

THE VILLAGE FUND PROGRAM: A CHALLENGE TO SELF-GOVERNANCE

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Abstract: *A large amount of money has been allocated to the Village and Urban Community Fund Program (The Village Fund Program) in Thailand. Justification of the program has to be made and more analyses of this village institution should be done so that improvement can be made. Financial institutions are important tools in development but the more professional ones will last longer. Understanding the relationships among the variables that determine the success is necessary in the improvement of such funds, as it helps us understand the self-governance factors and system of each institution as well as the institutional design that can be developed suitably. Credit, as a resource, is limited. The major rules concern the payment of the money borrowed and the participants' strategies involve the decision to pay or not to pay. Understanding the Institutional Analysis and Development (IAD) contributes to the institutional design for the outcomes desired. If the outcomes are expected to be sustainable, the institutional design has to direct people to discipline, professionalism and self-governance development concerning the use of funds.*

Keywords: *Village and Urban Community Fund Program, the Village Fund, self-governance, microfinance, IAD framework.*

Introduction

Money is a resource that is different from other resources. Different communities will have different resources with different economic and social values. The wealth of people in general is therefore very much determined by the communities to which they belong. The size of the share in the resources for each person within and outside the community, however, has always been a major issue. In every community, resources can be very difficult to distribute. Proper distribution in terms of credit can help to improve equity in society.

Credits can be easily measured, can be used to acquire other resources and outcomes, and can be effectively evaluated in terms of economic values. Governments and many international organizations have been sponsoring and encouraging credit distribution since the process of resource use can be sustainable if managed well. However, many people cannot take advantage of the resources in their community because they don't have the

instruments of their wealthier counterparts. Credit can therefore allow poor people to be better equipped in order to have a more equal share of other resources.

This paper focuses on a particular credit distribution system in Thailand, the Village Fund program, which is significantly different from many other credit organizations in that the people in the community manage their own fund.

The Village Fund program is based on self-governance. Community members have to learn to work together in order to make the fund sustainable so that they can benefit from it in the long run. They must learn to help each other as well as develop the accountability required for the sustainability of the resources. Villagers can develop skills required for self-governance. Participating in the management of the funds helps to develop the attitude and skills needed in a democratic society in general. Villagers can learn by experience that their interest can be protected or changed through participating in the activities and working with other members in their communities. They can feel that they are empowered and can make changes in their lives. The skills and attitude acquired from the process

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should create a positive impact on at least economic and political development.

Self-governance is inseparable from the concept of democracy and development. Since democracy is a “system of government where people govern themselves” (Bickers and Williams, 2001) the practice of local self-organized institutions may be a crucial part of development at the grassroots level. People in the rural areas of Thailand can learn to enjoy participation and developing self-governance attitudes. This process will contribute to the emergence of a more developed democratic system in Thailand as the skills and the attitudes of those involved improve. They can develop the skills and attitudes necessary to manage the resources they share, which will most likely enable them to create more opportunities and choices for themselves. In their effort to understand the “fundamental changes that are required for stable foundation for sustainable self-governance”, McGinnis and Ostrom (1999) look at democracy “as a series of ongoing ‘transformations’ in the fundamental attitudes of people towards themselves and the physical world around them.” In the process of development and self-governance, it is necessary to understand how the attitudes of people are transformed since decisions concerning resource sharing are affected by their attitudes. Thus, understanding people’s attitudes and their decisions is necessary for the study of the management of resources in society.

The Village Fund Program

In 2000, a major grass roots economic policy proposed by the Thai Rak Thai party as part of its political platform during the general election campaign was to provide one million baht (about 33,000 US dollars) to every village in order to start a so-called ‘Village Fund,’ officially named the Village and Urban Community Fund Program. After Prime Minister Thaksin

was elected and successfully formed the first Thaksin government, the program was launched with a budget of 80 billion baht. The program objectives were to: (1) create a source of fund for investment; (2) develop the fund management capability; (3) develop village self-sufficiency; (4) stimulate grass root economy and reduce economic and social vulnerability; and (5) strengthen economic and social capacity. Criticisms have been mainly leveled at the use of the money which the borrowers received. If the money were not used wisely, people would just end up with more debt they could not pay back and the budget would be drained away. The opposition party claimed that the government encouraged Thai people to incur more debts and created more unnecessary debt burden.

The social and economic impact of the Village Fund program can be substantial, particularly in remote rural areas. The amount of money put into this project has to be justified. It is hoped that the money transferred to villages and communities will sustain. Some evaluations based on the period of operation have been carried out by institutions such as the National Board of Village and Urban Community Fund (2002), Thammasat University (2003), and the National Economic and Social Development Board (NESDB) (2004). Based on these evaluations, the government has claimed success in terms of repayment rate and satisfaction of the borrowers. To successfully evaluate and improve these institutions in rural areas it is necessary to have a framework within which to work. The Institutional Analysis and Development Framework (IAD) may be a significantly contributive approach in helping the understanding of the village fund organizations for the purpose of improvement and development of the institution in the future (institutions are expected to develop into village banks with more complicated networks among themselves).

Self-Governance, Institutions and Development

As a program established for the benefit of the people and endowed with a large budget, it is hoped that the institutions involved in the operation of the Village Fund and the resources (money) managed can be sustainable so that benefits can be multiplied with the largest positive impact. In a self-governance process with established norms, rules and institutions available for solving collective problems, the sustainability of the institutions is a major question (McGinnis and Ostrom 1999).

The Village Fund program is not only an important platform for villagers to learn the skills necessary for self-governance but is also a big test as to whether they can make collective decisions in managing their resources effectively. The process can raise their awareness in terms of their roles regarding democracy and self-governance, a crucial step in proving their self-governance ability. Developing more confidence, skills, knowledge and desire to have a bigger role in other local and national democratic platforms could be achieved with successful Village Fund institutions. Sustainable self-governing institutions could help rural communities earn more credibility in managing local resources.

Institutional structures have a significant role to play in expanding human choices, a fundamental goal of economic development (Nicholson, 1993). "Institutions affect human choice by influencing the availability of information and resources, by shaping incentives, and by establishing the basic rules of social transactions" (Nicholson, 1993). Participating in the Village Fund program can enhance developmental progress. Through a self-governance institution, people can voice their opinions, understand all the economic choices available, and learn to compromise to achieve personal and collective goals.

Understanding institutions such as the Village Fund makes it possible to improve the performance of the program. The economic choices of the people can also be expanded. With the Village Fund program, people have an incentive to directly participate in the self-governance process and benefit from the institution.

However, the institutions created have to be well designed for the development of the people. Participation "is a major factor of empowerment and an indispensable element of self-generated, self-organized, and self-sustained development" (Ostrom, et al., 1993). The ability of individuals to take advantage of institutional possibilities demonstrates a "capacity for self-governance" (Ostrom, 1987 cited in Sawyer, 1993). The Village Fund program requires the participation of people in order for them to benefit from the program. The skills and confidence acquired can make people realize their potential in terms of self-governance and encourage them to participate in other forums of self-governance. Their attitude toward democracy as a whole can be affected. After all, a major purpose of participation in a democratic system is to have a voice in the use of the resources available. Thus, the development of people in terms of political and economic ability can be realized. The role of self-governance in development is crucial. According to Sawyer (1993) "from perceiving development as self-governance" individuals "interact with others at the center of the development process," the emphasis being "on the generation of self-reliance." Social development can be claimed from the implementation of the Village Fund program if, through participating and working together in the decision-making process, people can increase self-governance ability and communities can be strengthened and less vulnerable to external forces such as economic and political fluctuations.

The Politics of Resources

The Village Fund program aims at distributing more money to rural areas in order to stimulate the economy from the grassroots, which begs the question of whether more resources should be distributed to rural people in the first place. A directly related question should be whether rural people have the ability to manage these resources well and not drain the budget away, especially when large amounts of money are involved. This is an especially relevant question since Thailand's development has been plagued by corruption for ages. The patronage system has long caused people to overlook the widespread corruption that pervades Thai society. And although people criticize corruption, many still have the attitude that "gifts" could make things easier for them. It is a widely accepted practice that when dealing with government projects at least 30 percent of a project value must be set aside for authorities. Reports of unfair bidding of government projects are quite common, which of course raises much suspicion with regard to the way the Village Fund program may be affected by the rampant corruption. Suffice to say that rural government organizations at all levels have not been earning much respect regarding their management of the money distributed to them by the central government as both local and national politicians are very eager to lay their hands on the resources made available.

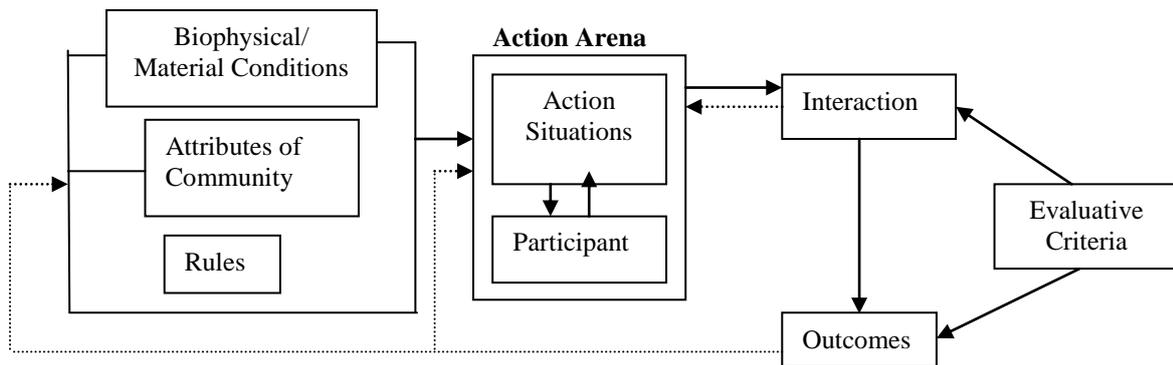
That said, rural people deserve the right to manage more resources. After all, too many of the decisions on resources and development have been made by the central government for a long time. No Thai government has been this generous to rural people before and no government has earned such great support from rural people before. The less privileged people deserve the right and the chance to manage more of the resources in the country. The highest return to rural people appears to have taken place under the governments

led by Thaksin Chinawatra. The Village Fund program is one of the many programs designed for the benefit of the poor people. However, a certain degree of success in terms of people's development should be shown to justify such programs.

The Institutional Analysis and Development (IAD) Framework and Microfinance

Analyzing the functions and outcomes of a particular program requires understanding how the variables are related to one another so as to see the whole picture and avoid drawing misleading and hasty conclusions. When a collective action is involved, it is especially beneficial to understand the decision-making process in order to predict, evaluate, improve and achieve better outcomes. The Institutional Analysis and Development (IAD) framework helps to identify the elements (and the relationships among them) needed for diagnostic and prescriptive purposes (Ostrom, 2005). As a shared language for institutional analyses, the IAD framework facilitates "comparisons among more specific theories and models of particular phenomena" (McGinnis and Ostrom, 1999). The emphasis of the IAD framework has been on the overall "action situation confronting individuals and groups engaged in the processes of operational choice, collective choice, and constitutional choice" (*Ibid*). The "core unit of analysis" (or "focal unit of analysis") is identified as an "action arena" which includes an action situation and the participant in the situation (Ostrom, 2005). An action situation can be characterized by seven clusters of variables which include: participants, positions, potential outcomes, action-outcome linkages, the control that participants exercise, types of information generated, and the costs and benefits assigned to the actions and outcomes (*Ibid*). The framework shown below outlines the interactions among the

Figure 1: Framework for Institutional Analysis
Exogenous Variables



Source: Ostrom (2005)

exogenous variables, the action arena, interaction, outcomes, and evaluative criteria.

According to Ostrom (2005), the exogenous variables (the biophysical and material conditions, attributes of the community, and rules) “jointly affect the types of actions that individuals can take, the benefits and costs of these actions and potential outcomes, and the likely outcome achieved.” The action arena is viewed as dependent on the exogenous variables.

The Exogenous Variables

- *The Biophysical and Material Conditions of Credit as a Resource*

As Table 1 below shows, common-pool resources (CPR) have a high subtractability and high difficulty of excluding potential beneficiaries as compared to public goods, private goods and toll goods (Ostrom 2005).

Table 1: The Four Basic Types of Goods

		Subtractability of use	
		Low	High
Difficulty of excluding potential beneficiaries	Low	Toll goods	Private goods
	High	Public goods	CPR

Source: Elinor Ostrom (2005)

Credit is in a way like a CPR as people who are members of the community or the program can benefit from the program as long as the program

lasts and the more benefits there are for some the less there is left for others over a given period of time. As table 2 below shows, Credit has a high subtractability of use since the amount of money available to the rest is reduced by the amount that has been borrowed by some. Some potential beneficiaries may thus end up being excluded. However, it would be difficult to exclude participating community members from the credit program on the basis of wealth (the amount left). Exclusion from borrowing is generally based on the payment of a loan previously obtained. Nevertheless, the difficulty of exclusion from microcredit is higher than private goods as everybody without a bad credit record earns credit access.

Table 2: Basic Types of Goods when Taken into Account Credit and Knowledge

		Subtractability of use	
		Low	High
Difficulty of excluding potential beneficiaries	Low	Toll goods	Private goods
	High	Public goods	CPR

Knowledge resulted from training, meetings, participation, information and skills acquired can be considered a service or good of value as it can be used in acquiring resources and making use of resources in a more efficient way. The

knowledge acquired would not reduce the amount of knowledge provided. The beneficiaries and be excluded to some extent, for example, by choice of media and venue. Participants in the same community, however, are difficult to exclude because of the family network in the rural community.

- The Rules and Attributes of the Community

The two most important rules involved in the strategy of participants are that: (i) resources belong to the community and (ii) they have to be returned within a certain period of time or else the borrowers could face sanctions. It has been ruled that the money has to be returned in one year (National Board of Village and Urban Community Fund, 2001). This rule, however, has proven to be problematic (NESDB, 2004). There has been difficulty adjusting to it since the rule was not created by the community members themselves but by ... A major sanction is that a borrower unable to repay his/her loan on time would not be able to borrow any more in the future. He/she could also face social pressure from the community.

The attributes of the community consist of a “set of variables that affect the structure of an action arena related to the concept of the community within which any focal action arena is located” (Ostrom, 2005). The most important attributes include: “the values of behavior generally accepted in the community; the level of common understanding that potential participants share (or do not share) about the structure of particular types of action arenas; the extent of homogeneity in the preferences of those living in a community; the size and composition of the relevant community; and the extent of inequality of basic assets among those affected” (Ostrom, 2005).

The size of the community affects the amount each can borrow since the money distributed to every village concerned is one million baht regardless of the need and population size (NESDB, 2004). The

extent of the inequality of the basic assets may thus seriously affect the arena, since those with more assets need more credit for more promising projects with higher returns, potentially leaving those with lower-valued asset with less money to borrow. Although the amount of a loan depends on the rules and fund committee, those with a higher potential to pay back may turned out to be favored. Higher homogeneity could create a more positive impact in terms of communication and cooperation. The values and common understanding of the people affect their strategy. The values of people with regard to the use of money, the importance of the sustainability of the fund, the common understanding of the consequences of not returning the money as well as the goals of the funds can have a great impact on their decisions.

The Action Arena

The participants at the operational level in an action arena making decision on loan payments are the borrowers. When making a decision concerning a loan repayment, each borrower will consider strategically what the other participants will do and the outcomes of their decisions. Participants can be divided into two groups, each borrower and the rest of the participants. There is a possibility that there could be more assistance from the government in the event some people would have a problem repaying the loans since a debt suspension program that in the past was implemented to help borrowers from the Bank for Agriculture and from Agricultural Cooperatives has been recently resurrected (in 2012) and implemented again. The decision of each borrower can be whether to pay back (sooner or later) or not pay back. If a borrower calculates that most people will expect future help from the government, then social sanctions may not have serious consequences since many will be in the same boat. However, if people in the community expect no more government

financial support (such as debt suspension), social pressure could be more serious, especially if others are paying back their loans. In the case of no more government support, the fund is all that the village will ever have, so not repaying would mean taking advantage of the rest of the community or having a free ride. And paying back late would mean that some would have to wait longer for their turns. The decision made by borrowers may also be affected by characteristics such as race, education, age, culture, and so on. Moreover the amount borrowed and the effects of social sanctions will be compared before a decision is made. Borrowers have two basic strategies; pay back or not pay back. Depending on what others do in the community, these two basic options can give rise to four different scenarios with four different results:

1. The borrower pays back the loan while the others do not.

Result: there is a higher possibility of additional government support because of the government's need for votes in the next election. The borrower who pays back the loan would miss the opportunity of receiving the help while the others benefit from the help. No social sanction.

2. The borrower pays back the loan and the others also do.

Result: lower additional government support because of successful operation and no opportunity would be missed by the borrower. There is no social sanction as the borrower fulfills the obligation.

3. The borrower does not pay back while the others pay back.

Result: no additional government support received as the fund in general is successful. Tough social sanction as the community expects more from the borrower.

4. The borrower does not pay back and the others do not pay back.

Result: the community receives Additional government support. No social sanction because everybody benefits from the support by the government.

In order to make a decision, the borrower needs to have some knowledge about the possibility of additional government assistance and compare the impact of the sanction with the value of the money received and paying back. Both extrinsic and intrinsic values are considered in terms of costs and benefits of action (see Ostrom, 2005). Admittedly, each borrower has virtually no power or control over the government's decision and the nature of the social sanction that would be imposed in the future if acting alone with no knowledge of what the others would decide. Thus a good system of communication is important for each individual to be able to select the best strategy. Information about the action situation and even some extent of control over the outcome is crucial.

An example of the negative consequences of not returning the borrowed money is the lower degree of trust the community would have towards the borrower. This may result in lower cooperation from the community in other activities in the future. A clear understanding of this long-run impact is necessary in choosing the right strategy. Another negative consequence in the event the loan money is not returned is the loss of an individual's credit worthiness with the program (which would result in a lower qualification for future loan requests). Of course, the latter sanction would be effective only if the situation or the game were to be repeated more than once and if the credit history of the individual can be shared with other lending institutions. It is clear that the government policy concerning the support for the bad debts of the Village Funds can affect the attitude and the financial discipline of the people and the governance system in the rural areas of Thailand.

An important decision to be made at the operational level for an individual borrowing from the Village Fund Program is whether to return the money borrowed, when and for what amount. Such decisions

at the operational level can obviously affect the financial sustainability of the program significantly. Among the many factors that may affect people's decisions, the rules put in place and the situation of the people concerned have a significant impact. Fixed rules rigidly applied across all the villages may, for various reasons, cause borrowers difficulty in paying back their loans. If pressured too much, the borrowers may have to borrow from other sources (including shark loans) to pay back on time. The pressure from the community may therefore be the direct result of the conditions set by the government. For example, funds that enjoy a high repayment rate could apply for more funding.

The government, on the other hand, may send a signal through a patronage policy such as debt suspension policy for farmers. If more flexibility were preferred, members could voice their demands for a change of rules at meetings or vote for a new committee. Any major rule change, however, needs to be approved by the government, a different action situation.

Conclusion

Both the initiation and implementation of the Village Fund program have been a great challenge to the self-governance system and the process of economic, political and social development. Large amounts of initial funding have been provided by the central government for this program which is different from other investments in that it requires people in the community to manage the fund themselves (self-governance). It is expected to have a wide impact on rural people all over Thailand. The impact can be very high at the grassroots level.

Since microcredit is a product with a high subtractability of use, high discipline and professionally operated institutions are required to ensure that most people can

have access to the fund and that the fund is sustainable. Based on political incentives, it has involved a large budget and could be a great threat to any future microfinance policy if the funds provided are not sustainable. It could be causing people to rely more and more on government assistance instead of being more self-reliant if not carefully managed. High stakes are placed on the self-governance and development process. It is therefore necessary to design and develop institutions that ensure sustainability, that is, institutions in which people have confidence. It is also important that people in the community have the capability to exercise self-governance in a sustainable way. The signal from the government has to be clear that there is limited assistance and resources if self-governance is not developed. This program could end up having a positive as well as a negative impact on the people and on the local economy. Still, it may be easier to cure economic problems than human attitudes, which will shape the perception of both government and self-governance for a long time. Designing an institution for every community to manage funds is not an easy task as it involves human development. Understanding the variables of Village Fund institutions and their impact on the program outcome is necessary in designing these institutions. The development of people should be monitored to justify continuity and solve the institutional problems that exist. Progress in terms of self-governance achievement should help justify the institutions and contribute to the improvement and sustainability of the program. As a matter of fact, the Village Fund institutions may prove to be a significant boost to the human and self-governance capacity development of rural people in Thailand if taken seriously by the government and operated professionally.

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