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**FINANCING OF RURAL HOUSEHOLDS IN THAILAND**

by

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**This is a preliminary working paper based on field work undertaken by the Development Planning Project. This material is presented in unfinished form and will eventually serve as part of a larger report on the results of the Project's work. It is submitted in this context and is not to be quoted.**

**Douglas S. Paauw, Director  
Center for Development Planning  
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## Introduction

In an earlier working paper, "Financial Markets and Development Planning--A Conceptual Framework," reference was made to the accounting framework which forms the matrix of the current research on capital and money markets in Thailand. It will be recalled that the source referred to in that paper was Douglas S. Paauw, "A National Income Accounting Framework for the Open, Dualistic Economy."<sup>1</sup> It is a special feature of this framework that it makes a sharp distinction between the industrial and the agricultural households with respect not only to production but also with respect to income generation and its disposition. It was stated in the accompanying working paper that the focus of the present research is the financial nexus of that accounting framework. In this paper attention will be given to the way in which the agricultural sector mobilizes savings and transfers them to the financial nexus which, in turn, transfers them to other sectors or returns them to the agricultural sector in the form of capital goods.

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<sup>1</sup>Douglas S. Paauw, "A National Income Accounting Framework for the Open, Dualistic Economy," Field Work Report No. 1, June, 1966.

Even a casual scrutiny of agricultural saving and investment brings out the key importance of borrowing. Much of the income-generating activity in the countryside would not be possible were it not for inputs coming from other sectors and obtained through the use of the facilities of the financial nexus. Even when borrowing is used for purposes of consumption, it often indirectly finances the productive process by providing the rural households with the wherewithal during the period of production of agricultural output. Thus, borrowing, by affecting both the level of agricultural income and the level of consumption, influences the level of saving. Moreover, inasmuch as rural households do have some choice in the form or in the timing of loans, agricultural credit affects not only the level but also the composition of rural saving. Hence, much of the discussion in this paper revolves round the magnitude, composition, and distribution of agricultural credit.

Implicit in the interest attached to credit in a study ostensibly devoted to mobilization of rural saving is the belief that the chief determinant of such saving is the extent of productive activity and a conviction that such activity can be significantly enhanced by structuring agricultural credit institutions and instruments so as to encourage and facilitate such activity. In line then with the conceptual framework outlined earlier,<sup>2</sup> this paper first examines the role and functions of

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<sup>2</sup>Alek A. Rozental, "Financial Markets and Development Planning," Field Work Report No. 2, June, 1966.

the unorganized markets, then considers the reasons for the minor role played by organized markets in financing rural households, and finally makes a number of developmental planning suggestions for extending the scope of the organized markets and orienting these markets to provision of adequate credit for productive endeavor in agriculture.

### Financial Markets and Rural Households

Pending a more precise definition of rural (or farm) households, they will be used coterminously with the sector "agriculture," as defined in the national income statistics. Even though the share of agriculture in the Thai economy shows a decline when measured as a proportion of GNP, agriculture continues to provide employment and income for at least three-fourths of the labor force, and agricultural output provides much of the wherewithal to the export and financial nexi. The rhythm of the monsoon still permeates the cycle of credit throughout the economy. In centers remote from primary agricultural production, credit continues to be tightest in June and July, just before the planting season, and eases considerably in the last quarter of the calendar year when the rice harvest is being gathered. The primary agricultural producer may borrow little from the commercial banks directly, but those who sell to him and who buy from him depend on bank credit to varying extents.

For the purpose of this study agriculture merits priority attention for a number of other reasons. In no other sector of the economy does the unorganized market play such an overriding role. Most of the financial transactions between farmers and others, be they buyers or sellers, are handled outside institutions subject to regulation, supervision, and control of the public. Most of these transactions are in cash, and most of them are done on the basis of private agreement, often implicit rather than explicit, and frequently sanctioned by many years of usage and still adhered to, even though the original rationale may be but dimly perceived or has disappeared altogether.

It is in agriculture that the pattern and the structure of interest rates appears to be the most irregular and discontinuous. Side by side with the substantial proportion of loans carrying a zero interest charge there will be others, which, when imputed in money and translated into annual rates, would show fantastically high interest charges, upward of 600 or 800 per cent per annum. It is finally in agriculture that the many imperfections of the financial markets in the less developed countries appear in the most acute form and seem least capable of speedy improvement and least amenable to rational planning for economic development. Capital markets in the urban centers may be in embryonic stage, but they are well-nigh non-existent in the countryside. In the cities there is, prima facie, a substantial

degree of competition among lenders, but such competition is much weaker among those who supply credit to the farmer.

As mentioned previously, the concepts "agriculture" and "rural households" will be used interchangeably except as otherwise noted. Thus, for example, shopkeepers and traders, residing in the countryside, will be considered to be within the farm household sector and so will landlords, even though they may physically reside in the city.

#### Sources and Uses of Funds in Thai Agriculture

The most recent estimate of agricultural indebtedness in Thailand is given in a publication entitled Agricultural Credit in Thailand, Theory, Data, Policy.<sup>3</sup> This publication, from which much of the data underlying this chapter has been drawn, is in the nature of a preliminary report of a sample survey of agricultural credit in the whole of Thailand, undertaken in 1962 and 1963. Total agricultural debt of farm families was estimated at some 9,122 million baht. This amounted to 37.8 per cent of the GNP originating in agriculture according to revised National Income Estimates recently released by the National Economic

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<sup>3</sup>Pantum Thisyamondol, Virach Arromdee and Millard F. Long, Agricultural Credit in Thailand, Theory, Data, Policy, published by Kasetsart University and the Kasetsart/Hawai University Contract in Cooperation with USOM/Thailand, Bangkok, 1965.

Development Board.<sup>4</sup>

Inasmuch as no comparable estimates exist for other years,<sup>5</sup> annual changes in total farm debt can only be derived on the basis of assumptions regarding the relationship between the farm debt and other known economic magnitudes. Assuming that the ratio of such debt to sector income remains relatively constant from year to year, i. e., that net indebtedness increases no faster and no slower than output, annual change in the value of farm families debt approximates 404 million baht between 1963 and 1962, or about 174 baht per family incurring debt.<sup>6</sup>

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<sup>4</sup>National Income of Thailand 1957-1965 (Selected Tables), Preliminary Estimates, NEDB/NIO/January 26, 1966, mimeo., Table 3, p. 4.

<sup>5</sup>The existing estimates for years 1934 and 1953 are not very useful for comparative purposes, as explained later in the text.

<sup>6</sup>As pointed out by Peter Gajewski, Advisor to the National Income Accounts of the National Economic Development Board, this assumption would become untenable were farm income to fall as a result of unanticipated crop failure or other mishap following usual borrowing by farm households. As it happens, however, farm income in 1963 was substantially higher than in 1962. This in itself does not make the assumption fully plausible, but it removes one of the more telling objections to its use. At time of writing, no better alternative was available. Total number of farm families in Thailand was 3,410,309 in 1960 according to the 1960 Population Census (Cf. Central Statistical Office, National Economic Development Board Thailand Population Census 1960, p. 3). In the sample survey 68.06 per cent of the 742 sample families were found to be in debt. See Agricultural Credit, op. cit., p. 20.

The 404 million baht, estimated above, represents a source of funds to the agricultural sector. While, strictly speaking, not all of that sum can be attributed to flows from within the farm household sector, the entire amount was attributed to agriculture for the sake of consistency both with the Thai National income statistics and with the "dualistic" accounting framework employed by the Development Planning Project. It is impossible to construct a reliable flow-of-funds matrix for the agricultural sector of the Thai economy, but it might be interesting to attempt to estimate a simple sources and uses of funds account if only to provide a first approximation of the order of magnitude of agricultural credit in relation to key economic variables such as savings and investment.

The Thai National Income Accounts do not provide a direct estimate of saving either for the nation as a whole or for any of its constituent sectors. For the purpose at hand, saving was taken to be the difference between the Gross Domestic Product and the sum of private and governmental consumption expenditures.<sup>7</sup> During 1963 national (gross) saving was thus estimated at 12,708 million baht. It is

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<sup>7</sup>In the relevant year 1963 the data fortunately dispensed with the necessity of making a conceptual choice between GDP and GNP. Net factor payments from abroad were negative and were only a fraction of the figure given for statistical discrepancies (40 million compared with 1131 million).

highly unlikely that agriculture's share of this total saving equals the proportion of value added by agriculture to the national product. That this is unlikely follows both from the observations and surveys testifying to the low level of per capita income in agriculture<sup>8</sup> and from the fact that capital formation (investment) in agriculture in 1963 totalled 2,460 million baht, or less than 17 per cent of total gross capital formation in that year compared with the share of agriculture in the GDP of 36.5 per cent.<sup>9</sup> While it is true that a given sector can increase its stock of capital assets from sources other than internal saving, the previously estimated net change in rural debt is not of the order of magnitude which would suggest that actual saving in the agricultural sector could, in fact, come anywhere near 4,638 million baht, which is equal to 36.5 per cent of total saving in 1963.<sup>10</sup>

It is, indeed, to obtain some sort of an estimate of agricultural saving that a crude source and uses table is constructed below.<sup>11</sup> It

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<sup>8</sup>Cf. National Statistical Office, Household Expenditure Survey B. E. 2506 (1962) Northern Region, East Region, Bangkok, 1965.

<sup>9</sup>National Income in Thailand, op. cit.

<sup>10</sup>Ibid.

<sup>11</sup>For a more sophisticated approach and yet one using a similar conceptual framework and techniques, see W. E. Davies and P. J. Drake, "Flow-of-Funds Social Accounting: A Malayan Example," The Malayan Economic Review, Oct., 1964. Davies and Drake do not, however, sector out farm households.

should be emphasized most strongly that the figure for saving, thus derived, can hardly be considered the actual figure. This is so not only because of the inadequacy of primary data and the simplicity of estimation methods employed but even more because of fundamental conceptual problems associated with any serious estimate of saving generated in the agricultural sector. To cite one such problem--is the rice premium a form of forced saving on the part of the paddy farmer by compelling him to accept a price for his output which is presumably below the one which would prevail in the absence of the premium? In a simple "sources and uses" table for a sector, the balance sheet approach is employed where sources are increases in liabilities and uses represent changes in assets. Assets can be either real (acquisition of capital goods) or financial. An increase in financial assets in one sector must correspond to an increase in liabilities elsewhere. However, no such correspondence exists for increases in real assets; i. e., there are no financial liabilities in other sectors equal to the increase in real assets. Consequently, the difference between total assets and total financial liabilities gives changes in real worth or in saving of a sector for a given period of time. In this sense, saving is treated as a source of funds analogous to borrowing, to dishoarding, or to sale of assets. Similarly, funds, however acquired, must be used for acquisition of real

assets, of financial assets, hoarded or lent out. When some of these financial flows are netted out, the simple sources and uses of funds table will look as shown below:

Simple Sources and Uses Table for a Sector

Uses	Sources
Capital Formation	Saving
(change) Financial Assets	(change) Borrowing
(change) Hoarding	

Capital Formation and Saving, being national income or flow concepts, are given for a period of time. Financial assets and liabilities which are balance sheet or stock concepts are given as changes between two points of time.<sup>12</sup>

In attempting to fit estimated values to the items shown in the above table so as to construct a sources and uses statement for the Thai

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<sup>12</sup>Cf. Lawrence S. Ritter, "An Exposition of the Structure of the Flow-of-Funds Accounts," Journal of Finance, May, 1963, and John P. Powelson, National Income and Flow-of-Funds Analysis, McGraw Hill, New York, 1960, pp. 215-308.

agricultural sector, the years 1962 and 1963 were chosen because borrowing data could not be estimated for any more recent year. Data for capital formation were given for 1963,<sup>13</sup> and other data were taken as the difference between end-of-year figures for 1963 and 1962.

A number of assumptions had to be made in order to obtain estimates of changes in financial assets. For hoarding it was assumed that the agricultural sector adds to its cash balances the same proportion of the increase in currency in circulation as its share in GDP. It was further assumed that a similar share accrued to the agricultural sector through the increase in Savings Bank deposits but that agriculture did not share in the claims against insurance companies and other specialized institutions operating mainly in the cities. With respect to the share of agriculture in the claims against commercial banks, it was assumed that it equalled the proportion of agricultural capital formation to total capital formation in 1963. Conversely, it was estimated that the entire increase in deposits of rural credit institutions accrued to the agricultural sector. In this fashion the following sources

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<sup>13</sup>An earlier attempt to estimate total farm debt in Thailand is contained in Ministry of Agriculture, Thailand Economic Farm Survey 1953, Bangkok, 1955. The more recent estimate was chosen because the sampling techniques used appeared more reliable than those of the earlier survey.

and uses table was obtained.<sup>14</sup>

Sources and Uses of Funds, Thai Agricultural Sector, 1963

(Million baht)

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Real Assets 2,460	Saving 2,756
Cash Balances 213	
Commercial Bank Deposits 298	
Savings Bank 98	Borrowing 404
Agricultural Credit	
Institutions 11	

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Agricultural Credit and Mobilization of Voluntary Saving

The foregoing estimate of saving in the Thai agricultural sector implies that it more than covers the capital formation in agriculture. This conclusion is consistent with more rigorous findings in economies of similar type and is also in line with the widely held view that agriculture in Thailand has in some fashion "financed" the growth

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<sup>14</sup>Financial data calculated from Bank of Thailand, Monthly Report, July and August, 1965, and from information provided from the Bank of Cooperatives and the Agricultural Credit and Cooperative Division of the Ministry of National Development. Forrest Cookson points out that a less ambiguous saving figure would emerge if "real assets" excluded some 636 million baht of governmental capital formation.

of the other sectors of the economy.<sup>15</sup> While it is true that extreme caution must be attached to the actual numbers given in the preceding section, it is even more true that the extent to which resources are actually transferred from agriculture to other sectors, through such mechanisms as taxation or discriminatory pricing, tends to be understated in a flow-of-funds type of analysis.

This is not the place to try to settle the issue of whether, at the present stage of its economic growth, the Thai economy should tolerate a net transfer of resources from agriculture to other sectors or whether this process, assuming that it does, in fact, still take place, should be reversed. For the purpose at hand, it is sufficient to postulate that saving and capital formation in agriculture should be increased both absolutely and in relation to national product.<sup>16</sup>

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<sup>15</sup>"Saving from income in the agricultural sector tends to exceed investment in agriculture in the Philippines. This appears to be true in both the corporate and the non-corporate sectors. Philippine agriculture thus appears to be performing the classic function assigned to agriculture in developing economies with a large agricultural sector--that of generating savings for investment in the other sectors of the economy." Cf. Symposium by several authors, Savings and Capital Accumulation in Philippine Agriculture, Second Semester, 1964, issue of the Philippine Economic Journal, p. 113.

<sup>16</sup>This proposition, in the nature of a value judgment, stems from the apparent commitment of the Thais to speed up the overall rate of capital formation without inflation.

The relation between voluntary saving and the structure of the markets for lendable funds in agriculture is a complex one. Care must be taken to go beyond a partial equilibrium analytical framework and to consider the effects of such things as an inflationary expansion of the total supply of credit on saving and investment in the entire economy. Similarly, a distinction must be made between a mere transfer of resources from one sector to another and a genuine increase in the flow of voluntary saving or else a more efficient use of these savings for developmental purposes. Thus, a policy designed to scale down the volume or the cost of rural debt would, prima facie, tend to increase the disposable income of the peasant but reduce that of the landlord, the village moneylender, and the indigenous banker. If it is true that the marginal propensity to save of the higher income groups is greater than that of the debt-burdened farmer, then the total of the saving available to the economy would fall rather than increase, even assuming that a part of the (now higher) income of the farmer will be saved. On the other hand, to the extent that the poor farmer, the village laborer, or the plantation worker finds it easier to borrow at less onerous terms, he may increase his productivity, particularly if he begins to perceive the possibility of increasing his income substantially through greater effort.<sup>17</sup>

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<sup>17</sup>One of the principal findings reported in a study by G. T. Castillo, "Sociological Factors in Savings and Capital Accumulation: Some Research Findings," Philippine Economic Journal, op. cit., is that investment orientation increases with increases in actually or potentially available saving. pp. 193-196.

Moreover, even if it is granted that rural creditors with their accumulated assets, higher absolute incomes, and greater range of economic horizons are able to save a greater fraction of their incremental income than their debtors, it does not necessarily follow that they actually do so or that the assets they accumulate are readily available for developmental purposes. As a matter of fact, there are reasons to believe that the very existence of high rents and high interest rates in rural areas tends to deflect the potential savings of those higher income groups into speculative acquisition of land, liquid hoards of cash, and other assets of little direct developmental value.<sup>18</sup>

Of all the measures designed to increase the flow of voluntary saving from farmers, the most fruitful appear to be those which increase their productivity and their income and which clearly relate the increase in the latter to the rise of the former.<sup>19</sup> Investment and saving in agriculture are low because "Incentives to work more ... are weak

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<sup>18</sup>Cf. "Measures for Mobilizing Rural Savings," FAO Regional Office, Bangkok, 1953, (UN Document E/CN.11/I&T/WP.1/L.4).

<sup>19</sup>This is not to say that institutional and other arrangements are not capable of increasing the flow of saving at any given level of income or else of channeling such savings, as exist, into more productive uses. Such arrangements are not, however, within the purview of agricultural credit, as here discussed. See, however, supra, pp. 86-90.

because the marginal productivity of labor is very low; and incentives to save more. . . are weak because the marginal productivity of capital is also very low. "20 If this is granted, the function of agricultural credit should be to foster borrowing for productive purposes on terms which are consistent with the average productivity of capital in agriculture and which discourage borrowing which is not of this type. 21 The structure of agricultural credit conforming to the preceding criteria should not be such, however, as to lead to inflationary price rises in the rest of the economy or to a perceptible decline in capital formation in sectors other than farm households.

The difficulties, conceptual and statistical, involved in calculating in advance whether a given change in the markets for lendable funds in agriculture will have a net inflationary impact on the general price level or whether it will result in an increase in the aggregate income of farm households in excess of a net loss in the aggregate income of, say, landlords, suggest that, in the field of agricultural credit, only modest suggestions for developmental planning can be absolved from the full burden of proof. That is, one should avoid suggesting grandiose

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<sup>20</sup>Cf. T. W. Schultz, Transforming Traditional Agriculture, New Haven, 1964, p. 28. See also the implications of the sample survey discussed in the text.

<sup>21</sup>See in this connection the discussion of supervised credit in the last section of this paper.

schemes involving injection of large amounts of credit in a short period of time. When the addition to aggregate demand resulting from addition to the supply of lendable funds in agriculture is modest in relation to the supply of aggregate goods and services, the danger of a significant rise in the general level of prices recedes, particularly when the additional supply of credit is directed to uses which are calculated to add to the aggregate output within a short span of time. This approach is consistent with the concept of "piecemeal engineering," alluded to earlier,<sup>22</sup> which suggests that, even in the absence of full statistical information or a full-fledged developmental theory, planners can, nevertheless, usefully suggest a number of steps with fair degree of confidence that these steps, if taken with deliberation and in a timely manner, will take them in the general direction of more efficient use of resources over time.<sup>23</sup>

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<sup>22</sup>See Alek A. Rozental, "Financial Markets and Development Planning."

<sup>23</sup>Ibid, footnote 38.

## The Market for Lendable Funds in Thai Agriculture

There is a dearth of reliable information regarding almost every significant magnitude of the market for lendable funds in agriculture. Even the previously cited estimate of total debt outstanding in 1962/63 of 9.1 billion, while in many respects superior to similar estimates made for earlier years, is little more than an informed guess. For 1934/35 total rural debt outstanding was said to have amounted to a mere 100 million baht, but in 1952/54 this figure is said to have risen to over 2 billion. Moreover, there is absolutely no information with respect to the relation of debt outstanding to the annual volume of borrowing.

The chief reason for this statistical hiatus is the predominance of unorganized markets in the agricultural credit field. Various indications suggest that, in agriculture, the bulk of borrowing and lending is done outside institutions subject to public scrutiny and control. This situation is far from being unique to Thailand.<sup>24</sup>

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<sup>24</sup>Cf. the relevant data for India, Pakistan, the Philippines, and other countries in Uthis Narkswasdi, Agricultural Credit Systems in Certain Countries, Kasetsart University, Bangkok, 1963, pp. 48-53. Even in the USA some 40 per cent of agricultural credit is from non-institutional sources.

In a pioneering effort, U Tan Wai has attempted to delineate the unorganized markets in underdeveloped countries by devising a series of indicators relating the size of rural debt outstanding to a variety of economic variables. Table 1 applies these indicators to Thailand and extends them to the years 1962/63. The significance of certain of these indicators can best be assessed by reference to the original article, which gives the indicators for a large number of countries, but the figures fail to give a clear idea of the size of the unorganized markets, as well as of changes in its size over time. For Thailand, at any rate, no perceptible trend emerges from the Table.<sup>25</sup>

Table 1

Indices of Farm Household Debt in Relation to  
Economic Variables, Thailand, 1962-1963

Debt as Per Cent of	1934-35	1952-54	1962-63
Commercial Banks Loans, Overdrafts, and Discounts	29	143	113
Currency in Circulation in Private Hands	69	55	136
Income (output) Originating in Agric.	23	14	34
Net National Income at Factor Prices	12	8	15
Debt (Amount in Millions Baht)	100	2059	9122

Sources: For earlier years, based on:  
U Tan Wai, "Interest Rates outside the organized Money  
Markets of Underdeveloped Countries," IMF Staff Papers,  
November, 1957, Table 8.  
For 1962-63, computed by the writer.

<sup>25</sup>It should be noted that "unorganized markets" are defined by U Tan Wai somewhat differently than they are here.

In the sample survey of agricultural credit in Thailand for 1962-63, the proportion of loans contracted by farmers from institutions of the organized markets is estimated at 7.9 per cent of the number of loans and 5.5 per cent of their value. Details are given below.<sup>26</sup>

A scrutiny of Table 2, made in conjunction with that of Table 3, confirms the impression that institutional credit is relatively more important in areas where total flow of funds is less. Thus, the proportions of credit extended to farmers by institutions is highest in the South where both total debt and the average debt per family is lowest. The opposite is true for the Central Region. A given institutional effort will, of course, result in a higher proportion of the total when the total is low.

Even though it is not possible to mark off clearly the boundaries of the unorganized market in Thailand agriculture, it is difficult to escape the impression that it is the dominant force on both

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<sup>26</sup>This proportion is less than the estimate of 12 per cent made in 1953 (cf. Udhis Narkswasdi, op. cit., p. 52). However, there are reasons to believe that the figure given in the text, does, if anything, overstate the proportion of loans by value made by institutions of the organized market in Thailand. This would follow from a bias in sample design which probably led to over-emphasizing the importance of cooperative credit in at least one region of Thailand, the Northeast (cf. Agricultural Credit, op. cit., p. 3). The entry of at least one commercial bank into the field of agricultural credit since 1963 is not believed to have altered the situation significantly.

the supply and the demand side in the market for lendable funds in the countryside. Fortunately, the sample survey does provide some valuable information about the characteristics and the operations of the unorganized markets and thus gives a factual background to a discussion of its nature and its role in the development process. By examining the nature and the role of unorganized markets and of some of the reasons for its continuing predominance, it should be possible to set up developmental planning guidelines which would enable, hopefully, the existing institutions to take over some of the functions hitherto performed outside them and thus, presumably, facilitate the process of capital formation in Thai agriculture.

#### Unorganized Markets--Supply

As seen in Table 2, non-institutional lenders to farm households are about equally split between commercial and non-commercial purveyors of resources represented by neighbors and relatives. Relatives are the single most important type of lender in every region when the value of loans is taken into consideration. The percentage of loans extended by relatives ranges from a low of 23 per cent in the Central Plain to a high of 59 per cent in the Northeast. It is assumed, although this is by no means universally true, that loans extended by relatives are made on terms and conditions vastly different from those

Table 2

## SOURCES OF CREDIT BY REGION

Type of Lender	Central Plain		North		Northeast		South		Total	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value *
				-- Per Cent --						
Relatives	17.8	22.5	44.8	47.0	50.0	58.5	40.2	43.0	39.9	32.5
Neighbors	14.0	16.7	24.1	19.9	12.1	4.3	15.1	12.9	15.7	15.5
Commercial Lenders	65.9	57.8	20.6	23.3	30.5	26.4	31.8	30.6	36.5	46.5
Local Stores	39.2	13.9	4.1	3.0	12.1	4.6	12.1	10.9	16.5	
Crop Buyers	8.2	7.9	5.2	10.1	9.1	6.5	13.7	13.8	8.6	
Landlords	6.6	10.7	0.0	0.0	1.5	5.2	0.0	0.0	2.1	
Money Lenders	8.0	14.3	7.8	8.9	3.3	7.5	3.0	1.5	5.4	
Other	3.9	11.0	3.5	1.3	4.5	2.6	3.0	4.4	3.9	
Institutional Lenders	2.3	3.0	10.3	9.8	7.6	10.8	12.9	13.7	7.9	5.5
Credit Cooperatives	1.4	2.0	10.3	9.8	7.6	10.8	12.1	12.9	7.5	
Other Government										
Agencies	0.9	1.0	0.0	0.0	0.0	0.0	0.8	0.8	0.4	
Commercial Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Pantum Thisyamondol, Virach Arromdee, Millard F. Long Agricultural Credit in Thailand, Theory, Dates, Policy, Kasetsart University, Bangkok. 1965. p. 37

\* In the published study the figures following the decimal point were missing whether as a result of printing error or some other reason with the result that the addition of the component percentages yielded 98% rather than 100%. Hence the addition of 0.5 to each of the four components shown.

Table 3

## ESTIMATED TOTAL DEBTS BY REGION

Region	No. of Sample (Families)	Total Debts (Baht)	Average per Family	No. of Farm Families in each Region	Estimated Total Debt per Region (Baht)
Central	311	2,163,543	6,956.73	789,632	5,493,256,623.36
North	147	202,481	1,377.42	833,856	1,148,569,931.52
Northeast	148	206,911	1,398.04	1,300,460	1,818,095,098.40
South	136	185,017	1,360.42	486,361	661,655,231.62
Total & Weighted Average	742	2,757,952	3,716.92	3,410,309	6,121,576,884.90

Source: Agricultural Credit, p. 20

extended by other lenders. In particular, it is alleged that these loans are often made without security and without any interest cost to the borrower.<sup>27</sup> It is unfortunate that the published results of the sample survey do not present data which would enable to separate these zero interest, no security, no fixed maturity loans from others. As it is, the inclusion of these in the aggregate compilations distorts the picture of the "market" (cost-free loans are in the nature of free resources and perhaps not properly a part of the market).<sup>28</sup>

Neighbors are often the more prosperous farmers and not infrequently part-time landlords. In some parts of the country those with greater acreage will let others work their land at certain times of the year and will advance cash or supplies at other times. The proportion of loans made by neighbors to the total value of loans is highest in the North with 20 per cent and lowest in the Northeast with slightly over 4 per cent.

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<sup>27</sup>This, while a frequent assertion in the literature, is not explicitly stated in the sample survey. Implicitly, however, it follows from other data given in the survey, particularly those relating to interest rate by region, the type of lender, and the duration of loan by type of lender. Further discussion is found in the section on "Terms of Loans."

<sup>28</sup>The published results are meant to be preliminary. It is intended to process the data further and publish the results in a somewhat tighter form. IBM cards have been prepared for some 1100 loans included in the sample made to 68 per cent of the 742 respondent farm families. (Information contained in a personal communication to the writer.)

The low figure for the Northeast is in part explained by the high ratio of loans made by relatives and partly by the presumed infrequency of better-to-do farmers. It is in the North where the practice referred to above is the most widespread owing to the prevalence of multicropping in that area and the correspondingly lesser emphasis on the production of annual staple crops.<sup>29</sup>

The various categories of commercial lenders<sup>30</sup> show a more differentiated picture regionally. Local shopkeepers are the most numerous commercial lenders in the country, as a whole, and in two of the four regions. As a proportion of value of loans, however, credit extended by shopkeepers diminishes in importance, suggesting that while they make numerous and frequent advances to the farmers, these advances are generally for small sums or, what is actually the case in most instances, that the aggregate value of the commodities which they

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<sup>29</sup>This possibly minor point about neighbors doubling as part-time landlords in the North because of the importance of intermediate crops such as garlic, fruit, and soybeans in the area is being made here to account for the puzzling fact, shown in Table 2, that no loans by landlords were found in the sample. The writer had occasion to ascertain the facts, as stated in the text, during a visit to the Northern provinces but had not yet had occasion to find out whether similar conditions prevail in the South, another region reporting no loans from landlords.

<sup>30</sup>These include local shopkeepers, crop buyers, landlords, money lenders, and others. Commercial lenders are distinguished from relatives, neighbors, and institutional lenders.

sell for credit is relatively small. This is seen in Table 4.

Table 4

SOURCES OF CREDIT BY TYPE OF COMMERCIAL LENDERS

Type of Lender	Number of loans as % of total loans	Average size of loan (in baht)
Shopkeepers	16.5	782
Crop buyers	8.6	1921
Landlords	2.1	3531
Money Lenders	5.4	3425
Other	<u>3.9</u>	<u>1328</u>
All Loans	100.0	1727

Source: Derived from Agricultural Credit, pp. 37-38.

Somewhat surprising is the finding presented in Table 2 showing the relatively minor role played by crop buyers as suppliers of credit to farmers. Non-institutional suppliers of credit were often alleged to force the farmer into disadvantageous commercial relationships of various kinds.<sup>31</sup> Thus, for example, in Thailand, the practice of

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<sup>31</sup>See, for example, Frank J. Moore, "Money Lenders and Cooperators in India," Economic Development and Cultural Change, June, 1953, pp. 140-143. Also, Udhis Narkswasdi, op. cit., p. 2.

"rice baiting," whereby the farmer borrows against the security of his crop with the proviso that the crop, or a fraction of it, will be sold to the lender, was believed to be not only widespread but resulting in gross exploitation of the farmer. Leaving aside the determination of what constitutes "exploitation," Table 5 brings out clearly the fact that repayment of both principal and interest in kind is not an important method of settling debts.<sup>32</sup>

Landlords play a minor role in the supply of credit to farmers except in the Central region where some 14 per cent of the value of all loans is provided by them (Table 2). In other regions tenancy is not widespread and the landowners are often farmers themselves.

The catch-all category of "other" lenders includes itinerant traders and peddlers, who, in certain areas, are important sources of credit to the farmers. They are the most important exception to the

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<sup>32</sup>The practice of borrowing from crop buyers is most widespread in the Central region, which is both the most commercialized of all regions in Thailand and one where cultivation of annual crops, notably rice, predominates. Forty-five per cent of Central Plain farmers reported borrowing from this source. Of those, however, only seven per cent were obligated to sell the crop to the buyer. (Agricultural Credit, op. cit., p. 42.)

Table 5

## METHOD OF REPAYMENT BY TYPE OF LENDER

	Principal			Interest		
	Cash	Crop	Crop Sales	Cash	Crop	Crop Sales
	-- Per Cent --					
Relative	95.4	1.6	3.0	83.2	12.6	4.2
Neighbor	92.1	4.0	3.9	77.3	17.9	4.8
Commercial Lender	76.5	8.9	14.6	69.2	16.1	14.6
Local Store	77.4	8.9	13.7	71.5	13.5	15.0
Crop Buyer	67.4	5.1	27.5	64.1	12.8	23.1
Landlord	73.7	8.8	17.5	62.0	18.0	20.0
Money Lender	75.0	15.5	9.5	65.8	26.6	7.6
Other	93.0	4.7	2.3	79.5	17.9	2.6
Institutional Lender	98.8	1.2	0.0	98.7	1.3	0.0
Credit Cooperative	100.0	0.0	0.0	100.0	0.0	0.0
Other Government Agency	88.9	11.1	0.0	80.0	20.0	0.0
Commercial Bank	--	-	-	-	-	-
All Loans	84.8	6.3	8.9	75.4	15.0	9.6

Source: Agricultural Credit, p. 41

See, for example, Frank J. Moore, "Money Lenders and Cooperators in India," Economic Development and Cultural Change, June, 1953, pp. 140-43. Also, Udhis Narkswadi, op. cit. p. 2

general situation which seems to be peculiar to Thailand, where moneylenders not only reside in villages but are, for the most part, ethnically Thai. <sup>33</sup>

As shown in Table 6, two-thirds of all loans extended to farmers were of less than one-year maturity. Among non-institutional lenders only relatives could be counted on to wait longer than one year for repayment, and in this case it is probable that the duration of the loan was determined less by the initial contract than by the willingness of the lender to wait.

The foregoing discussion of the structure of the supply side of the unorganized market for agricultural credit is believed to provide a fairly reliable picture of the situation in Thailand, even though the methodology employed by the survey would suggest the exercise of considerable caution in interpreting the specific percentages. <sup>34</sup> While

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<sup>33</sup>For a variety of reasons this cannot be demonstrated statistically, but it is asserted by a number of qualified observers. During the present writer's visit to the northern provinces the same assertion was made by all those interviewed, and the case of a Chinese lender who tried to establish himself in a village, but gave up after a year or so, was frequently cited. U Tan Wai (op. cit., p. 88) claims that Chettiars were at one time important suppliers of credit in Thailand, but little trace of them could be found, at least in the North. A number of Indian lenders (Malabars and Peshavaris) do, however, operate in towns and cities.

<sup>34</sup>See page 38 of Agricultural Credit, op. cit.

Table 6

## DURATION OF LOANS BY TYPE OF LENDER

Type of Lender	Duration	
	Less Than One Year	More Than One Year
	Per Cent	
Relative	45.4	54.6
Neighbor	60.2	39.8
Commercial Lender	73.5	26.5
Local Store	86.8	13.2
Crop Buyer	70.2	29.8
Landlord	71.4	28.6
Money Lender	52.9	47.1
Other	56.5	43.5
Institutional Lender	7.0	93.0
Credit Cooperative	2.6	97.4
Other Government Agency	44.4	55.6
Commercial Banks	-	-
All Loans	68.8	31.2

Source: Agricultural Credit, p. 39.

comparison with the surveys made in other countries is difficult, owing to different definitions employed, and cannot be conclusive because of quite different conditions prevailing in such countries as India, Pakistan, Taiwan, and the Philippines, the findings for Thailand appear to be consistent with the findings elsewhere when modified by the specific conditions existing in Thailand. The emerging picture is that of a variety

of lenders, thus providing some choice to the farmer, however limited such a choice may be in practice, with landlords playing a much smaller role than in other countries but relatives, a much greater role. Most important, crop buyers apparently exercise a lesser degree of monopsony power than commonly believed. The relative importance of the various types of lenders seems to be geographically heterogeneous with commercial lenders predominant in areas of commercialized agriculture and of relatively high income per farm household (which is, in turn, correlated with area cultivated per farm) and with relatives more significant in areas where overall debt is low. Finally, the bulk of the supply of loans from commercial lenders is of relatively short duration with only 27 per cent of loans from this source available for periods exceeding one year.

#### Unorganized Markets--Demand

It was asserted in the preceding paragraph that it is in the more prosperous regions that commercial moneylenders predominate rather than, as may have been expected, in the poor areas. It would seem that in the prosperous, commercialized areas the demand for credit is greater than the available supply from the preferred sources-- institutions, relatives, friends, and neighbors. Conversely, in areas where total demand for credit is low, the preferred sources supply a

larger proportion of the total. This suggests an important aspect of the demand for credit; namely, that it is strongly correlated with both income and area cultivated.

Table 7 deals with potential rather than effective demand for lendable funds. Farmers' responses indicate that the desire to borrow increases continuously and directly with respect to both area cultivated and net income. The proportion of farmers wishing to borrow (or saying so) would seem to be substantially greater than of those actually borrowing.<sup>35</sup> After all, the willingness to borrow has to contend with the availability and the cost of funds and with other requirements of lenders which, on occasion, are beyond the capacity of the borrower to meet. Hence, an unexpected finding of the Thailand sample survey is that the proportion of all farmers desirous of borrowing is almost exactly the same as the proportion of farm households who actually borrow, 68.19 per cent versus 68.06 per cent. There is a strong presumption that "desire to borrow" was construed as tantamount to actively seeking a loan.

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<sup>35</sup>Thus, an investigation of farm loan requirements in Taiwan indicated that 89 per cent of the farmers surveyed required credit but only 69 per cent actually contracted to borrow. (Udhis Narkswasdi, op. cit., p. 28.)

Table 7

**THAILAND - AGRICULTURAL CREDIT SAMPLE SURVEY**  
**Proportion of Borrowers Needing Loans by Income and Area Cultivated**

Proportion Requiring Loans			
By Net Income (Baht)		By Area Cultivated Per Farm (Rai)	
Income	Per Cent	Area	Per Cent
1 - 1,999	56.64	49.09	1 - 5
2,000 - 4,999	61.33	54.00	5 - 10
5,000 - 9,999	75.86	57.39	10 - 20
10,000 - 19,999	76.79	72.49	20 - 50
20,000 - and over	87.50	90.85	50 and over
<b>Total</b>	<b>68.19</b>	<b>68.19</b>	<b>Total</b>

Source: Derived from data contained in Agricultural Credit.

Tables 8 and 9 show that, for those who actually incur debts, the size of the debt increases with income as well as with area cultivated per farm. It is worth noting that the relationship between the size of debt and each of the other two variables is not entirely symmetrical. The model loan size for the richest farmers is in excess of 20,000 baht, and the corresponding figure for farmers with the largest farms is between 5,000 and 10,000 baht. The impression given by Tables 7, 8, and 9 is that the more prosperous the farmer, the more he is willing to borrow and the greater the amount of debt he will contract.

Table 8

## NET CASH INCOME IN RELATION TO SIZE OF LOAN

Net Cash Income (Baht)	Amount of Loan in Baht and Percentage of Total Debts							Total
	1- 499	500- 999	1,000- 1,999	2,000- 4,999	5,000- 9,999	10,000- 19,999	20,000+	
1 - 1,999	25.42	13.56	22.04	16.95	18.65	1.69	1.69	100
2,000 - 4,999	22.26	12.10	16.56	32.47	9.55	5.73	1.27	100
5,000 - 9,999	5.68	6.82	19.31	38.07	22.16	4.55	3.41	100
10,000 - 19,999	5.81	2.33	6.98	26.75	29.07	23.55	5.81	100
20,000 and over	7.14	-	7.14	14.29	21.43	25.00	25.00	100
<b>Total</b>	<b>13.24</b>	<b>8.10</b>	<b>16.01</b>	<b>30.63</b>	<b>18.97</b>	<b>8.89</b>	<b>4.16</b>	<b>100</b>

Source: Derived from Agricultural Credit

Table 9

## AREA CULTIVATED IN RELATION TO SIZE OF LOAN

Area Cultivated (rai)	Amount of Loan in Baht and Percentage of Total Debts							Total
	1- 499	500- 999	1,000- 1,999	2,000- 4,999	5,000- 9,999	10,000- 19,999	20,000- and over	
1 - 5	29.63	29.63	7.41	11.11	11.11	3.70	7.41	100
5 - 10	31.49	9.26	22.22	20.37	9.26	3.70	3.70	100
10 - 20	22.77	9.91	14.85	36.63	8.91	4.95	1.98	100
20 - 50	8.20	6.67	20.00	35.90	21.03	6.15	2.05	100
50 and over	2.33	3.88	10.07	26.36	29.45	19.38	8.53	100
Total	13.24	8.10	16.01	30.63	18.97	8.89	4.16	100

Source: Derived from Agricultural Credit

While the sample survey did not explicitly relate the purpose to which the loan proceeds are devoted to indices of farmers' prosperity, there are indications that here, too, the correlation is positive; i. e., the more prosperous the farmer, the more productive the purpose for which he borrows.<sup>36</sup>

Table 6 indicated that over two-thirds of loans contracted by Thai farmers are short-term in nature, of less than one year's duration.<sup>37</sup> Given the seasonal nature of needs for funds under annual crop cultivation, the type of cultivation still preponderant in the country, one would expect that the peak of demand for loans will take place during the planting season and the bottom will be reached during the harvest season.<sup>38</sup> It is, therefore, somewhat surprising to find, as did the

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<sup>36</sup>This seems to be implied in the relation of such purposes as purchase of productive inputs to size of loan, its duration, and its frequency in regions which are relatively most commercialized and most prosperous. See Agricultural Credit, op. cit., chapter 3. The relationship asserted in the text is not stated explicitly. The general proposition that it is the more prosperous farmer who is likely to borrow, to borrow more, and to do so increasingly for purposes relating to increased output is also borne out by Castillo, op. cit.

<sup>37</sup>Data in Table 6 pertain to number of loans. To the extent that loans of longer duration tend to be greater in size, the proportion will shift in favor of long-term. In fact, 76 per cent of all loans were for sums under 2,000 baht; and of those above 2,000 baht, only 13 per cent were for over one year or "indefinite." Agricultural Credit, p. 29.

<sup>38</sup>Four seasons, each one of about three months' duration, can be distinguished in the rice cycle of cultivation in Thailand. The harvest season extends roughly over the first three months of the calendar year and is followed by the dry, planting and growing seasons.

sample survey, that cash loans were fairly evenly spaced over time. As shown in Table 10, the proportion of loans contracted during the planting season, with 26.5 per cent, was only slightly higher than the 22.2 per cent contracted during the harvest season. This suggests, among other things, both greater liquidity and lesser dependence on annual staples than commonly supposed. For loans contracted in kind, however, the seasonal pattern is very pronounced. During the peak demand season, 58.5 per cent of all loans are incurred, compared with a mere 6.8 per cent following the harvest.<sup>39</sup>

Table 10

DATE OF BORROWING, BY TYPE OF LOAN

Type	Quarter				Total
	1	2	3	4	
Per Cent					
Cash	22.2	23.6	26.5	27.6	100
Kind	6.8	12.5	58.6	22.1	100
All Loans	17.3	20.2	36.6	25.9	100

Source: Agricultural Credit, p. 27.

<sup>39</sup>It should be borne in mind, however, that Table 10 deals with numbers rather than with the value of loans. Inasmuch as loans in kind are much smaller, on the average, than cash loans, the overall impression is that of remarkable seasonal stability of demand for credit. (Average size of loan extended by shopkeepers, a category of lender with the highest proportion (71%) of loans in kind, was 782 baht as compared with the 1727 baht for all loans. See Table 4.)

If the demand for cash loans, taken for the country as a whole, does not diverge very much from a moving average, the purpose for which the loans are made tend to differ considerably both spatially and temporally. In general, in areas where the farmers have to wait a full year for the bulk of their earnings to come in, loans for consumption purposes predominate. These are contracted during periods preceding the rice and corn harvests. In other areas, where intermediate crops provide a considerable part of farmers' income throughout the year, loans for variable inputs play a more important role and are contracted throughout the year. In Tables 11 and 12, the purposes for which loans are contracted are numbered from one to ten and stand for the following:

1. Purchase of tools, machinery, and livestock
2. Labor, seed, fertilizer, feed, and other variable inputs
3. Housing, irrigation, and other construction
4. Purchase of land, housing, or other assets
5. Living expenses
6. Social expenditures (wedding, funerals, etc.)
7. Educational expenses
8. Relending
9. For purposes other than farming
10. Miscellaneous

Table 11

## SHORT TERM LOANS : PURPOSE OF LOANS

Purpose of Loans	Central		North		Northeast		South		Total	
	Baht	Percent	Baht	Percent	Baht	Percent	Baht	Percent	Baht	Percent
1	81,090	7.72	3,800	5.75	7,986	16.94	3,950	15.73	96,826	8.15
2	195,225	18.60	19,124	28.83	5,660	12.00	3,500	13.94	223,509	18.85
3	5,980	0.56	4,450	6.71	1,595	3.38	2,700	10.75	14,725	1.23
4	58,350	5.56	7,050	10.63	17,379	36.84	4,300	17.15	87,079	7.35
5	290,780	27.73	6,577	9.91	5,075	10.76	6,240	24.86	308,672	25.98
6	37,150	3.54	6,280	9.47	3,310	7.01	2,900	11.55	49,640	4.17
7	25,970	2.41	3,000	4.52	200	0.42	300	1.19	28,870	2.43
8	720	0.06	8,000	12.06	-	-	-	-	8,720	0.73
9	15,950	1.54	-	-	5,600	11.87	-	-	21,550	1.81
10	338,66	32.26	8,030	12.12	360	0.76	1,210	4.83	348,260	29.30
<b>Total</b>	<b>1,049,875</b>	<b>100</b>	<b>66,311</b>	<b>100</b>	<b>47,165</b>	<b>100</b>	<b>25,100</b>	<b>100</b>	<b>1,187,851</b>	<b>100</b>

Source: Agricultural Credit, p. 23

Table 12

## LONG TERM LOANS : PURPOSES OF LOANS

Purpose of Loans	Central		North		Northeast		South		Total	
	Baht	Percent	Baht	Percent	Baht	Percent	Baht	Percent	Baht	Percent
1	127,062	11.39	54,200	39.80	36,710	22.98	11,300	7.07	229,272	14.59
2	230,445	20.66	14,700	10.80	24,141	15.11	25,100	15.70	294,386	18.73
3	30,000	2.69	3,700	2.72	5,200	3.26	15,185	9.50	54,085	3.47
4	225,900	20.26	20,000	14.69	58,355	36.53	48,662	30.42	352,917	22.48
5	226,611	20.32	5,440	3.99	16,670	10.44	13,020	8.14	261,741	16.65
6	11,700	1.05	29,500	21.66	2,700	1.69	10,350	6.47	54,250	3.45
7	25,500	2.27	2,000	1.47	820	0.51	9,400	5.88	37,700	2.40
8	77,000	6.91	-	-	-	-	-	-	78,000	4.96
9	43,500	3.90	-	-	4,050	2.54	4,700	2.94	52,250	3.32
10	116,550	10.46	6,630	4.87	11,100	6.94	22,200	13.88	156,480	9.95
<b>Total</b>	<b>1,114,268</b>	<b>100</b>	<b>136,170</b>	<b>100</b>	<b>159,746</b>	<b>100</b>	<b>159,917</b>	<b>100</b>	<b>1,571,081</b>	<b>100</b>

Source: Agricultural Credit, p. 23

In the North, where intermediate crops are perhaps more important than rice, loans for living expenses constitute less than 10 per cent of the value of short-term loans and less than 4 per cent of the value of long-term loans. In the Central region, on the other hand, with rice still dominating the regional economy (and with little double cropping), some 28 per cent of short-term borrowing was for consumption purposes and over 20 per cent of long-term borrowing was used to pay for current living expenses. Conversely, the North uses the greatest proportion of its short-term loans for variable inputs, even though, when long-term loans are included, it is the Central region which forges ahead.<sup>40</sup>

One aspect of Tables 11 and 12 deserves mention. Social expenditures account for only 4.17 per cent of short-term borrowing and 3.45 per cent of long-term. These are rather insignificant proportions for purposes which, allegedly, account for much of farmer indebtedness in other countries.<sup>41</sup> This low proportion does not mean

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<sup>40</sup>The reasons for this are not absolutely clear and are not given in the published results of the sample survey. It is likely that the more prosperous farmers of the Center are in a position to borrow long-term for purchases of better seed, fertilizer, and so on, to an extent greater than the generally smaller and less affluent farmers in the North.

<sup>41</sup>Cf. Udhis Narkswasdi, op. cit., p. 29, Castilo, op. cit., p. 196, and Frank J. Moore, "A Note on Rural Debt and Control of Ceremonial Expenditures in India," Economic Development and Cultural Change, June 1954, pp. 408 ff.

that the Thai farmer does not spend much on weddings, funerals, or "bouns" but rather suggests that the Thai rural society has developed means other than borrowing to cope with these expenditures.<sup>42</sup> Thus, for example, in the Northern provinces, in the event of a death in the family, fellow villagers each contribute 3 or 4 baht toward the funeral expenses of the bereaved. Elsewhere, a communal fund will be established, often made up of unsold paddy, out of which certain emergency expenses of villagers will be met.<sup>43</sup>

From the sample survey, as well as from other sources, the impression is gleaned that the demand for loans increases as the farmer becomes more oriented toward commercial agriculture and as he learns that an increased effort to enhance his productivity will result in substantially higher cash income. The extent to which this orientation will actually be translated into effective demand depends on the supply of funds available to him and the terms at which he can borrow.

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<sup>42</sup>An earlier survey of rice farmers in the Central region established that the proportion of ceremonial expenses to total consumption expenditures was 13 per cent (Ministry of Agriculture, Report on Economic Survey of Rice Farmers in Nakorn Pathom Province, 1955-56. Bangkok, 1959.)

<sup>43</sup>Information developed during the writer's field trips.

## The Terms of Loans

In this section two aspects of the terms of credit in the unorganized market will be discussed: the pattern of interest rates and the security for a loan. The method of repayment and the duration of loans were briefly discussed in other contexts.<sup>44</sup>

While it is true that all aspects of rural credit are related and that the terms on which lendable funds are being transferred are both the product and the influence behind the demand and supply schedules, the connection between the collateral and the interest rate is particularly intimate, even though the relationship is not necessarily a simple one.<sup>45</sup> For example, while, in general, the better the quality of the collateral the borrower can muster, the lower the interest rate he has to pay, other things being equal, it is not unusual to find that the most favorable terms are offered borrowers who proffer no collateral whatsoever. This is not so surprising when it is realized that the need to produce a security with which to supplement a promise to repay is in itself an admission that one's credit standing is not of the highest order. It is, after all, only the triple-A American corporation which can sell unsecured debentures to the public. In the

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<sup>44</sup>See infra.

<sup>45</sup>Cf. Anthony Bottomley, "The Premium for Risk as a Determinant of Interest Rates in Underdeveloped Rural Areas," Quarterly Journal of Economics, November, 1963, pp. 637-647.

majority of cases, however, the credit rating of rural borrowers is such that the quality and the kind of collateral he is able to offer is an important determinant of the rate of interest he will be asked to pay. It is difficult to establish this proposition empirically, however, because the data are not collected in a way which relates rigorously the quality of collateral to the interest rate under ceteris paribus conditions. Moreover, in practice, it is well-nigh impossible to preserve that condition, beloved by economists, when dealing with aggregates. In the sample survey of Thai agricultural credit there appears, however, some indirect confirmation (in Tables 13 and 14) that the quality of the collateral influences the rate of interest. In Table 13, security of land, considered the best of all securities, is given for most larger loans. As seen in Table 14, it is the largest loans which carry the lowest interest rate. Conversely, as seen in these two tables, the greatest proportion of the smallest loans (up to 2,000 baht) involves no collateral whatsoever. The proportion of small loans accounts for nearly 54 per cent of all loans compared with the 16 per cent of loans for 5,000 baht and over.<sup>46</sup>

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<sup>46</sup>The 16 per cent of unsecured loans for sums in excess of 5,000 baht suggests that the number of farmers able to borrow against their credit rating alone, at relatively favorable rates of interest, is by no means negligible.

Table 13

## SECURITY BY SIZE OF LOAN

Size of loan	Type of Security								Total
	Land	Crops	Farm Capital	Jewelry	Note	No Security	No Answer	Other	
-- Baht --	-- Per Cent --								
1-1,999	8.1	1.2	1.1	1.4	1.6	53.7	32.0	0.9	100
2,000-4,999	37.2	1.0	1.0	0.3	3.4	40.5	15.6	1.0	100
5,000 and over	75.0	2.2	-	-	2.2	16.3	2.2	2.2	100
All Loans	17.3	1.3	1.0	1.1	1.9	49.1	27.3	1.0	100

Source: Agricultural Credit, p. 28

Table 14

## RATE OF INTEREST BY SIZE OF LOAN

Size of Loan	Mean Interest Rate	Interest Rate						Total
		0.0- 0.9	1.0- 1.9	2.0- 2.9	3.0- 4.9	5.0- 9.9	10.0 and over	
-- Baht --	-- Per Cent --							
1 - 499	3.2	51.1	4.3	8.5	12.8	15.6	7.7	100
500 - 999	2.6	34.9	10.8	19.9	19.9	13.3	1.2	100
1,000 - 2,999	2.3	34.3	14.7	27.4	14.7	8.1	0.8	100
3,000 and over	1.9	26.3	26.8	30.8	11.1	4.0	1.0	100

Source: Agricultural Credit, p. 32

Table 13 shows that land as a security constituted only 17 per cent of all loans. Nearly half of all loans granted were made without any security whatever. The picture is slightly clouded by the high proportion of loans, particularly small loans, where no indications were given with respect to collateral, but it is more likely than not that many loans in this category were made between parties related by kinship and other ties. The high proportion of unsecured loans is a circumstance found in a number of other countries and reflects the poverty of the borrowers and a shortage of marketable assets.<sup>47</sup> Of some interest is the very low proportion of loans secured by jewelry in Thailand. In other countries, particularly India, gold and jewelry are much more important forms of security.<sup>48</sup>

The high regard in which land mortgage is held in the eyes of the lenders is in itself a reflection of the scarcity of transferable assets in the hands of the farmers. In Thailand, however, land is considered the superior type of collateral for yet other reasons. It is the preferred security by commercial banks and other institutions; it is required by

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<sup>47</sup>Cf. Udhis Narkswadi, op. cit., pp. 41-43.

<sup>48</sup>Ibid., p. 42. The small proportion of crop collateral, shown in Table 13, probably understates the real position. It is likely that many of the smaller loans are, in fact, secured by crops in one way or another but shown in the "no answer" column.

the primary cooperative credit associations; and it is an asset, the value of which has been appreciating over time. This preference for land mortgage is a limiting factor in the development of rural credit both because of supply conditions and also because of the cumbersome procedures involved in the valuation and registration of real estate mortgages. On the other hand, rural lenders in unorganized markets are, in Thailand, rather reluctant to acquire land for themselves, to start eviction proceedings and to bring about repossession. Their preference for land mortgage derives from their knowledge that a borrower who pledges an asset several times the value of the loan will do his utmost to repay it rather than risk proceedings against his land. In fact, moneylenders and others are much more flexible than institutions of the organized market in the way they deal with this collateral.<sup>49</sup>

The inverse relation between the size of the loan and the interest rate is a well known phenomenon of rural credit in the less developed countries. In part, as argued previously, this relation is a function of the collateral available to small borrowers, but it also has much to do with the relatively higher administrative cost of collection and with the nature of small loans, which implies a greater risk of

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<sup>49</sup>See section on Organized Markets.

delay or an inability to repay. The mean interest rate according to the size of the loan ranges, as shown in Table 14, from 3.2 per cent per month for loans under 500 baht to 1.9 per cent for those in excess of 3,000 baht. The extent of this range is almost certainly telescoped by the inclusion in the Thai sample of interest-free loans from relatives and others. It is this which accounts for the high proportion (51.1%) of loans under 500 baht paying less than 1 per cent per month. In a 1957 study in the Philippines, which involved a large sample of farm families and a total of 1914 short-term loans, interest-free loans were excluded. The range of interest rates, all of which were inversely related to the size of the loan, extended from 55.4 per cent per annum for the smallest loans to 14.4 per cent for the largest.<sup>50</sup>

The inclusion in the Thai sample survey of loans from relatives, landlords, and others, which carry a zero interest rate is also responsible for the murky appearance of the relationship between the income of the borrower and the rate of interest. Contrary to what may have been expected, those with incomes of 20,000 and over (annually), a

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<sup>50</sup>See Leopoldo P. De Guzman, "An Economic Analysis of the Methods of Farm Financing Used on 5,144 Farms: 1955," The Philippine Agriculturist, Vol. 41, 1958.

high net income by Thai standards,<sup>51</sup> pay a mean monthly interest rate of 2.7 per cent, compared with the 2.3 per cent rate paid by those with net annual incomes in the 2,000 to 5,000 baht range (see Table 15). It is reasonable to assume, however, that a substantial number of the loans contracted by the latter and bearing a monthly interest charge under 1 per cent (57 per cent of all loans made to this income group) were, in fact, zero interest loans.

The inverse relationship between the rate of interest and the size of the loan stems from the incidence of "sound" collateral, from the fact that administrative overhead is relatively invariant with respect to the size of the loan, and from the presumption that small loans are those demanded by the less provident farmers.

No such readily apparent connection exists for the relationship, brought out in Table 16, between the duration of the loan and the rate of interest. Again, the high proportion of loans between relatives, apparently not subject to market considerations, tends to distort the relationship somewhat. Table 16 shows that the rate of interest tends to be lower for loans made for periods in excess of one year than for shorter term loans.<sup>52</sup>

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<sup>51</sup>The per capita GNP in 1963 is estimated at slightly over 2300 baht.

<sup>52</sup>The De Guzman study, *op. cit.*, brings out the relation between the duration of loans and the interest rate in greater detail. In the nine categories into which De Guzman divides his sample (by average interest rate per annum and by average period of loans in months), the inverse relationship is, with only one exception, a monotonic one.

Now, the relationship between the short-term and long-term interest rates has been historically very unstable even in countries where there exist quite reliable time series of homogeneous claims. On theoretical grounds, one would expect higher rates to be attached to claims with longer maturity, if only because of longer forbearance of liquidity such loans entail. In fact, however, in the United States, since 1900, there have been about as many periods in which short-term rates were above long-term rates as when the opposite was true.<sup>53</sup> Nevertheless, it is not only theoreticians but also hard-headed money and capital market practitioners who widely believe that short-term rates tend to be lower than long-term rates.<sup>54</sup> Yet, in the less developed countries, and especially in the domain of agricultural credit, it generally costs more to borrow money for short-term loans than it does for long-term loans.<sup>55</sup>

The reasons for the inverse relation between the duration of loans and the interest rate are somewhat conjectural. Shorter term loans have been shown to be often made for less productive purposes than loans

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<sup>53</sup>Board of Governors, Federal Reserve System, Historical Chart Book, Washington, 1962, p. 21.

<sup>54</sup>Cf. Roland I. Robinson, Money and Capital Markets, McGraw-Hill Co., New York, 1964, p. 82.

<sup>55</sup>See Udhis Narkswasdi, op. cit., p. 41.

Table 15

## RATE OF INTEREST BY NET INCOME OF BORROWER

Net Income	Mean Interest Rate	Interest Rate						Total
		0.0- 0.9	1.0- 1.9	2.0- 2.9	3.0- 4.9	5.0- 9.9	10.0 and over	
		-- Per Cent --						
1 - 1,999	3.6	31.8	11.5	13.6	15.9	22.7	4.5	100
2,000 - 4,999	2.3	57.6	6.4	15.2	6.4	9.6	4.8	100
5,000 - 9,999	2.8	34.5	17.2	16.1	17.8	10.9	3.5	100
10,000 -19,999	2.8	28.1	13.2	30.6	16.5	9.1	2.5	100
20,000 and over	2.7	33.3	19.4	25.0	5.6	13.9	2.8	100

Source: Agricultural Credit, p. 33

Table 16

## RATE OF INTEREST BY DURATION OF LOAN

Duration of Loans	Mean Interest Rate	Interest Rate						Total
		0.0- 0.9	1.0- 1.9	2.0- 2.9	3.0- 4.9	5.0- 9.9	10.0 and over	
		-- Per Cent --						
One-six Months	3.1	45.4	9.9	13.5	9.6	14.5	7.1	100
Six-Twelve Months	3.1	21.9	13.4	26.8	22.2	12.7	2.9	100
More than one year	1.9	56.7	7.9	17.7	9.8	7.3	0.6	100
Indefinite	2.2	38.9	17.7	22.5	12.9	6.8	1.3	100

Source: Agricultural Credit, p. 32

of longer duration. Shorter term loans are associated with borrowers who are, on the whole, less provident, less prosperous and, hence, less reliable, than borrowers for longer term loans. It is the longer term loan that most often is associated with a collateral in the form of a land mortgage. Last but not least, an interest charge when computed on an annual basis makes little sense to an anxious borrower who needs the use of a loan for only two or three months.<sup>56</sup> The lender finds it easier to charge a higher rate of interest when the absolute amount added to the principal is still a small sum.

According to the sample survey of agricultural credit in Thailand, the mean monthly rate of interest on all loans and for all regions was 2.4 per cent in 1962-63. The breakdown by regions and by frequency distribution is given in Table 17. Unlike certain other data contained in the published results of the sample survey, Table 17 weighs the number of loans by their baht value. The data given in Table 17 appear to be consistent with the findings in other countries.<sup>57</sup>

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<sup>56</sup>Cf. U Tan Wai, op. cit., p. 104.

<sup>57</sup>U Tan Wai states "weighted average rate of interest... in rural areas of underdeveloped countries... usually between 24 and 36 per cent per annum" Ibid., p. 102. See also: Reserve Bank of India, Report on Rural Credit Follow Up Survey, 1956-1957, Bombay, 1960, N.B. Tablante, "Implications of Credit Institutes and Policy for Savings and Capital Accumulation in Philippine Agriculture," Philippine Economic Journal, Vol. III, No. 6, and F. N. King, Agricultural Finance and Credit in Taiwan, n. d. (mimeo).

Table 17

## RATE OF INTEREST BY REGION

Region	Mean Interest Rate	Rate per Month							Total
		0.0-0.9	1.0-1.9	2.0-2.9	3.0-3.9	4.0-4.9	5.0-9.9	10.0 and over	
				-- Per Cent --					
Central Plain	2.2	30.1	15.6	28.1	8.3	6.5	9.4	2.2	100
North	3.3	39.7	9.5	4.3	15.5	13.8	13.8	3.4	100
Northeast	2.7	56.8	2.4	8.8	3.2	2.4	17.6	8.8	100
South	1.5	63.6	12.9	6.8	5.3	0.8	7.8	3.0	100
All Loans	2.4	38.5	12.9	20.6	8.1	6.1	10.6	3.2	100

Source: Agricultural Credit, p. 30

Even a brief scrutiny of Table 17 will suggest that there can be no simple explanation of the determinants of the interest rate. Thus, the Northeastern region, considered to be the poorest and the most depressed area of Thailand, enjoys a lower mean rate than the relatively prosperous North. The highly commercialized and relatively well-to-do farmers in the Central plain pay more, on the average, than farmers in the South. A very high proportion of Southern borrowers pays less than 1 per cent a month, suggesting a high incidence of interest-free borrowings from relatives and landlords (plantation owners?)<sup>58</sup> Northeast, which also enjoys a high proportion of this kind of loan; has a substantial percentage of loans with very heavy monthly interest cost.

In the absence of data which would permit a more rigorous statement regarding the determinants of interest rate, only observations of a general character can be made here.<sup>59</sup>

In the first place, it is a truism that the rate of interest is given by the intersection of the demand and supply functions. For any given supply of lendable funds for a specific kind of loan, it will be the quantity demanded of this type of loan which will determine its price.

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<sup>58</sup>One possible reason for the low mean rate in the South is the substantial proportion of Moslems living in that region.

<sup>59</sup>The authors of the Thai sample survey were hoping to run a multiple regression of the relevant factors. At the time of writing, however, the results of the analysis were not yet available.

The implication of this is that in the South the mean cost of lendable funds is lower than in the Center because the demand for loans is much greater in the latter region. Of course, it is more than likely that the supply of funds is also unequal, but it is presumably the relation of demand to supply which is determining. This tautology abstracts from differences in risk, which is in itself a composite of many complex factors.<sup>60</sup> It does, however, help to explain the high rate in the North. By all standards, Northern borrowers seem to be the most credit worthy of all, yet they pay more for loans than those in the Northeast. There must be something in the nature of the demand for funds in the North which exerts upward pressure on the level of interest rates and which, to the extent that it persists over time, is not fully alleviated by temporal and spatial arbitrage on the supply side. In fact, as suggested earlier, it would seem that the nature of the cultivation in the Northern provinces, with main reliance on the production of subsidiary cash crops and the importance of long-maturing fruit crops, puts particularly heavy demand on the market for lendable funds. For one reason or another, the suppliers of funds have not yet adjusted to a situation where above-average profits could be made.

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<sup>60</sup>Some of these will be discussed in the following section.

For Thailand as a whole the highest rates of interest are those charged by the local shopkeepers and, somewhat surprisingly, by landlords. The lowest rates are those obtained by relatives, although the rate of 1.8 per cent per month given in Table 18 is the weighted mean of all loans made by relatives, including the substantial, if unknown, proportion of loans made without any interest charge. The pattern of regional dispersion from the mean rates, according to the source of loans, shows no particular surprises. One would expect moneylenders to charge a much higher rate of interest to farmers in the Northeast than to those in the Central plain. Both the risk and the limitations on supply are greater in the former region.

If one abstracts from the loans made among relatives, it would seem that the modal rate of interest for loans in the Thai countryside is between 36 and 48 per cent per annum. This compares with the 24 to 30 per cent modal rate in the unorganized markets in the urban areas. It is superfluous to argue whether this differential is "justified." The very nature of the unorganized market is such that elements of monopoly exist and some degree of "exploitation" does take place. Perhaps the most significant finding of the sample survey is that the commonly employed forms of exploitation play but a minor role in Thailand.

Table 18

## MONTHLY INTEREST RATES BY REGION AND TYPE LENDER

Type of Lender	Region				Mean for all Areas
	Central Plain	North	Northeast	South	
Relative Neighbor	1.7	2.6	1.8	1.1	1.8
Commercial Lender	2.4	3.3	3.3	2.3	2.6
Local Store	2.3	4.8	4.3	2.0	2.9
Crop Buyer	2.7	5.4	6.2	2.7	3.5
Landlord	2.4	4.7	3.9	1.3	2.9
Money Lender	3.8	-	1.8	-	3.5
Other	2.1	5.0	7.3	3.6	3.3
	1.6	3.4	7.0	2.2	2.5

Source: Agricultural Credit, p. 40

Thus, in general, farmers have access to more than one lender; rice baiting and other types of borrowing and repayment in kind are relatively unimportant; few farmers feel lenders take undue advantage of them; and so on.<sup>61</sup>

Assuming a given level of effective demand for loans, the interest rate will vary with the availability of funds in an area, with the cost of administration, and with the degree of risk. The fact that rural rates are higher than those in the urban areas must be primarily the function of higher relative administrative costs and higher risks. It cannot be due to lesser demand because this, if anything, would militate against higher rates. It can only partly be attributed to availability of funds, because one would expect funds to flow to the countryside, were other factors comparable with those prevailing in urban areas.<sup>62</sup>

There can be little question that unit costs of administration are greater in the case of agricultural credit than for comparable urban loans. Rural loans are for smaller amounts and are made to widely dispersed clientele, which has little in the way of easily assessable collateral and little sophistication in financial dealings. But, on the other

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<sup>61</sup>See Agricultural Credit, particularly pp. 42-43.

<sup>62</sup>This assertion clearly assumes a degree of rationality and knowledge among lenders which probably does not obtain in fact. There may be also various institutional and other constraints inhibiting free movement of funds to the countryside in spite of higher profits there.

hand, rural lenders have developed a number of techniques to reduce the unit costs of processing, of collection, and of recovery. Most money lenders are located in the villages, right among their actual and potential clients. They have developed simple and flexible procedures and in other ways adjusted to the peculiarities of their metier.

Nevertheless, the administrative costs of rural loans remain probably higher than those in urban centers, even though their influence on the level of the rates of interest should not be exaggerated.

#### Repayment Record

One indication of the creditworthiness of rural borrowers and, hence, the degree of risk in agricultural credit may be obtained from the examination of the repayment record of farmers. Unfortunately, data on this point contained in the sample survey suffer from a number of drawbacks. The published figures do not specify whether the "non-repayment" means a delay or a repudiation. If delay, how long, and at what point does it become a bad debt? The published results also are not clear whether the percentages refer to the number of loans alone or whether these are weighted by the amounts. Table 19 summarizes such data as are available. It is seen that for the country as a whole 18 per cent of farmers failed to pay interest (on time?) but 43 per cent did not pay back principal (on time?).

Table 19

REPAYMENT PERFORMANCE OF BORROWERS

Region	Percentage Repaying Principal	Percentage Repaying Interest
Central	49.6	77.6
North	77.8	95.8
Northeast	66.4	91.1
South	<u>50.7</u>	<u>70.4</u>
Total (465 borrowers)	57.0	81.9

Source: Derived from Agricultural Credit, pp. 24-25.

The higher proportion of those repaying interest on time is not surprising. Even though in many cases the terms of loans do not explicitly separate the interest from the principal, lenders make sure that any partial repayment is first credited to interest, with successive payments being applied to the capital value of the loan. What is surprising, however, is the very high proportion of those who do not pay back principal.

Were the figures in Table 19 to be taken as pertaining to the actual loss experience of the lenders (rather than to a delay), then it would seem that the rates of interest exacted in the Thai countryside are far from being exorbitant. A loss ratio on both interest and principal

of the order of 20 per cent effectively reduces the nominal interest<sup>63</sup> rate charged on a loan by more than half. Thus, with a nominal rate of 50 per cent per annum and with a bad debt ratio of 20 per cent (one in five borrowers fails to repay both interest and principal), the effective return to the lender is only 20 per cent per annum.<sup>64</sup>

Table 20

NOMINAL AND EFFECTIVE RATES OF INTEREST

Bad Debts as % of Loan Value	Effective Rates of Interest			
	10	15	25	50
10	22.22	17.78	38.89	66.67
15	29.41	35.29	47.06	76.47
25	46.67	53.33	66.67	100.00
50	120.00	130.00	150.00	200.00

Nominal  
Rates

Source: See footnote 65.

<sup>63</sup>Nominal rate is the rate agreed on, either implicitly or explicitly, between the borrower and the lender.

<sup>64</sup>If R is the nominal rate and  $\phi$  the bad debt ratio, then the effective rate, E, is  $E = R - \phi - \phi R$

Table 20 shows the effective interest rates under various assumptions regarding the bad debt ratio and the nominal rate.<sup>65</sup> In order for the lender to realize an effective annual rate of 25 per cent per annum, for example, he would have to charge the borrower 66.67 per cent if he believes that one out of four farmers will fail to pay back the interest and the principal.

In fact, however, the proportion of those who repudiate the debt is almost certainly lower than that shown in Table 19. Rural lenders do extend the maturity of the loan, particularly when non-repayment is attributable to natural causes. All the same, uncertainty regarding these and other causes of non-repayment do result, in the case of rural credit, in considerable disparity between nominal and effective rates of interest.

#### Other Aspects of the Unorganized Markets

The picture which emerges from the available empirical data suggests a large potential demand, on the one hand, and a limited supply of funds on the other. That a large need for funds exists is demonstrated both by the results of various surveys and by the published observations

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<sup>65</sup>  $E = \frac{R \text{ plus } \phi}{1 \text{ minus } \phi}$  The formula does not consider compound interest, a minor consideration in the case of agricultural loans which are typically of short duration.

of keen students of agricultural credit who point out low levels of income of farmers, little savings, uncertainties due to vagaries of weather and of market, the seasonal nature of production--particularly of monsoon agriculture--and the desire to maintain consumption at a scale dictated by custom and prestige. <sup>66</sup>

Due to the unavailability of collateral, to limitations on the supply side, and to other constraints, both institutional and cultural, effective demand is substantially below the potential need for funds. In particular, not enough credit is extended for purposes which will tend to enhance the productivity and the income of the farmer and particularly for purposes which would make the loan a self-liquidating one, in the sense of its proceeds adding to the value of output an amount in excess of the value of principal plus interest. To quote a passage from the Thai sample survey: "Actually, in an underdeveloped country, the agricultural credit problem is more likely to be too few debts than too many; the inability to obtain credit on terms they can afford may limit the farmer's possibilities of expanding output." <sup>67</sup>

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<sup>66</sup>See, for example, U Tan Wai, op. cit., p. 81.

<sup>67</sup>Agricultural Credit, op. cit., p. 19.

The contention that the volume of credit demanded would have been greater had the terms been more favorable to the farmer suggests that the elasticity of demand in terms of price (interest rate) is greater than unity. There is some evidence to suggest that this indeed is the case.<sup>68</sup>

In any event, whatever the shape of the demand function in the market for lendable funds in agriculture, a shift to the right of the supply function would lower the cost of capital and increase the quantity of rural credit. As it is, it is contended the existing supply schedule has low elasticity. Those who lend funds in the countryside are often persons aware of alternative uses of capital which, given the relative risks, they may find more attractive. The institutional framework in which rural lenders operate does not offer short-run possibilities of expanding credit in a way possible in a fractional reserve banking system. The links with the large, urban, organized market for funds are weak and uncertain.<sup>69</sup>

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<sup>68</sup> Thus, defective demand for credit is greater in those areas where the rate of interest is lower and where there is a greater degree of monetization of the economy. See Udhis Narkswasdi, op. cit., pp. 37ff, and the cross-section data cited therein.

<sup>69</sup> It is probable, however, that scarcity of data tends to understate the extent of the linkage. In export-oriented economies, in particular, organized markets do supply credit to agriculture, albeit indirectly. Banks finance exporters of crops, and bank-financed importers finance shopkeepers in the hinterland. See, in this connection, U Tan Wai, op. cit., pp. 94ff. and Agricultural Credit, op. cit., p. 43.

An examination of the conditions under which lenders operate, however, lends little firm evidence to support the contention that the prevailing terms of credit are the results of some conspiracy rather than the results of economic forces over which the lenders themselves have but limited control. Even when lenders in the unorganized markets insist on land mortgage, they are often willing to accept the sort of document which is not acceptable to the commercial banks. In Thailand, one reason why relatively good credit risks will borrow in the unorganized market rather than from banks or from an officially sponsored institution is the more relaxed attitude of the unorganized market lenders toward this question of land collateral.<sup>70</sup>

Frequently, moneylenders will waive collateral but will exact a higher rate of interest. Indeed, the prevalence of some very high annual rates of interest can, in the majority of cases, be traced to loans made for small sums to farmers not noted for their creditworthiness and devoid of any security. Such loans are usually made for either

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<sup>70</sup>In Thailand there exist three types of titles to land. One is really a temporary squatter's permit, unacceptable to all lenders; two, there is a deed of sale, which is not acceptable to organized market lenders but accepted by moneylenders; and, finally, a duly registered title, acceptable to all. Moreover, the moneylenders will not insist on registration, on appraisal and other formalities which farmers find not only irksome and time consuming but, equally important, sometimes impairing their dignity and standing in the community.

emergency or current consumption, and there is little in the proposed use of the loan which would diminish the risk to the lender.<sup>71</sup>

The flexibility in the practices with respect to collateral and the willingness to advance funds, at a price, to less creditworthy farmers for consumption purposes are among the two important reasons which account for the fact that, in a country like Thailand, perhaps 95 per cent of all loans are contracted outside the organized markets.<sup>72</sup>

Other reasons for the prevalence of unorganized markets in agricultural credit are found throughout the vast literature dealing with rural conditions in the less developed countries.<sup>73</sup> Moneylenders dispense with many cumbersome procedures and with much paperwork. They grant loans tailored to fit the borrower's need of the moment.

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<sup>71</sup>One subsidiary reason, not hitherto mentioned, for the existence of high rates of interest is the fact that many lenders in the unorganized markets ("moneylenders" for short) lend out their funds for only a few months in a year, there being no demand for credit during the remainder of the year. Monthly interest thus has to compensate for funds being idle during, say, harvest months and yet provide an annual rate of return which warrants the use of capital in agriculture.

<sup>72</sup>See above, Table 2. Commercial bank loans to agriculture from January 1962 to January 1964 rose by only 70 million baht (Bank of Thailand, Annual Economic Report, 1964). Not many of these loans were made directly to farmers.

<sup>73</sup>In addition to the sources cited on the preceding pages, the most comprehensive and in many ways indispensable reference is the Reserve Bank of India, All India Rural Credit Survey, Vols. I and II, Bombay 1954, 1956, and 1957.

Most important of all, they can disburse funds quickly and without recourse to an authority other than their own. Also, as mentioned previously, they are amenable to delays and postponements of repayment and will, on occasion, grant an additional loan to a debtor in temporary straits. Finally, moneylenders are ubiquitous, as contrasted with sporadic institutional lenders, know their customers well, and are well known to them. Indeed, the relationship between the borrower and the lender outside the organized markets often involves a broader range of services with the lender performing valuable economic functions in the area of technical advice, storage, and marketing.

Be that as it may, elements of monopoly certainly exist, and many abuses do take place. Even in Thailand where, in the recent years at any rate, dispossession and loss of land through debt are rare occurrences, there are reasons to believe that farmers are not fully aware of the implicit cost of borrowing in such practices as sales of green paddy or repayment of loans in kind in farm produce. Moneylenders employ various techniques to hide the true cost of a loan from officialdom, and some of these techniques redound to the disadvantage of the less sophisticated and less alert borrowers.<sup>74</sup>

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<sup>74</sup>These include such devices as lumping principal and interest in one promissory note with only one sum showing; deducting interest from the funds disbursed; postdated checks which again lump interest and principal; issuance of two promissory notes, one for interest, the other for principal but both claiming to be for principal; etc. See U Tan Wai, op. cit., p. 98.

Even though moneylenders will frequently dispense with any security against the loan and will advance funds to improvident borrowers, they are not without recourse with respect to balky and recalcitrant debtors. In fact, while many of the methods employed to secure recovery shun courts and legal redress, they may appear to the farmer to be on occasion more ruthless than repossession proceedings.<sup>75</sup> Yet, by all accounts, defaults do take place, and they do so in a significant proportion of all loans granted.

But if the often made assertion about the scourge of money-lending and the plight of the farmer who falls prey to them appears greatly exaggerated when not beside the point, it does not follow that the status quo in agricultural credit is either desirable or incapable of improvement. Much of the desirable productive activity does not take place because either supply is limited or the terms are unacceptable. Yet much lending in the countryside is for purposes which do little to improve the lot of the farmer over time. The existing structure of credit tends to impede the flow of voluntary savings on the part of the farmer in a variety of ways. Farmers are compelled to borrow for a few months every

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<sup>75</sup>These methods rely on social compulsion and "exploit" the farmer's concern about his "face" and status in the village. See A. Bottomley, op. cit.

year merely to survive, and the very necessity to do so inhibits accumulation of cash savings, let alone entrusting them to a specialized financial institution. The fact that most farmers are perennially in debt robs them of an incentive to save more, or indeed to work harder or more efficiently. There is little in the structure of unorganized markets which would encourage longer-term productive credit designed to increase the farmer's income and thus his ability to save. Short-term consumption loans are certainly more risky, but the risk is compensated by the high interest rate; and the lender who values liquidity prefers the existing pattern of credit. To the extent that these lenders accumulate profits, they seldom use them for development of productive enterprise but, rather, for ultimate enjoyment of consumption.

In short, the unorganized market in agricultural credit fulfils a static purpose.<sup>76</sup> It supplies high-cost, high-risk credit to many who otherwise would not have been able to tide themselves over from one year to the next. It is designed to maintain the existing asset structure with little growth of either output or profits allowable over time. Given the limited supply and a very large need for funds for frequently non-productive purposes, the unorganized market does its job reasonably well, at prices which appear consonant with conditions prevailing in that market.

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<sup>76</sup>Cf. Horace Belshaw, Le Credit Agricole Dans Les Pays Economiquement Sous-Developpes. FAO, Rome, 1959, pp. 59ff.

Given the nature of these unorganized markets, it can hardly be expected that they will, of and by themselves, gradually abandon their emphasis on consumption and short-term "asset maintenance" loans and shift their emphasis into provision of loans for productive purposes. Yet, as argued previously, it is the latter type of loan which is most likely to increase the farmer's income over time and to generate voluntary saving capable of being channeled into further productive uses. This being so, attention should be devoted to devising ways and means of either changing the character of these unorganized markets or, alternatively, transferring some of their functions to markets which respond to societal priorities. Some of these ways and means are suggested in the concluding sections of this paper. But, as will be seen in the succeeding pages, the mere extension of the scope of the organized markets, as they perform at present, is not likely to be very fruitful. The organized markets require a considerable amount of social engineering if they are to increase their share in the market for lendable funds in agriculture.

## Organized Markets in Agricultural Credit

Little is known about the inner structure of the unorganized markets in agricultural credit even though this market provides the vast bulk of all the funds to farmers.<sup>77</sup> On the other hand, there is no dearth of information about the structure of the institutions comprising the organized market, even though only a fraction of total agricultural credit flows through them. This situation is, of course, implicit in the fact that the latter institutions, being subject to public scrutiny, supervision, and control, are surrounded by legislative enactments, administrative statutes, and accounting requirements. They have to publish financial statements at regular intervals; they have to submit reports; and they are frequently the subject of official discussions and memoranda.

In no small measure these organizational constraints are responsible for the minor role which the organized markets play in agricultural credit. The constraints limit the area of operations, preclude actions and policies which could extend the scope of the

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<sup>77</sup> Among the unknown aspects of what one is tempted to call the "organization of unorganized markets" are the inter-relations of various lenders, their sources of funds, the tie-in with commercial banks and other institutions, the degree of formal or informal collusion, and so on.

institutions, and inhibit their flexibility and freedom of movement.

Yet, the basic motivation of these constraints, to direct the flow of funds in agriculture to developmental ends consistent with the national resources and objectives, is a sound one. Hence, a study of the institutions in the organized markets must bring out which of these constraints are unavoidable and a necessary price to be paid for social control and which are expendable or could be reworked so as to provide maximum efficiency consistent with developmental aims.<sup>78</sup>

The organized market for agricultural credit consists of three unequal parts. The bulk of credit comes from the cooperative institutions. A small proportion is provided by various governmental departments and, in recent years, a small but growing amount of lendable funds to the farmers have been made available by at least one commercial bank. In the aggregate the institutional loans to farm households have not in recent years exceeded 100 million baht annually, which according to the sample survey represented in 1962-63 some 5.5 per cent of all loans made to farmers.<sup>79</sup>

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<sup>78</sup>As is true for other aspects of the present study, the operational aim of the analysis is to provide guidance to developmental planners for transfer of the functions hitherto performed in the unorganized markets to the institutions of the organized market, without reducing the total flow of funds to the farmers or the flow of voluntary saving from the farmer. See "Financial Markets and Development Planning."

<sup>79</sup>Bangkok Bank did not start its program of loans to farmers until 1963. Currently its annual loan volume approached 10 million baht. See supra.

Of the three components of the organized market the most highly structured is the cooperative institutional complex. At its base it consists of nearly 10,000 primary cooperative credit societies, of unlimited liability type. At its apex it is represented by the Bank for Cooperatives. The structure is, however, far from being a formal pyramid. In fact, between the apex and the base there are only two district agricultural banks or, rather, federations of credit cooperatives, and some seven production credit societies, a rather new and promising form of dispensing credit to the Thai farmer.

The supply of agricultural credit emanating from governmental departments is uneven, intermittent, and directed to achieve ad hoc goals. It is confined to one or two ministries and is concentrated in the Ministry of Agriculture.

So far, the commercial banks' direct loans to farmers are limited to the activities of the Bangkok Bank and some preliminary explorations on the part of one or two others. However, commercial banks do, of course, make loans classified as agricultural, which are usually confined to accommodation extended to processors, distributors, and exporters of agricultural crops.<sup>80</sup>

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<sup>80</sup>See below.

## The Cooperative Institutions

At the end of 1964 there were in existence 9915 village credit cooperatives, by far the most important direct source of institutional credit to the farmer. The membership of these cooperatives covers only about 8 per cent of farm households.<sup>81</sup>

The introduction of cooperatives into Thai agriculture dates back to 1916. It was originally meant to be an experiment, and their enactment was through an amendment to the existing law on associations. By 1928, when the cooperative movement was already well on its way, a cooperative statute was promulgated. This statute, subject to minor amendments, is still in force. From

From its very beginning, the stimulus, direction, and control of the cooperative movement was in the hands of the government. Initially the unit of government in charge of cooperatives was located at the Ministry of Agriculture. From there it shifted to the Ministry of Cooperatives, now defunct, and since 1963, to the Ministry of National Development and its Department of Credit and Marketing Cooperatives.

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<sup>81</sup>There were, in addition, six production credit cooperatives, 263 farm products marketing cooperatives, and 457 land cooperatives. (NDEB, Agricultural Credit and Cooperatives in Thailand, May, 1965, mimeo) Only the production credit cooperatives will be discussed in this study.

The latter unit of government is, however, only one of three departments dealing with cooperative societies under the direction of the Registrar of Cooperative Societies, who is concurrently Deputy Secretary of the Ministry of National Development. The Registrar is in charge of the organization, registration, liquidation, supervision, and audit of all types of cooperatives. In the field, the Registrar operates through nine regional inspectors who, in turn, control 63 provincial and 182 district supervisors.<sup>82</sup>

In the history of the cooperative movement in Thailand, there emerge three distinct stages. From its formation until the Revolution of 1932 the cooperative movement was an experimental, emergency device to protect the farmer from the imminence of dispossession and loss of land. Only after 1932 did the government undertake to promote actively the spread of cooperatives, including other than credit cooperatives, albeit still mainly on what may be termed the welfare principles. In this, the second stage of the cooperative development, the formation of the Bank of Cooperatives in 1947 gave a fillip to the movement which lasted until about 1954 and which witnessed a vigorous

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<sup>82</sup> Cf. Chamsien Saranaga, The Role of Government in Cooperative Development of Thailand, Bangkok, January, 1966 (mimeo).

growth of credit societies. Since 1954, the cooperative movement remained rather stagnant. The number of societies and the volume of loans outstanding remained roughly constant.<sup>83</sup> Between 1947 and 1954 the number of village credit societies rose from 5385 to 9580, and loans outstanding to members expanded from 39 million baht to 256 million. From 1955 to 1963 the number of societies oscillated around the 9850 level, and loans outstanding to members rose only by 18 per cent to under 300 million baht. (See Table 21.)<sup>84</sup>

Even though the village credit cooperatives have accumulated nearly 100 million baht of reserves and some 34 million of deposits, the bulk of its funds for lending came from the Bank for Cooperatives. As shown in Table 21, by the end of 1963 the cooperatives owed the Bank for Cooperatives some 218 million. These funds are borrowed at 7 per cent and are lent to members at 10 per cent per annum with the differential covering the costs of operation and accruing to the reserve fund or else used for other functions the village cooperatives are supposed to perform, such as farm education or purchase of tools and other equipment.

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<sup>83</sup> There are no reliable data on the operations of the village credit cooperatives beyond 1963. Since about 1961 the number of primary societies has actually declined, partly as a result of a deliberate policy to consolidate the village societies and to weed out the least efficient ones.

<sup>84</sup> As shown in Table 22, the volume of loans outstanding remained constant even though loans disbursed annually rose from some 20 million in 1955 to 83 million in 1963. Repayments of principal since 1961 began to exceed disbursements, however, increasing the ratio of repayments to loans outstanding from 8 per cent in 1955 to 28 per cent in 1963.

**Table 21**  
**AGRICULTURAL COOPERATIVE CREDIT SOCIETIES**  
**(Unlimited Liability Credit Coops.)**  
**CONSOLIDATED BALANCE SHEETS 1955 - 1963**

	(in thousand baht)								
	1955	1956	1957	1958	1959	1960	1961	1962	1963
<b>Number of Operating Societies</b>	9,832	9,835	9,858	9,932	9,930	9,922	9,917	9,907	9,876
<b>ASSETS</b>									
Cash in hand and banks	2,994.5	3,595.7	2,951.8	3,199.4	2,820.2	3,326.2	4,128.9	5,253.8	6,422.3
Loans	254,152.3	259,538.4	274,400.3	295,862.3	300,648.5	307,794.7	306,723.7	300,349.7	299,219.2
Interests receivable	25,725.8	30,749.0	38,145.6	46,119.9	51,855.2	57,593.8	54,240.9	48,323.0	41,681.7
Investments	7,730.5	7,775.8	7,812.0	7,911.1	9,101.6	9,690.6	10,339.0	10,385.2	10,418.9
Other assets	26.2	35.0	36.0	160.0	542.3	412.9	592.5	3,406.7	128.9
Miscellaneous	365.4	251.1	264.4	539.3	1,052.4	1,084.5	1,047.5	1,777.8	1,676.6
<b>Total</b>	<b>290,994.8</b>	<b>310,945.0</b>	<b>323,609.1</b>	<b>353,792.0</b>	<b>366,020.2</b>	<b>379,902.7</b>	<b>377,072.5</b>	<b>369,496.2</b>	<b>359,547.6</b>
<b>LIABILITIES</b>									
Share capital	257.8	261.3	263.4	271.3	269.1	272.3	280.8	280.9	300.7
Reserves	32,006.6	40,278.6	46,641.3	53,316.0	60,415.9	67,763.4	75,522.7	83,277.5	91,462.6
Common-good fund	1,258.4	1,720.5	2,074.7	2,435.4	2,833.5	3,245.8	3,679.8	4,121.3	4,476.5
Borrowings	239,137.5	239,188.9	249,721.0	268,781.3	269,542.8	272,594.1	258,623.1	239,596.2	217,899.1
Deposits	9,005.9	13,351.4	17,341.8	20,774.8	24,095.1	26,906.3	29,788.0	32,346.8	34,518.6
Other liabilities	79.6	70.2	90.7	151.9	510.3	356.4	280.5	340.6	406.7
Profits	9,248.9	7,074.1	7,476.2	8,061.3	8,353.5	8,764.4	8,897.6	9,523.8	10,483.5
<b>Total</b>	<b>290,994.7</b>	<b>301,945.0</b>	<b>323,609.1</b>	<b>353,792.0</b>	<b>366,020.2</b>	<b>379,902.7</b>	<b>377,072.5</b>	<b>369,496.2</b>	<b>359,547.6</b>

**Source:** Department of Credit & Marketing Cooperatives  
 Ministry of National Development

Table 22

LENDING OPERATIONS OF UNLIMITED LIABILITY CREDIT COOPERATIVES  
1955-1963 (in thousand bahts)

Year	Loans Disbursed	Repayments of Principal	Loans Outstanding	% of Repayments to Loans Outstanding
1955	19,635.7	20,219.1	254,112.3	7.95
1956	26,880.8	21,481.6	259,491.5	8.27
1957	36,533.4	21,638.9	274,386.1	7.88
1958	42,582.3	21,106.2	295,862.2	7.13
1959	48,179.0	43,392.7	300,648.5	14.43
1960	49,117.4	41,971.1	307,794.8	13.63
1961	56,312.0	57,383.0	306,723.8	18.70
1962	64,474.5	70,848.5	300,349.7	23.58
1963	83,317.6	84,448.2	299,219.2	28.22

Source: Ministry of National Development, Department of Credit and Marketing Cooperatives.

The 10 per cent rate charged by the village cooperatives to their members is a single rate irrespective of the duration of the loan or its purpose. In the past, the bulk of the loans were for medium and long duration, up to 10 years, and to a large extent for the purpose of acquisition of land and debt consolidation. In recent years, however, a greater emphasis was put on the provision of loans for the purchase of farm machinery and land improvements.

As mentioned previously, the village societies are of the unlimited liability type. Even though each loan must be secured by land mortgage, the borrower must attach two signatures of fellow villagers to his loan application. In addition, the entire membership of the society, around 20 members, must approve the application which is then submitted to the Bank of Cooperatives, whose officers, together with the officials of the Department, approve and disburse the loan. The village society membership then is supposed to see to it that the proceeds are spent according to the purpose set out in the application.<sup>85</sup>

The golden era of cooperative growth in Thailand, from 1947 to 1954, followed the establishment of the Bank for Cooperatives, and the injection of funds into rural credit from sources outside agriculture.

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<sup>85</sup> Cf. Ministry of Cooperatives, Present Conditions of Agricultural Cooperation in Thailand, Bangkok, 1962 (mimeo).

The Bank for Cooperatives was actually established under an Act passed in 1943, but it did not start operations until 1947. It is, in principle, an independent institution, even though the Minister of National Development and the Registrar of Cooperatives are ex-officio chairman and vice-chairman of the Board. The rest of the Board members, five in number, are elected by the shareholders.<sup>86</sup>

In addition to initial capital of some 35 million baht transferred from the Department of Cooperatives which came from the sale of bonds and from capital stock, the bulk of the Bank's resources was borrowed from the Government Savings Bank, the Ministry of Finance, and from Counterpart Funds. Beginning in 1951, the Bank was authorized to accept deposits from the public. At the end of 1964, total resources of the Bank stood at some 273 million baht. (See Table 24.)

The Bank for Cooperatives has borrowed, since its inception, a total of 156 million from the Government Savings Bank at rates of interest ranging from 4 per cent per annum in the early years to 7 per cent in 1962, the last recorded date. Since 1954, however, the amounts

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<sup>86</sup>Much of the factual information regarding the Bank for Cooperatives is drawn from: Bank for Cooperatives, Eighteen Years Progress of the Bank, Bangkok, 1965 (mimeo).

Table 23

## UNLIMITED LIABILITY CREDIT COOPERATIVES

## LOANS DETAILED BY PURPOSE

1956-1963

	Percentage of Total							
	<u>1956</u> %	<u>1957</u> %	<u>1958</u> %	<u>1959</u> %	<u>1960</u> %	<u>1961</u> %	<u>1962</u> %	<u>1963</u> %
<u>Long-Term</u>								
Old debt refinancing	21.8	15.7	14.7	15.0	13.1	17.9	10.2	16.5
Land purchase	2.6	2.5	2.7	3.0	3.5	3.3	3.3	5.2
Reorganization of farm Operation	-	-	-	-	-	-	-	0.2
<u>Medium-term</u>								
Purchase of work animals	35.2	31.1	28.7	33.0	29.0	25.1	24.7	25.5
Land improvement	11.4	18.6	20.2	19.8	20.7	25.8	24.3	25.6
Farm machinery	3.0	4.0	4.0	6.1	5.1	6.6	6.7	6.5
Farm implement	3.3	3.2	3.2	2.3	0.8	1.8	0.2	0.1
Transport equipment	3.9	3.2	2.2	2.9	2.3	1.8	2.1	1.8
Animal husbandry	-	-	-	-	-	-	2.0	1.6
Plantation	-	-	-	-	-	-	1.2	1.1
Building of farm houses	-	-	-	-	-	-	9.7	11.0

Table 23 (Continued)

UNLIMITED LIABILITY CREDIT COOPERATIVES

LOANS DETAILED BY PURPOSE

1956-1963

	Percentage of Total							
	<u>1956</u> %	<u>1957</u> %	<u>1958</u> %	<u>1959</u> %	<u>1960</u> %	<u>1961</u> %	<u>1962</u> %	<u>1963</u> %
<u>Short-term</u>								
Seed fertilizers and agricultural Chemicals	0.7	0.8	3.5	0.7	3.1	0.1	1.0	0.6
Wages, rents, taxes	0.5	-	-	0.1	-	-	1.9	2.2
Household expenses	1.6	2.4	5.4	1.5	6.0	0.6	9.2	0.6
Ceremonial expenses	0.5	0.4	0.3	0.5	0.3	0.1	-	-
Food stuff	-	-	-	-	-	-	0.2	0.3
Others	15.5	18.1	15.1	15.1	16.1	16.9	3.3	1.2
<b>Total</b>	100	100	100	100	100	100	100	100
<b>Total (in thousand bahts)</b>	26,861.0	36,533.0	42,582.0	48,179.0	49,117.4	56,312.0	64,474.5	83,317.6

Source: Department of Credit and Marketing Cooperatives

Table 24

BANK FOR COOPERATIVESCOMPARATIVE BALANCE SHEETS 1956 - 1964

(in million baht)

ASSETS	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Cash in hand and banks	44.0	45.6	26.6	37.7	35.1	37.9	44.0	41.0	44.5
Advance to Coop. Societies	238.9	250.2	268.5	270.8	274.3	261.2	243.9	224.3	211.2
Loss: reserve for bad debts	0	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3
	<hr/>								
Other assets	238.9	250.1	268.3	270.6	274.1	261.0	243.7	224.0	210.9
Government Securities	-	0.1	2.0	2.5	2.2	1.5	2.1	2.2	0.6
Fixed assets	-	-	-	-	-	9.0	15.9	23.9	16.9
	<hr/>								
	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.4	0.4
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	283.2	296.1	297.3	311.1	311.7	309.8	306.0	291.5	273.3
	<hr/>								

Source: Eighteen Years Progress

Table 24 (Continued)

BANK FOR COOPERATIVESCOMPARATIVE PALANCE SHEETS 1956 - 1964

(in million baht)

<u>LIABILITIES</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Authorized paid-in-capital	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Reserves	7.7	11.5	15.2	19.4	24.6	26.2	32.8	38.7	43.7
Deposits	16.0	20.6	25.4	31.1	36.6	40.7	45.6	46.7	43.2
Other liabilities	3.7	4.7	4.5	7.5	7.5	5.5	7.6	7.7	7.5
Bonds and borrowings:									
4 1/2% Coop. Bonds	15.1	14.0	12.9	11.7	10.4	9.1	7.8	6.4	4.9
Government Savings									
Bank	113.6	113.7	110.0	112.5	104.4	103.3	95.7	84.7	72.3
Ministry of Finance	107.2	111.3	108.7	106.9	103.6	96.5	88.5	80.1	75.3
Counterpart funds	4.3	4.7	4.4	4.2	3.9	3.6	3.3	3.0	2.8
Dept. of Credit and Marketing Cooperatives, Revolving fund	-	-	-	0.9	3.8	4.8	6.5	7.3	7.4
Profit	5.6	5.6	6.2	6.9	6.9	10.1	8.2	6.9	6.2
	<u>283.2</u>	<u>296.1</u>	<u>297.3</u>	<u>311.1</u>	<u>311.7</u>	<u>309.8</u>	<u>306.0</u>	<u>291.5</u>	<u>273.3</u>

Source: Eighteen Years Progress

of loans granted by the Savings Bank have been declining; and recently, in spite of a rate of interest which eliminates any margin to the Bank for Cooperatives, no funds have been forthcoming from this source.<sup>87</sup> A similar situation obtains in respect to loans from the Ministry of Finance, the other major supplier of funds to the Bank for Cooperatives and, hence, to the village societies. Of the total amount borrowed since 1950, 125 million baht, only some 30 million came after 1954 and only 4 million after 1960. Interest rates payable to the Ministry of Finance were 4 per cent, with the exception of the last loan in 1964 at 2 per cent.

Table 25 shows the effect of the drying up of the supply of outside funds. Repayments from village cooperatives actually exceeded new loans since 1954, and the total of loans outstanding declined since 1962.<sup>88</sup>

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<sup>87</sup>Operation costs of the Bank for Cooperatives are covered out of the spread between the interest paid and received. The Bank receives no budgetary allocation (other than that implicit in the low interest payable on government funds).

<sup>88</sup>As seen in Table 22, village societies could increase the volume of loans disbursed in spite of the trickle of funds from the Bank for Cooperatives, because in the last few years repayments were in excess of disbursement. As much of the loans outstanding is probably in default, this process will soon come to a halt.

Table 25

LENDING ACTIVITIES OF THE BANK FOR COOPERATIVES  
1947-1964

Year	New Loans	Repayment Including Interest	Total Loans Outstanding	Percentage Repayment as Per Cent of Loans Outstanding	
--baht--					
1947	25,069,053	9,213,405	38,471,751	19.32	23.94
1948	36,280,405	13,878,871	63,895,808	17.84	17.21
1949	41,868,845	18,423,209	92,196,719	16.65	19.98
1950	26,403,897	21,576,934	103,005,130	17.31	20.94
1951	44,055,176	27,531,867	126,299,111	17.89	21.79
1952	77,413,288	33,932,934	179,056,811	15.93	18.95
1953	74,686,505	37,542,525	228,953,358	14.08	16.39
1954	42,667,893	40,602,026	245,879,414	14.17	16.51
1955	20,079,773	44,291,640	236,964,789	15.74	18.69
1956	28,585,240	43,393,815	238,945,517	15.36	18.16
1957	38,749,019	44,583,475	250,198,937	15.12	17.81
1958	42,738,353	42,481,262	268,281,529	13.76	15.83
1959	28,293,953	45,116,535	270,369,260	14.28	16.68
1960	27,196,057	44,488,517	273,680,878	13.98	16.25
1961	26,740,941	60,257,345	260,385,308	18.78	23.14
1962	34,669,331	70,649,825	243,902,423	22.56	28.96
1963	50,308,138	88,014,140	221,096,650	39.80	
1964	62,227,898	93,045,559	205,804,547	45.21	

Source: Department of Credit and Marketing Cooperatives

Before concluding the expository discussion of the cooperative structure in Thailand, mention should be made of the two District Cooperative Banks, one in Chiangmai and the other in Uttaradit. These were set up in the early 1950's with funds provided by the Bank for Cooperatives and supplemented by a loan from counterpart funds. These district banks which, in reality, are federations of village credit cooperatives in the two northern provinces, were set up in the hope of tapping local funds for agricultural credit to supplement those available from the Bank for Cooperatives. Some 260 village societies belong to these two federations, but they also make loans to individual farmer members. The terms and conditions on which the federations finance their members are analogous to those of the Bank for Cooperatives. The cost of operation of these federations is covered out of a spread of 1 per cent which is the difference between the 6 per cent payable by the federations to the Bank for Cooperatives and the 7 per cent they charge their members.<sup>89</sup>

Table 26 gives balance sheets for the two federations for the years 1955-65. There is little indication that the federations have succeeded in attracting local capital to any significant extent.

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<sup>89</sup>Only 4 per cent is payable on the 5 million baht borrowed from the counterpart fund.

## Cooperative Credit-Performance and Prospects

In spite of its relatively long history the cooperative credit remains of minor significance in the market for lendable funds in agriculture. It did little to enhance the income or the earning potential of its customers; its influence on inculcating thrift habits and voluntary saving was negligible;<sup>90</sup> and its impact on the unorganized market was barely perceptible.

A full discussion of the failure of the cooperative movement in Thailand to live up to its early promise is beyond the scope of this study. But overshadowing all economic, political, or social factors which account for the marginality of the cooperatives in rural credit is the fact that they owe their formation and their continued existence to the initiative of the government rather than to the expression of the economic need of the Thai farmer. The very concept of the cooperatives was borrowed from a different social and economic setting and transplanted to a soil which proved much less hospitable than that of Europe. In the fifty years of its operations the cooperative credit movement in Thailand

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<sup>90</sup>See succeeding section for a discussion of the attempts of the cooperatives to augment the flow of saving in the countryside.

has developed little unofficial leadership, managed to tap very little of private resources and, in fact, hardly ever ceased to be a governmental operation based on principles which proved of little vitality in Asia.

It is largely because farmers consider cooperatives to be government-imposed institutions that they often fail to repay loans, that they frequently misuse the proceeds of the loans, or that they simply show a lack of interest either in joining a cooperative or approaching it for loans.

One aspect of rural credit that is not sufficiently emphasized in the literature is the importance of speed in obtaining funds. The slow, deliberate, often irksome delays which farmers associate with officialdom helps explain not only the reluctance of some farmers to deal with cooperatives but also the instances of misuse of funds obtained. A farmer may have originally requested funds for a genuinely productive purpose, but because of delay he felt compelled to get the money from a moneylender. When the cooperative finally gets around to disbursing the loan, the farmer will, more likely than not, spend the money for a purpose other than originally intended. One of the reasons why the operations of the Bangkok Bank, Ltd., appear to compete successfully with government-sponsored institutions in those areas where both types of lenders operate is the belief of would-be borrowers that the commercial

bank will handle the application and the disbursement of the loan made more promptly. Even when this impression is not warranted in fact (some production loan societies have a good record in this respect), it effectively inhibits those farmers who have access to either type of lender.<sup>91</sup>

It is quite common for prime risks to approach moneylenders from time to time, even when the borrower is quite capable of obtaining a similar loan on better terms from the local bank. While other considerations play a part, an often-voiced explanation is the overriding desire to obtain funds quickly. Some moneylenders can actually disburse a loan (in cash) within a few minutes of the appearance of prime risk applicants.

The governmental sponsorship and control over credit cooperatives also accounts for the lack of drive and vigor that sometimes characterizes those entrusted with the task of fostering the cooperative movement in the credit field. A district supervisor has no special incentives to expand membership, to increase the volume of business, or to experiment with new ideas and practices. On the contrary. In many

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<sup>91</sup>Cf. supra, a more extended discussion of production credit societies and of the operations of the Bangkok Bank, Ltd.

instances a man nearing retirement or anxious to maintain his civil service rating in the face of shifting political winds will tend to minimize his risks and his effort. There are, to be sure, many officials in the cooperative movement who are well trained, well motivated, and anxious to introduce long-delayed reforms. As will be seen below, their efforts have borne fruit to some extent. But it remains true that the very nature of official control over the cooperative movement militates against venturesomeness, provides little incentive for expansionism and risk-taking, and tends to perpetuate the status quo ante.

The attachment to the unlimited liability, Raiffesen-type of credit cooperative, and to the ideology of the cooperative movement rooted in the concept of welfare rather than economic efficiency has further impeded the growth of this type of credit. Most village cooperatives are too small and too understaffed to permit efficient management. Their amalgamation and consolidation is, however, made difficult by the existing legal structure. The interest rate exacted by village cooperatives bears no relation to market conditions and, in fact, is one of the primary reasons for the gradual drying up of funds. It is difficult for the Bank for Cooperatives to borrow at 7 per cent when the Treasury pays 8 per cent on its bonds. On the other hand, a farmer may prefer to pay a higher rate of interest provided he can get the money, get it faster and without

many cumbersome procedures.<sup>92</sup> In particular, the requirement that each borrower must pledge his land severely restricts the scope of village credit societies, in spite of certain relief given to cooperative mortgagors.<sup>93</sup>

Other factors which help to explain the relative stagnancy of cooperative credit in Thailand can be listed.<sup>94</sup> They include the farmers' lack of understanding of cooperative principles and practices, lack of adequate cooperative education and training, insufficient attention to integration of credit with marketing, and shortcomings in legal provisions.<sup>95</sup>

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<sup>92</sup>This is the opinion of many keen observers interviewed during field trips undertaken by the writer. In fact, most loans contracted by farmers are at a much higher interest rate.

<sup>93</sup>For example, members of village credit societies do not have to pay a registration fee on land mortgages.

<sup>94</sup>In spite of the absolute increase in the loans disbursed annually, shown in Table 22, it would seem that the share of cooperative credit in the market has declined over the years (see footnote 10). It is not impossible, moreover, to treat, for accounting purposes, a delay in collection of a loan due as simultaneously a repayment of an old loan and the granting of a new loan.

<sup>95</sup>Cf. Chamien Saranaga, *op. cit.* Mr. Chamien is the Deputy Director-General of the Department of Credit and Marketing Cooperatives. Of course, many of the shortcomings mentioned in the text are prevalent throughout Asia and frequently more acute elsewhere. "Cooperation has failed, but Cooperation must succeed" (Government of India, Summary Report on All India Rural Credit Survey, New Delhi, 1960, p.8).

As mentioned above, the continuing efforts of the more vigorous and better motivated leaders of the cooperative movement, albeit still within the government, began to bear some fruit. Beginning in 1961, more effort was expended to direct cooperative credit activities into accommodation for the purchase of productive inputs, to simplify procedures, to insure group supervision and to orient the granting of the loan toward its purpose rather than the credit status of the borrower. In spite of legal difficulties, consolidation and amalgamation was pushed forward and the formation of multipurpose societies encouraged.<sup>96</sup>

But the most promising development in the field of cooperative credit was the growth and apparent success of production credit cooperatives. They were originally launched in 1959, and by the end of 1965 six were in operation and flourishing. In spite of their modest scope to date, the production credit societies merit a more extended discussion.

In the first place the new type of credit institution has an operating area which covers an entire district (amphur). It is, therefore, large enough to serve a larger membership, to employ paid personnel, and to man its own office.

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<sup>96</sup>Cf. Agricultural Credit and Cooperatives in Thailand.

A production credit cooperative operates on three fundamental principles: limited liability, supervised credit, and integration of credit with provision of inputs and the marketing of outputs. Not all of these principles are, as yet, fully operative in Thailand, but their gradual implementation seems to augur well for the future of this type of credit.

The principle of limited liability enables the formation of larger groups and restricts responsibility of the members to the amount of loans they underwrite. Typically, up to 4,000 baht can be borrowed by any member without any collateral other than the signature of fellow members. The interest rate is 12 per cent per annum.

The principle of supervised credit relates the granting of the loan to the purpose for which the money is borrowed rather than to the social status of the borrower. Technical advice is extended regarding the best utilization of the proceeds and the best means of disposing of the crop. Throughout the entire process, from the time of application until the sale of the crop, supervision is exercised both informally by members of a group within the society and formally by the supervisor from the Department of Credit and Marketing Cooperatives.

Integration with provision of inputs and with marketing of output is still in its infancy in Thailand, but some of the societies do handle, on indent basis, fertilizers, improved seeds, and other inputs. Other market members produce on an agency basis.

It appears that, in spite of the rather elaborate application procedures and the institution of careful checks incident to supervision, production credit cooperatives manage to approve and disburse loans within 15 days from the date of application. The repayment record to date has been excellent. (See Table 27.)

Table 28 gives a detailed breakdown of the loan composition of the production credit cooperatives. It is seen that loans for "household expenses" are but a small and diminishing share of total loans.

So far, the financing of the production credit cooperatives has been on a somewhat artificial basis, funds being provided to it partly out of budgetary allocations and partly out of counterpart funds. These funds have been obtained at a subsidized interest rate so as to insure a spread to the production credit societies sufficient to cover the rather high cost of operation of supervised credit. As shown in Table 29, the production credit societies have shown a profit which, beginning in 1961,

Table 26

FEDERATIONS OF UNLIMITED LIABILITY CREDIT COOPERATIVES  
Consolidated Balance Sheet as of June 30, 1955 - 65

(in thousand bahts)

Number Federations	<u>1955</u> 2	<u>1956</u> 2	<u>1957</u> 2	<u>1958</u> 2	<u>1959</u> 2	<u>1960</u> 2	<u>1961</u> 2	<u>1962</u> 2	<u>1963</u> 2	<u>1964</u> 2	<u>1965</u> 2
<b>Liabilities</b>											
Paid-up share Capital	667.1	683.5	688.0	695.8	697.1	699.0	700.2	674.6	713.8	739.3	755.1
Reserves	72.2	116.8	189.7	276.2	375.1	483.0	591.5	699.2	809.2	915.1	980.8
Share-Transfer Fund	-	-	-	-	-	-	-	-	-	0.5	35.8
Dividend Stabili- zation Fund	20.8	30.2	45.0	59.5	74.0	92.7	97.7	104.7	111.7	78.7	85.7
Common-Good Fund	10.4	15.1	21.0	26.7	32.5	38.3	41.3	40.8	40.5	36.3	37.4
Deposits	2,119.1	1,274.0	1,532.3	1,506.1	1,305.3	1,213.6	1,473.9	1,296.8	831.4	637.8	1,266.6
Loans from Bank for Coops Over Payments of Loans by members	7,699.1	7,900.7	8,271.1	7,720.4	7,785.7	7,621.1	7,585.4	7,439.2	7,702.5	9,198.5	9,144.0
Unpaid Dividend on Capital	-	-	-	-	-	38.0	65.9	50.0	44.8	72.9	115.9
Unpaid Contribu- tion to Union Fund	0.3	0.3	1.7	7.8	0.6	9.3	2.3	2.4	2.6	3.7	5.5
Miscellaneous	-	0.1	0.2	-	1.0	-	0.7	-	0.9	-	1.3
Profit for year	131.2	179.3	197.0	414.1	226.6	213.2	200.2	209.5	208.8	183.6	143.2
<b>Total</b>	<b>10,721.2</b>	<b>10,200.0</b>	<b>10,946.0</b>	<b>10,706.6</b>	<b>10,504.3</b>	<b>10,411.6</b>	<b>10,759.6</b>	<b>10,517.2</b>	<b>10,487.7</b>	<b>11,903.4</b>	<b>12,571.3</b>

Table 26 (Continued)

FEDERATIONS OF UNLIMITED LIABILITY CREDIT COOPERATIVES  
Consolidated Balance Sheet as of June 30, 1955 - 65

(in thousand bahts)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
<b>Assets</b>											
Cash in Hand	228.7	191.8	270.8	291.7	299.0	103.8	290.5	125.3	78.3	127.7	117.2
Deposits at Banks	1,021.6	177.0	647.0	413.3	700.7	385.9	527.0	721.0	840.8	1,140.0	1,376.3
Accrued interest on Deposits	-	-	-	-	-	-	3.3	6.8	3.7	4.2	
Loans to Credit Cooperatives	9,137.0	9,338.9	9,595.5	9,409.4	9,106.4	9,506.7	9,525.6	9,269.8	9,184.2	10,181.2	9,927.8
Stationery	2.4	3.4	2.9	3.9	3.0	2.7	4.2	6.0	5.2	19.0	14.0
Furniture & Fittings	83.4	81.9	71.6	60.9	47.9	40.2	35.2	50.1	42.2	45.0	182.2
Office Building	133.0	126.0	119.0	113.1	107.4	102.3	97.2	98.2	93.3	88.7	409.7
Land	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	480.0
Miscellaneous	5.5	1.3	-	-	-	-	-	-	-	-	63.8
	10,851.6	10,160.3	10,946.8	10,532.3	10,504.4	10,381.6	10,723.0	10,517.2	10,487.7	11,845.8	12,571.0

Table 27

**LANDING OPERATIONS OF LIMITED LIABILITY  
PRODUCTION CREDIT COOPERATIVES, 1961-1965**  
(in thousand baht)

Year	Loans Disbursed	Repayments of Principal	Loans Outstanding	Repayments as % of Loans Outstanding
1961	2,059.1	611.6	6,447.6	9.48
1962	2,983.6	2,063.3	2,367.9	87.13
1963	4,042.7	2,867.5	3,543.1	80.93
1964	4,952.0	3,933.4	4,561.7	86.22
1965	7,430.5	5,040.0	5,654.9	89.12

Source: Department of Credit and Marketing Cooperatives.

Note: A better measure of the repayment record than the proportion to loans outstanding would be of repayments in relation to loan maturities. Even though percentages are not available, it appears that repayments in relation to loan maturities are pretty well near 100 per cent at present.

Table 28

LIMITED LIABILITY CREDIT COOPERATIVESLoans Detailed by Purpose and Maturity - 1961 - 1965

<u>Type of Loan and Purposes</u>	<u>1 9 6 1</u>	<u>1 9 6 2</u>	<u>1 9 6 3</u>	<u>1 9 6 4</u>	<u>1 9 6 5</u>
<u>Short-term Loans</u> <sup>1/</sup>	Baht	Baht	Baht	Baht	Baht
1. Seeds	15,970	14,575	11,415	4,070)	494,650
2. Chemical fertilizers & other materials	9,240	192,380	347,265	437,180)	
3. Cultivation & harvesting expenses	1,209,570	1,832,910	2,291,470	2,391,600	3,014,030
4. Household expenses	75,110	66,575	133,390	74,840	78,860
5. Other expenses	-	1,900	73,800	55,050	162,810
6. Livestock fattening	-	76,500	184,100	199,350)	968,300
7. Repairs to chicken sheds	-	-	-	1,000)	
8. Purchase of chicken and feeds	-	19,650	25,600	52,300)	
9. Purchase of fingerlings and feeds	-	7,900	7,900	4,500)	
10. Renovation of fish ponds	-	3,200	13,450	12,000)	101,150
11. Repairs to farm houses	-	-	9,800	11,870)	12,050
12. Repairs to water facilities	-	-	3,000	4,000)	
13. Repairs to farm implements	-	-	-	6,250	
14. Expenses on mushroom cultivation	-	-	-	4,000	-
15. Payment of shares	-	32,050	36,600	29,620	137,210
<b>Sub-total</b>	<b>1,309,890</b>	<b>2,247,640</b>	<b>3,137,790</b>	<b>3,287,630</b>	<b>4,969,060</b>

1/ The duration of short-term loans is up to 12 or 15 months.

Table 28 (Continued)

LIMITED LIABILITY CREDIT COOPERATIVESLoans Detailed by Purpose and Maturity - 1961 - 1965

<u>Type of Loan and Purpose</u>	<u>1 9 6 1</u>	<u>1 9 6 2</u>	<u>1 9 6 3</u>	<u>1 9 6 4</u>	<u>1 9 6 5</u>
	Baht	Baht	Baht	Baht	Baht
<u>Medium-term Loan</u> <sup>2/</sup>					
1. Pig raising	127,350	201,650	1,500	100,900}	373,960
2. Poultry farming	92,500	50,860	51,400	117,950{	
3. Fish culture	82,150	25,450	30,700	75,840}	
4. Purchase of farm machinery	37,950	15,250	116,720	161,880	209,030
5. Purchase of work animals	39,050	53,900	218,330	520,930	710,970
6. Refinancing of old debts	26,000	17,590	46,960	14,700	99,760
7. Improvement of orchards	22,200	15,300	6,800	21,220	-
8. Building and remodeling of farm houses	5,000	14,000	15,500	45,900	142,830
9. Purchase of farm implements	14,250	159,850	143,150	43,700	99,710
10. Land clearance and improvement	246,460	137,600	191,610	357,850	668,140
11. Purchase of transport equipment	2,500	13,350	15,850	42,150	57,220
12. Payment of shares	53,800	31,150	66,410	152,390	99,860
Sub-total	749,210	735,950	904,930	1,664,410	2,461,480
<u>GRAND TOTAL</u>	<u>2,059,100</u>	<u>2,983,590</u>	<u>4,042,720</u>	<u>4,952,040</u>	<u>7,430,540</u>

<sup>2/</sup> The duration of medium-term loans is up to three years, the loans may be repayable by installments.

Source: Department of Credit and Marketing Cooperatives  
Ministry of National Development

Table 29

## LIMITED LIABILITY CREDIT COOPERATIVES

Consolidated Balance Sheets as of March 31, 1961 - March 31, 1965

(unit: baht)

	<u>1 9 6 1</u>	<u>1 9 6 2</u>	<u>1 9 6 3</u>	<u>1 9 6 4</u>	<u>1 9 6 5</u>
Number of operating societies	2	2	3	4	6
Membership	492	639	1,011	1,336	1,966
<hr/>					
<b><u>ASSETS</u></b>					
Cash in hand	32,115	2,974	14,416	195,497	218,493
Banks	72,035	150,214	324,828	890,523	944,337
Interest receivable	3,876	6,204	19,318	37,406	69,549
Short-term loans	975,600	1,817,470	2,661,250	1,649,330	2,810,398
Medium-term loans	471,950	550,400	881,800	1,615,030	2,844,490
Other debtors (agricultural supplies)	-	-	-	-	62,276
Stationery	2,064	3,593	7,082	13,325	22,244
Stock of agricultural supplies	-	-	-	15,500	39,158
Building materials	-	-	2,659	2,659	2,299
Investment in Bank for Cooperatives	8,800	8,800	8,800	8,800	8,800
Furnitures and fittings	4,200	18,331	64,923	64,771	69,159
Premises	-	312,257	364,418	339,458	323,018
Miscellaneous	3,620	200	-	2,078	8,117
<hr/>					
<b>Total</b>	<b>1,574,260</b>	<b>2,870,443</b>	<b>4,349,494</b>	<b>4,834,377</b>	<b>7,422,338</b>

Table 29 (Continued)

LIMITED LIABILITY CREDIT COOPERATIVES

Consolidated Balance Sheets as of March 31, 1961 - March 31, 1965

(unit: baht)

	<u>1 9 6 1</u>	<u>1 9 6 2</u>	<u>1 9 6 3</u>	<u>1 9 6 4</u>	<u>1 9 6 5</u>
<b><u>LIABILITIES</u></b>					
Paid-up share capital	147,425	344,850	581,851	760,976	1,137,720
Reserve	170	200,246	281,839	355,295	461,087
Share-transfer fund	4	694	2,478	3,563	11,950
Common-good fund	5	1,005	4,683	11,259	14,156
Deposits	-	47,273	214,367	249,725	344,412
Loans from Bank for Cooperatives	1,385,864	2,145,271	3,112,074	3,191,367	4,943,323
Loans from other sources	-	-	-	100,000	200,070
Other liabilities	-	10,000	-	-	819
Profit for year	40,792	121,104	152,303	167,582	308,870
<b>Total</b>	<b>1,574,260</b>	<b>2,870,443</b>	<b>4,349,595</b>	<b>4,839,767</b>	<b>7,422,337</b>

Source: Department of Credit and Marketing Cooperatives

has increased every year. <sup>97</sup>

As shown by the experience of a number of countries which instituted supervised credit on principles analogous to those in Thailand, this type of credit is best calculated to achieve the objectives of increasing the productivity and income of the farmer, orienting him toward voluntary saving and toward acquisition of productive assets. <sup>98</sup> But it should be borne in mind that even though, in principle, production credit societies are designed to help the small farmer, the tenant farmer, and the poor farmer, in practice they affect principally the more prosperous and the more provident farmer. In the Lampon society great pride was taken in the fact that the 280 members were carefully selected from many applicants in the amphur. While some tenants and some small farmers did belong to the Lampon society (near Chiangmai in the north of Thailand), the emphasis was on insuring that the members are sound, reliable, and trustworthy farmers.

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<sup>97</sup> Most loan funds advanced to the production credit societies derive from revolving funds administered jointly by the Department and the Bank for Cooperatives. These funds total about 10 million baht and carry an interest cost to the societies of 3 per cent. Information about production credit societies was obtained from official sources, supplemented by the writer's visit to the Productive Credit Society of Lampon.

<sup>98</sup> Cf. Horace Belshaw, op. cit., pp. 243ff. The previously cited sources from the Philippines and Taiwan also stress the apparent success of supervised credit.

### Bank for Agriculture and Cooperatives

The principles behind the formation and operation of the productive credit societies bode well for their future. The intensified formation and promotion of this type of credit will be one of the chief tasks of the about-to-be formed Bank for Agriculture and Cooperatives. It is expected that the new institution will come into operation within the very near future.<sup>99</sup>

The proposed Bank is to be the apex of a unified system of agricultural credit and will absorb the assets and the functions of the Bank for Cooperatives. The unified credit system, however, is not to exclude the participation of private financial institutions in the field of rural credit. In fact, the new Bank is to insure coordination among the various government departments and the private institutions which are already in the business of lending to farmers or can be induced to enter it in the future.

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<sup>99</sup>The formation of the Bank for Agriculture and Cooperatives was the chief recommendation of the National Agricultural Credit Board established at the close of 1963 under the chairmanship of the Assistant to the Prime Minister. Its office is at the National Economic Development Board. The Board is, in the meantime, controlling certain minor funds which are being disbursed by various government departments in the form of loans to farmers and is also carrying out a training program for the staff of the nascent Bank.

The Bank for Agriculture adopts the principles of supervised credit as its operational policy. It proposes to extend credit to individual farmers directly but on a limited scale initially. These loans will be made through branches of the Bank of which only seven are scheduled for 1966 and which will be established in those areas where cooperatives are weak or non-existent. The bulk of Bank funds will, however, be channeled via the existing cooperatives and those which the Bank hopes to encourage to form on production society lines. Existing village societies will be encouraged to amalgamate and to consolidate.<sup>100</sup>

The loans made either directly or through cooperatives will be primarily for short- and medium-term duration. The interest rate is to vary between 8 and 12 per cent per annum. The Bank calculates a loan fund need, for the first six years of its activities, of some 900 million baht, of which 500 million is to come from budgetary appropriations and the rest from loans contracted outside by the Bank.

It is hoped that by the end of 1971 some 11 per cent of farm households will be covered by the Bank-directed credit system. In the meantime, great emphasis is being put on training of personnel of

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<sup>100</sup>The Ministry of National Development is currently revising the existing law on cooperatives. This should facilitate the task of consolidation and merging of village credit societies.

competence and integrity necessary to man a large scale system of supervised credit.

In spite of its relatively modest objectives, the Bank may find its goals to be rather difficult to reach even if its training program yields a sufficient number of reasonably competent and well motivated personnel. Thus, it may prove difficult for the new institution to raise 400 million baht of new money in the Market, given its interest rate structure. If the farmers will borrow either directly or through their cooperative at 10 per cent, the Bank could hardly pay more in the market than 5 or 6 per cent itself.<sup>101</sup> At this rate it may prove well-nigh impossible to secure unsubsidized funds. Furthermore, inasmuch as the Bank will still appear to farmers as a government institution, it will encounter many of the same impediments and obstacles to growth which have plagued the existing institutions and which have been discussed above. In particular, the Bank will find it hard to resist pressures for loans for longer duration but less productive purposes, not to mention other, less focused but no less dangerous, pressures.

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<sup>101</sup>The Bank's planners are not yet convinced, however, that it would be politic for the new institution to charge higher rates.

All the same, the tidying of the present system and the recognition of the need for supervised credit to be administered by viable primary units disposing of skilled personnel is a step in the direction of greater efficiency and vitality of the organized segment of the market for rural credit.

### Cooperative Movement and Voluntary Savings

As mentioned above, the cooperative movement in Thailand, as well as in other parts of Asia, has inherited the welfare orientation of its parent movement in Europe, which is only being gradually shed in favor of economic efficiency. An important part of this orientation is the belief that it is incumbent upon the credit societies to foster thrift, to inculcate the saving habit, and to reduce the farmers' dependence on debt.

The record shows that the efforts of the cooperatives to mobilize farmers' voluntary saving had only a very limited success. In Table 30 the deposits of the cooperative institutions are shown since 1955. Only the village cooperatives and the Bank for Cooperatives show an accumulation of significant sums, but a closer look even at these reveals a less encouraging picture. Thus, the bulk of the deposits at the Bank for Cooperatives are not those of the cooperative societies at all but,

Table 30

## DEPOSITS IN COOPERATIVE INSTITUTIONS

(Thousands of baht)

Year	Village Coops	Bank for Cooperatives	District Banks	Production Credit Societies
1955	9,009		2,119	
1956	13,351	16,000	1,274	
1957	17,342	20,600	1,532	
1958	20,775	25,400	1,506	
1959	24,095	31,100	1,305	
1960	26,906	36,600	1,213	
1961	29,788	40,700	1,473	
1962	32,347	45,600	1,297	47
1963	34,519	46,700	831	214
1964		43,200	638	250
1965			1,267	344

Source: Derived from Tables 21 - 29

Note: It is possible to consider the net change in the reserves of the village Cooperatives as part of members deposits inasmuch as the cooperative membership has an equity claim against these reserves. This was the position taken in calculating uses of funds, earlier in this paper.

rather, those of various official and eleemosynary institutions which, for one reason or another, hold their idle funds at the Bank for Cooperatives.<sup>102</sup> In recent years the annual increase in the members' deposits of the unlimited liability village cooperatives averaged some 2 million baht. With aggregate membership of these cooperatives of some 175,000, this comes to some 12 baht of additional savings per member per year.

One reason for the poor performance of the cooperatives in mobilizing rural saving, apart from the basic one of low rural incomes, is the lack of attraction of the saving instruments proffered by them. With very few exceptions, the rates of interests offered are below those available either at commercial banks or at specialized saving institutions, such as the Government Saving Bank.<sup>103</sup>

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<sup>102</sup> Eighteen Years of Progress, op. cit. At end of 1964 deposits of coops alone were only 6.5 million.

<sup>103</sup> Local cooperatives pay a maximum of 6 per cent for 12 months' deposits (Bank for Cooperatives pays 7 per cent) compared to 7 per cent payable by commercial banks. Cooperatives pay 4 per cent on current savings deposits which occasionally proves attractive but, more often than not, to non-members of the cooperatives. However, these so-called current deposits are in reality limited withdrawal deposits usually confined to four withdrawals a year. The Government Savings Bank can pay up to 5 per cent on similar facilities.

It would appear that such saving deposits as the cooperatives did manage to accumulate in some 50 years of operation are due to the compulsory features inherent in the cooperative credit system. Thus, members of unlimited liability cooperatives have to "save" a minimum of 50 baht a year for ten years. Members of the production credit societies are compelled to deposit with the limited liability society 5 per cent of the value of the loan and so on.<sup>104</sup>

The rather dismal record cannot be attributed entirely to lack of effort on the part of cooperative leadership or to a lackadaisical attitude of its official supervisors. For example, the two district federations have pioneered in the use of mobile vans which are sent into the villages and actively seek deposits from members. Yet, as seen in Table 30, these federations have actually been losing deposits for a number of years. Nor can it be maintained that the task of garnering rural savings is a hopeless one. In some respects the Government Savings Bank has been moderately successful in the countryside. In Taiwan, from 1953 to 1961, members' deposits at farm associations increased nearly eightfold.<sup>105</sup> Given proper incentives and proper

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<sup>104</sup> Cooperatives pay 5 per cent per annum on these compulsory deposits.

<sup>105</sup> F. H. King, op. cit., p. 22.

organizational efforts, it should be possible both to increase the volume of savings from the farm households and to channel it into developmental directions. The real question is whether cooperative institutions are necessarily the most efficient institutions to undertake that task. It would seem that implementing a program of supervised credit, with its high degree of technical overseeing required and with the requisite integration with marketing and provision of inputs, would tax to the utmost the capabilities of the cooperatives. There seems to be little a priori reason why they should be further encumbered with the administration of a sophisticated program of mobilization of voluntary saving from countryside. Yet such a program needs to be instituted if it is to bear significant results. It may perhaps be best left to specialized institutions, properly strengthened and reinforced. The main contribution of cooperative credit to rural saving should come through programs which will convince the farmer that increased effort and higher production lead to higher income and eventually higher consumption, in that sequential order.<sup>106</sup>

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<sup>106</sup>The statement in the text is clearly a value judgment. But in the Thai setting, where well trained personnel willing and able to operate in remote rural areas is the most scarce resource, there seems to be little reason for tolerating duplication and wasteful competition between, say, cooperatives and a local branch of the Government Savings Bank.

### Government Departments and Rural Credit

It appears to be almost impossible to obtain a clear picture of the role of government departments in agricultural credit. Data relating to past operations are incomplete and inaccurate.<sup>107</sup> There is no coherent system of accounts, no demarcation of responsibility, and only occasional traces of audit. Inasmuch as lending activities of the several government departments have developed in response to varied pressures and stimuli, no single authority took it upon itself to trace these activities over time or to evaluate their effects.

Some exceptions do exist, however; and from fragmentary evidence gathered elsewhere, as well as from the few reliable sources in existence, it is possible to piece together a somewhat uneven pattern of activities of government agencies in the rural credit field.

In the Ministry of Agriculture various circulating funds were set up from time to time to make loans either to encourage a certain type of cultivation, to introduce a new crop, or to make possible the purchase of a specific kind of output. Thus some 16 million baht was advanced to farmers between 1952 and 1954 to propagate new varieties of rice. Some 4 million baht was advanced in the same period for the purchase of fertilizer and about 7 million baht to buy farm equipment.

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<sup>107</sup> This section relies heavily on: National Economic Development Board, Policy and Principles of National Agricultural Credit and Draft Act of the Bank for Agriculture and Cooperatives. Bangkok, 1965 (informal translation, mimeo document in Thai.)

Somewhat earlier, a fund of some 15.4 million was lent for various inputs under a project which shows about a 60 per cent ratio of bad debts. Other circulating funds included slightly over 3 million lent to rubber cultivators and about 2 million to cotton growers. Some 10 million was lent to fishermen and another 20 million to livestock breeders in the late 1950's and early 1960's. Again the repayment record was not good, and the entire financial record remains somewhat murky.

In the Ministry of the Interior loans falling roughly under the heading of agricultural credit were made by the Departments of Administration, Social Welfare, and Community Development. No details are available on the operations of the Department of Administration except for the prevailing impression that a good deal of money was lost on various schemes to promote hog raising and livestock marketing. The Social Welfare Department disbursed some 16 million in loan funds in the ten years ending in 1963 to some 40,000 families. Less than 4 million was repaid to date. Of similar welfare nature were the 4 million disbursed by the Community Development Revolving Fund.

Unlike the operations of the Agriculture and Interior ministries, the loan operations of the Ministry of National Development were made primarily to the cooperative institutions. In addition to the Ministry's interest in cooperative credit, touched on in the preceding

pages, it has also made loans to paddy marketing cooperatives out of a revolving fund of some 38 million. The 110 paddy marketing societies have incurred a loss of more than 8 million by the close of 1963. Other types of cooperatives borrowed some 36 million baht, of which a good proportion had to be charged to the loss account.

### Commercial Banks and Agricultural Credit

With the exception of some attempts of the Bank of Siam in the past and cautious explorations of the Bangkok Bank of Commerce at present, the only commercial bank in Thailand actively engaged in direct lending to farmers is the Bangkok Bank, the largest commercial bank of the Kingdom.

Bangkok Bank has entered the field of agricultural credit relatively recently, in January 1963, in part to establish its influence more firmly in the countryside. It had somewhat neglected the countryside in the past, concentrating on branches in the urban centers and abroad.

Two kinds of credit are extended. One, individual loans to the more established and prosperous farmers, is of the standard type. The prospective borrower makes an application and offers a collateral, usually in the form of a registered land mortgage. The application is

reviewed by the branch manager, but the final approval must come from the head office. The rate of interest ranges from 12 per cent, for production loans, to 15 per cent for longer term loans for the purpose of settling debts. Intermediate rates are charged for loans ranging from one to five years for such purposes as purchase of heavy machinery and construction of warehouses. There is no set limit on the amount of the loan.

The other kind of loan is of special interest because it combines some of the most promising features of agricultural credit under the aegis of a profit-making organization. This is the group loan scheme of supervised credit for production purposes. The program of Bangkok Bank's group loans derives from the experience of the Farm Credit Administration in the U. S. A., from the successful experiments with supervised credit in a number of Latin American countries and, finally, from the pioneering efforts of the production credit societies in Thailand itself. <sup>108</sup>

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<sup>108</sup>Information about the operation of the Bangkok Bank credit program in agriculture was obtained through direct contact with the Bank's officers and from field trips to the area of its most extensive operations. See also Bangkok Bank, Ltd., Agricultural Credit, November, 1964. The United States Operations Mission to Thailand has long attempted to orient the granting of credit to farmers along the lines of supervised credit. See A Report on Agricultural Credit: Cooperative Organization, Management and Administrative and Agricultural Marketing, November, 1959, and W. J. Maddock, Agricultural Credit Thailand 1964, August, 1964 (mimeo).

Under the scheme, loans are made both for short term and long term to groups of farmers, of no less than 5 years and no more than 20 members, residing in the same village or hamlet. Up to 3,000 baht can be borrowed by each of the group's members without collateral other than the security of the crop to be produced and the joint liability of the entire group, limited to the amount of the debt outstanding. The rates of interest are similar to those under the individual loan scheme.<sup>109</sup>

Unlike the individual loans, the authority to grant the amounts requested by the borrowers is vested in the manager, assisted by the agricultural credit officer of the branch. The latter plays a key role in the implementation of the entire program. It is he who will make the preliminary survey, who will advise the group on the best means of using the loan proceeds, and who will offer technical assistance throughout the life of the loan, which is paid out in installments. These agricultural credit officers are graduates of the Kasetsart University (Agricultural University) and are specially trained to carry out supervisory functions.

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<sup>109</sup>In addition to the interest payable to the Bank, the group members undertake to pay an additional one per cent per annum to cover administrative costs of the group, mainly the costs of travel of the group's selected representatives to the branch office of the Bank for meetings, conferences, and so on.

An interesting feature of the group loan program is its integration, whenever possible, with both marketing and the provision of inputs. Thus, in the areas where the crop pattern allows it, the Bank will arrange for millers and processors to buy the crop from its borrowers at a price guaranteed not to be below the market. The loan account is then automatically credited by the amount of the sale. With respect to inputs, the Bank will provide them directly whenever the purpose of the loan calls for such inputs as are handled by distributors who are also clients of the bank. <sup>110</sup>

Even though the program is still in its early stages, it bears the mark of success. Strangely enough, it is the group program which has proved the more rewarding to the Bangkok Bank, and there is a possibility that the program of individual loans will be discontinued.

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<sup>110</sup>The Bank claims that this arrangement enables the group to enjoy extra benefits in that a part of the dealer's commission is passed on to the farmer. For example, the usual dealer commission on a Fordson tractor is 7.5 per cent. Under an arrangement with the group wishing to borrow for a tractor, the dealer will get only 2.5 per cent commission but will still service the tractor. The group will benefit to the extent of getting a tractor, including servicing, for 5 per cent less than the retail price. Still, the borrower's choice of inputs is somewhat limited as a result of such an arrangement. It is interesting that some 73 per cent of all group loans have been allegedly used to secure labor inputs. This is a very high proportion, indeed, and a suspicious mind would seek some connection between this high percentage and the fact that labor inputs are not yet provided by the Bangkok Bank, Ltd.

**Table 31 summarizes the operations of the group loan program.**

**Even though the scope of the program is confined to areas where there are branches of the Bangkok Bank and so far extends only into five provinces, the annual value of loans has increased nearly sevenfold in the space of only three years. Even so, the limiting factors have proved to be the shortage of qualified field personnel and the sheer inability of the overworked credit officers to visit those villages where there appears to be some interest in forming a loan group. As a matter of fact, the Bank appears to do very little proselyting, and yet word of mouth spreads so effectively that in the Chiengmai province alone there are apparently some 100 tentative loan groups formed, which the branch officers had no time even to interview initially.**

**Equally encouraging is the excellent record of repayments shown by the groups. Some 96 per cent of all loans are paid on or around maturity and, so far, no group loan has remained unpaid for longer than four months. This testifies to the importance of proper technical advice combined with continuous supervision but also to the heavy drain on administrative and technical personnel required under a successful supervised group program.**

Table 31

BANGKOK BANK  
SUMMARY OF OPERATIONS OF GROUP LOANS

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Year	1963	1964	1965
Number of Groups	57	224	776
Number of Members	851	3,091	8,122
Value of Loans*	2,338,482	4,746,096	15,554,300

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Source: Bangkok Bank Ltd, (Courtesy of Chusak Himathongkom, Chief,  
Agricultural Credit Division)

\* Amounts outstanding at end of year.

The officers of the Bangkok Bank estimate that the costs of running the group loan program amount to 4 or 5 per cent of the value of loans. This seems to be a very high percentage, but it would seem that a substantial proportion of these expenses may be invariant with respect to volume of loans. Be that as it may, the Bank admits to making a modest profit on the operation.

The success of the Bangkok Bank in the field of supervised group credit should be viewed in the proper perspective. Having the field to itself, and disposing of great resources, the Bangkok Bank could, as it were, skim off the cream of the business. On the one hand, it could select its borrowers from those areas which present the best prospects and, on the other hand, it had first pick at the requisite personnel. Were the program to be expanded substantially, with participation of other commercial banks, with nationwide coverage, and with a vastly increased volume of loans, serious problems would arise both with respect to risks and with respect to the availability of personnel. All the same, the experience of the Bangkok Bank has demonstrated that it is possible for a commercial bank to operate successfully in the field of agricultural credit.<sup>111</sup>

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<sup>111</sup>This has, of course, been demonstrated in other countries. While the experience of Australia and New Zealand may be of little relevance for Thailand, that of the Philippines should be instructive. See Jose E. Desiderio, "Rural Banking in the Philippines," The Philippine Economic Bulletin, November-December, 1963.

### Implications for Developmental Planning

The preceding survey of the organized market for agricultural credit shows that this market is dominated by cooperative institutions which only recently and haltingly have begun to develop techniques and methods which may reduce, sometime in the future, farmers' dependence on the facilities available in the unorganized market. Even with the promise implicit in the formation of the new Bank for Agriculture, with its emphasis on supervised credit and administrative efficiency, it is not likely that much of a dent will be made in the unorganized market. Yet, as argued before, that market cannot be relied on to nurture a dynamic kind of credit designed to lift the farmer's income to a higher level, to provide him with incentives toward greater effort and productivity, and to show him the connection between forbearance for the present and a higher standard of living, in the future.

It would seem that in order for the institutions under public control and scrutiny to encroach significantly on the extent that the unorganized markets dominate rural credit, recourse must be had to financial entities not yet, to any significant degree, involved in that market. In Thailand it is the commercial banks which could provide the type of finance which the moneylender is either unwilling or incapable of providing.

The Bangkok Bank, which has successfully promoted the very kind of supervised group credit which is consonant with developmental objectives, is anxious to expand its operations to other provinces where, as yet, it has not established its branches. The effort to supplement the activities of the cooperatives cannot and should not be confined to one commercial bank, however aggressive and progressive that Bank might be. On the other hand, other commercial banks show little desire or interest to enter rural credit. With one or two exceptions, the commercial banks incorporated in Thailand (and foreign chartered banks are probably not likely to enter rural credit anyway) prefer to steer clear of direct lending to farmers, citing either lack of branches or lack of trained personnel or lack of capital as their reason. Underlying all these there is, of course, the fact that banking is generally profitable in Thailand and that there are many attractive opportunities outside rural credit, opportunities with which the commercial bankers are much more familiar by training and experience. <sup>112</sup>

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<sup>112</sup>It is possible that the newly formed Krung Tai Bank will enter the field of rural credit. This bank was formed from a merger of two government-sponsored banks, and its management and control will remain in official hands. On the other hand, the new Bank has a large number of branches in the provinces.

The obstacles to the entry of commercial banks into the field of rural credit must be overcome, but they are not likely to be overcome by a process of suasion alone. To insure commercial banks active participation, the development planner could consider a system of rewards and incentives more or less along the following lines:

The Bank of Thailand, one of the few central banking institutions in the developing countries not already actively engaged in agricultural credit, would announce a policy of support of commercial banking operations in rural areas. First, however, the Bank of Thailand may find it necessary to nudge the banks in that direction by increasing the required reserves against deposits from the present level of 6 per cent to, say, 10 per cent but will allow the extra 4 per cent to be kept in the form of agricultural paper. The Bank of Thailand would proclaim its readiness to discount such paper at 5 per cent, provided the commercial bank rate did not exceed 15 per cent.

With the current level of deposits of some 12 billion baht, a 4 per cent increase in reserve requirement would mean that the commercial banks would need to provide another 480 million. However, the banks as a whole have more than 300 million of excess reserves, not counting cash resources outside the Bank of Thailand. Given the generous spread which the Bank of Thailand would allow in its

rediscounting of agricultural paper, the commercial banks should not suffer undue hardships and may even find the business of rural lending a profitable line of endeavor.<sup>113</sup> A 10 per cent spread between the commercial bank rate and the Bank of Thailand rate should provide a sufficient margin for risk, for heavy initial administrative expenses, and for lack of experience. Equally important will be the Bank of Thailand determination that its new line of rediscounting does not get bogged down in red tape, administrative delays, and the sort of requirements which, while in principle sound, in practice have the effect of grinding the entire scheme to a halt. Subject to general rules of eligibility, which should be few in number and clear in intent, the Bank of Thailand should rediscount paper presented to it without any further credit investigation, but subject to post-audit and severe penalties for willful misrepresentation.

It is possible that even with the crisp carrot dangling from the stick, the commercial banks will find it difficult to recruit and train technically qualified and properly motivated personnel. The problem is indeed a major one. In order to supervise and administer a billion baht worth of loans per annum (see below), some 2,000 men will have to be

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<sup>113</sup>It is quite true that while commercial banks as a group have large excess reserves, individual banks may be fully lent up or otherwise unable to conform to the new ruling. In any event, the percentages and figures given in the text can be modified in the light of circumstances.

found. Of course, not all of them will have to become available at once. It would be unrealistic to expect the volume of agricultural loans handled by commercial banks to reach the goal of one billion baht in a year or two. This will take several years. Assuming one trained supervisor's ability to handle between 15 and 20 groups of rural borrowers per year, the task of providing supervisors should not be an impossible one. Even so, the initial cost of recruitment and training may prove prohibitive to some of the smaller banks, and there may be real difficulty in locating suitable candidates. At the same time, there would be great merit in having the training conducted on fairly standard lines, if only to facilitate the task of passing on agricultural paper's eligibility. It would seem that the primary responsibility for such training should be assumed by the about-to-be-formed Bank for Agriculture. This institution will have the status and the resources to coordinate a vast training program with the Universities and may well find that the outlay on the training program yields greater returns than its direct lending activities.

The entry of the commercial banks with their more than 400 branches into rural credit should substantially change the existing structure of the market for lendable funds in agriculture. An average yearly balance of agricultural paper of 400 million baht implies at least

one billion baht of loans annually. Even though much of this accommodation will be additive, the respective shares of the market of the organized and unorganized lenders will shift in favor of the former.

The proposal, as outlined above, is designed to increase directly the share of organized markets in financing rural households. But, as the discussion of the unorganized markets has suggested, there appears to be scope for increasing the proportion of loans made by organized markets indirectly by absorbing certain of the activities of the unorganized markets in agriculture. One line of approach would be to draw certain moneylenders into the institutionalized orbit. For example, it has been argued above,<sup>114</sup> that one reason for the high rates of interest charged by moneylenders is their inability to replenish their working capital at certain times of the year plus the fact that their limited funds are employed only for a portion of the year. It might be worthwhile to develop some mechanism whereby moneylenders could discount with commercial banks or public institutions certain kinds of paper. Such an arrangement could be a prelude to gradual integration of at least a segment of the moneylending profession into the organized

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<sup>114</sup>See infra.

network. To some extent, such integration has taken, and is taking, place in most of the developing countries, certainly in Thailand. But the entry of the commercial banks into the field of agricultural credit on a large scale should provide many opportunities to speed up this process. While no specific suggestions will be advanced at this juncture, the Thai commercial banking system, with its complex of branches, agencies and correspondents, appears singularly well adapted to this task.<sup>115</sup>

The measures so far discussed aim at channeling a greater proportion, as well as a greater absolute amount, of agricultural loans into productive uses. But it must be recognized that there will continue to exist a demand for loans for consumption purposes which cannot be dealt with along sound "banking" principles. No doubt, a certain proportion of such loans may be considered undesirable on social grounds, and some sort of campaign to eliminate the demand for them might well be instituted. But it would be naive to suppose that such a campaign will be entirely successful. The fact is that, while it is

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<sup>115</sup>The system of branches, agencies and correspondents of the Thai commercial banks will be discussed more fully in a forthcoming working paper.

important to separate the demand for production loans from the demand for consumption loans, some device must be found to meet the latter demand if an even greater burden is not to be borne by those least able to bear it. Again, while no detailed proposals will be made here, there appear to be two promising avenues of approach to the problem. One of them would actually attempt to draw the poor, improvident farmer into the vortex of productive activity, in the belief that once exposed and immersed in such activity he will actually have less need, as well as less desire, to borrow for non-productive purposes. One possibility would be to set up a pilot system of communal credit run on the lines of a corporate undertaking for a specific project. Say a storage silo is considered to be a worthwhile project. A group of villagers might incorporate for the specific purpose of constructing, managing, and maintaining the silo and exploiting it for commercial uses. The group acquires an equity in the undertaking in proportion to the resources it contributes, with the important proviso, however, that the poorer farmers can contribute labor, if nothing else. The value of such labor would be expressed as an equity in the undertaking. The group obtains a loan from an institution in the organized market, covered by a joint guarantee of the group.

The other avenue of approach would be to set up institutions dealing explicitly and exclusively with consumption loans, loans for emergencies and similar demands. It would seem that rural pawnshops could serve in this capacity,<sup>116</sup> and such pawnshops could be run either by the cooperatives or by licensed pawnbrokers.

It is not pretended here that these suggestions will be easy to put into operation. This paper offers no panaceas and no easy and painless solutions to the manifold problems of rural finance. It is indeed an integral part of the conceptual framework underlying the present paper to avoid major structural reforms and to opt, instead, for "piecemeal social engineering."<sup>117</sup>

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<sup>116</sup>For some evidence that rural pawnshops can, in fact, operate successfully, see my "Financial Markets and Development Planning." There is also the suggestion, made by J. Price Gittinger, that the more efficient pawnshops be encouraged via provision of loans or even rediscounting facilities.

<sup>117</sup>Cf. my "Financial Markets and Development Planning."

Above all, it cannot be overemphasized that credit cannot operate in a vacuum. The best thought-out and the most soundly implemented credit system will do little for economic development if the farmer is left to the vagaries of the weather and of the market. He cannot be left to fend for himself if one or the other fails him in spite of his best efforts, for in that case he will cease to care or to respond to stimuli and incentives. It is incumbent on the development planner to insure, as much as possible, that this does not happen.