The Impacts of Credit on Village Economies

Abstract

This paper evaluates the short-term impact of Thailand’s Million Baht Village Fund program, among the largest scale government microfinance initiative in the world, using pre- and post-program panel data and quasi-experimental cross-village variation in credit-per-household. We find that the village funds have increased total short-term credit, consumption, agricultural investment, income growth (from business and labor), but decreased overall asset growth. We also find a positive impact on wages, an important general equilibrium effect. The findings are broadly consistent qualitatively with models of credit-constrained household behavior and models of intermediation and growth.