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Financial Vulnerability and Indebtedness of Poor Households in Thailand and Vietnam

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Abstract

The lack of finance is a major reason for poverty. Also a typical feature of the poor, especially the rural poor, is that their income highly fluctuates often as a result of shocks. This volatile nature of the poor households' cash-flow underlines the need for good financial management which the poor are often not well equipped to do. In emerging market economies the delivery of financial services has advanced, albeit with large differences in access. Some programs may also have led to over-supply of credit and may be responsible for unproductive investment which may have resulted in levels of indebtedness exceeding the repayment capacity of rural households. In general, excessive debt accumulation coupled with household liquidity constraints could weaken the social and economic well-being of households and result in financial distress.

This study seeks to examine household indebtedness in rural Thailand and Vietnam with a particular focus on the indebted households whose consumption level is near the poverty line. The main objectives of the study are (1) to evaluate the extent of indebtedness of households and (2) assess the changes in the level of household indebtedness over time, (3) to analyse the factors that make certain households accumulate excessive debt, and (4) to develop the concept of financial vulnerability. Results are presented in three steps. First, descriptive analysis will be carried out to assess the extent and pattern of households' indebtedness. Second, multivariate analysis will be performed to determine factors that influence households' level of indebtedness and make households more financially vulnerable. Third, longitudinal analysis will be used to examine which factors and characteristics of households influence transition of household indebtedness across time and between two countries. Results will provide policy makers and other stakeholders an insight into the financial situations of the poor suggesting appropriate measures to reduce financial vulnerability.

Keywords: Financial vulnerability, household indebtedness, poverty, Thailand, Vietnam