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Microfinance Trust Factor: A Village Fund Case in Thailand

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Abstract

This paper presents the findings related to trust factor impact of Village and Urban Community Fund (VCF) program on the members of Ton-ked rural community in Prachuabkirikan province of Thailand. The study was not based on a predetermined set of criteria, but was based on what the members have experienced as a result of the program participation. Members of the village fund were invited to a gathering to participate in this study and nine agreed statements describing the impact of the program were derived. Although the result shows that the impacts perceived by the participants were investment return, household spending, knowledge as can be expected from most microfinance program, it is evidenced that trust, unity, biasness, payback in-confidence, fear of not getting a second round loan, and sacrifice were perceived by the participants. Since different communities have different nature and characteristics, uniqueness of the environment and impacts in each community should be acknowledged in the assessment. Exploratory Factor Analysis was used to determine the factors of perceived impacts and the trust factor and the non-trust factor were derived. This paper raises the point that microfinance impact assessment criteria related to the trust factor should be explored. Trust factor is significant in the assessment of a microfinance program such as VCF as it contributes to the understanding of cooperation and self-governance ability of the people that is pertinent to the sustainability of microfinance institutions.

Keywords: Microfinance, Microfinance Institutions, Microfinance Impact, Village Funds, Self-governance, Thailand

1. Introduction

Microfinance impacts have been studied and discussed widely in relation to development and microfinance institutions have proven to empower grassroots or the less privileged people in rural villages and urban communities. The main impact has been mainly about economic empowerment as it has seemed to be the most urgent agenda for governments and sponsors. The economic success of microfinance, however, may be shallow, unsustainable, and even fake in many cases if the institutional factors and impact are not well assessed.

In many cases, microfinance institutions have strict requirements concerning repayments, pushing the borrowers to borrow from informal lenders who charged much higher interest rates in order to pay for the loans from formal institutions on time, and expecting to get another loan right away. In the case of Village and Urban Community Funds (VCF), many funds are strict with repayments as well, pushing the members who do not have enough to borrow from the informal lenders. The cycle thus goes on and on with the dependency on the informal lenders. The members who have borrowed from the VCF have the tendency not to pay back the money if they haven't generated enough income and not certain whether they will receive another loan immediately (to pay back to the informal lenders).

The assessment criterion of loan repayment ratio is thus shallow, fake and irrelevant to conclude that the loans have been used to generate income. There have been feedbacks about the misuse of the loans as well as the inability of the members to use the loan money to invest in the ways to generate higher incomes to pay back the loans on time. Both formal financial institutions and VCFs in Thailand don't seem to be bothered much if the loans are being paid back on time. It seems that the major reward for paying back on time is the immediate approval of the next loan. Without the next loan waiting, many borrowers may not have enough incentive to pay back the loan on time.

Understanding the institutional impact of microfinance on the members is crucial if microfinance institutions are to be assessed in relation to the sustainability of the programs. This paper attempts to discuss about the institutional impact of microfinance institutions, particularly on the self-governance capability of the people who participated in the program. The approach is not to use predetermined criteria of assessment generally used nor to prove a theory but to explore the institutional impacts (related to rules and cooperation) perceived by the members of the Ton-ked VCF. Some descriptive statistics are used to describe the sample and a factor related to trust is derived by using factor analysis.

2. Literature Review

Microfinance programs, without evaluation that is targeted at understanding the system and open to new diagnosis, the focus maybe more on the short-term income generation and payment rates while capability development is overlooked. Amartya Sen (1999) puts it clearly that the concept of “poverty as capability inadequacy” is related to “poverty as lowness of income”. According to Sen, “enhanced the capability in leading a life” can help make a person be more productive and earn higher income, not just the other way round. The review of the literature and the argument this paper is focused on the development of the capability of the poor people in the cooperation to use the limited funds of VCF program and self-organized microfinance institutions in general.

Microfinance as Co-production

The cooperation and the involvement of services users in communities with the government in the provision of public services has been a recent reform in public services (Sicilia, Guarini, Sancino, Andreani, & Ruffini, 2016). Microfinance programs originated by governments can hardly be sustainable without the involvement and participation of the community members in the operation of the programs. The involvement of the population in the provision of public services is called co-production (Pestoff et al., 2012 cited in Sicilia et al., 2016). Coproduction concept, as used in Brandsen, Pestoff, & Verschuere (2012) and Parks, Baker,& Kiser et al. (1981) involves both the citizens and the government but there have been conceptual issues on whether coproduction refers to the “service delivery phase only or also includes service planning, delivery, monitoring, and/or evaluation” (Steen, Nabatchi, & Brand, 2016). In the case of VCF program, the members can be involved in much more than just the service delivery phase, such as selecting the committee members and rules making which enable them to be exposed to self-governing process.

Microfinance program such as VCF is a form of coproduction as the people in each community are involved in the operation of the fund in their community. This approach to public services provision requires that the officials are equipped with managerial skills in “making room for people to develop” as well as other skills (Pollitt, Bouckaert, & Löffler, 2006 cited in Sicilia et al., 2016). There has been a growing interest in co-production of public services and the understanding on the motivation of the people in co-production still needs to be explored (Van Eijk & Steen, 2016).

Van Eijk and Steen argued that citizens consider both their personal competencies and the "potential results of their engagement", that is, the responsiveness of the government and whether the government provides the room for them to interact. According to Van Eijk and Steen, "trust" in the government and the "ease of the task" are related to people's engagement in co-production.

The level of trust, as a key condition for collaboration (Yamagishi & Cook, 1993), in government and in fellow citizens may be an important "precondition" for participation in programs (Fedderus & Honingh, 2016). In their study on activation services (2016), Fedderus and Honingh found that trust is related to participation in co-production but raised an important point whether engaging vulnerable citizens in co-production is an "effective strategy". When looking at the VCF program, it is evidenced that paying back loans is a major problem for the vulnerable borrowers, not because they don't have trust but because they do have high trust in the government help and interference while having questionable social capital. The main concern for every party is how vulnerable the poor people are concerning the capability to participate beneficially from the VCF program.

Microfinance Expectations

Microfinance institutions, if intent to be used as a mechanic to increase income without considering the impact on capability development, the impact such as trust is not explored and long term results may be undermined, leading to higher cost of development in term of sustainability.

The major impact of microfinance institutions expected should be to economically and socially empower the people. This includes self-governance ability of the people participating in the program. A highly expected outcome of self-managed community financial institutions is the ability to manage their economic livelihood such as the ability to create income for the family. Although it was found that VCF program has no significant impact on the alleviation of the poverty, provided the empirical evidence of non-consumption expenditure studied by Chandoevwit and Ashakul (2008), it was found that the VCF prevented near and moderate-income groups to fall into poverty (Songthong & Suriya, 2014). These findings make sense as poor people have to spend the money from loans on survival and emergency needs, given the limited skills and knowledge for income-generation activities while those above poverty line have more ability to use the loans for income-generating activities.

Social impact such as self-governance ability must be achieved if sustainability is expected. Community financial institutions can bring people to work together for their own well-being. Based on his experience with development programs, Seri Pongpit (2002) pointed out that the problems involved in rural development were 1) the confidence of the people to solve their own problems, 2) the decreasing of social capital, 3) management knowhow in relation to the market economy, and 4) knowledge based on experience and enlightenment. He pointed that community financial institutions should involve participation and governance with a clear goal of assisting people in their community. Whether community financial institutions can help solve development problems depends on how we design the institutions to serve our expectations.

Investment and income have been found to increase as a result of VCF program, but it has been found that higher average debt per family has increased significantly as well as the problems concerning the repayments rate of the funds. The incentives for the monitoring of the loan approvals and loan uses have not been high enough as it has been known that the program aimed at helping the grass-roots people and that it was a major popularity generating tool of the ruling political parties in Thailand. For the poor villagers, the one million baht fund for each village was considered a windfall (Chandoevwit & Ashakul, 2008). The uses of loans have not been seriously guided as long as the borrowers can pay back the money. Because of this, much of the funds' money has been used in non-income-generating activities and the borrowers usually have to depend on informal lenders when the repayments are due. The VCF participants perceive that if they can return the money on time the uses of the money are not important and are dependent on the government economic populist policy to help them in terms of interest cut or debt suspension policy in the future (Pruetinok, 2012).

Although microfinance programs have been found to have some empowerment impacts, the main concern have been short-term income generation and repayment rates. VCFs have been basically recognized as lending sources and profit oriented rather than empowering institutions for communities (Sudprasert, 2010). If the focus of the policy continues to be repayment rates, the contribution of VCFs towards development would continue to be limited and subjected to unrealistic repayment records and exaggerated economic impact.

Intervention for Sustainability

Microfinance programs that address the poor people may not be sustainable if the institutions are not strategically designed and evaluated for self-governance capability. Microfinance interventions have to be strictly professional in order to achieve governance and sustainability goal. Even though reports on the results of microfinance have been encouraging, Bauchet, Morduch and Ravi (2015) point out that results may not always be positive, such as an "ultra-poor graduation" program in Andhra Pradesh that was operated by SKS NGO. It was found that the design and implementation in the intervention was a problem as the intervention had limited time as well as access to professional staff. This study shows that the economic improvement of the treated "poor' who were supposed to have "graduated" did not differ from the controlled group. The questions of "Whether the program should have been designed differently?" and "Did the way program inputs were designed get in the way of sustained behavioral change?" have to be answered (Janawar & Sengupta, 2012 cited in Bauchet, Morduch & Ravi, 2015).

The goals of government interventions through microfinance programs may be to reduce poverty, and to facilitate sustainable development. Both goals cannot be reached if the focus of a program is not directed at people's capabilities development. The focus of the argument on poverty has been on capabilities of the people as the basis for social policies despite the inconclusive definition of "capabilities" (Ha, 2013). Ha's point is very crucial for microfinance operations where participants and officials are more concerned with economic outcomes rather than the capabilities of the people to manage the resources sustainably. If participants' major expectations are to acquire more commodities that are not related to income generation and skill development, it can be predicted that the microfinance funds will not be sustainable for the next generation.

An important capability that is greatly needed by the poor people is the capability to create social capital. Microfinance benefits include increase social capital (Roy, Ara, Das, & Quisumbing, 2015). In self-governing organizations, empirical evidence shows that social capital together with the structure of physical capital affect the outcomes (Ostrom, 1995). Without social capital development that is based on trust and cooperation will be a very painful challenge for VCFs' sustainability.

Microfinance Self-Governance Problems

Microfinance funds can be considered common pool resources (CPR) that people have to jointly make decisions on the best use of the limited resources. Institutions are necessary to solve problems and keep the funds sustainable. If considered to be a kind of aid provided by the government there is less concern on the sustainability as the politicians eager to be elected will promise for more resources. Microfinance institutions such as VCFs, however, need to be sustainable not because of limited money but also because it is a significant development tool for the empowerment of people to govern themselves.

Common Pool Resources (CPR) problems

The major problems faced by microfinance institutions are the typical types faced by other common pool resources institutions. Appropriation and provision problems are the two broad types of CPR, according to (Ostrom, Gardner and Walker, 1994). Appropriation is a big problem for VCF funds as values has to be assigned on whether the good use of fund or the fair distribution of the credit should be given priority. High return rate is the result of profitable investments while low return rate is the result of using the money borrowed for non-income-generating spending. The circulation flow of the resources may be a big problem if there is a higher rate of those unable to pay back the money on time. Politically, higher distribution rate would benefit more people in the short run, but for sustainability the responsibility and the skills need to be monitored and intervened. According to Ostrom, Gardner and Walker, "maintaining or improving the production capabilities of the resource" or "avoidance of the destruction of resources" are provision problems. Village funds continuously face the provision problem of running out of money as a result of low repayment rate which shows that there are institutional problems concerning the appropriation and provision of funds in a sustainable way.

Use of money

The use of the loans received by the members of VCFs were found to be used in non-investment spending as the capability of the borrowers to create income maybe limited, depending on how poor, or how much a family needs on survival spending. Many borrowers are found to have used much of the borrowed money for their children's education related expenses and emergency expenses of family members such as funerals and health, which were completely not related to income generation. It serves in many cases to prevent the members from using informal credit services which charge much higher interest rates.

Microfinance institutions have higher chance to succeed with the proper social security programs and reducing certain amount of risk on misusing loans by integrating with government social security programs (Chiang Mai University, 2009) or the local community-based welfare networks, CBWNs (Kiatpathomchai & Charenjiratragul, 2012). VCFs can use part of the profits to initiate community social security programs or other community development programs (Panyachit, 2012). Social security programs can significantly contribute to the sustainability of VCFs as there will be less need for loans needed for the non-income-generation spending as well as higher incentive for participation and cooperation. With risk control community social security system the program participants can direct the money on income-generating activities that results in capabilities development.

Professionalism

The VCFs can be more sustainable if the loans can be tailored for investment activities of members rather than be used for survival and emergency needs. The funds that aim to help generate income need to pay more attention to the market risk in the lending process (Thamasat

University, 2004). The sustainability of funds such as VCFs with a goal of income generation is significantly depending on the lending operation that is professional. If the repayment rate is low the funds would not be sustainable thus microfinance institutions that can operate more professionally have higher chance of sustainability. Participating in a professionally managed microfinance institution can help people to be educated and enlighten on self-governance while participating in unprofessionally operated institutions can enhance the skills and attitude for patronage system.

Without a clear strategy to create professional institutions, VCFs are prone to fail both in terms of money and human capacity development. Professional practice, however, does not mean that we should ignore the nature of different communities. Operating professionally demands participants to be responsible and accountable on the loans borrowed which strengthens the trust and cooperation among themselves in jointly solving their problems rather than depending too much on the government decisions.

However, taking professionalism as a practice to be copied from an industrialized country may be a great danger. The implementation of development programs has to be suitable and flexible in different environment, and the programs should not rely on theories and information from other areas too much but should rely on the data from the area of implementation (Greenwood, 1973). The implementation of the VCFs should be flexible in different communities and the evaluation criteria of VCFs should not be a total replication from one community to another community if the local institutions are expected to provide the best development outcomes. The evaluations have to be sensitive to the differences in the impacts of the implementation in order to improve the VCF institutions in each area.

Jeffery Sachs (2005) powerfully uses five key lessons from clinical medicine to show how we can apply clinical economics in solving poverty: 1) “economies are complex systems”, 2) “economists, like medical clinicians, need to learn the art of differential diagnosis”, 3) “clinical economics, like clinical medicine, should view treatment in family terms”, 4) “good development practice requires monitoring and evaluation” and 5) “the development community lacks the requisite ethical and professional standards”. Government should note that microfinance institution is a complex system that integrates many systems of the community such as community norms, relationships and economic activities so differential diagnosis should be open for different microfinance institutions. General understanding of other systems may not apply for the diagnosis of certain VCF institutions, however, ethical and professional standards should be expected and not be undermined by political agendas.

On Capabilities

Success of microfinance program can be predicted by the knowledge of the participants (de la Huerta 2010). According to de la Huerta’s finding, knowledge of people and institutions is related to microfinance success and failure. Knowledge is a determinant of microfinance institutions sustainability as it improves the capabilities of the participants. If the institutions are designed to generate knowledge capabilities of the participants and sustainability of the institutions can be expected. Knowledge of the participants thus should not be treated as a given independent variable. Capability of self-governance should be an important expected result of microfinance institutions that are expected to be sustainable and should be included in the evaluation criteria.

VCF institutions can be capitalized on knowledge improvement and networking (Sudprasert, 2010), but to achieve that, evaluation criteria and effective monitoring have to be designed. The evaluations, however, are usually based on certain agreed criteria and causing limitation for the development of the knowledge concerning the process and the impact.

Trust and Cooperation

A society cannot be sustainable if people are too focused on self-interests and not paying enough attention to cooperation and self-governance in order to manage the limited resources the society has. Communities have limited resources and self-governance is the key to sustainable development as it attracts cooperation. Successful community financial organizations (Office of Village and Urban Community Funds, 2003 and Kasetsart University, 2013) are the ones that have been paying attention to cooperation. Grounded on the United Nations Declaration of Human Rights in 1948 the sustainable society paradigm, as argued by Lockard (2013), is found within the dimensions of "cooperation and equality". Perceived equality can lead to higher cooperation and higher cooperation can affect the equality. It is undeniable that trust and capabilities of the people have significant role in community cooperation and development.

Although cooperation is generally accepted as a major factor for successful development programs, equality can still be a big problem as people perceive it differently and it may be a hindrance for the development of trust and cooperation. How well people manage institutions should be the key to the success of development. The priority of any development program evaluation needs to be on the long run impacts that leads to further cooperation and social capital creation. It is fair to say that VCFs evaluation has always realized the importance of cooperation but equality and trust somehow have not been well understood.

Successful self-governance institutions rely on the rules and sanctions that can generate contracts and cooperation. All communities have different contexts concerning cooperation and social capital that is based on trust and reciprocity. Despite the "human capacities to overcome social dilemmas", according to the study by Ostrom, Gardner and Walker (1994), there are three settings for the improvement of self-organized institutions: 1) the setting where people have no "expectation of mutual trust" and "no means of building trust", 2) the setting where distrust cannot be reduced by communications and interactions, and 3) the setting where there is lack of self-governing authority in creating institutions when people are "willing to extend reciprocity to others". Microfinance institutions provide rules and communities have norms that provide conditions for trust forming. Programs that are aiming at being sustainable thus have to provide conditions for trust forming.

Common-pool resource (CPR) concept has been widely used in the studies of resource systems such as water and fishery where exploitation is possible as exclusion of appropriators is "nontrivial" and the resources are subtractable (Ostrom, Gardner, & Walker, 2002). For a CPR, access to the resource are undeniable to many users, thus not a private goods, and the quantity is affected by the use of other users, so it is not a public goods (V. Ostrom & E. Ostrom, 1999). Once a resource cannot be excluded in a community depletion of the resource is a threat to sustainability. As observed Aristotle (quoted in V. Ostrom & E. Ostrom 1999), "that which is common to the greatest number has the least care bestowed upon it."

The VCF members cannot be excluded from getting a loan despite the differences in the capability to use and pay back the loan. Since the funds have been perceived to be a political grant from the government, loan repayments have been a major problem in many funds. The approach to the sustainability of the village fund program would be more successful if the funds provided are treated as a CPR as the community would have to be responsible for the resource, not the government. Thus, the sustainability of the funds depends on whether the community members can self-manage the funds with trust among themselves or that the communities trust that the government will always provide and come to the rescue.

Trust and Sustainability

Microfinance institutions can be more financially sustainable if focused on trust (Epstein & Yuthas, 2011). Level of trust and collectivist culture is related to operating costs and default costs of microfinance institutions (Burzynska & Berggren, 2015). The impact of microfinance significantly involves trust: trust among members, trust in the management committee, and trust in the government. Without trust, sustainability in the use of a CPR cannot be possible and without proper rules and sanctions trust cannot exist. Microcredits as a CPR can be depleted since without cooperation in paying back the loans there will be less and less left for the other members. Members of the funds are willing to wait for the next turn because they have trust in the members who borrow before them. They also have to trust the fund management committee on their fairness of loan appropriation. Trust in the sustainability of the funds is a major factor for the success of microfinance institutions.

Experimental research works have shown that trust among players can be indicated to successful cooperation (Hardin, 2002). Understanding the links between trust and reciprocity and between trust and reputation is a core of behavioral explanation (Ostrom E. , 2003) . Trust, "the willingness to take some risk in relation to other individuals on the expectation that the others will reciprocate" (Walker & Ostrom, 2003), is thus a necessary key to the understanding of the behaviors of microfinance participants and the sustainability of the program.

People usually participate in rural development program for economic reason. There is hope and expectation that economic benefit can be gained. Microfinance programs attracted participants because of the economic benefits in terms of loans and income generation. In the case of village funds program, each fund has limited amount of money and not every participant can get the loan in the same round. They have to trust that the institution can be sustainable, that is, the early borrowers can pay back the loans on time so they can take their turn or else the credit will have to be rationed and each loan will be too small for significant income generation activities. If members don't pay back the loans the fund cannot be sustainable and the money may be like a one-time grant to the villagers. If it is expected that the funds are sustainable then attention has to be given on the implementation of rules.

Rules reduce the uncertainties of human behavior (Sengupta, 1997). Base on the participation of farmers in irragation systems, Sengupta argued that common-pool resource like water has high transaction cost and it is uneconomic when participatory programs are designed to serve bureaucratic management. Microfinance, however, may be different in that the bureaucratic management or government can be the one that send a very important signal concerning the sustainability of the program (such as "more help is coming" or "payments can be delayed without sanctions"). Village funds should involve the participation of the members in making operational rules and sanctions but not to the extent that compromise professionalism in the management of the funds. Without trust among the members in following the rules and the confidence in the integrity of the institution, cooperation among members and sustainability of the funds are compromised.

3. Methodology

The population of study is 108 members of Ton-ked Village Fund. All members were invited to a meeting and 38 members attended. The meeting was held in order to have the general understanding and agreement on the statements to be used in concerning the perceived impact of the village fund. Since development implementation should rely on the information and environment that is unique (Greenwood, 1973), this study aimed to explore the possible impacts based on the inputs and discussion of the members in the meeting so the participation of the members in the meeting was necessary in the data collection.

The participants were asked to describe the impacts the village fund program had on them. No predetermined impact was suggested by the researcher accept increase in knowledge perceived, which was one of the most important indicator considered for sustainability and was a major interest of the researcher. All the descriptions were listed as statements and all were able to be categorized into nine statements because of the similarity of the impact described. The participants were then asked to assign a score of 1 to 5 as to the impact perceived from the village fund program (1 for least agreed, 2 for little agreed, 3 for moderately agreed, 4 for very much agreed, and 5 for most agreed, accordingly). Questionnaires were prepared for the participants to provide personal information, uses of loans and suggestions for the VCFs as well as space for the statements and points assigned for each statement. The researcher was able to provide clarifications to all questions asked concerning the instructions and questions.

Descriptive statistics were used to describe the participants' socioeconomic data and the perceived impact of the VCF program. The relationships among the perceived stated impacts were checked by using Pearson correlations and bivariate correlations can be initially observed.The impact on the male and female members of the VCF was anticipated and compared.

The study explored the Ton-ked Village Fund impacts perceived by the members by using the inputs from all the participants at the meeting. It was expected that there would be some similarity with the impacts in other VCFs. The methodology used was not designed to fix the observation with the impacts occurred elsewhere but allowed for the possible differences unique to Ton-ked VCF. It was expected, however, that self-governance development impacts may be found.

Principle components technique was applied in the exploratory factor analysis with varimax rotation (orthogonal) to group the VCF impact statements into factors. In order to distinguish the trust and non-trust related impact statements two factors were requested and trust related factor and non-trust related factor were expected. As an important factor contributing to the sustainability of microfinance institutions, "trust" can be a manifested factor. As a result, the importance of the trust factor may be seen clearer from factor loading and can be used for further study on how it is related to the sustainability of the VCFs as well as how the VCF institutions can be improved.

4. Findings

The first part of the findings describes the average scores of perceived impacts and correlations. The second part presents the factor analysis result.

Descriptive Data

The average amount of loan received by the Ton-ked village fund is 6,147 baht and the mode is 5,000 each, while the average income is 3,646 baht. The number of children on the average is 2.56. The participants have been memberships for about 3.43 years on the average and participate in the meeting about 4.63 times a year.

Table 1: Descriptive Statistics

Members' Information	N	Min.	Max.	Mean	S.D.
AMOUNT	36	3,000	20,000	6,416.67	3,425.74
INCOME	35	500	7,000	3,645.71	1,346.53
CHILDREN	36	0	8	2.56	1.74
MEMBERSHIP	34	1	6	3.43	1.16
MEETING	35	0	12	4.63	4.75
Perceived Impact					
RETURN	38	1	5	3.74	1.36
UNITY	38	1	4	2.61	1.00
SELFLESS	38	1	4	2.55	.82
BIAS	38	1	5	2.92	1.56
KNOWLEDGE	38	1	5	3.11	.92
INCONFIDENCE	37	1	5	3.11	.90
RELOANFEAR	36	1	5	2.86	1.24
TRUST	36	1	5	2.81	1.00
HOUSEHOLDS	36	1	5	3.42	.93

Of the nine impacts perceived by the VCF members, Investment Return ranks the highest score out of five (3.74), while Household spending (3.42), Knowledge (3.11), In-confidence in Paying Back (3.11), Bias (2.92), Fear of Not Receiving Another Loan (2.86), Trust (2.81), Unity (2.61) and Selflessness (2.55) follow consecutively.

It is interesting that Knowledge impact ranks third after the Investment Return and Households Spending. Theoretically, members of microfinance programs usually learn something about business and democracy from participation in the program. If knowledge impact is high self-governance and sustainability can be expected to be higher.

The two highest impact scores are Return on Investment and Households Spending. They are the most important impact on the members as they reflect immediate economic empowerment.

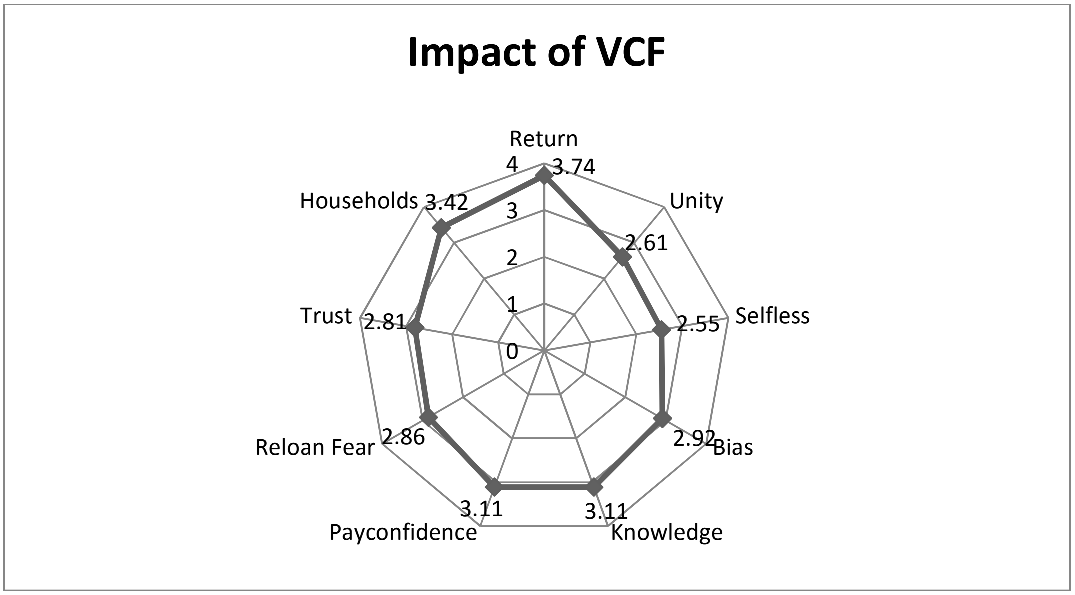

Figure 1: Impacts perceived (5 points scale)

When compare the perceived impact between male and female participants, the female participants perceived higher knowledge, unity, and return on investment with lower perceived bias and fear of not getting the refinance.

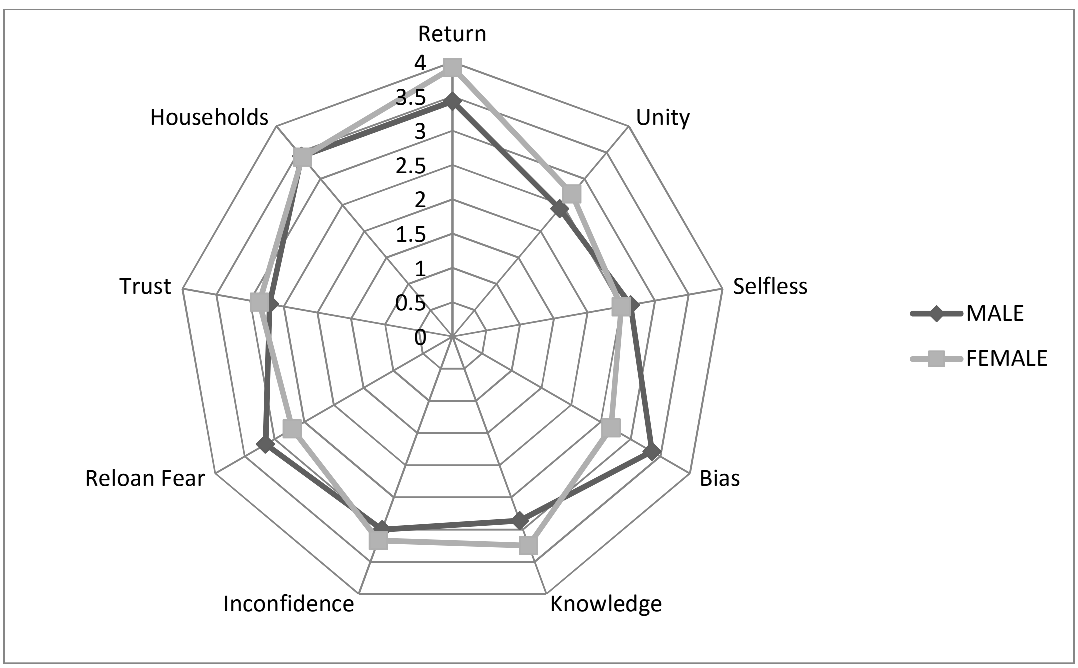

Figure 2: Comparison of perceived impacts among male and female members

The major concern of the Thai village fund program has been the sustainability of the program in term of repayments of the loans received. The correlation results show clearly that perceived returns on the borrowed money is related to knowledge perceived and negatively related to perceived biasness.

Perception of biasness affects development objectives in a negative way and should be attended to when designing institutions. Biasness is common among participants but it can be worsen if institutions are designed for political benefits as there is a tendency to harness patronization and cronyism while undermining professionalism.

Table 2: Pearson correlations of the VCF impact items

	RETURN	UNITY	SELF LESS	BIAS	KNOW LEDGE	INCONF IDENCE	RELOAN FEAR	TRUST	HOUSE HOLDS
1 .RETURN	1								
2. UNITY	.001	1							
	(.995)								
3. SELFLESS	-.512**	.107	1						
	(.001)	(.522)							
4. BIAS	-.464**	-.193	-.174	1					
	(.003)	(.246)	(.297)						
5.KNOWLEDGE	.300	.075	-.007	-.368*	1				
	(.067)	(.653)	(.965)	(.023)					
6.INCONFIDENCE	-.353*	-.223	-.043	.198	-.243	1			
	(.032)	(.184)	(.802)	(.240)	(.147)				
7.RELOANFEAR	-.412*	-.605**	.180	.243	-.365*	.484**	1		
	(.013)	(.000)	(.293)	(.154)	(.028)	(.003)			
8. TRUST	.261	.195	.023	-.434**	-.194	-.264	-.327	1	
	(.124)	(.254)	(.893)	(.008)	(.257)	(.126)	(.059)		
9. HOUSEHOLDS	.000	-.022	.039	-.408*	.104	-.376*	-.283	.181	1
	(1.000)	(.897)	(.821)	(.013)	(.544)	(.024)	(.100)	(.299)	

(t values in parentheses, * p < .05, ** p.< 01)

Trust Factor

All 9 items perceived as the impacts of VCF operation in Ton-ked were used in factor analysis and two factors were conditioned resulting in trust related factor and non-trust related factor.

Table 3: Village fund impact factor loadings (principles component analysis)

Items	Factor loading	Eigen value
I. Trust factor		2.90
1. Bias	-.684	
2. Re-finance fear	-.678	
3. Inconfidence	-.631	
4. Trust	.569	
5. Household spending	.568	
6. Unity	.563	
Cum. % of var. = 28.20		
Items	Factor loading	Eigen value
II. Non-trust factor		1.49
7. Return on investment	-.871	
8. Sacrifice	.805	
9. Knowledge	-.402	
Cum. % of var. = 48.81		

The trust factor is composed of six related items while other 3 items are grouped in the non-trust factor. The cumulative variance explained from the 2 factors is 48.81 percent. The trust factor alone has cumulative variance of 28.20% (Eigen value = 2.90) and manifests itself as a significant factor of microfinance impact.

5. Conclusion

Development is a result of institutional arrangements (North, 1990). Without well-crafted institutions that can generate trust in working together, development objectives may turn out to be a short term quick-fixed political instrument that satisfies people in the short run while leaving sustainability problem for the next generation. Trusting relationships can enable people to increase their joint benefits from the institutions (Shivakumar, 2005). As shown in the findings, trust factor is a manifested impact that cannot be overlooked in the design and assessment of microfinance institutions such as VCFs that thrive to be sustainable.

Building social capital has to be given priority in the development of microfinance institutions. Lack of trust can hinder cooperation and there cannot be sufficient social capital building without trust and cooperation. This implies that the design of microfinance institutions has to be seriously concerned with the enforcement of the rules and unbiased operations so that trust can be created and enhanced among program participants.

The major problem in Thailand's village fund program has been the enforcement of the rules on the participants as a result of hidden political agenda for popular support from the poor. People have less confidence that the institutions they participate can solve problems so they rely heavily on the politicians. They strongly trust that the elected politicians will always bail them out of their depths rather than trust in the corporation and professionalism of the VCF operation.

It is clear from Ton-ked VCF that the trust factor is prominent as an institutional impact that reflects all level of effective rules enforcement. Enhancing the ability of the participants to pay back the loan has to be systematically improved (such as risk control, knowhow, knowledge and suitable amount of loan) in order to achieve the trust. The amount of loan assigned to participants has to be strictly based on the ability to generate income, and not based on the sense of entitlement as promised by politicians. Microfinance can only be sustainable with trust and cooperation that is built on professional and well-designed institutions with an objective of creating human capabilities in self-governance, thus trust factor of the VCF program has to be well understood and monitored if sustainability is expected.

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