

# **Mechanism of Saving Activity and Community Business Administration for Decreasing Household Debt**

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## **Abstract**

The purpose of the research project entitled “The Mechanism of Saving Activity and Community Business Administration for Decreasing Household Debt” was to investigate the pattern and guideline on household debt management by using the mechanism of saving, community business administration, and household financial management which was beneficial efficiently and sustainably. The research methodology emphasized on qualitative method comprised participatory observation, in-depth interview, and workshop. Furthermore, the quantitative method was also conducted by surveying household debt. The research results revealed that the members of saving groups saved their money based on five moral principles consisting of honesty, devotion, responsibility, sympathy, and trustworthiness. In addition to, they needed to create the source of community fund for consumption loan and household investment with lower interest rate. The process of household debt management began with saving and borrowing their loan for consumption and investment. They developed the discipline of saving and learned to manage their money for decreasing their debt. Moreover, they also linked the saving activities to expand their saving network to community enterprise in order to produce, for instance, drinking water, dishwashing liquid, and paper flower sold to members and people in the community at low prices to decrease their expenses. Nevertheless, the saving activity network was also expanded to provide social welfare to the members and people in the community.

**Keywords: Household Debt, Saving**

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## **1. Introduction**

The household loans from both financial institutions and illegal financing sources in Thailand had clearly increased during 2002 - 2004. The consumption loan of commercial banks increased 13.3 and 31.2 percent in 2003 and 2004, respectively. Meanwhile, loans of specialized financial institutions (SFIs) in important projects including public bank, village and urban community fund, and the non-formal debt solution project in 2004 increased about 62.5 percent from 2003. This was caused from the low interest rate, and the need for consumption had been continuously increasing whereas the economy started to recover. Besides, a part of this was from economy stimulus packages through fiscal and quasi-fiscal finance policies of the government. The goal of stimulus packages was to stimulate consumption of the people and extend opportunities of access to funding sources for grassroot people (National Statistical Office, 2004).

The growing of consumption loan mentioned above affected the household debt in 2004 to increase to 110,566 Baht per household, and household debt to income equaled to 0.60 times while, in contrast, the household debt in 1996 was 52,001 Baht per household and household debt to income was only 0.31 times.

## **2. Literature Review**

### **2.1 Household Debt-to-Income (DTI) Ratio**

Household Debt-to-Income Ratio is used as a personal finance measure that compares an individual's debt payment to his or her overall income (Mayer, 2007; Short, 2015; and Inventopedia, 2016). Household indebtedness has grown sharply in many countries around the world in recent year such as United Kingdom (Tuleda and Young, 2005), USA (Barnes and Young, 2003; Dynan and Kohn, 2007), Korea (Karasulu, 2008), Sweden (Turk 2015), and Asia and the Pacific countries (Economic and Social Commission for Asia and the Pacific, 2009). The household debt which significantly increased caused many parties to worry about the household indebtedness and debt repayment in the future. In order to appropriately manage household debt situation, public sector is firstly required to understand behavior of households on why they have to incur debt, the objectives of indebtedness, whether household debt incurred are advantages or not, debt ratio, and their debt repayment capacity.

Regarding Thai household sector, the average annual income of each household in 2004 was 404,470 Baht while debt (loan) per each household was 187,926 Baht, which caused household debt-to-income (DTI) ratio in Thailand to be 46 percent on the average. By classifying households based on main household income, they could be classified into 3 groups consisting of farm household, wage earner, and entrepreneur. It was found that entrepreneurs earned the highest income with an average income of 581,343 Baht per year whereas farm households and wage

earners had the average income of 218,993 and 235,419 Baht per year, respectively. Considering the household DTI ratio, it revealed that farm households had the highest DTI ratio at 77 percent while wage earners and entrepreneurs had DTI ratio of 66 and 40 percent, respectively (National Statistical Office, 2004).

## 2.2 Enable Factors in Indebtedness

Household debt is not always bad depending on the objectives of indebtedness. However, loan is liability which is required to be repaid. Thus, if indebtedness is for productive investment, household income could be continuously generated in the future, and households would be free from poverty. In contrast, if indebtedness is non-performing loan, it would affect household economic situation and could probably affect the stabilities of financial institutions as creditors and macroeconomic system.

The research results of Rangruksirivorn (2006) from The Annual Report 2006 of Fiscal Policy Office showed that the majority of household loans was for investments accounted for 58 percent. These investments included business loan, purchasing land and houses such as agricultural machines and equipment, cars, and motorcycles. Even loan for education was also counted as human capital. In addition, 38 percent of loans were consumption loans. Therefore, it was unable to specify that these household debts were non-performing loans since investment debts were good debts (Rangruksirivorn, 2006).

The issue which most of people are currently concerned is that some portions of the debts are for consumption, and if the proportion of consumption debt of the household increases, it would affect the economy and financial institution system. On the other hand, if consumption debt incurred is mainly for necessary goods and maintaining household expenditure to not largely fluctuate, it is acceptable. This is because when there is an occurrence of economic crisis or other negative external factors including regional shocks (i.e. drought, flood) or idiosyncratic shocks (i.e. illness, unemployment), which are causes of decreasing of household income, households may necessarily borrow loans to maintain their household expenditure to not greatly fluctuate in addition to assets sale. In an economic term, maintaining the level of household consumption to not fluctuate based on the change of income is called "consumption smoothing." In practice, the government shall have such safety net policies to help households access funding sources either through public sector or financial institutions in order that they could have normal living (Rangruksirivorn, 2006).

Due to responding behaviors of the households when there were negative external factors causing a reduction of household income, it was found that the majority of households chose to take a loan for in-house consumption where 33.35 percent of these households took loans from various financing sources both formal and informal lending institutions. Meanwhile, approximately

23.89 percent spent their saving and 12.63 percent reduced their household expenditure and production factors (Rangruksirivorn, 2006).

Nonetheless, the capability to keep the level of household consumption and responding behavior of households when there were negative impacts to their income (so called “income shock”) were significantly in accordance. In other words, households used loans and tools to regularly keep consumption level in a case that there was income shock. Therefore, it could be stated that some parts of indebtedness are to keep household consumption level to not greatly fluctuate as well as to reduce the impacts of income shock on their living, which are acceptable (Rangruksirivorn, 2006).

According to source of loans, it showed that 73 percent of loans were legal loans (village funds, groups of savings, agricultural cooperatives, and Rice Banks, Bank for Agriculture and Agricultural Cooperatives, and Commercial Banks) while 23 percent of these loans were illegal loans (borrowing from relatives or neighbors, moneylenders, owners of shops and land, and suppliers and customers of raw materials). Comparing with legal loans, it seemed that village fund had the most important role in credit financing as it was accounted for 55 percent of total loans. Meanwhile, illegal loans (non-financial institutions) were mainly borrowing from relatives and neighbors, which were accounted for 15 percent and ranked as the second important source of loans. Furthermore, it was an observation that loans from Bank for Agriculture and Agricultural Cooperatives were accounted for only 8 percent and ranked as the third source of loans, equaling to loans borrowed from the owners of shops and land, which were also accounted for 8 percent of total loans (Rangruksirivorn, 2006).

Regarding a study on the average household debt classified by objectives of indebtedness and economic situation of households focusing on Pathum Thani province in 2007, the result revealed that the highest amount of household debts was from purchasing and renting land and house, which was 70,194 Baht, followed by household consumption expenditure for 41,205 Baht, business operation (non-agricultural) for 22,993 Baht, agriculture for 2,909 Baht, and others for 9,746 Baht (National Statistical Office, 2008).

### **2.3 Reduction of Household Debt**

The government has various policies to decrease household debts by supporting the use of cooperatives system, the establishment of saving group for production, village and local community funds, community enterprise management to strengthen occupational group, and community networking support in order to strengthen communities to be self-dependent and solve community problems by themselves. People would then be allowed to access sources of community funds by themselves and could use loans for household investment and community to generate

income. Besides, building clusters are to expand saving activity to production of consumption goods with low price, which overall decrease living expenses. These are important factors in supporting communities to think and do to obtain experience and have behavior of decreasing expenditure so that they would have adequate income to repay debts as a result. Behaviors of not paying debts and relying on others shall be reduced as they would cause the households and communities to be weak which finally resulted in the country's weak economy.

### **3. Research Objectives**

The key objective of this research was to investigate the pattern and guideline on household debt management by using the mechanism of saving, community business administration, and household financial management which was beneficial efficiently and sustainably.

### **4. Research Methodology**

The research methodology emphasized on qualitative method consisted of participatory observation, in-depth interview, and workshop by having representatives of saving groups to participate as co-researchers. Furthermore, the quantitative method was also conducted by surveying in terms of saving, income, expense, household debt, and access to source of fund in order to solve household's economic problem.

### **5. Samples of the Research**

The samples were selected based on stratified random sampling of population from the saving group for production of Pathum Thani Province specifically the saving group in grade 3 (good), which were a total of 34 respondents. The samples were classified based on districts and simple random sampling was conducted to finally have only 4 districts left which comprised Mueang District, Khlong Luang District, Lam Lukka District, and Nong Suea District of Pathum Thani Province. Then, the name lists of saving groups in each district were selected using simple random sampling, which resulted in one group for each district as follows:

1) Saving Group for Production Moo 2, Baan Klang Subdistrict, Mueang District, Pathum Thani Province

2) Saving Group for Production Moo 1, Khlong Sam Subdistrict, Khlong Luang District, Pathum Thani Province

3) Village Fund Ruam Phalang Rak Samakkee, Moo 4, Ladsawai Subdistrict, Lam Lukka District, Pathum Thani Province

4) Saving Group for Production Baan Sansuk Sakad Ha, Moo 5, Bung Ka Sam Subdistrict, Nong Suea District, Pathum Thani Province

## **6. Research Process**

1) To study secondary data from various documents and related electronic documents to develop a conceptual framework of the research

2) To set up the meetings with the representatives of saving groups who were on-site co-researchers by at least one representative from each saving group.

3) To collect primary data by using questionnaire through surveys of the households focusing on income, saving, existing debt, and participation with saving group. The questionnaire was divided into 7 parts as shown in the following.

Part 1 Household information

Part 2 Income and expenditure of household

Part 3 Household debt

Part 4 Saving

Part 5 Household assets

Part 6 Social information

Part 7 Personal information of respondent

Content validity was conducted by having financial and debt experts examine and correct accuracy and clearness. Then, a reliability of the questionnaire was conducted by testing with 30 households of saving groups who had similar group characteristics. The reliability (r) equaled to 0.8 which indicated as good reliability.

4) To collect primary data through in-depth interview with directors and members of saving groups in order to understand the groups' situation from the past to present, guideline in applying saving result and taking loans for investment to generate income, and establishing clusters to produce goods sold in the communities in order to investigate pattern and guideline of saving, investment, decrease of expenditure, and increase of income.

5) To analyze quantitative data by using percentage and mean and analyze qualitative data from real situations comparing among groups .

6) To organize the workshop in order to exchange opinions among 4 saving groups, together conclude to develop pattern and guideline for operation, and lastly come up with research conclusions together by using data from 3), 4), and 5).

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## 7. Conclusion and Discussion

### 7.1 Conclusion of the Research Results

#### 7.1.1 The result of status of saving group members

##### 1) Ideas in establishing saving group for production

Saving groups for production who were the samples had main ideas including 1) to develop a discipline of household spending and promote saving of people, 2) to support an application of the concept of sufficiency economy to households, 3) to support community households to decrease expenditure, increase income, and expand opportunity to access source of fund, and 4) to create five moral principles consisting of honesty, devotion, responsibility, sympathy, and trustiness.

2) Average annual income of household of the members of 4 saving group was 303,260 Baht and mainly from wages per salary, followed by trade. However, income generated from agriculture was found in only the saving groups for production Moo 5, Bung Ka Sam Subdistrict and Moo 2, Baan Klang Subdistrict.

3) Average annual expenditure of household of the members of 4 saving group showed that Saving Group for Production Moo 1, Khlong Sam Subdistrict had the highest expenditure for a category of others which was 46,733 Baht. Meanwhile, the highest amount of expenditure of the members of the saving groups for production Moo 4, Ladsawai Subdistrict and Moo 2, Baan Klang Subdistrict was for accommodation, and the members of the saving groups in every subdistrict greatly spent their money for foods equally.

##### 4) Net annual income and expenditure

Average annual income of households of the samples was greater than average annual expenditure in every subdistrict. This indicated that overall the households still had some savings for any emergency. Nevertheless, the households of the members of each saving group had very low debts, especially the Saving Group for Production Moo 5, Bung Ka Sam Subdistrict whose debts were accounted for only 2.9 percent.

##### 5) Objectives of indebtedness

The objectives of indebtedness of the members of each saving group for production were different. Saving Group for Production Moo 1, Khlong Sam Subdistrict took loans for repaying their old debts at most, while Saving Group for Production Moo 4, Ladsawai Subdistrict normally took loans for leasing of houses and land, and the saving groups for production Moo 5, Bung Ka Sam Subdistrict and Moo 2, Baan Klang Subdistrict mostly took loans for household consumption and investment.

##### 6) Source of fund of the households

The source of fund which the households (the samples) mostly chose to take loans was the saving groups for production, followed by village funds which had low interest, and it was

possible that there was a source of fund the community could take a loan easily and conveniently with lower interest rate comparing to the banks.

7) Source of saving of the households

The most popular source of saving which the households (the samples) selected was the saving groups for production, where the highest amounts of savings of the members in each saving group were different. It revealed that the saving groups for production Moo 1, Khlong Sam Subdistrict and Moo 4, Ladsawai Subdistrict basically saved their money through shares whereas the majority of the saving groups for production Moo 5, Bung Ka Sam Subdistrict and Moo 2, Baan Klang Subdistrict saved their money in the commercial banks.

8) Reasons of being the members of the saving group for production

Every saving group saved their money for the future. For example, some members of the Saving Group for Production Moo 1, Khlong Sam Subdistrict wanted to take loans from village fund while those of the Saving Group for Production Moo 5, Bung Ka Sam Subdistrict wanted to get an access to source of funds. Besides, it was very pleasant for the members of every group that they could develop a discipline of household spending and be confident about the directors and other members of the saving groups.

9) Problems and threats

9.1 The initial phase was to generate understandings of the members and build an assurance of the group's management

9.2 When the fund was getting bigger, the more the savings were and the lower the loans were taken. Some members withdrew their saving to other sources which offered higher interest rate.

9.3 Some funds were unable to extend the funds to be enough for the members to borrow.

9.4 A long-term problem is a reliability of the board of directors. If the old board of directors is terminated, the group has to build a new group of executives to carry on the work and build a reliability to the new executives even more.

10) Support for occupational investment of households

According to an in-depth study, it was found that every saving group was successful in supporting operation and occupational investment of households, and the source of fund had low interest. Moreover, it was the support for initial investment and expanding investment of the members. The members could repay these loans within deadline, which indicated that the households who were the members of saving groups for production clearly had a discipline of spending their money and saving it based on five moral principles for living together. Nonetheless, in a case that the household members encountered problems, the solutions would have been



together come up with among the household member, board of executive directors, and all members of the saving groups which implied the strength and reliability of the village fund's management as a result.

**7.1.2 Pattern and procedures in linking the saving activity management of saving groups for production to the household and community business administration**

1) Pattern and procedures in linking the saving activity management of saving groups for production to household and community business administration

The saving groups used saving as the main pattern by supporting the members to save their money so that there would be funds for all members. This saving was truthful saving in such a way that the members were truthful together to save money based on the saving date set and five moral principles consisting of honesty, devotion, responsibility, sympathy, and trustworthiness in order to build a discipline of saving.

Two saving groups expanded their saving to the members to have enough funds for supporting loans more. The groups explained to the members to understand that they could additionally have more money by taking loans from the economy stimulus project of the Subdistrict Administrative Organization (SAO) for 100,000 Baht while the saving groups had to join donating for 30 percent so that the funds could be extended five years without interest. When there were some savings, an important procedure of every saving group was that rules and regulations of each group should be specified by having every member together specify and accept them. The objectives of loaning money of the members were different. Some households took loans for keeping consumption level while some took loans for repairing their houses. Some households also borrowed money for repaying illegal loans whereas some took loans for household business investment.

Regarding household business investment, some households took loans for investing in new business while some took them for expanding their business. The households which took loans for investment had better financial status since the interest was low, and a period of time for repayment was not too close, so the households were then able to manage their own household business.

The saving groups have together agreed in the meeting that the saving amount from each member could be more or less depending on their status, which is a starting point of reducing expenses. In fact, continuous saving is always a way of decreasing expenditure to not have any difficulty in daily life. When the amounts of saving are larger, they could borrow these for investment or expanding their own business. During this process, the saving groups could support the households to manage their business, and if the households face any problem, with five moral

principles of saving, the saving groups would together come up with such solutions for the households as a next step in order that the households could hold their own and be independent.

Procedures started from saving, borrowing the saving for investment, and expanding their activities from loans for investment with low interest. Sufficiency economy philosophy and the principles of the saving group for production were applied while diligence, economy, and patience were important guidelines for household business administration of the members.

2) Pattern and procedures in linking the saving activity management of saving groups for production to community business administration

The main pattern of saving was to save money for community investment, and when the community had larger amount of funds, the saving groups would seek for guideline for expanding networking activity in order to be activity supporting the members of the saving group and other members in the community.

Some saving groups in the samples considered the community problems as the important issues and used community enterprise networking management to solve these problems. For instance, the community had a problem of drinking water, and almost every household had to buy drinking water at market price. Thus, the saving groups studied about a guideline on how to produce clean water for drinking by building a filtration factory of drinking water for the community. The budget spent for this was partially from SML budget and some from money which the members invested in the activity together. Drinking water was produced to be sold for the household members and non-members at lower price than the market price since it could be produced within the community. The result of expanding the saving group activity was that they members could learn to produce clean water, take care of the community's asset (the filtration factory of drinking water), set the guideline for community business administration from selling both within the community and to other communities nearby. Consequently, the members of saving group earned more income from investing in community expertise together, decreased their expenditure from being able to buy goods at lower price, and finally had more saving or money for expanding their own business.

Every saving group had an idea of expanding their group from community enterprise and other methods, and especially the saving group which produced drinking water expanded their business to make their own composed and organic fertilizers to reduce agricultural cost. Some saving groups, for example, supported the community's production of dish washing liquid while some supported paper flowers making. These were ways of increasing income and reducing expenses leading to a decrease of household debt.

In addition, every saving group aimed to increase welfares of the members and non-members in the community; for instance, they could grant scholarships and support for community council activities or other manners. Besides, some saving groups wanted to expand the groups to

be sources of low-interest fund of the community in order to solve the large debt of the community later on. They generally studied on lessons learned of the strong group until welfares of the community were established as a result.

Government sector, specialized private sector, and education institutions are supporting institutes of the saving groups for production in terms of providing knowledge and techniques so that the communities could apply these to solve their problems.

3) Conclusion of pattern and procedures in linking the saving group for production to the networking activity for debt reduction

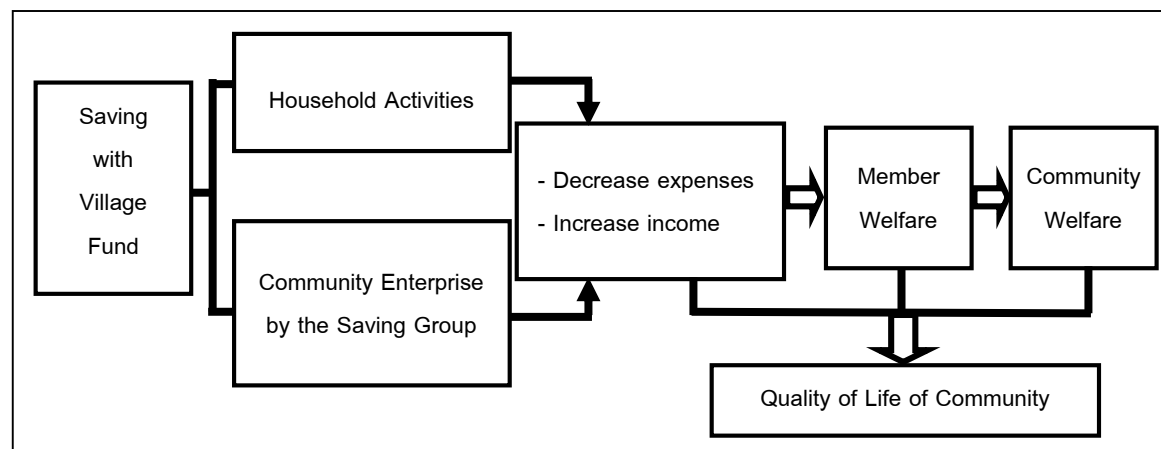


Figure 1. The Link Between a Mechanism of The Saving Group for Production and The Networking Activity for Debt Reduction.

## 7.2 Discussions

Comparing income and expenditure of the household members of the four saving groups for production, it revealed that the consumption levels of the household members in each saving group were different depending on household income. The households which had higher income had higher consumption than households which had less income. This was in accordance with consumption theory that consumption depends on the level of income.

The result also indicated that the households which were the members of the saving group having higher average income were the members of Saving Group for Production Moo 2, Baan Klang Subdistrict and the members of Village Fund Ruam Phalang Rak Samakkee, Moo 4, Ladsawai Subdistrict. These members saved greater amount of money due to high net income after deducting consumption expenditure. This was in accordance with the theory of saving that saving would occur when net income after deducting consumption expenditure is greater than zero. In other words, when the households have higher income than expenses, the saving would then occur.

The members of four saving groups thought that being the members of the saving group was important as they could see the benefits of saving including love among community people, generosity to members in the community, and community welfare and member welfare leading to being a strong community. For instance, the members were together to produce drinking water and dish washing liquid or making paper flowers. This was in accordance with the philosophy of sufficiency economy, which emphasized on the development from local resource-based (community capital). Moreover, participation of multilateral was establishment of community enterprise to provide opportunities and generate income for the household members.

Regarding source of loan of the household samples of four groups, it showed that they took loans from the saving groups for production due to low interest; nevertheless, some households still had inadequate income to cover expenses. Even though they had already borrowed some money from the saving group, they also took loans from illegal financing sources, which normally has high interest. The reason was a limitation of the saving group in terms of inadequate amount of money for the members to borrow, and a certain loan limit per each member was set. Furthermore, members may not have enough saving for loan guarantee, so the loan amount would be limited. These results were the same as those of the research of Thairungroj and Raktham (2006), which were found that people had a problem of inadequate income to cover expenditure happening to people who had middle income approximately 30,001 - 40,000 Baht per month. On the other hand, the households which had income less than 30,000 Baht per month did not encounter a problem of inadequate income since they could adapt to purchase only necessary goods or lived based on the philosophy of sufficiency economy.

### **8. Recommendations and Further Studies**

The recommendation for further studies is to have the in-depth interviews for the four successful saving groups by concentrating on planning ratio between actual debt and the expected decreasing debt as well as how decreasing debt results affect saving increase.

Moreover, the study may also focus on how to pass forward trust towards directors through generations comparing to successful community such as Khlong Pia Community, Chana District, Songkla Province.

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