

Microfinance Structure of Thailand^{*}

Ravipan Saleepon

Srinakarinwirot University, Bangkok, Thailand

This paper was devoted to analyzing the structure of microfinance in Thailand. The theory of industrial organization (IO) was applied as a guideline to measure the degree of monopoly power in microfinance structure. The objective of the study was investigation on Thai microfinance institution marketing structure by using Concentration Ratio (CR) and Herfindahl Hirschman Index (HHI). The data of the study focus on the outstanding loans market share of microfinance institutions (MFIs). The market share of the outstanding loans of MFIs from the largest to the smallest is as follows: Bank for Agriculture and Agricultural Cooperatives (BAAC), Village Fund Cooperatives, Government Saving Bank (GSB), Pawnshop, Self Help group: Saving Group, Commercial Bank, Self Help Group: Sudja Group and Islamic Bank (IB), respectively. It stated that CR by outstanding loans is as follows: Cr 1, 59.35%; Cr 3, 81.11%; Cr 6, 92.14%; and Cr 9, 94.37%. At the same time HHI is 0.38. Additionally, BAAC remains the majority MFIs even though there are the other MFIs available in the microfinance system. The main role of providing the microfinance services mostly derived from BAAC.

Keywords: microfinance institutions (MFIs), market structure, Concentration Ratio (CR), Herfindahl Hirschman Index (HHI)

Introduction

The significant cause of the poverty in the rural area almost every country all over the world is the low income people who have no ability to access the formal commercial bank loans. Due to lack of collateral and have unstable income sources (Armendariz de Aghion & Morduch, 2005, p. 4), in addition, they were held interest at rates so high that became in the cycle of debt. The assistance for those who have low incomes through subsidies or grants is not the right approach and sustainability. Small financial systems which called microfinance have been developed continuously to meet the needs of the low income people who mostly can not access the other financial sources.

Nowadays, the small enterprise finance in the financial system is growing obviously. Many activities focused on providing financial assistance to people living in the community. These activities vary between the environments in the local traditions. Each group established by the common members accompany their trust is managed without a collateral when making lending transaction. These groups that have a strong innovative social management create aspiration to the wider outcome than financial results, such as improving the quality of life and moral development.

As mentioned previously, the opportunities to access the financial sources from formal commercial bank

^{*} Project Supported by Schools of Economics and Public Policy, Srinakarinwirot University.

Ravipan Saleepon, Assistant Professor, School of Economics and Public Policy, Srinakarinwirot University.

Correspondence concerning this article should be addressed to Ravipan Saleepon, 114 Sukumvit 23 Wattana, Bangkok, Thailand. E-mail: ravipan@swu.ac.th.

whether it is a saving or credit in the financial markets for the grassroots groups who are low income are quite limited. However, the groups have a chance to use the services from the state financial institutions—the Bank for Agriculture and Agricultural Cooperatives (BAAC). Besides, the established own funding sources in the community which derived from their own innovation. Because of the low income population, mostly living in rural areas and agricultural occupations or general contractor can be seen. There are various forms of cooperatives including the establishment of a community organization, such as financial savings groups.

Actually, the amount of deposits and credits of microfinance system is the half of the savings and loans in the commercial banking system approximately 1.8 to 2.0 trillion, while the number of deposits and loans of the banking system is at 6.5 trillion baht.

The structure of microfinance systems relies on the theory of industrial organization (IO): IO applied as a guideline. The behavior of the organization's financial statements reflects the image of the structure and the organization, and vice versa, it will be structured and organized to reflect the same behavior.

The relationship between the market structures inevitably affected the microfinance behavior and the performance of financial organizations. These relationships contain the basic organizational structure, financial, and other factors. Behavior and performance of financial organizations with all components are an incident simultaneously. Both of behavior and performance will result with the structure conduct operations. The operation perhaps may be distorted by the intervention of the public policy of the state. On the other hand, the structure of the organization can determine the behavior and control the results of operations.

Fundamentals of corporate finance needs have forced financial stability to relate with the stable community among the requirements which include the low interest rate loans for livelihoods and spare expenses in case of emergencies. While gaining the appropriate return on savings in the form of interest in addition have various welfare, the microfinance institutions (MFIs) have to keep balanced with the momentum caused by these factors as the driving force for strengthening economic and social development of the community, moreover, increased bargaining power of social and business caused by the lack of opportunity to secure the services of formal financial institutions

However, the adequate of capital to finance the operations of the members on the financial size of the community has done more to expand its services to community. By more financial transactions to meet the needs of members the MFIs are necessary such as loans to members.

The financial structure of the organization is the result of the behavior of the MFIs. For the purpose of community organizations focused on enhancing the financial well-being of their members. As a result, the behavior of the MFIs encouraged to be the center of economic and social activities, such as participation in the development. It also serves deposit services to their members. Supply of loans serves for assistance funding to member for mobilizing their job as well the emergency expenses addition to counseling support and career path development. All of activities and funding have aim to share the knowledge and production techniques among members. The financial structure of the organization which defines the behavior of corporate finance community also affects the operation of the MFIs. The ability to mobilize savings which is the main factor of the financial transactions among the various financial organizations achieves is the objectives of the MFIs. Saving which encouraged by the MFIs plays the important role of mobilizing the sources of fund. These funds transform to be deposit that MFIs have to pay interest rate to depositor. The incentives of deposit's interest rate stimulate the member to add more funds to MFIs. Most of funds were used to be loans among members. The use of fund is the sources of profit for MFIs (Branch & Janette, 2002, p. 14). These are incentives for members to bring savings to

the organization which is the capital of the nonprofit organization's MFIs (Federic, 2006, p. 15). Besides, it concerns of the share of profits paid to members in the form of dividend.

Generally, the operation of the MFIs will be able to achieve the objectives. It affects from the various types of factors that determine the success of organizations such as management team conduct of the MFIs efficiency in funding management government policy.

However, the behavior of the structure and operation may be affected by factors outside the MFIs which cannot be avoided, such as the rules and regulations of the government agency or agencies related to the MFIs. According to the assistance from the intervention of government policies such as technical support and management for an organization with a strong and reliable service to the community, sometimes, aided financial loan at low interest rate as a tool to spread prosperity to the local level (Bratton, 1986, p. 8).

External components can cause distortion of the behavior and operation of corporate finance community. The behavior of the MFIs which participate in the development and generate human well-being within the economy and the release of community suffering demonstrates success in microfinance purposes (Edgecomb & Barton, 1998, p. 12).

The benefits of MFIs perfectly have limitation within the members in the community. That is the result of increase and number of members within the community. As a consequence to the strength of the organization, participation of its members, a sense of ownership of the organization, and trying to become the committee or monitoring of all committee can determine the organizational structure in the MFIs. Then when there is a response to the increase in the membership it will result in more competition and the emerging of corporate finance. The direction of such components may not be in the direction of the structure, behavior, and performance. It may be concluded that financial structure does not necessarily lead to behavior change direction to the operations of the MFIs. The structure of the community is different. This difference will determine the nature or the market structure of the MFIs and the management within the communities. Difference of the behavior determines the framework of the organization and reflects the quality of service and participation in social behavior. However, they may be distorted by the intervention of state policy (Ghatak, 1999, p. 26).

The Definition of Microfinance

The Asian Development Bank (ADB) defines the meaning of microfinance as follows: "The provision of financial services in the scope is broad. These are covered financial services including deposit, lending, and insurance payments to the poor and low-income households throughout the retail enterprise" (Asian Development Bank, 2000, p. 2).

There is an assortment of microfinance services by source of funds for the implementation which can be divided into three categories:

- (1) Formal financial institutions (formal institutions) including bank rural government projects and various cooperatives;
- (2) Semi-formal financial institutions (semi-formal institutions) and Non-Governmental Organizations (NGOs);
- (3) Unofficial financing sources (informal sources) including lenders and shop owners.

Theoretical Concepts

IO

Theoretical concepts used in the study employed the framework of the theory of IO to study the structure

of the microfinance.

In general, the structure of the market determines the behavior of the industry. The measurement of the degree of monopoly power is considered by the concentration of the industry, obstacles of new operators, and the differential products or services. These basic components are able to assess how the market characterized as some kind of market where lay at the degree between the competition and monopoly.

The concentration of the industry defined as the ratio of the share of incumbents in the industry. The study of the industrial concentration demonstrates the influence of business on the market. The instrument for measuring the industrial concentration has several tools which depend on the nature of the data available and the desired target. This study employed the outstanding loans to be the data characterized the monopoly power in the microfinance market by the Concentration Ratio (CR) and Herfindahl Hirschman Index (HHI)

Background of Thailand

Office of National Statistics indicated that there are 63 percent of the country's population (41 million people) living in rural areas, 92 percent of these households have a career in agriculture although productivity in the agricultural sector will account for 11 percent of gross domestic product (GDP), but the yield of these basic materials that feed into large agricultural industry of Thailand. This accounted for 25 percent of total exports of the country. For rural households, the remaining eight percent are employed. Most of total labor forces have worked as unskilled workers in the manufacturing sector construction and transportation.

In the area of small and medium sized enterprises (SMEs), data from the Bank for Small and Medium Enterprises Promotion indicated that the country has about 1.87 million registered business entities. The amount of small enterprise, 99 percent, was classified as SMEs which employ roughly 80 percent of non-agricultural employment. The output was 42 percent of GDP or 38 percent of total manufactured exports of the country. During the first quarter of 2009 there was approximately 10,000 new SMEs registered. These SMEs have inability to access loans. Bank of Thailand (BOT) has estimated in early 2009 and only one third of this number has access to credit in the system.

Report of the Office of the National Economic and Social Development Board (NESDB), the year 2007 demonstrated that incomes below the poverty line earning were less than Baht 1,443 per month (using the criteria of the United Nations at 1.25 U.S. dollar per day), representing 14 percent of the gross national product (GNP), GNP per capita in Thailand is 10,043 baht per month indicating that the number of poor declined steadily. The population of Thailand in 2007, approximately 8.5 percent (5.5 million people) had incomes below the line to the northeast of the country, and approximately 18 percent of the populations in the country (12 million people) were classified as the poor in the city.

Thailand remains the economy that is dependent on the commercial banks (bank-based economy) and the public sector is still mainly relies on banks as a source of funds for the financial services business. The results of the year 2007, the BOT showed that households and SME 9.61 percent are not able to access to financial services. As households that have access to the services of approximately 16.35 percent the number of households that do not have access to financial services may seem obvious relatively low. The results showed that there were a number of houses (33.93 percent). They were mostly lack of collateral and had no adequate condition to receive approval loan from the financial institutions.

One cause of the Asian financial crisis in 1997 was a result of the weakness of the financial sector. The country's financial reform plan was established in 2000 with a modified former version. Thailand at a later time,

the master financial plan level for Grassroots during the first five-year period (2008-2012) has been done for a part of the restructuring at this the financial period.

The BOT aims to boost financial business by increasing the foundation level, opportunities, access to credit, and other financial services to the low income. The possibility to access the services from the formal financial system is not enough, so the goal of the master plan during the first financial for grassroots aims to link the bank's service system to MFIs. It focuses on the semi-formal MFIs. This includes funds for cooperative village banks and savings groups. This link will activate the banking system in which the funds exist but lack of customers. This strategy turns their attention to expanding access to financial markets in the foundation level. By using the historical data of customer financial cooperatives and savings groups are available for recruiting the newcomer customers who stay in the village and community.

Currently, the Ministry of Finance is considering the ways of providing financial services to the low income level in the following three formats:

- (1) Give permission to the experienced foreign investors to start microfinance activities;
- (2) Allow commercial banks to be the partner with third party microfinance experts and foreign investors;
- (3) Allow commercial banks to operate microfinance programs through separate entities, such as microfinance subsidiaries.

Thailand's financial market structure is relatively flat. The segmentation is quite clear. They are powerful enough to move the deposit mobilization including the distribution of funds to the rural and agricultural sector. The size of the microfinance market may not be large. The government played a major role as a service provider. From this action of government, it makes the policy maker not to pay attention to setting up the regulations of the financial services at the foundation level for non-government MFIs and small MFIs organizations. Hence, the level of private foundations and NGOs is so small and focuses on specific target groups such as urban industrial workers, HIV patients', hill tribe minorities, or immigrants. Typically, these programs will run separately and there is hardly coordination between the other organizations.

Ministry of Finance classified the foundations of the MFIs into three major groups including:

- (1) Banks and non-banks that operate under strict financial laws (prudential regulations) including corporate finance. Statements of government as Government Saving Bank (GSB), BAAC, and Islamic banking etc.;
- (2) Small financial organization means an organization that established by legal registration (non-prudential regulations). These organizations have purposes to promote savings and investments in the community including various cooperatives both inside and outside agriculture, savings to the manufacturer as well as the villages and hamlets;
- (3) Microfinance organization which operates within the community members not under the law. These organizations were established to promote savings and provide credit to the members of the general community. These small financial organizations arising from the support of external agencies include NGOs or government agencies, local or the developers, most of whom are serving in a village bank and loans to the group members (solidarity group).

Data and Analysis

This research will analyze the structure of the organization operating the financial entities in the financial system by considering the outstanding loans of MFIs which can be analyzed in the following part.

To examine the monopoly power of MFIs, a measurement of concentration ratio should be established.

Certainly, all MFIs are divided into three types: formal, semi-formal, and informal.

From Table 1, the overall outstanding loans of microfinance providers is 888,934 million baht, at the end of 31 September 2010, while the largest proportion is 577,871 million or 68.88 percent worth of outstanding loans come from the formal MFIs providers. As 27 percent as outstanding loans worth is semi-formal MFIs providers. The remaining four percent composes of independent groups include group savings self help group.

Table 1

Amount of Outstanding Loans

MFIs providers	Outstanding loan (Million Baht)
Formal	577,871
Semi-formal	227,263
Informal: Self help group	33,800
Total	888,934

Note. Source: Ministry of Finance.

According to IO: By analyzing paradigm, the market structure affects performance. Then, we analyze the structure of microfinance in this section. The using of CR and HHI is presented as the index is calculated by the concentration of the MFIs.

$$C = \sum_{i=1}^n P_i$$

C = Proportion of CR 0-1;

P_i = Market share of i ;

n = Amount of microfinance institution ranking from largest to smallest.

$$HHI = \sum_{i=1}^n \left(\frac{Y_i}{Y} \right)^2$$

HHI = Herfindahl Hirschman Index;

Y_i = Marketshare of MFIs;

$i = 1, 2, 3, \dots, N$;

Y = Total marketshare.

From Table 2, concentration ratio 1 is 0.5935, the ratio of the concentration, calculated from the value of outstanding loans of the main operators in only one institution (Cr 1) which shows the strong level of monopoly. Moreover, the HHI was found to have a higher tendency to concentration as well which equals 0.38 obviously.

Table 2

CR

CR	Ratio
Cr 1	0.5935
Cr 3	0.8111
Cr 6	0.9214
Cr 9	0.9437

Note. Source: Author's own calculation.

From Figure 1, the BAAC is a financial institution for rural development having main role as an essential mechanism in providing micro financial assistance to farmers and farmers' institutions and promoting a better

quality of life for farmers. Meanwhile, other MFIs employed minority role in lending to the low incomes people. As a matter of fact, the government has used the BAAC to be played as a major role of development in Agriculture Sector. It fills the gap voided by troubled banks and finance companies as well as to stimulate the battered economy, especially at the grass root level to receive the loans and other financial services. From the concept of “microfinance” it refers to a range of financial services provided to poor clients who are typically underserved by other financial institutions.

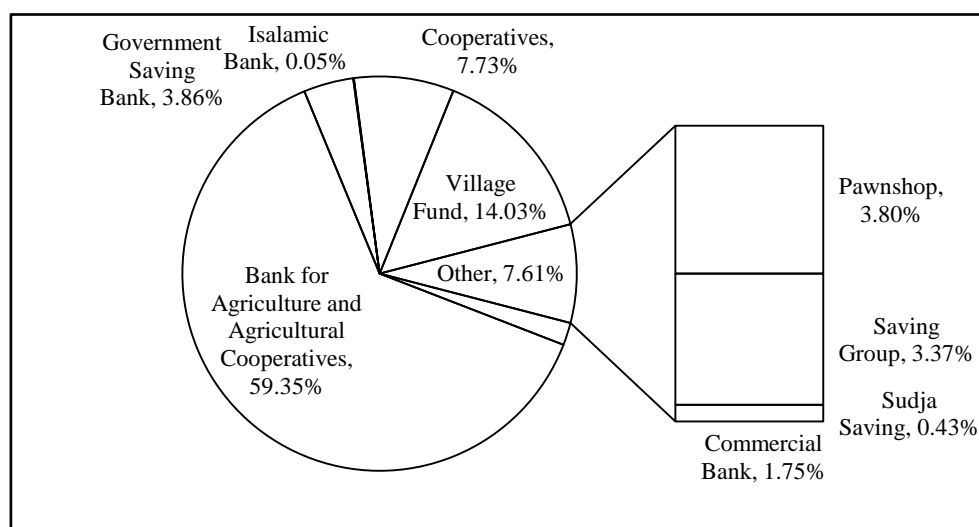


Figure 1. Marketshare of microfinance institution by outstandings loans.

Conclusions

Microfinance systems can be a tool to help solve the problem of poverty in the country which has a sustainable footing. Within the meaning of Asian development in microfinance, the financial services for the poor are basic such as deposits and loan payments, transfer money which give the chance for the poor and low income households, as well as providing financial services to small enterprises, this study found that BAAC remain the majority MFIs even though there are the other MFIs available in the microfinance system. Because the government encouraged the main role of providing the microfinance activities through BAAC.

References

- Armendariz de Aghion, B., & Morduch, J. (2005). *The economics of microfinance*. Cambridge, Massachusetts: The MIT Press.
- Branch, B., & Janette, K. (2002). *Striking the balance in microfinance: A practical guide to mobilizing savings*. Washington: PACT Publications.
- Bratton, M. (1986). Financing smallholder production: A comparison of individual and group credit schemes in Zimbabwe. *Public Administration and Development*, 6, 115-132.
- Edgcomb, E., & Barton, L. (1998). *Social intermediation and microfinance programs: A literature review*. Washington, D.C.: Development Alternatives.
- Frederic, S. M. (2006). *Financial market & institution* (5th Ed.). New York: Pearson.
- Freimer, M., & Gordon, M. J. (1965). Why bankers ration credit. *Quarterly Journal of Economics*, 79, 397-416.
- Ghatak, M. (1999). Group lending, local information and peer selection. *Journal of Development Economics*, 60, 27-50.