is for 2011.

Figure 9: Landscape of Financial Access by Product Category



Source: FinScope Thailand (2013).

Although, on the whole, Thailand is doing relatively well in terms of financial inclusion, comparison with data from a previous BOT survey in 2010 indicates that there is a growing unmet demand for financial services. This is especially true for households in the lowest-income group. Also, there are regional variations in terms of access to financial services. The BOT survey found that Bangkok and the Central and Northern regions have relatively higher levels of access compared with the Northeastern and Southern regions. FinScope Thailand also found that a relatively higher proportion of the population in these latter two regions use informal financial institutions as their main source of financial services.

Financial access for different product types also varies from region to region. The BOT found an increase in unmet demand for savings products, and found that the groups with the highest level of exclusion in terms of savings are those at the bottom two tiers in terms of income, live in non-municipal areas, and reside in the Northeastern and Central regions. FinScope Thailand found that those who live in the Central regions, along with those in the Northeast and the South, have relatively high exclusion rates in terms of savings, although those in Bangkok are not far behind.[28] The mix of usage is also different, with those in more urban areas preferring to save with formal financial institutions, whereas those in less urbanized areas prefer to save more with informal institutions. Regionally, the Northeast has by far the largest uptake of informal financial services, followed by the North.

In terms of credit products, the BOT also found an increase in unmet demand. The group with the largest unmet demand relative to others is medium-income households in Bangkok and the Central regions, which have relatively higher income and are more urban than the other regions. FinScope data also found that a larger proportion of those in municipal areas are excluded in terms of credit, and that, in addition to problems of exclusion in Bangkok and the Central region, those in the South also have relatively low levels of access. This could be due to a wider variety of service providers in non-urban areas, which is the result of the combined efforts of various government

[28] According to FinScope Thailand, the excluded percentage for Bangkok, the Central, the Northeast, and the Southern regions are 28%, 39%, 36%, and 36%, respectively.

agencies in the country that have been developing the rural areas, thereby improving the lives of the rural population.

In terms of remittances, the BOT again found an increase in unmet demand, with the lowest- to medium-income groups and households in the Northeastern region reporting most unmet needs. Problems cited with usage include high fees (49% cite this), and service points being far away or inconvenient or few in number (24.56%). This could be due to the large geographical space in the Northeastern region with many remote areas. Furthermore, the Northeastern region is home to many migrant workers who work in more urban areas and send remittances home. Therefore, the large proportion of remittances going back to the Northeast could also be part of the reason why the region stands out from others.

Thus, in terms of financial access of households and individuals, surveys find that while Thailand is doing relatively well compared with its peers, there are still gaps between supply and demand for financial services. Data shows that those who have most problems accessing financial services are those in the lowest-income group and those living in the Northeastern and Southern regions of the country. This profile is generally true for savings and remittances products. However, when it comes to credit, those in the medium-income group living in more urban areas find it hard to access credit.

7.2 Financial Inclusion Status for SMEs

From the perspective of enterprises, the OSMEP survey found that while enterprises in all size categories—small, medium, and large—used loans from formal financial institutions as a source of capital, a lower proportion of small enterprises used such funds as their main source of capital. Small enterprises also utilized a diverse range of funding sources other than loans from financial institutions. To a question asking for the company's main source of capital, small enterprises replied that they use the company's profits, money from own savings or from family and friends, and loans from other informal sources. While medium-sized firms also reported using money from own savings or from family and friends, such firms did not rely on informal sources as the main source of capital for the company (see Table 5).

Table 5: Main Source of Capital by Enterprise Size

(% of responses)

	Enterprise Size		
Source of Capital	**Small**	**Medium**	**Large**
Loans from formal financial institutions	35.74	72.00	53.33
Accumulated profits	31.98	26.67	46.67
Personal savings, relatives, or friends	30.78	1.33	0.00
Partners	1.05	0.00	0.00
Informal lenders	0.45	0.00	0.00

Source: OSMEP 2013.

This diversity in source of funds for smaller enterprises was also apparent from another question, asking firms about their main sources of circulating capital. The large firms mostly utilized accumulated profits, and loans from formal financial institutions. Medium enterprises showed a similar tendency, with 64% replying that they use accumulated profits, and 36% loans from formal institutions. The small companies, however, used a more diverse range of funds. In addition to using accumulated profits, and loans from financial institutions, small companies also used the owner's savings or borrow from family and friends, business partners, and other informal channels (See Table 6).

Table 6: Main Source of Circulating Capital by Enterprise Size

(% of responses)

	Enterprise Size		
Source of Circulating Capital	**Small**	**Medium**	**Large**
Loans from formal financial institutions	21.20	36.00	27.27
Accumulated profits	74.74	64.00	70.45
Personal savings, relatives, or friends	3.61	0.00	0.00
Partners	0.30	0.00	2.27
Informal lenders	0.15	0.00	0.00

Source: OSMEP 2013.

Punyasavatsut (2011) reported the same trend among SMEs in manufacturing, with larger firms having a higher debt-to-equity ratio than small firms, suggesting that smaller firms have more difficulties accessing external funding. In an empirical analysis of factors that determine credit access from formal financial service providers, the paper found that firm size, business capabilities, and profit margins make positive contributions.

To a question asking firms if they had ever borrowed from informal sources included in the OSMEP survey, only the SMEs replied that they had, with a larger proportion of medium-sized firms replying positively compared with small firms (see Table 7). However, when this information is considered together with the enterprises' responses to earlier questions regarding their main channels of funding and the source of their circulating capital, the implication is that informal sources remain an important source of financing for a small proportion of small enterprises. In the OSMEP survey of micro-enterprises, those who borrow from informal moneylenders cited the quickness in loan approvals as the primary reason for going to the informal sector. Other reasons include uncomplicated procedures, the ability to borrow without collateral requirements, familiarity with moneylenders, and the inability to borrow from formal financial institutions. Nonetheless, the benefits of borrowing from the informal sector come at a high cost. For micro-enterprises, the majority of those that borrowed from formal sources did not pay more than 20% interest, whereas for the majority of those that borrowed from informal sources, the interest rate was higher than 40%.

Table 7: Experience with Informal Loans

(% of responses)

	Enterprise Size		
Experience with Informal Loans	**Small**	**Medium**	**Large**
Borrowed from informal source	18.60	27.63	0.00
Never borrowed from informal source	81.40	72.37	100.00

Source: OSMEP 2013.

When asked about their experience with loans and loan approvals from formal financial institutions, all of the firms in the medium and large categories replied that they have experience with requesting and being granted loans. This contrasts with 62.6% for small firms, meaning 37.4% of small firms have not been granted loans by formal financial institutions. Top reasons quoted for not having been approved for loans included lack of or insufficient collateral, not having a business plan, and being a new enterprise (having no previous payments record). The reasons are similar for micro-enterprises, with insufficient evidence and insufficient collateral cited as the top two reasons for not having been granted loans by formal financial institutions.

Table 8: Experience with Formal Loans

(% of responses)

	Enterprise Size		
Experience with Formal Loans	**Small**	**Medium**	**Large**
Have received loans from formal financial institutions	62.58	100.00	100.00
Have never received loans from formal financial institutions	37.42	0.00	0.00

Source: OSMEP 2013.

Thus, findings from the OSMEP survey and Punyasavatsut (2011) imply that small enterprises have the greatest problems accessing funds from formal financial institutions. Data from both sources and from the survey of micro-enterprises all suggest that, for a small proportion of small enterprises, informal sources remain an important source of financing even though interest rates are high. As such sources are largely unregulated, whether in terms of business and market conduct, regulations ensuring the soundness of institutions, or consumer protection, small firms are more exposed, therefore, to exorbitant charges, rough collection practices, and other malpractices when compared with larger enterprises.

In summary, while firms of all sizes in Thailand have relatively good access to credit products, a gap in service provision catering to the needs of micro-enterprises still exists. This gap is evident from the greater reliance on non-formal sources of funds, such as the owner's own savings, borrowing from family and friends, and lending from unregulated moneylenders. Therefore, if the goal of furthering financial inclusion for businesses is to be realized, there is a need to develop products suitable to smaller companies, which often have inconstant income streams and little collateral. Ensuring the observation of appropriate practices regarding the soundness of institutions, interest rates, fees, and collection practices, among others, are also important in ensuring access to quality services by small enterprises.

8. FINANCIAL EDUCATION IN THAILAND

8.1 Financial Literacy

As financial inclusion requires not only access to financial services for households and businesses, but also effective use of appropriate services, an important component of the promotion of financial inclusion is financial literacy. To be able to make optimal use of financial services on offer, users should not only have the relevant knowledge, but also desirable behavior and the right attitude.

Surveys on financial literacy in Thailand revealed that, on the whole, Thailand's performance in 2013 is comparable to the average score of the other countries surveyed. In the BOT's 2013 financial literacy survey (BOT 2014b), which uses a questionnaire modified from the OECD's survey, the overall score of financial literacy for the country was 58.5%, slightly below the 62.3% average in the OECD sample of 14 countries from four continents (Atkinson and Messy 2012). In another survey conducted by MasterCard, which surveyed 27 markets in 2013, Thailand's score on the MasterCard Financial Literacy index was 68 points out of 100 (Choong 2013). This is about the same as the average score for countries from Asia and the Pacific region in the sample, which was 66 points in the 2013 round of the survey.

When the overall score is broken down into the three main components of financial literacy, i.e., financial knowledge, behavior, and attitude, the BOT results showed that Thais scored lowest on knowledge (46.8%). This is especially true for the calculations of various types of interest, with respondents having most problems with compound interest calculations. The survey also found that awareness of the deposit insurance policy and understanding of the time value of money remain limited.

In terms of financial behavior and attitude, Thais exhibited some favorable tendencies, especially in terms of actively saving, setting of long-term financial goals and striving to achieve those goals, and refraining from borrowing to make ends meet. This finding is corroborated by the higher than average score of Thais in the MasterCard financial literacy survey in the financial planning aspect, which includes aspects related to the respondents concepts and ability to make long-term plans for financial needs.[29] Findings from the FinScope Thailand survey also showed some favorable tendencies. When asked whether they think carefully before making a spending decision, the overwhelming majority replied that they do. A similar proportion replied that they adjust their expenditures in accordance with their incomes, that they know their financial situation, and that they like to be in control of their finances. Thais also know that budgeting can help them keep track of how much money they can spend (see Table 9).

Table 9: Favorable Financial Behavior and Attitudes

	% Who Agree with Statement
You think carefully before making a spending decision	92.00
You adjust your expenses according to your income	86.50
You know your financial situation	89.60
You like to be in control of your finances	89.00
Budgeting can help keep track of your finances	90.20

Source: FinScope Thailand (2013).

Although there were many positive findings concerning financial literacy, the BOT and the FinScope surveys also found some worrying results. The FinScope survey found that more than half of the population is unsatisfied with their current financial status, and that about a quarter of the population often spends more money than they have available. Dealing with finances is seen as stressful or burdensome by many. The survey also found that only a third of the population keeps track of their income and expenditures on a monthly basis (see Table 10). This is especially striking as 90.2% of the population replied that they know the benefits of budgeting, but only about a third of the population actually does so. This result is corroborated by the BOT survey findings where 93.5% of the respondents scored zero on “being responsible and having a household budget.”

[29] This part of the survey also assesses the respondents’ knowledge of financial products and services.

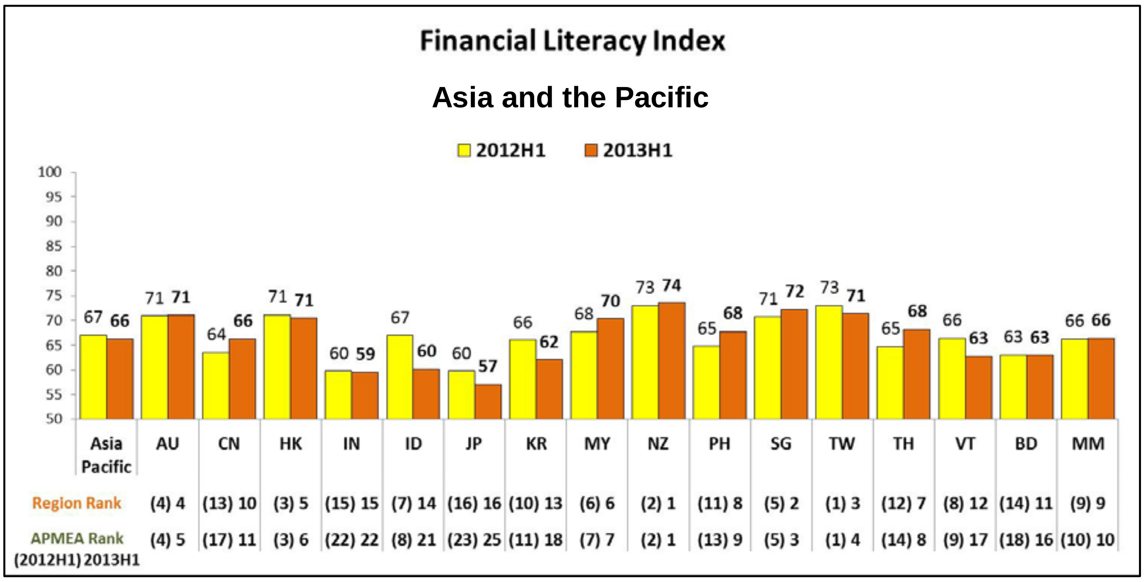
Table 10: Unfavorable Financial Behavior and Attitudes

	% Who Agree with Statement
You are unsatisfied with your current financial status	55.90
You often spend more money than is available	24.90
Dealing with finances is stressful/ burdensome	60.70
You keep track of your income and expenditures on a monthly basis	32.70

Source: FinScope Thailand (2013).

Results also indicated that there are differences in terms of financial literacy across regions and income segments. The BOT survey found people in the Northeast to have the lowest financial literacy score. Samples from the North, Northeast, and South also scored low on financial knowledge, although they had high scores in terms of financial behavior. Samples from the Central region had the opposite results, scoring high in terms of financial knowledge, but low in terms of financial behavior. The survey also found that areas with fewer financial transactions typically have lower financial literacy scores.

Figure 10: MasterCard Financial Literacy Index 2012 (2012H1) and 2013 (2013H1)



H1 = first half of the year.
Source: Choong (2013).

8.2 Over-indebtedness Problem

Although the worrying tendencies uncovered in both the BOT and FinScope surveys were balanced by findings from the MasterCard survey that Thailand's rate of improvement from 2012 had been the highest in the region (see Figure 10), the current situation is still a cause for concern given the current level and trend of household over-indebtedness.

Household debt to GDP was 82.3% in Thailand in 2013, which is in contrast with the 60% figure for 2010. The ability of households to pay off their debts deteriorated, with household debt to disposable income increasing from 90% in 2010 to 120% in 2013. Examination of the data over the longer term concurs with this short-term trend.

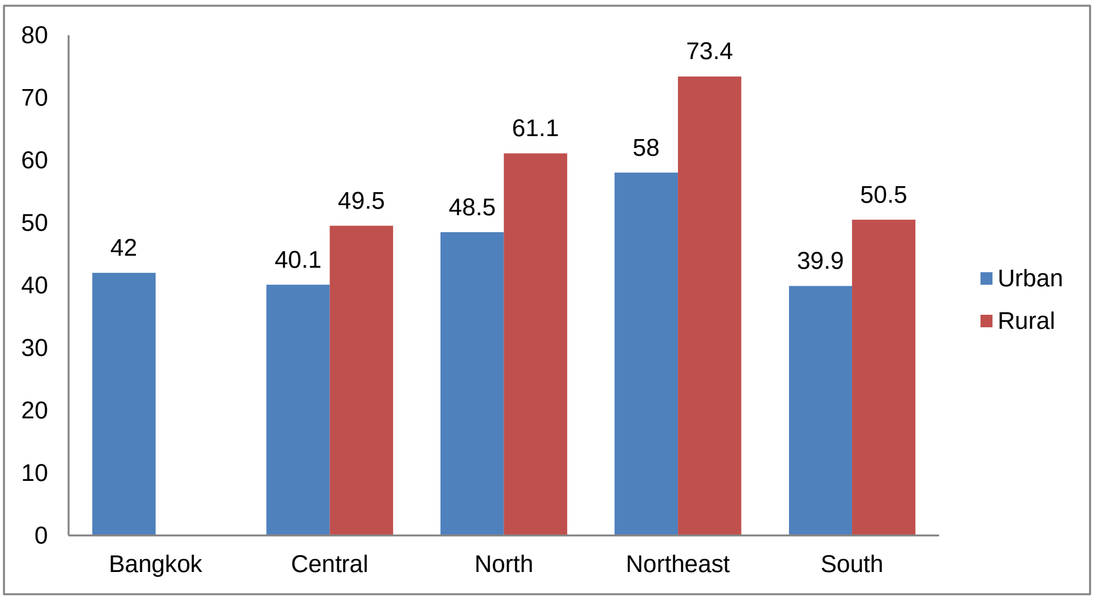
Statistics obtained through the Socio-Economic Survey (SES) conducted by the National Statistical Office (NSO) show that household debt increased steadily, from B68,405 per household in 2000 to B134,900 per household in 2011, almost doubling in a decade, yet the ability of households to pay off their debt has not changed much in the same period.

According to 2011 SES data, approximately 56% of households in Thailand are in debt, with a higher proportion of rural households being indebted than urban households (see Figure 11), but urban households have higher debt-per-household than rural ones (see Figure 12). In terms of overall debt, the Northeast shows up as the region with the largest proportion of indebted households, followed by the North and the South. Again, in all regions, a higher proportion of the rural population is indebted compared with the urban population. This is especially true in the Northeast and the North. In the Northeast, 58% of urban households are indebted, but an overwhelming 73% of rural households carry debt burdens. In the North, the urban–rural split is 49% to 61%. The high and rising level of indebtedness and the over-indebtedness of rural households show a worrying trend. As mentioned above, concern over household over-indebtedness has been recognized by the government in the 11th National Economic and Social Development Plan (NESDP).

The rising household debt-to-disposable income ratio, which indicates that the ability to pay off debt is declining while debt is increasing; the weakness of financial literacy measures, especially in terms of the ability to calculate interest; the low proportion of the population who keep track of their finances; and the high proportion of respondents who admit that dealing with finances is stressful or burdensome, indicate that there is room for financial education to foster the desirable knowledge, behavior, and attitude to move toward full financial inclusion in the country. This is in line with policies outlined in the 11th NESDP that stresses the need for provision of financial knowledge and understanding, and for fostering saving habits among Thais as a means to combat the over-indebtedness problem.

Figure 11: Indebted Households by Region and Rural/Urban Split

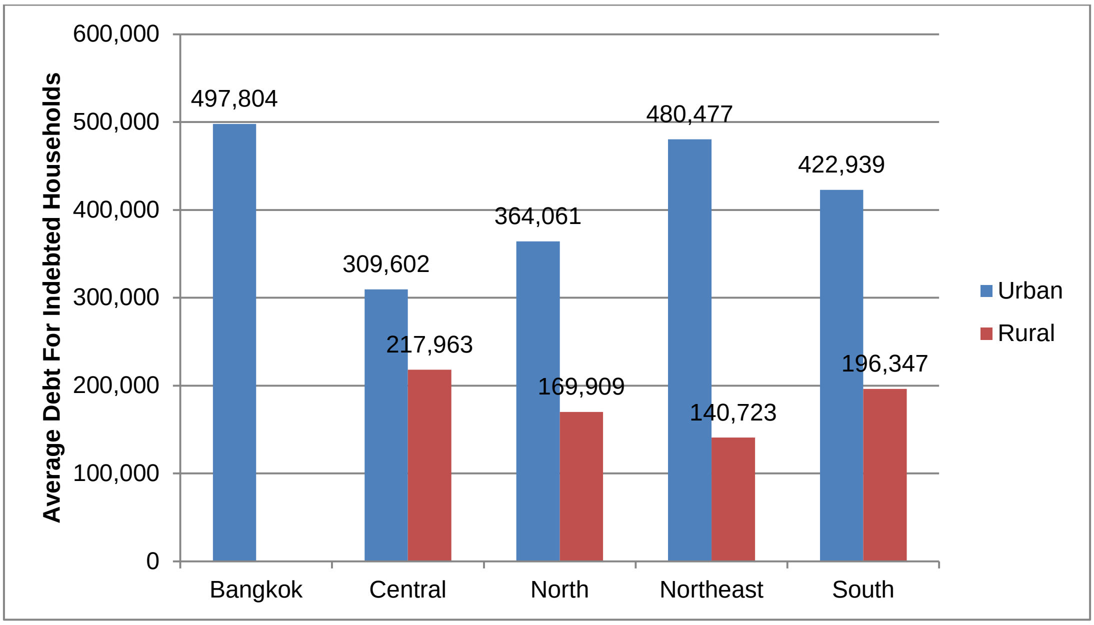
(%)



Source: NSO SES Data (2011).

Figure 12: Average Debt per Household by Region and Rural/Urban Split

(B)



Source: NSO SES Data (2011).

8.3 Financial Inclusion Status for SMEs

Current providers of financial education in Thailand are commercial banks, specialized financial institutions (SFIs), independent organizations, civil society and non-profit organizations, and informal providers. For commercial banks, provision of financial education is typically a part of their corporate social responsibility measures. These financial education programs are small in scale, and are targeted at students and/or potential users of formal financial products. Financial education is also provided by independent bodies such as the Stock Exchange of Thailand (SET), or the Securities and Exchange Commission (SEC), which are independent regulatory agencies. The aims of their programs are to foster long-term saving habits among Thais and target potential investors in the stock market.

Financial education targeted at debt management, consumer rights, and low-income households is provided by government agencies and civil society organizations. Two SFIs—the Government Savings Bank (GSB) and the Bank for Agriculture and Agricultural Cooperatives (BAAC)—have been instrumental in carrying out the government's "Debt Doctor" program. Launched in 2010, the scheme aims to train villagers to act as counselors on individual debt resolution in their local communities. Training is provided by GSB personnel, while operating costs are shared by BAAC and GSB.

Education and assistance for SMEs in Thailand are provided by a number of government agencies. For example, the Office of Small and Medium Enterprise Promotion (OSMEP) operate OSMEP Front Service and SME clinics that provide training, activities, information, and advice on various aspects of SME operations, which include financial access and financial management/budgeting practices. The Institute for Small and Medium Enterprise Development (ISMED), a public organization established with seed funding from the government, provides various training activities for SMEs, which incorporate budgeting and financial management. The past few years have seen commercial banks downscaling towards SMEs, and some banks have begun to offer financial education tailored specifically to this target group.

In addition to this, some financial education content for SMEs is provided by the BOT on its financial knowledge website. In recent years, the BOT has started to shift its focus from promoting financial access to promoting financial education related to consumer protection. The BOT opened its Financial Consumer Protection Center in 2012 to equip consumers with adequate financial knowledge so they know their rights and responsibilities as consumers of financial services, to reduce consumers falling prey to fraudulent practices, and to facilitate informed decision-making by consumers.

Civil society groups and non-profit organizations such as the Kenan Institute Asia, Thailand Research Fund, Khom Loy Foundation, and Step Ahead Foundation also offer financial education programs tailored to the needs of the low-income group. For example, Kenan Institute trains at-risk women in Bangkok, has programs to train young adults, college students, and professional workers as well as SMEs. The Thailand Research Fund engages local government officials and provides incentives for villagers to record their income and expenditure. In many areas of the country, influential community leaders have also been providing financial education to low-income households. Such roles are generally taken by development monks in many rural areas where Buddhist temples remain at the core of the community (Diaz and Achavanuntakul 2013).

While there are many providers of financial education, the existing programs provided are generally small in scale and targeted at young adults or potential users of formal financial services. Programs that target lower-income households and micro-enterprises face similar problems. With the exception of the government's Debt Doctor program, which covers the whole nation, other programs are still small in scale with many being offered on a project-by-project basis. Given the high and rising household debt-to-GDP ratio, and the prevalence of indebted households in rural areas where there is lower income and lower financial literacy, there is still a need for more financial education programs with contents of debt prevention and debt management specifically targeted at low-income households. Financial education in terms of consumer protection is also shown to be an important aspect missing from most of the financial education programs in the country. While the BOT has taken a leading role in this aspect, other agencies should also step up their role, given that other agencies in the formal, semi-formal, and informal sectors have a wider reach than the BOT. Thus, while Thailand is doing relatively well in terms of financial literacy compared with other countries, much more still needs to be done.

9. CONCLUSION AND POLICY RECOMMENDATIONS

Institutional analysis as applied to the situation of financial inclusion in Thailand reveals that the country has done well compared with many other countries in terms of financial inclusion, both for lower-income households and small enterprises. This has been achieved primarily through government encouragement and initiatives, and has resulted in a multitude of service providers that cater to different sub-groups of the population.

Despite the current achievement in terms of financial access, when evaluating the current situation against the desired outcomes, it is clear that gaps still exist between existing conditions and the goal of financial inclusion envisioned, and surveys find that there is a growing unmet demand for financial services in the country. Access to financial services, while high, is not universal, with rural and low-income households in certain regions more excluded than others. Small enterprises also find it hard to obtain credit, and have had to rely on a variety of sources for funds. This includes utilizing the services of the unregulated informal institutions, which exposes them to exorbitant interest rates and to potential breaches of consumer protection practices. The existing condition of the country also indicates that there is a problem with high and rising household over-indebtedness, and that the problem is more prevalent in rural areas, where credit for low-income individuals and micro-enterprises are more readily available due to a number of initiatives and financial institutions that have been encouraged to fill in the gaps left by the commercial banks and other privately-owned formal sector operators. This trend is especially worrying given the low financial literacy score for low-income households and those in rural areas, and the limited number of programs currently addressing the issue of debt prevention and management.

In terms of the regulatory context, especially in terms of the rules and regulations to ensure the soundness and sustainability of service providers, it is found that the regulatory context is characterized by non-uniformity in rules and supervision, with formal financial institutions having the most stringent rules governing service provision, soundness of institutions, and costs to clients. Semi-formal institutions have their own sets of standards, which are generally less stringent than those governing the commercial banks and specialized financial institutions (SFIs), while the informal sector is largely unregulated and is not subject to any prudential or non-prudential regulations. This makes for an uneven playing field amongst different providers of financial services, and puts the more formal financial institutions at a disadvantage to other groups in terms of the provision of financial services that cater to the needs of low-income households and small enterprises.

In light of these findings, the following policy recommendations are proposed.

- Expand financial services to meet growing and unmet demand, especially demand from low-income individuals and micro-enterprises so as to prevent people turning to the informal sector, especially moneylenders. This is especially true for loan products in urban areas that cater to low-income individuals and micro-enterprises.

- Extend financial access to unbanked and underserved segments using existing channels that operate in close proximity to these groups such as the SFIs and Village Funds. Service innovations such as mobile banking and/or agent banking models could also be explored to extend the reach of financial access.

- Strengthen the governance of SFIs in carrying out government initiatives, of semi-formal institutions and of informal institutions. This could be done through regulatory reforms to provide a graduation path for community-based financial institutions.

- Consider the establishment of a new regulatory structure to oversee microfinance. This could be done through the establishment of a new microfinance regulatory agency that gathers the expertise of several agencies in one place, or it could be done through the establishment of a special committee comprised of existing regulators that serve the same purpose. The new institution would be charged with the gathering of information on microfinance, collect and distribute information on best practices, issue guidelines for appropriate conduct, provide training for microfinance institutions and staff, and conduct research to promote financial inclusion.

- Develop financial education programs that highlight risks of over-indebtedness and aim to prevent people from going further into debt, to help supplement the Debt Doctor initiative by the government. Financial education in terms of consumer protection should also be emphasized.

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