

CHAPTER 1

INTRODUCTION

The economic development efforts of most developing countries have given priority to the agricultural sector before extending to other industrial sectors. However, the agricultural systems of these countries are fundamentally rural-based and subsistence-oriented with food security being the primary production goal. As a result farming households attain low standards of living (John and Mellor, 1961). Consequently, many countries have attempted to promote the adoption of various production technologies for agricultural system development so as to maximize income from production, but they still encounter some major hurdles, namely the inadequacy of funding sources to provide support to poor farmers. To deal with this obstacle, a system of community financial institutions or the commonly called microfinance institution (MFI) has been introduced. Many countries, especially in Africa, have had success with MFIs that are commonly used for solving household poverty problems particularly, in the agricultural sector (Kevane, 2001).

1.1 Rational

Thailand's economic development efforts have focused on the agricultural sector as other developing countries. have nevertheless, this sector still faces many problems such as declining productivity, high production costs, natural-based production, product price fluctuation, and labor migration from the agricultural sector and

service sectors (Somchai, 1998). Considering the Table 1.1, the value of agricultural products was approximately 10 percent of the gross domestic product. The movement of the agricultural sector, thus, has had a minor impact on macroeconomics. In contrast, the agricultural sector has been affected by changes in other sectors (TDRI, 1998). In the past, although Thailand succeeded in economic development as a whole, the economic growth was mostly concentrated in the Bangkok and metropolitan areas (NESDB, 2009). The rural areas in which the majority of the population had farming as the main occupation were concerned with inequality of income because the people could not adapt themselves to the change.

Table 1.1 Gross domestic products during 1998 – 2008.

Unit: Million Baht

Year	Agricultural sector (1)	Non-agricultural Sector (2)	Total (3)	Percentage (1/3)
1998	498,077	3,652,163	4,150,240	12.00
1999	435,316	3,729,822	4,165,138	10.45
2000	444,019	3,996,400	4,440,419	10.00
2001	468,885	4,151,799	4,620,684	10.15
2002	513,428	4,349,659	4,863,087	10.56
2003	607,207	4,640,379	5,247,586	11.57
2004	669,498	5,820,349	6,489,847	10.32
2005	721,682	6,365,978	7,087,660	10.18
2006	836,077	6,980,399	7,816,476	10.70
2007	954,239	7,519,393	8,473,632	11.26
2008	1,054,175	8,050,804	9,104,979	11.58

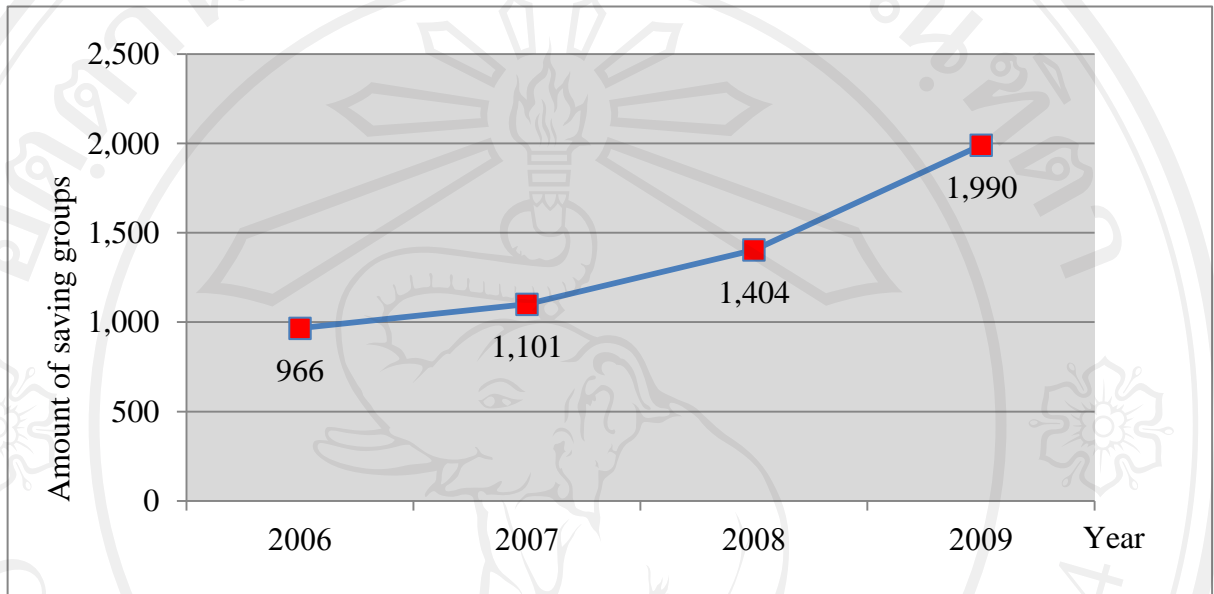
Source: NESDB, 2009.

In 2006, there were 1,388,207 farm households in poverty which accounted for 69% of all agricultural households. The income of these people is not enough for their expenditures. The average Farm household's income was approximately 12,835

Baht/person/year whereas their spending was 17,574baht/person/year. For non-agricultural households, their average income was approximately 155,418 Baht/person/year, about nine times higher than poverty-stricken farm households' income (Office of Agricultural Economics, 2007). The main reason for farmer poverty was low production efficiency due to lack of funding to improve productivity (NESDB, 2007). Therefore, the government has planned to distribute more opportunity and prosperity to the rural and regional areas via community enterprises. These become the strategies for community economic development and were placed in the National Economic and Social Development Plan No. 8. The outstanding goal is "the strengthening of community organization concerning self-reliance in both economic and social perspectives emphasizing holistic development".

In terms of the upper northern areas context, the economic structure was backward and most of the population employed in agriculture was poor (BOT Northern Branch Office, 2007). Hence, various government and non-government agencies have supported and promoted cooperation of the people in their community for establishing business enterprises. One type of these organizations was microfinance groups, also known as saving groups (in this research, these two terms are interchangeable). In each community, the names of saving groups were called differently such as saving groups for producing (to be called production groups), credit union groups, village banks, truth groups, etc. The goal of the organization was to provide a source of funds for farmers borrowing to invest. It is noted that although the establishment of saving groups in the upper northern areas is expanding every

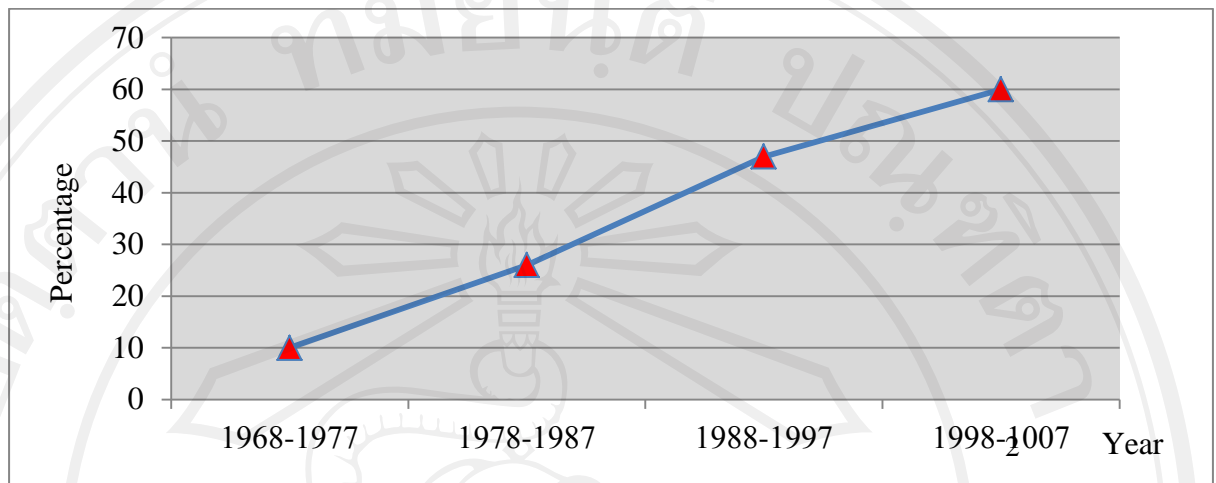
year (shown in Figure 1.1), the proportion of poverty households is also increasing (shown in Figure 1.2).



Source: Credit Union League of Thailand Limited, Northern Branch Office, 2010, And Community Development Office, Lampang Province, 2010.

Figure 1.1 Trend of amount of saving groups in the upper northern region during 2006 – 2009.

Consequently, the research questions consist of:(1) Which types of agricultural investments are affected by the operations of saving groups established in the upper northern agricultural communities, and how? (2)How does saving group performance efficiency affect on farm household production efficiency? and (3) Are the roles of saving groups influencing the farmers' quality of life? If the roles of saving groups have impinged on agricultural investments and been able to effectively operate, these would bring about an increment of the farm households' quality of life, reduction of the poor households proportion, and guidelines on economic development of agricultural-based countries to be strengthened and sustained.



Source: NESDB, 2008.

Figure 1.2 Proportion of households in poverty in the upper northern region during 1967– 2007.

1.2 Study objectives

- 1) To know the roles of microfinance institutions in agricultural investment of farm households
- 2) To know the operational effectiveness of microfinance institutions affecting farm households' production efficiency
- 3) To know the effect of the operational efficiency of microfinance institutions on the quality of life of farm households being the microfinance institution members

1.3 Expected results

This study brings about guidelines for related agencies to properly promote and improve the microfinance institutions in agricultural areas via the aspect of microfinance institution operational characteristics affecting farm household quality of life.

1.4 Scope of the study

The Scope of this study is the farm households who were the microfinance institution members in 2010. The microfinance institutions are specified into two categories: production groups and credit union groups. The selected areas consist of Chiang Mai and Chiang Rai provinces which have the highest amount of microfinance institutions and farm households in the upper northern region, as shown in Table 1.2.

1.5 Definitions

Production groups refer to the saving groups for producing.

Credit union groups refer to the groups of credit union and/or credit union cooperatives.

Saving group households refer to the farm households who are members of saving groups.

Credit union group households refer to the farm households who are members of credit union groups.

Production group households refer to the farm households who are members of production groups.

Table 1.2 Amount of saving groups, farm households, and agricultural areas in 2009.

Provinces	Amount of farm households (households)			Amount of agricultural area (Rais)			Amount of saving groups (groups)
	Total households	Farm households	% of farm households	Total area	Agricultural area	% of Agricultural area	
Chiang Rai	394,085	149,272	37.88	2,046,996	1,942,364	94.89	482
Chiang Mai	551,696	193,686	35.11	1,360,348	1,240,359	91.18	392
Mae Hong Son	71,559	25,502	35.64	233,978	219,008	93.60	101
Lamphun	137,220	55,714	40.60	398,326	353,902	88.85	188
Lampang	241,692	103,524	42.83	742,721	670,726	90.31	323
Phrae	145,166	63,854	43.99	514,086	464,977	90.45	139
Nan	132,636	78,865	59.46	774,461	695,129	89.76	321
Phayao	155,466	78,951	50.78	1,091,892	1,036,356	94.91	135

Source: Department of Provincial Administration, 2010 and Department of Agricultural Extension, 2010.