

**Enhanced Informal Networks:  
Costly State Verification and the Village Fund Intervention\***

HONG RU AND ROBERT M. TOWNSEND

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*Abstract*

Using data for over 600 households in 16 villages from Townsend Thai project, we find that the role of preexisting informal kinship networks in Thailand was enhanced following a quasi-formal village fund program in 2001. Transfers (gifts) among poor households play a crucial role in funding investment. This transfer mechanism and its role in investment were amplified for the poor households after the village fund, especially those with kinship ties. Moreover, we document a financial regime shift using maximum-likelihood estimation. Two exogenously incomplete regimes (saving only and lending/borrowing) dominated in the full sample and for the relatively poor before the village fund, but costly state verification, a less incomplete financial regime, dominates in the subsample of poor households following the village fund. The structurally-estimated cost of verification of the households with kinship is also significantly lower than the one without kinship after 2001, relative to before, suggesting the role of kinship was enhanced.

***Keywords:*** Informal Network, Village Fund, Regime Shift, Costly State Verification

***JEL:*** D10, E44, G10, L14, O10

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\*Corresponding author: Robert M. Townsend, MIT, Department of Economics, 50 Memorial Drive, Cambridge, MA, 02142, USA; (617) 452 3722; [rtownsen@mit.edu](mailto:rtownsen@mit.edu). Hong Ru, Nanyang Technological University, 50 Nanyang Avenue, Singapore, 639798; [hongrucn@icloud.com](mailto:hongrucn@icloud.com). We thank Arun Chandrasekhar. All views expressed are our own, and we are solely responsible for any errors.