

สินเชื่อชนบทในความอยู่รอดของวิสาหกิจขนาดเล็ก: ปรากฏการณ์ ของภาคตะวันออกเฉียงเหนือ

Rural Credit in the Survival of Small Enterprises: Evidence from Northeastern Thailand

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บทคัดย่อ

การลงทุนในท้องถิ่นสัมพันธ์กับเศรษฐกิจท้องถิ่น มากกว่าครึ่งมีที่มาจากหลายแหล่ง ในงานวิจัยนี้ ผู้วิจัยพยายามหารูปแบบที่เหมาะสมในความอยู่รอดของวิสาหกิจขนาดเล็กในท้องถิ่นที่ห่างไกลที่ยากแก่การหาบริษัทเงินทุนหรือธนาคาร ข้อมูลที่ใช้ในการวิจัยนี้มาจาก 10 หมู่บ้าน ในจังหวัดขอนแก่น และร้อยเอ็ด ภาคตะวันออกเฉียงเหนือ ระยะเวลาการเก็บข้อมูลคือช่วงเดือนมกราคม และกุมภาพันธ์ 2549 ผลการวิจัยพบว่า สินเชื่อมีความสัมพันธ์กับการเกิดขึ้นของวิสาหกิจ หน่วยงาน กลุ่มออมทรัพย์ และกลุ่มผู้ประกอบการ ในท้องถิ่น มีบทบาทสำคัญในการจัดหาสินเชื่อในระยะเริ่มต้น ในระยะต่อมาจะเป็นตัวผลักดันให้จำนวนการผลิตและจำนวนผู้ประกอบการขยายตัว ซึ่งมีผลต่อการพัฒนาภูมิภาค เศรษฐกิจชนบทจะเป็นขั้นต่อไปที่ถูกดึงและดัน การพัฒนาภูมิภาคจะเกิดขึ้น ซึ่งมีผลย้อนกลับไปกระตุ้นกลุ่มออมทรัพย์และกลุ่มผู้ประกอบการให้กล้าแข็งขึ้น

Abstract

Local investment is closely related to the local economy. More than half comes from a variety of sources. In this research we tried to find a suitable model for the survival of small enterprises in remote areas where it is difficult to find any finance or banks. Data was collected in ten villages in Khon Kaen and Roi Et provinces in northeastern Thailand in January and February 2006. Our findings show that credit relates to the creation of enterprises. The local agency, saving group and entrepreneur group have important roles in credit provision at the occurrence stage. Later they push production and enterprises increase. This effect drives the development of the region. The rural economy is the next step in this push and pull process. Then regional development occurs and pushes back to stimulate the savings group and the entrepreneur group to be stronger.

คำสำคัญ: สินเชื่อชนบท วิสาหกิจขนาดเล็ก การพัฒนาภูมิภาค

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Introduction

In the world of trade nowadays it is quite difficult to ignore business or profitable production activity. An enterprise may be considered as an activity of the economic mobilization of earnings. Small enterprises have become an important activity in areas where society begins to accept the concept of business. In villages, income is normally lower than in cities and people may accept this concept more slowly. However, there is no negative effect. They do not deny the concept, and they agree to be involved in business in everyday life.

Small enterprises in the rural villages occurred in the transformation period when rural society changed from agrarian society to being industrially active. Although industry did not flow into the whole village, many activities changed under this model. The activity of “buying and selling” came to the rural people instead of “goods exchanging” as in the past. The buying activity spread over the entire village, and the production for household consumption decreased. The rural people worked for income rather than consumption. The concept of enterprise seems to be more meaningful when they need to survive in the modern world.

In the city, the activity of enterprise grew decades ago. It became normal behavior of town people when they needed to buy and sell. The enterprise acted like an exchange centre of both buying and selling. In this sense, the enterprise will have its own meaning when the society wants the economy to boom. It can boom using media like enterprises.

In the rural area, the local investment was closely related to the local economy (Chaudhary and Ishfaq, 2003). It was an economic mobilization as above. Local investment normally depends on lending. Investment in rural Thailand rarely comes from

villagers' own savings. More than half comes from lending, which might come from a variety of sources. Their relatives were the first source and were considered to be an important one. The other sources would be second when they need a larger amount.

So, investment is a factor to push or stimulate enterprise. When enterprises occur in an area, employment generation and income earning also appear. These activities benefit many villagers. Other factors such as workforce, material, know-how, etc. seem to be found quite easily in the area. However, other factors also need capital. Thus, capital of investment is an important factor which is needed for small enterprises in the rural region.

There has been much research to find out about this issue and many points have been found. Fafchamps and Lund studied risk-sharing in the rural Phillipines and found that credit is needed in the rural area but the villagers found it still quite difficult to take a loan. They usually took loans from their friends and relatives. This is a phenomenon of human relations and behavior that the villagers need to find their own way to approach. If we consider in the sense of credit, this is a good view of risk-sharing. The credit institutions may worry about the return which mostly has a risk. The borrower has limited potential to make income and limited ability to return the loan. So, their relatives may be the absorber of this risk. The researchers mentioned:

“risk is shared within networks through flexible, zero-interest informal loans combined with pure transfers..... households receive help primarily through networks of friends and relative” (Fafchamps and Lund, 2003)

This research shows some views of risk that borrowers hold. However, there are some lenders who compete in the credit market. Normally, the lenders need interest which is the benefit from their lending

businesses. The high interest rates they collect mean that they earn high income.

It is good in the view of investment that the investors can have an alternative. The incentive of these lenders is mostly high interest, but there may be a reverse effect. In some areas the regulators have to control the market in order to protect small investors, which reflects the lenders' incentives.

Kranton and Swamy did research on the hazards of piecemeal reform: British civil courts and the credit market in colonial India. They concluded that:

“the reform of credit led to increased competition among lenders.....this would have raised farmers' welfare. But increased competition also reduced lenders' incentives to subsidize farmers' investments in times of crisis, leaving them more vulnerable in bad times” (Kranton and Swamy, 1999)

This research shows the credit market of India in the colonial period. However, the involvement of the public sector is still significant up to the present. If the public sector is involved in the right issues, there will be a good effect.

In some countries the public sector is involved in the form of subsidization, but it is insufficient in some areas. Charkrabarty and Chaudhuri did the research on formal and informal sector credit institutions and interlinkage. They mentioned:

“Nationalized banks often ration rural credit. This creates demand for loans from moneylenders..... Increase in the fixed credit allocation to the rural sector at a subsidized rate does not reduce that inefficiency. The entire benefit of the subsidy is extracted by the moneylender.....An alternative policy of providing credit at subsidized rates but in a flexible manner is more effective in reducing the inefficiency” (Charkrabarty and Chaudhuri, 2001)

Although rural credit has a close relationship

with the lenders, it is a fact that it creates impact directly to household production in the rural areas. Duong and Izumida did research on rural development finance in Vietnam, a micro econometric analysis of household surveys, and found that the formal sector specializes in lending for production purposes whereas the informal sector's lending is quite diverse. They presented that:

“rural household are rational in deciding which sources to ask for a particular kind of loan.....Credit is shown to have a significant impact on household production.” (Duong and Izumida, 2002)

From many researches, it is clear that rural credit and rural production or rural enterprises have a close relation. It shows the importance of credit as a starting point for production or the occurrence of enterprises.

In this research we try to find the suitable rural credit model for small enterprises in remote areas, where it is difficult to find any finance or bank and so to survive. We use some cases of villages in northeastern Thailand to analyze and discuss. We also suggest the credit provision criteria for small enterprises in other regions that have the same conditions. Our aim is to strengthen small enterprises in the region to cooperate with others.

Research Methodology

Our research studies the category of rural credit, and focuses deeply on the activities and implementation of the channel of credit. The data discussed in the research come from ten villages of Khon Kaen province and Roi Et province in northeastern Thailand, and the information coming from the local agency shows these activities. The period of data collection is January and February 2006. The qualitative data we collected comes from

four villages.

Results

There are many aspects of the research findings. In this paper we will give some information on the nature of credit in the area. Cases of some villages will be presented later to support the authors' views. The model built up will be the last part to show how the data leads to the conclusion.

Rural capital and sources of funds

In the management of small rural enterprises, fund finding should be a major operation activity. The production process learning, workforce finding and marketing management are the next steps. Actually, there are many sources to access funds, but they are not open because the loaning process of financial institutions is mostly based on assets. The evaluation depends on the value of the assets which they take to guarantee. Financial institutions evaluate on the basis of adequate value. The process does not differ from large enterprises in the city. The large enterprises may have greater opportunity to access a loan with more valuable assets than the small ones. Hence, the loan may not be a problem for them. It may be a big problem for the small enterprises following this process.

These processes are the barrier to block small entrepreneurs who have little assets. When they need a loan and the process does not allow it, this forces them to take a special loan with high interest rate. That loan can be made more easily than the first kind. It does not need any documents and does not have any limitation. So, it is easy to understand why this loan is popular among new businesses that have new ideas but limited assets.

The disadvantages of these loans fall into the category of interest. The high interest rate is the

biggest problem. The entrepreneurs find things easy at the beginning but heavy in the middle and last stages. The duty of repayment with high interest forces them to grow slowly. This phenomenon spreads over the rural village and is the cause of the local economy growing so slowly. One way to break out of this cycle is to create a rural credit system that is easy for small enterprises to access and manage.

Rural credit and provision criteria

A rural fund is created to provide credit for this reason. In Thailand, this fund is set up in many forms. Some kinds are formed through natural human behavior. Some kinds start with a government fund passing through their agencies in the area. Those agencies set up some regulations and are open to all small enterprises to utilize. The aim of credit provision and the amount of credit may be different for each agency. Some agencies set their criteria for the project on the lender. This means that if the lender creates a good project and shows clearly whether the project is possible to implement and able to make enough profit for returning that loan, the chance to take the loan is high.

Some agencies set criteria on output. If the project output matches their policy and they aim to promote, a high loan will be given. The other agencies set their criteria on the area, number of group members, degree of honesty etc. If the lender has the plant in a poor area, it is possible to take a loan, because of the income increasing policy. In some cases, the policy wants to promote groups. In these cases, a large number of members in the borrowing group has meaning. The borrowing group that has many members is considered to be a potential group and should have high priority to take a loan. The next criterion is based on the honesty of the borrower. If the borrower has a good history of honesty, the tendency to provide

a loan is very high. So, we can categorize the kind of loan based on criteria to take or apply as follows: a) The loan based on possibility b) The loan based on output c) The loan based on plant area d) The loan based on the number of members in the group, and e) The loan based on honesty.

The criteria of each agency may fall into some categories that meet their policy. For example, the policy of an agency that wants to promote business and uses criterion a) means the policy wants to encourage businesses with good projects. When the project has good possibility to make profit, then the loan provided should support business in the area.

Rural fund in the form of local agency

A rural fund is one form of rural credit. The common aim to provide credit is focused on enterprises that have no other chance. One kind of fund is called the "Village Fund" provided by the Government in 2003. Its aim is to support credit for the people in every village. It focuses on small enterprises that have little capital. The amount of 1 million baht provide for each village is large in the sense of villagers. There is a credit committee to consider the project proposals of the village. The committee members come from election in the village. The president may be the head of the village or a representative. Although this fund provides little credit, it helps new enterprises to breathe smoothly. This fund aims to provide the chance to create a variety of economic activities. It is a catalyst to stimulate the economy at the grass root level. If the money circulates many rounds, it is surely working. The hope is that the first borrowers will benefit from their enterprises and then return their loans to the fund. Then the fund can have a larger amount, and be able to provide to new borrowers. If the first borrower makes a profit, the next borrower should have the ability to make

one too. This point means better economy from the first borrower makes opportunity for the next. By this logic, the economy should be developed as time passes.

Rural fund in the form of community responsibility

Another kind of rural fund is the fund managed by the community. This kind of fund is called a "saving group". The group may create from the saving activity of its members. The members agree to save a fixed amount each month. When they need credit, the fund can provide capital for them. The rural fund by this means can be useful for its members in the rural area. The enterprise can be born without capital. An investment comes from the savings of every member. It is like a cooperative in which every member pays every month. The regulations are set up to benefit the members. They give privileges to the members to take loans. The money which it provides to members comes from their money combined with its profit. When the members need, the fund can provide.

This kind of fund is different from other kinds discussed above. The other kinds have their policies set up and are created by outsiders. The agency manages the fund. But this kind of fund is managed by the people in the community. The philosophy may come from outside, but the management comes from inside. The community has its own committee to manage the fund. They manage it for both their members and themselves.

The responsibility in management of the fund belongs to them rather than a government agency. If the people in the community manage it well and make a profit, the profit will come back to the members in the form of benefits to shareholders. The shareholders do not benefit only by the privilege of taking a loan, but they also benefit as shareholders whenever the

fund makes a profit.

This is a rural fund in which the money comes from members, profit goes to members and it is managed by members. We can say that this is a community responsibility. If they make a loss, they will have no source to supply investment for businesses or enterprises.

Exceptional cases

The following cases are exceptional and differ from the normal. They can show some examples of the above explanation. There are four cases in different types.

a) The case of Ban Nong Pue

The case of Ban Nong Pue can show some of the points about rural funds above. Ban Nong Pue is in Amphur Nong Ruea, Khon Kaen Province. Being about 42 kilometers from the city makes enterprises not so hard concerning facilities and transportation. The population is 1300 in 300 households. The major occupation of the people is agriculture, and the minor occupation is employee. Some families convert themselves to be small entrepreneurs in their community.

In 2005 an enterprise appeared to produce finished clothes. It is a similar model to some villages in Nong Ruea, for example Ban 52 that is located further from the city and manufactures finished clothes. The model of Ban 52 has run for more than 20 years and has spread out to subcontractors with more than 3 groups. Each group has about 50-70 producers.

The enterprise in Ban Nong Pue spread from other manufacturing in other areas. The producers in this village used to be the workers in the manufacturing process of cloth making in other distant places. When the workers got old, they wanted to work in their hometowns. This is the starting point as for other rural industries in this region. The experience they

have, including opportunity, pushed them to create an enterprise in their home village.

The skill was not a problem at the first stage because most of them have their own skills. The next step was to market their products. With their experience in this industry, it was not so difficult to find the market. Combined with the need of the market for this product, their product was distributed to the market in the area quite smoothly. The 8 original producers in the village began to increase in a short time. The market did not require much quality, so the skill of the producers did not need to be so high. However, the entrepreneurs who came from working in this industry for many years had good skill and were able to produce quality products.

The big problem at the beginning stage was neither the problem of production nor marketing. The problem of this enterprise fell in the investment. They had experience in production, experience in marketing and experience in enterprise management, but they lacked investment. The funding agency did not know them and denied to give a loan because all of them were new entrepreneurs with no credit. Although this enterprise was a small firm that did not need much money, their savings were not enough for their investment.

The possible ways to invest in the enterprise were small loans from their relatives. They had a problem of expansion. When their enterprises needed development such as trucks for product transportation, sewing machines to increase production etc., it was impossible because of limited investment.

b) The case of Ban Pu-Moon-Bau

Ban Pu-Moon-Bau is also located in Amphur Nong Ruea, Khon Kaen Province. The distance is not so far from Khon Kaen city. It is the place where the production of golden ware started in 2001. The starting point of this manufacturing at that time was promoted

by a worker who used to work in gold manufacturing in Bangkok. After he worked there for a long time and returned home, he had an idea to create a small enterprise to produce necklaces with gold coating in his village. One government agency supported him with a small loan.

He spent that small loan combined with his own savings to create the enterprise. His business was the production of necklaces at the beginning and to sell to the people at rural fairs. His product sold out quite smoothly. The reason was he had a good product at a cheap price. The golden ware that he produced was real gold at the coating while the structure was bronze. The buyers knew him well because the producer told the truth, and they liked it because of the cheap price and looking like a real gold necklace.

The enterprise was expanded to produce a variety of golden ware, for example bracelets, lockets etc. and needed more workers. Each worker could create their own enterprise after they had experience. The first entrepreneur did not forbid them from doing this. He had his aim to develop his hometown with this occupation. So, it is no surprise that this kind of enterprise increased in number. He preferred to teach the know-how to his neighbors. With his aim of development, the golden ware enterprise spread out very quickly.

The products of this village were guaranteed by the local government agency, so the buyers could believe in the quality at the same price. It is no doubt that the business of these enterprises grew rapidly. Some enterprises had their office in town for easy contact.

At present, some enterprises in villages have become wholesalers. The buyers in town know these products more and more. It is good for marketing nowadays. The advertisement of the product lies with the people who have used it.

However, this is a story how rural credit from a local agency can be effective. Although the amount of credit might not be high, it is better than not to begin because of lacking investment.

c) The case of Ban Ngu Leaum

Ban Ngu Leaum is a village in the northeastern region. It is located in Amphur Chaturapakpiman, Roi Et Province. The number of households in this village is not large, just 154 households with 704 people. Surprisingly, the structure of the village is quite small compared with other villages, but within these 154 households more than half produce fragrance sticks. About 100 households in this village are concerned with this production.

The starting point of production began from 1993 when one villager went to work in this kind of industry in the central region. When he returned home, he tried to produce at his house. His neighbors came to help him at that time. His enterprise was a small enterprise and he could run the business as well as the big one. It was a model of enterprise that showed the people in the village how successful he could be.

The production spread to almost all households in the village. The workers in the pioneer enterprise could learn very fast and created their own enterprises at their houses in a short time.

At present, about 100 enterprises in this village have their own production instruments and own trucks to transport their product around the region. Approximately 8-10 trucks come out from the village daily and travel around the region to send their products to the shops in many provinces. Those shops are the wholesalers that sell to retailers in both the same region and other regions.

The interesting thing for these enterprises was the credit. Of course, it is the same as in other enterprises that they had not enough savings to start a business, and needed to use credit. The interesting

point for this village is that the credit did not come from outside. The above cases showed that the credit came from outside. One case came from an outside agency. Another one came from a savings group. But in this case it came from an entrepreneur in the same business.

Normally the same businesses are competitors among entrepreneurs. It is rare for them to coordinate together. This case shows that it is possible to do so, especially in the credit function that relates to their businesses.

The entrepreneur in this village coordinated to create a production fund by themselves. The investment in this fund came from the investment of members. Members were entrepreneurs in the village. They invested different amounts. The members who were able to invest much more than others could have a gift. The funding committee gave them a high priority for taking loans.

In this sense, the investment of small members came from the help of this fund. The loan of each member could help them to upgrade their businesses. If they invested more in the equipment, they could have more product and could have more income from selling. In the other sense, if they invested more in trucks, it means that they would be able to sell more because of the ability to transport.

d) The case of Ban Sila

Ban Sila is in Tambon (Sub-district) Sila, Amphur Muang, Khon Kaen Province, about 12 kilometers from town. This village is located in the irrigation area which means there is water enough to plant.

The people in this village mostly are farmers. They did not plant rice as the farmers in other areas, but they planted flowers. The flowers need more water for growth than normal crops, so the irrigation area has advantage over outer areas that did not have

enough water.

Ban Sila was well known as the planting area of Khon Kaen City for more than 10 years. The people in many occupations needed flowers for various purposes, and they were pleased to have the planting area to supply them for mostly the whole year round. However, the flowers themselves had their own season. Some seasons the farmers could produce enough to supply the needs, but in some seasons they could not. Moreover, the farmers who had skill in cottage industries could earn from manufacturing. They used flowers as the material to produce bio-products in the form of ceremonial components. It was advantageous to produce fresh bio-products with fresh materials in the area. These activities could give more income for farmers that were local people than for other farmers in other areas.

Although these farmers earned greater income than their neighbors, some families needed further investment. The above paragraph explains some occupations of farmers who have skill in cottage industries. The customers always come to order directly, but there was a tradition of paying at the time of delivery. The investment needed advance cash to buy flowers and instruments. These functions pushed some farmers who were producers to need an investment fund.

The need of people in this village came from the same reason. They needed investment for their cottage occupations. The need pushed them to create a credit fund. This credit fund had a form of saving and loaning. The investment of this fund came from its members. The members had to save each month and could take a loan whenever they needed.

Although the saving fund could provide credit to many small enterprises in this village, there are many enterprises in the same business which do not need this credit. Some questions arose about this

phenomenon. Why do some enterprises need and some enterprises not need a loan? Is it possible for the enterprise to occur with no credit? Is it possible for this model to be implemented in other areas? These data along with concepts and questions lead us to draw up the model.

Rural credit model build up

From the above cases and the data collected, the rural credit has a variety of sources. Each source can have its own management. Although the amount of loan was not much and was not significant for outsiders, it was an important thing that made small enterprises occur. The rural credit can be built up into a model as in Figure 1.

This model shows that small enterprises occur with credit from many sources. The production techniques relate to experiences and neighbors. The expansion is the next step that relates to the rural economy and regional development. So, it can apply to many rural communities as well.

Conclusion

Rural credit has a role in small enterprise creation. The local agency, saving group and entrepreneur group could have a function in credit provision at the beginning stage of rural enterprise occurrence. The entrepreneur's experience and neighbors could have the supportive role in the push of these enterprises. In the later stage when the enterprises are already running, the amount of production and number of enterprises increases. This effect also pulls the community development. Rural economy is the next step in the push and pull effect. When regional development can occur, this stimulates the saving group and entrepreneur group to be stronger in the future.

It is an important activity to create new entrepreneurs and help them to develop and expand their businesses. The question is how to create this activity in many areas. The model of credit may not be the same in every area. However, the suitable model should be found for the next stage of development for the community, country and region.

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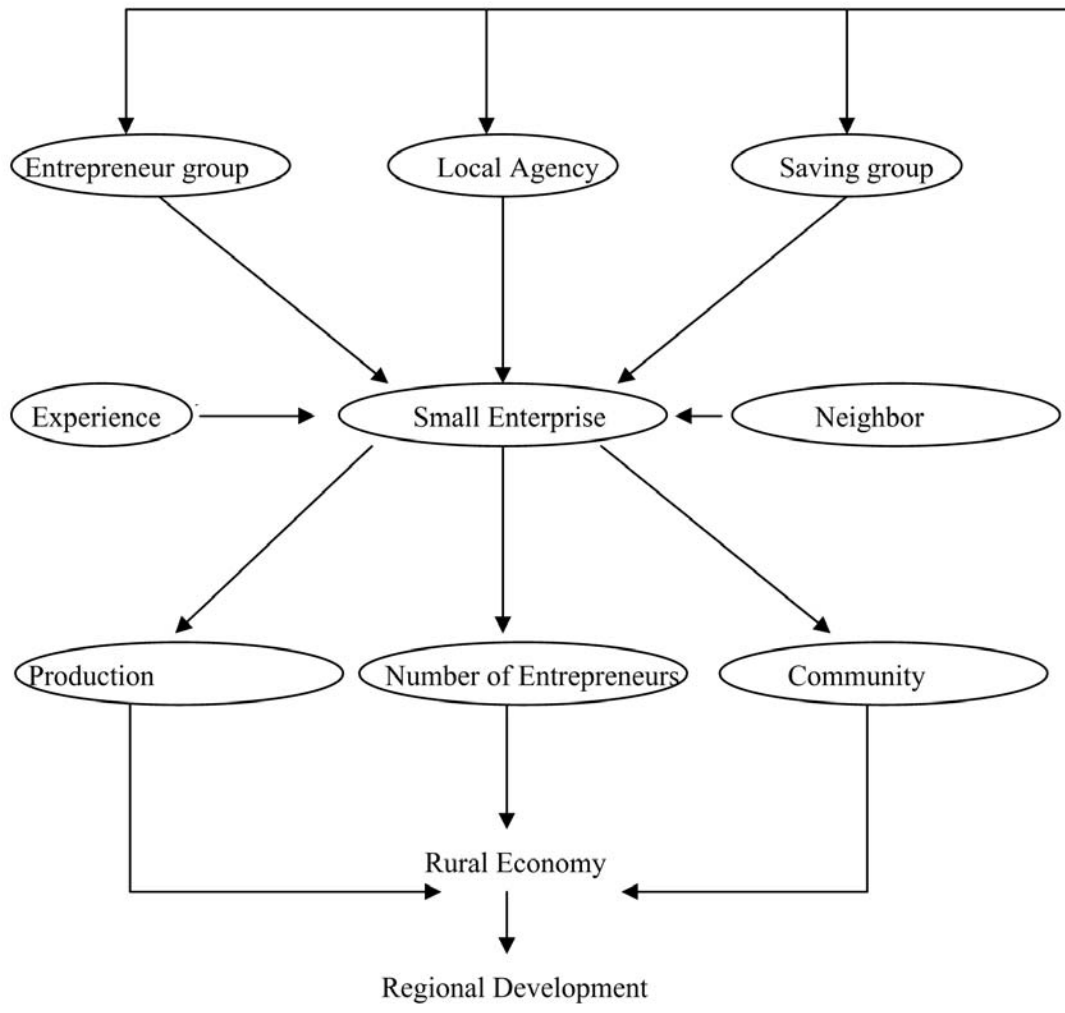


Figure 1. Rural Credit Model built up and the linkage with Rural Economy.