

Thailand

“Small Scale Industry Promotion Program (SSIPP) (1)(2)”

Project Summary

| | | |
|-------------------------|---|--|
| Borrower: | Industrial Finance Corporation of Thailand (IFCT) (Guarantor: Kingdom of Thailand) | |
| Executing Agency: | Industrial Finance Corporation of Thailand (IFCT) | |
| Exchange of Notes: | (I) September 1987 | (II) February 1990 |
| Date of Loan Agreement: | (I) September 1987 | (II) February 1990 |
| Loan Closing Date: | (I) September 1992 | (II) June 1995 |
| Loan Amount: | (I) ¥1,500 million | (II) ¥1,000 million |
| Loan Disbursed Amount: | (I) ¥1,500 million | (II) ¥995 million |
| Loan Conditions: | (I) | (II) |
| Interest Rate: | 3.0% p.a. | 2.7% p.a. |
| Repayment Period: | 25 years (7 years for grace period) | 30 years (7 years for grace period) |
| Procurement Conditions: | General Untied (for 1 and 2) | |

<Reference>

(1) Currency: Baht (B)

(2) Exchange Rate (IFS yearly average market rate)

| Year | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | |
|---------------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Rate | Baht/US\$ | 27.5 | 25.7 | 25.6 | 25.5 | 25.4 | 25.3 | 25.2 | 24.9 | 25.3 | 31.4 | 41.4 |
| | ¥/US\$ | 134.7 | 114.8 | 134.7 | 126.7 | 111.2 | 111.2 | 102.2 | 94.1 | 108.8 | 121.0 | 130.9 |
| | ¥/Baht | 4.9 | 4.5 | 5.3 | 5.0 | 4.4 | 4.4 | 4.1 | 3.8 | 4.3 | 3.9 | 3.2 |
| CPI(1990=100) | 89.6 | 94.4 | 100 | 105.7 | 110.0 | 113.7 | 119.5 | 126.4 | 133.8 | 141.3 | 152.7 | |

(3) Fiscal Year: October 1 ~ September 30

(4) Abbreviations

IFCT: Industrial Finance Corporation of Thailand
BAAC: Bank for Agriculture and Agricultural Cooperatives
SSIPP: Small Scale Industry Promotion Program
EIMP: Export Industry Modernization Program
EPPP: Environmental Protection Promotion Program
SICGF: Small Industry Credit Guarantee Fund
TSL : Two Step Loan

(5) Terminology

Two Step Loan: Common term for development loan through banking system (DLBS). Development loan through banking system is provided to nurture and strengthen small and medium businesses, mainly in the manufacturing and agricultural sectors. Such loans are called "two step loans" because the funds are lent on to the actual borrowers (end-users, see below) by financial institutions in the recipient developing country.

End-user: The final borrowers of TSLs, the ones creating the demand for funds.

Sub-project: The end-users' investment projects, for which finance is provided.

Sub-loan: Finance to the end-users.

Chapter I Background and Need of Project Implementation

1.1 Objectives and Project Summary

This project, the Small Scale Industry Promotion Program (hereinafter referred to as SSIPP) supplies medium and long-term finance at low, fixed rates of interest to small businesses, which usually find it difficult to obtain such finance. It also provides technical and managerial guidance services. The aim is to strengthen the target small businesses in the expectation that stronger small businesses will lead, by extension, to stronger foundations for the Thai economy. To that end, ODA loan funds from JBIC are channeled through the Industrial Finance Corporation of Thailand (IFCT) to provide finance to the end-users, which were small businesses, in a two step loan (hereinafter referred to as TSL).

1.2 Background and Need

(1) Background

Thailand's Fifth Five-Year Plan, which ended in September 1986, promoted the growth of export-oriented industries, leading to industrialization centered on the big companies in the cities. At the same time, social problems such as worsening poverty and unemployment emerged. These problems led to the adoption of the absorption of surplus labor from the agricultural sector and the correction of income disparities between the cities and the rural areas as major policy objectives in the subsequent Sixth Five-Year Plan (1986-1991). To achieve these aims, the plan called for industrialization of rural areas, particularly through the strengthening of small scale manufacturers.

JBIC carried out "Export Industry Modernization Program" (hereinafter referred to as EIMP) through IFCT from October 1985 to support the assistance given to export-oriented industries under the Thai government's Fifth Five-Year Plan. The Thai government's central task was to nurture regional industries, and for that it was essential to strengthen and stimulate small businesses in industries producing for domestic markets, as well as for export markets. Specific policy measures to that end were sought. In December 1985 it was announced that the Thai National Economic and Social Development Board was commissioned to conduct a "Survey of Restructuring of Thailand's Industrial Sector", which led directly to the start of SSIPP in 1987.

After that, while Thailand's rapid economic growth continued until the mid-'90s, small businesses in Thailand serving the domestic market, which were the target of SSIPP, demanded large amounts of funds, and SSIPP was expected to run short of funds. Therefore in 1990 the decision was taken to implement SSIPP Phase II (where necessary, the phases will be distinguished below by naming the 1987 program SSIPP (I) and the 1990 program SSIPP (II)).

Table 1 Economic Growth in Thailand

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998* |
|-------------------------|------|------|------|------|------|------|------|------|------|------|-------|
| Real GDP growth rate | 13.3 | 12.2 | 11.6 | 8.4 | 7.8 | 8.3 | 8.9 | 8.7 | 6.4 | -0.4 | -8.0 |
| Agricultural sector | 10.5 | 9.7 | -4.7 | 7.2 | 6.0 | 0.0 | 5.2 | 3.2 | 3.0 | - | - |
| Non-agricultural sector | 13.8 | 12.8 | 14.1 | 8.8 | 8.6 | 9.8 | 9.4 | 9.4 | 6.8 | - | - |

Source: IFS and others. Figures for 1998 are taken from the 7th Letter of Intent to IMF.

(2) The Status of Small Businesses in Thailand and Problems Concerning Them

There are various definitions of a small business in Thailand, based on numbers of employees, size of assets etc., and the definitions used vary between different ministries and agencies. IFCT, which is the executing agency for SSIPP, classifies them by asset value and loan amount.

According to "Industry Statistics" from the Thai Ministry of Industry for 1984, 93% of Thai businesses could be classified by scale as small or micro businesses (based on numbers of companies). The "Census of Places of Business" conducted by the National Statistics Bureau in 1996 showed that 97% of manufacturing businesses were small or micro-businesses¹. In a comparison of Japanese and Thai manufacturing businesses conducted in 1996 (applying Thai classifications by workforce size), micro-scale businesses represented a 58% share of manufacturers in Japan and an 88% share in Thailand, showing that much higher proportion of manufacturers are at the micro scale in Thailand than in Japan.

Table 2 Positioning of Small Businesses in Thailand

| | No. of businesses | | | | Total number of employees | | | |
|---------------------------------|-------------------|---------------|----------------|---------------|---------------------------|---------------|----------------|---------------|
| | 1984 | | 1996 | | 1984 | | 1996 | |
| Micro | 25,342 | 63.95% | - | - | 122,939 | 10.75% | - | - |
| Small | 11,532 | 29.10% | 112,458 | 92.69% | 318,517 | 27.84% | 803,963 | 29.42% |
| Total of micro and small | 36,874 | 93.06% | 112,458 | 92.69% | 441,456 | 38.59% | 803,963 | 29.42% |
| Medium | 2,111 | 5.33% | 6,551 | 5.40% | 248,676 | 21.74% | 622,019 | 22.77% |
| Large | 641 | 1.62% | 2,320 | 1.91% | 453,970 | 39.68% | 1,306,270 | 47.81% |
| Total | 39,626 | 100.00% | 121,329 | 100.00% | 1,144,102 | 100.00% | 2,732,252 | 100.00% |

Note 1: The size classifications for Thai businesses used here are based on workforce size. Micro businesses have 0~9 workers, small have 10~49, medium have 50~199 and large have 200 or more. In the figures for 1996, the "small classification" includes all workforces in the 0~49 range.

Note 2: Numbers for businesses registered with the Ministry of Industry.

Source: "Industry Statistics" by Thai Ministry of Industry, Industrial Economic Division, Industry Information Center.

1.3 Industrial Policy for Small Businesses

Policies in Thailand to support small businesses date back to the establishment of the Small Industry Finance Office (SIFO)² under the Ministry of Industry in 1964, acting on the recommendations of ILO experts. Various surveys and recommendations were made in the 1970s, mainly by the Ministry of Industry, and the stimulation and promotion of micro and small businesses was incorporated into Thai government policy. However, different Thai government ministries have been implementing their own independent measures for micro and small businesses. There is no one agency similar to Japan's "Small and Medium Enterprise Agency" for comprehensive supervision and support to such businesses, or any agency to coordinate the entire range of policies for supporting small businesses. This situation is closely related to two perceptions of the promotion of small businesses in Thailand:

- That it is a measure for alleviating poverty and creating jobs in rural areas.

¹ As mentioned in the second footnote to Table 2, the 1996 census only covered places of business in the Bangkok area, central regional cities (municipal areas) and regional cities (sanitary areas). Other regions were omitted from the census. Numbers of places of business for the service sector were surveyed at the same time. The follow-up survey conducted in 1997 covered the whole of Thailand, but only included businesses with ten or more workers. A survey of places of business with less than ten workers was also conducted in 1997, but there is no data for their worker numbers or their added value etc.

² The Small Industry Finance Committee has been set up within the Ministry of Industry, with the Small Industry Finance Office part of it.

- That promotion of small businesses was seen as synonymous with promotion of regional industries from the time of the Fifth Five-Year Plan until very recently.

The monetary and economic crisis which began in the second half of 1997 provoked a growing tendency in Thailand to separate small businesses from regional industrial promotion and establish comprehensive policies specific to small businesses. On 22nd December 1998 the bill³ for the "Small and Medium Businesses Stimulus Act" was approved by the Thai cabinet, setting in motion the reinforcement and integration of policies to support small businesses⁴.

An agency for the unified control of policies related to small and medium businesses was established in Malaysia in 1996, and in the Philippines an integrated small and medium businesses policy commonly known as the "Magna Carta for Small Enterprises" began in 1991. Compared to these efforts, Thailand's implementation of integrated policies to stimulate and nurture small (and medium) scale businesses has only just begun.

1.4 Finance to Small Businesses

At the end of 1987 there were 16 commercial banks in Thailand, falling to 13 in 1998, which constituted the core of the indirect finance sector, handling around 70% of domestic budget savings and credit⁵.

There are no statistics in Thailand for the amounts of finance provided to borrowers in each size bracket, and the proportion of the total volume of finance directed to small businesses is unclear. However, if we assumed that within lending from commercial banks, those loans that are directed to manufacturers and value less than three million Baht are for small businesses, they receive no more than 6~7% of the value of loans from commercial banks to manufacturers. This indicates that the role played by the commercial banks in financing equipment investment by small businesses is limited. Therefore when small businesses need to invest in equipment, they must usually rely mainly on their own funds and make up the shortfall by borrowing from friends and relatives, as well as taking successive short-term (roll-over) loans from financial institutions.

³ This bill was mainly drafted by the Ministry of Industry, with the assistance of the Ministry of Finance, the Ministry of Commerce, Bank of Thailand (central bank) and various private sector agencies. The "Small and Medium Businesses Stimulus Act" establishes a unified and legislated definition for small and medium businesses (Cabinet resolution).

⁴ On 5th April 1999 the cabinet approved the establishment of the Institute for SME Development. Within this organization, the Ministry of Industry Industrial Stimulus Office (DIP) and the University of Tamasato work together to improve the quality of technical training and advice provided to small and medium businesses, and to build networks for their support etc. Japanese agencies (such as JETRO, JICA and the Japan Small-Medium Enterprise Corporation) also provide assistance.

⁵ The other main type of financial institution in Thailand is the finance company. At the end of 1987 there were 94 finance companies, falling to 24 in 1999. However, it is almost impossible for small businesses to borrow from finance companies for capital investments. Most of them are based in Bangkok and the government restricts their development of branches elsewhere, and as a result they specialize in financing medium and large businesses in Bangkok and other cities, and consumer finance. However, small business owners often use finance companies to get loans to buy cars and houses.

Table 3 Sources of Funds for Thai Businesses (1974)

| | 1974 | | | |
|-------------------------|-----------------------|------------------|--------------------|-----------------|
| | Micro (-9 persons) | Small (10-49) | Medium (50-199) | Large (200-) |
| Internal funds | 86.1% | 66.7% | 63.1% | 62.1% |
| External funds | 13.9% | 33.3% | 36.9% | 37.9% |
| Informal | 9.4% | 20.0% | 18.2% | 14.8% |
| Friends, relatives | 4.2% | 8.9% | 8.3% | 0.6% |
| Mutual loan association | 0.9% | 2.5% | 1.1% | 12.2% |
| Usury, others | 4.0% | 2.1% | 2.6% | |
| Suppliers etc. | 0.3% | 6.5% | 6.2% | 1.9% |
| Formal | 4.5% | 13.3% | 18.7% | 23.1% |
| Commercial banks | 4.5% | 11.8% | 16.6% | 22.9% |
| Finance companies | | 0.4% | 1.5% | |
| IFCT | | 0.8% | 0.5% | 0.2% |
| SIFO | | 0.3% | 0.1% | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Reference: Saroj Aungsumalin "Finance, Credit and Provincial Industrialization", Thailand Development Research Institute, 1990 (English-translated version). The research was conducted by funds with USAID.

Source: Saeng Sanguanruang and others, "Small and Medium Scale Industries in Thailand". Approximately 1,500 samples.

Chapter II Project Summary

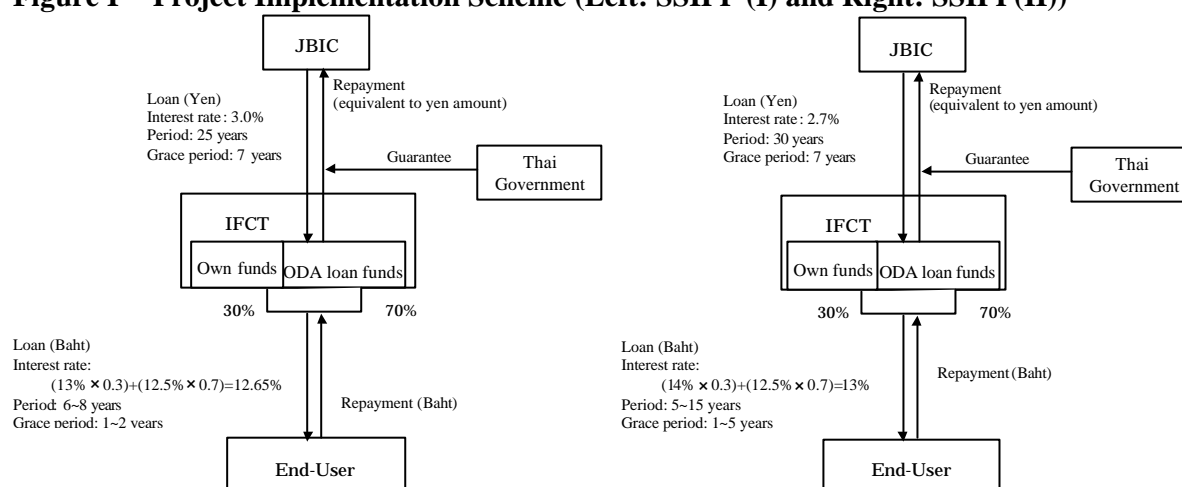
2.1 Overall Project Scheme

(1) Scheme

The SSIPP is a two step loan. The funds loaned by JBIC pass through IFCT, which is the executing agency, and are on-lent to the end-users.

Disbursement and repayment are based in Yen between JBIC and IFCT, and in Baht between IFCT and the end-users. Exchange risks arising at the stage of repayment from IFCT to JBIC are borne by IFCT and not by the end-users. IFCT uses some of the sub-loan interest rate spread to cover its exchange risks, which it manages independently. The Thai government acts as guarantor for IFCT's borrowing from the JBIC.

Figure I Project Implementation Scheme (Left: SSIPP (I) and Right: SSIPP(II))



(2) Executing Agency

IFCT is a finance corporation which was established in October 1959 to provide medium and long-term lending in order to make use of private sector capital and support private-sector industry. It is counted as a government-affiliated financial institution, and the Ministry of Finance became the main shareholder after taking a 20% share in 1982. Since then IFCT has served as the agent to implement finance programs reflecting the Thai government's industrial policies. Before that, IFCT mainly provided large loans to medium and large businesses, but in 1984 it began finance projects for small businesses at the behest of the Ministry of Finance. However, in contrast to Thailand's other government-affiliated financial institutions, namely Bank for Agriculture and Agricultural Cooperatives (BAAC), the Government Savings Bank (GSB), the Government Housing Bank (GHB) and the Small Industry Finance Corporation (SIFC)⁶, most of the IFCT's shareholders are in the private sector. Therefore it differs from the other institutions in having more of the character of a market-oriented financial institution and emphasizing its independence.

⁶ The Small Industry Finance Office (SIFO), which was established under the Ministry of Industry in 1964, became an independent government-affiliated financial institution in 1991.

Table 4 Actual Results of Loans for Small-scale Customers of IFCT (before the start of SSIPP)

| | 1984 | | 1985 | | 1986 | | 1987 | | 1988 | |
|----------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
| | Loan amount | No. of loans | Loan amount | No. of loans | Loan amount | No. of loans | Loan amount | No. of loans | Loan amount | No. of loans |
| Medium, large customers (plan) | 1,900 | | 2,800 | | 1,500 | | 1,700 | | 1,900 | |
| Medium, large customers (actual) | 2,059 | 72 | 2,829 | 68 | 1,247 | 66 | 2,060 | 54 | 2,066 | 58 |
| Samll customers (plan) | 100 | | 200 | | 200 | | 200 | | 250 | |
| Samll customers (actual) | 153 | 57 | 178 | 72 | 203 | 75 | 204 | 85 | 211 | 76 |

Source: IFCT

2.2 Sub-loan Conditions

The conditions for subloans under the SSIPP (from IFCT to end-users) are as described below.

(1) Eligible Business Types

The stated aim of the SSIPP is to stimulate all "small businesses in the private sector", and it does not make any particular limitations on eligible business types. Considering the content of the Thai government's Five-Year Plans, IFCT chooses the main target industrial fields for finance as listed below, focusing on manufacturers for SSIPP (I) and covering a wider range of fields, including non-industrial fields, with SSIPP (II).

Table 5 Target Sub-projects at the Time of L/A Signing and Anticipated Industrial Fields

| SSIPP (I) | SSIPP (II) |
|-------------------------------------|-------------------------------------|
| Anticipated main target industries | Anticipated main target industries |
| Agricultural produce processing | Agricultural produce processing |
| Food processing | Food processing |
| Textile, garments | Textile, garments |
| Wooden ware, furniture | Wooden ware, furniture |
| Paper products, printing | Paper products, printing |
| Chemicals, rubber, plastic products | Chemicals, rubber, plastic products |
| Nonferrous metal products | Nonferrous metal products |
| Metal products | Metal products |
| Others | Mining |
| | Industrial gas, storage |
| | Service industry |
| | Others |

Source: Appraisal materials

(2) Eligible Businesses

For SSIPP (I), companies with net fixed assets not exceeding 10 million Baht before the loan are eligible, and for SSIPP (II), companies with net fixed assets not exceeding 20 million Baht are eligible. These limits were set because at the time of the appraisal IFCT based its definitions of business size on value of fixed assets. (As noted above, IFCT now classifies businesses according to their total asset value).

(3) Eligible Sub-projects

Eligible sub-projects are those that aim to increase production efficiency and improve product quality through construction, expansion and modernization of factories and related work, and purchase of machinery and equipment and spare parts.

(4) Limit of Loan Amount and ODA Loan Ratio

The limits of loan amount were above 200,000 Baht and below 5 million Baht for SSIPP (I), but the upper limit was expanded to ten million Baht for SSIPP (II). The reasons for the increase in the upper limit included rising prices for construction machinery, shifts from traditional production techniques to modern production techniques, and higher project costs due to rising real estate values.

Under the SSIPP programs, JBIC financed 70% of the foreign currency equivalent of the cost of sub-projects to end-users. The remaining 30% was financed from the IFCT's own funds.

(5) Sub-loan Interest Rate

The interest rates on sub-loans from IFCT to the end-users are calculated by combining the interest rate on the portion provided by IFCT and the rate on the JBIC portion, taking into account the proportions drawn from each source (30% from IFCT and 70% from JBIC). The resulting rates were 12.65% at the start of SSIPP (I) and 13.00% at the start of SSIPP (II). The rate for re-lending of the JBIC funds to end-users was 12.5% for both SSIPP (I) and (II) consisted of the interest rate charged by IFCT to JBIC, plus a rate spread to cover the IFCT's exchange risks and management costs. The rate spread was set with care to ensure that the sub-loan rate to the end-users would remain within a concessional level.

The interest rate on the portion provided by IFCT was set by IFCT with reference to the market prime rate. It was set at 13% at the time of appraisal for SSIPP (I) and 14% at the time of appraisal for SSIPP (II).

Table 6 Breakdown of the Rate Spread Added to JBIC-set Rates for SSIPP

| | SSIPP (I) | SSIPP (II) |
|-----------------------------------|-----------|------------|
| JBIC's interest rate | 3.0% | 2.7% |
| Consultant employment cost | 1.1% | 0.5% |
| IFCT maintenance cost | 3.5% | 3.5% |
| Reserve for uncollectible account | 2.0% | 2.8% |
| Exchange risk | 2.5% | 3.5% |
| Exchange dealing loss risk | 0.1% | 0.1% |
| IFCT margin | 0.3% | -0.6% |
| Total | 12.5% | 12.5% |

Source: Appraisal materials

(6) Loan Period (Grace Period)

Under SSIPP (I) the loan period was between six and eight years with a grace period of 1~2 years. For SSIPP (II), IFCT strongly wanted to match the loan conditions to the EIMP (III) program, which was

being implemented at the same time. Therefore the period was changed to 5~15 years and the grace period to 1~5 years.

(7) Collateral and Guarantee

In principle, collateral was required, with the collateral being set by IFCT. Specifically, realty in the form of land, buildings and mechanical equipment, and guarantee (including use of SICGF) were demanded.

(8) Environmental Consideration

Both SSIPP (I) and (II) included consideration of environmental impact and do not appear to have caused any major problems. Manufacturing factories must operate according to the environmental standards set by the Thai Ministry of Industry, and IFCT confirms compliance at the appraisal stage.

2.3 Consulting Services

To support the IFCT and the end-users in matters other than finance, technical assistance (TA) by consultants was added to SSIPP.

The estimated cost of employing the consultants was 9.1 million Baht for the whole of SSIPP (I) (equivalent to ¥50 million at the exchange rate of the time, 1 Baht = ¥5.5), and 2.5 million Baht for the whole of SSIPP (II) (equivalent to ¥14 million at the exchange rate of the time, 1 Baht = ¥5.6). The foreign currency portions of these expenses were 6.4 million Baht, equivalent to ¥35 million, for SSIPP (I) and 1.8 million Baht, equivalent to ¥10 million, for SSIPP (II). These foreign currency expenses were covered by the JBIC loans, and the local currency portions were covered by IFCT from its own funds (drawn from the interest rate spread).

The TOR for the technical assistance (the consulting services) was as shown below.

Table 7 TOR for Consulting Services

| SSIPP (I) | SSIPP (II) |
|--|---|
| Project assistance: Market surveys, establishment of appropriate technologies, management analysis, sub-loan management etc. | Task A: Activities to publicize the program |
| | Task B: Support for the management of the Investment Service Center * |
| Others: Impact study of SSIPP (I) | Task C: Assistance in developing potential clients |
| | Task D: Survey of the small business finance scheme and suggestions for improvement |
| | Task E: Impact study of SSIPP (II) |

Note: * The Investment Service Center is a center set up within the IFCT's Marketing and Business Development Department which provides investors with investment consultation, related information and related operations.

Source: Appraisal materials

Chapter III Evaluation and Analysis on Project Implementation

3.1 Project Cost

JBIC finance to IFCT was implemented smoothly for both SSIPP (I) and (II), with nearly the full amount being disbursed within the disbursement period in each case.

Table 8 Loan Disbursement for SSIPP (I) and (II) (from JBIC to IFCT)

Unit: ¥ 1 million

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | Total |
|---------------------|-------|-------|-------|-------|-------|------|------|------|-------|
| SSIPP (I) (Plan) | 210.0 | 396.0 | 442.0 | 347.0 | 105.0 | - | - | - | 1,500 |
| SSIPP (I) (Actual) | 38.5 | 466.7 | 615.6 | 324.7 | 54.5 | - | - | - | 1,500 |
| SSIPP (II) (Plan) | - | - | 200.0 | 432.0 | 269.0 | 99.0 | - | - | 1,000 |
| SSIPP (II) (Actual) | - | - | - | 872.3 | 91.9 | 25.8 | 3.5 | 1.4 | 995 |

Source: Loan disbursement materials etc.

3.2 Implementation Scheme

With the exceptions of matters such as eligible sub-projects and interest rate, nearly all aspects of the sub-project finance and management for the SSIPP programs were left to the discretion of IFCT. Learning the lessons of other TSLs, the approval of JBIC was required for the first five sub-projects after the start of each SSIPP phase, and all subsequent sub-projects were left to the IFCT's management.

(1) Lending Procedures

SSIPP end-users apply for their loans directly to the IFCT head office or branch office. On receiving the application, the IFCT asks the end-user to submit the necessary documents, and checks and appraises the financial statements and investment plans for the proposed sub-project. Once the content of the application has been checked, the application is approved by the IFCT Board of Directors and the loan is disbursed. After that IFCT prepares summary sheets on end-users under SSIPP (I) and a list of end-users under SSIPP (II), which are forwarded to JBIC.

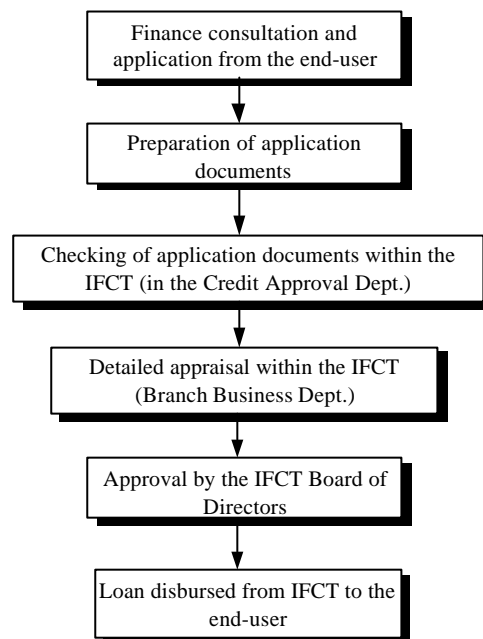
IFCT explains that checking of the basic qualifications, such as business size, field of industry and amount of loan, takes 5~10 days, and appraisal of financial indicators and indicators concerning the investment plan takes between three weeks and a month⁷. After this appraisal the loan application is examined by the board of directors, taking a further week before the loan is disbursed. Therefore under SSIPP the period between submission of the application and disbursement of the loan averages around one and a half months. The number of days required has remained largely unchanged between the start of the SSIPP programs and the present, but considering the sizes of the companies applying for SSIPP loans and the sizes of those loans, one and a half months is a very long time, which appears likely to

⁷ Since the recent economic crisis the time required for appraisal of large loans has become even longer (around two months).

disturb the investment plans of the end-users⁸.

However, there is little likelihood of such a problem in practice because the SSIPP end-users are companies with some degree of available funds of their own. They would therefore be able to temporarily bear the initial costs of the sub-projects concerned (one of the conditions for receiving a loan from IFCT is that the end-user must first pay at least one tenth of the cost of the sub-project from their own funds⁹). Therefore, while there is still room for shortening the duration of lending procedures, there does not appear to be any great impact on the implementation of the SSIPP programs.

Figure 2 Flow Chart for the Appraisal and Disbursement of Loans (1998)



(2) Implementation Scheme

(2) – 1 Executing Agency Management Scheme

Loans under SSIPP (I) and (II) are disbursed to the end-users through the Branch Operation and Small Industry Dept. of IFCT. The department was set up in 1986 to enhance the IFCT's lending to small businesses, which began in 1984.

Under the Branch Operation and Small Industry Dept, there are the Small Industry Appraisal Section

⁸ There is a strong tendency for businesses of medium size or larger to make equipment investments as prior investments. Therefore even if a month or more passed between the application and disbursement of the loan, there would be little impact on the company's business. However, the kind of small businesses targeted by the SSIPP projects are very likely to wait until they have firm orders before they make equipment investments. Therefore, if there is a long delay before the loan is disbursed, it could cast doubt on the viability of the project.

⁹ This payment of one tenth of the project cost with the borrower's own funds was reimbursed by the IFCT loan. This method means that small businesses which are unable to put up at least 10% of the cost of the sub-project from their own funds could not use the SSIPP. The subsequent disbursement of the loan was carried out in several installments, with the full amount not being paid before completion of 70% of the sub-project could be confirmed. In short, to qualify, a small business had to have some spare funds of its own.

and the Small Industry Loan administration Section, which deal with small-scale clients in the Bangkok area, and the Branch Operation Section, which takes overall control of branch operations. In addition, there are six Comprehensive Regional Sections. For small scale clients outside Bangkok, the branches found potential sub-projects, checked documents, and disbursed and administrated loans. The Lending Management Department of the head office checked the disbursement and the state of repayment of each loan.

In 1996 a reorganization was carried out which devolved authority to the branches and expanded the branch network. The same reorganization also eliminated the "small scale industry"-related posts within the head office organization. However, with the exception of the transfer of management of sub-loans in the Bangkok area to the branches, there was no major change in the operational process of the SSIPP programs.

Figure 3 Organization Chart of IFCT (Headquarters) (SSIPP (I) and (II) at the time of appraisal)

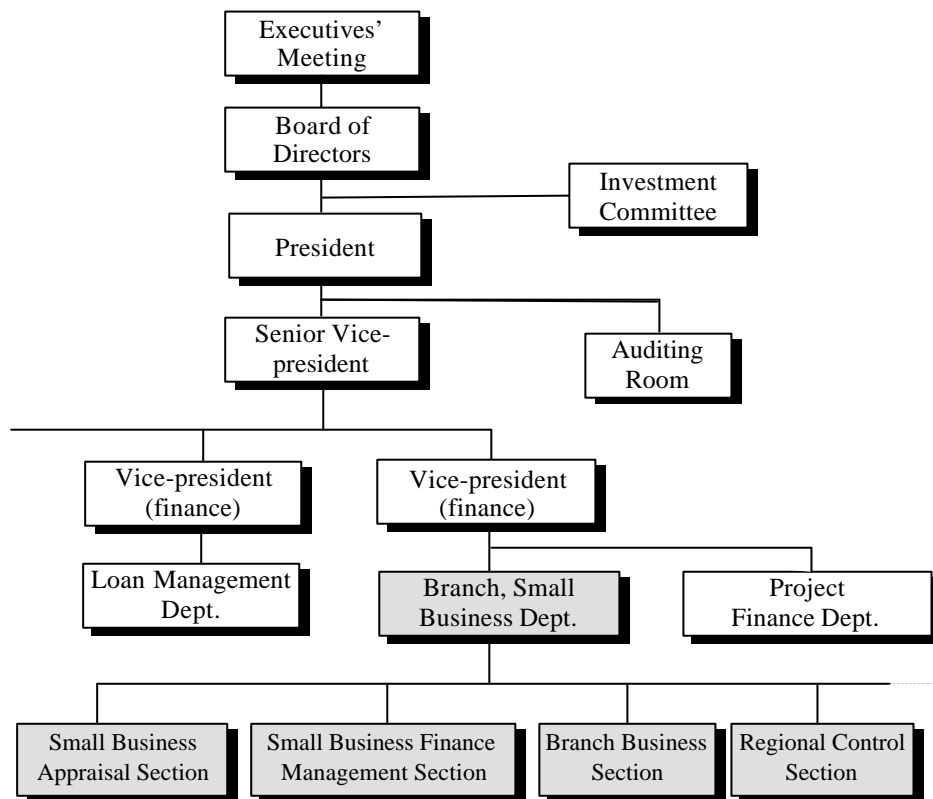
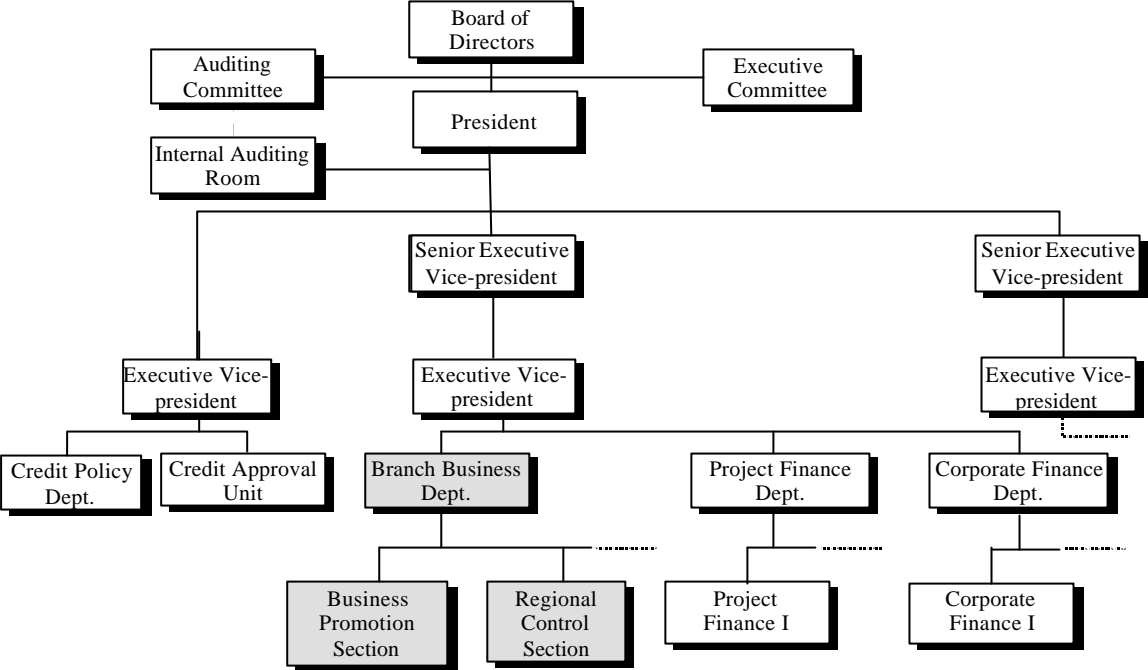


Figure 4 Organization Chart of IFCT (Headquarters) (end of 1997)



Most loans under the SSIPP programs (up to five million Baht under SSIPP (I) and up to ten million Baht under SSIPP (II)) are below the size that does not require the approval of the Executive Committee under the IFCT's rules¹⁰, but as they are loans under a special finance program, all loans have to be approved by the Executive Committee in the head office. After the loans are disbursed, the administration of the SSIPP end-users is under the authority of the branches in most cases (after the reorganization, all end-users are administrated by branches).

Most of the staff of IFCT branches were hired and promoted locally to enhance connection with the community. As a result there are few movements of staff between the branches and the head office.

Personnel training for all staff, regardless of whether they are attached to head office or branches, is handled by the Human Resources Development Department in head office. Training at the OJT level is left to individual branches. IFCT constantly watches the trends in staff training at western financial institutions and incorporates those trends in its own training programs. The general level of training of IFCT personnel is high.

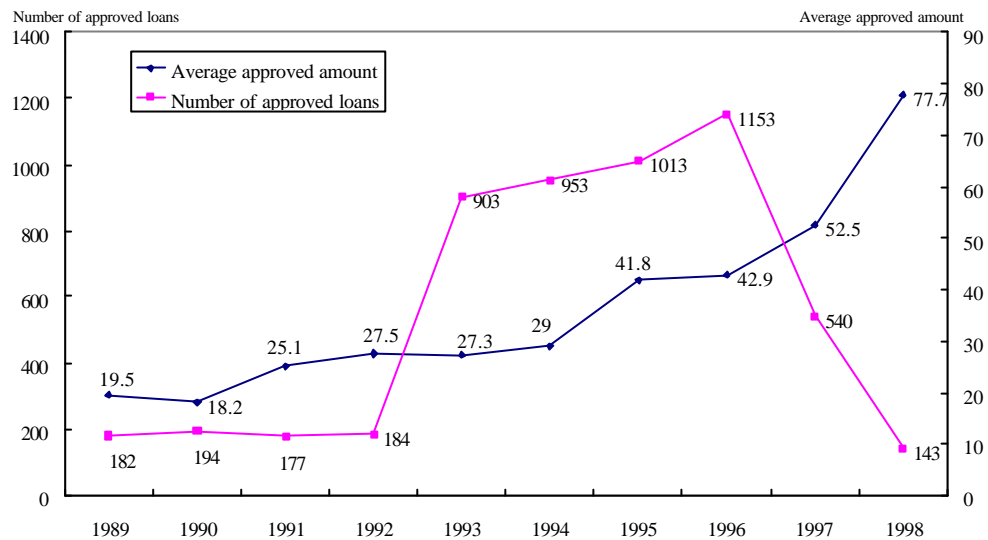
The training programs run by the head office do not include any special expertise for lending to small businesses, and all skills for managing small business clients are acquired through OJT. Therefore, as will be described later, there are disparities between branches in the levels of their staff.

¹⁰ For normal loans to clients bigger than the definition of small-scale (total assets less than 50 million Baht and approved loan amount less than 25 million in August 1997), IFCT puts such clients under the jurisdiction of the Project Finance Department and the Corporate Finance Department within the head office, even when they are located outside Bangkok. Conversely, all small scale clients are put under the jurisdiction of the branches. Furthermore, loans of up to five million Baht before 1993 and up to 15 million Baht from 1993 on did not require the approval of the head office's Investment (or Finance) Committee. Instead, such loans could be approved by branch managers or department managers.

(2) – 2 The Position of the JBIC Finance Programs

The overall loan approval situation for IFCT between 1989 and 1998 shows an upward trend until 1996. The biggest jump came in 1993, up to 24.66 billion Baht from 5.06 billion Baht in the preceding year. In 1996 the amount of approved loans reached 49.445 billion Baht, a 14-fold increase from 1989 (3.55 billion Baht). The impact of the 1997 economic crisis caused the approved amount to plummet to 28.372 billion Baht. The number of approved loans rose sharply in 1993 and followed similar trends to the approved amount.

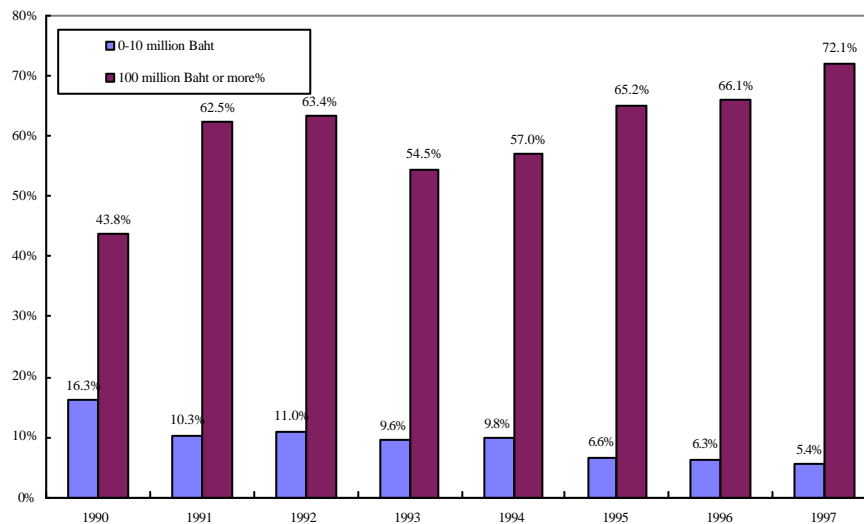
Figure 5 Transition of Approved Numbers and Average Approved Amount



Source: Prepared from IFCT Annual Report.

The average approved amount per loan continued to rise, even after 1996, reaching a record level in 1997 and again in 1998.

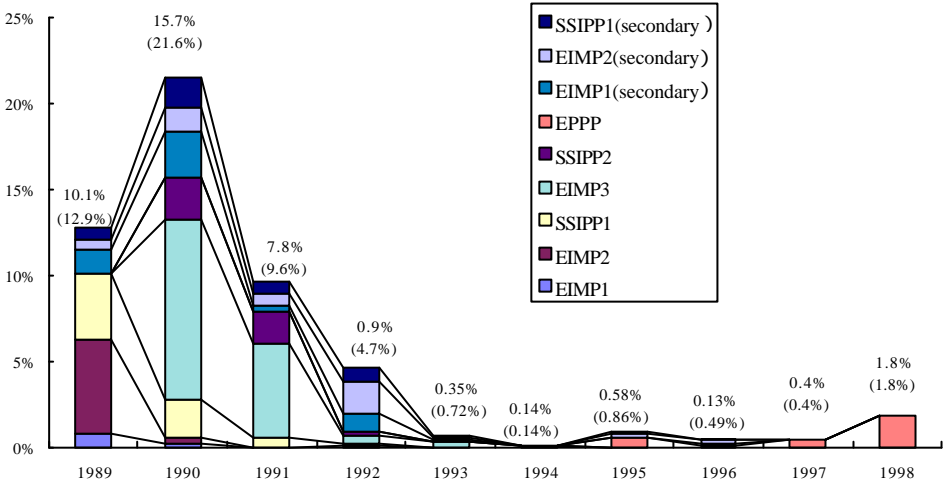
Figure 6 Transition of Weight for Small and Large-scale Loans



Source: Prepared from IFCT Annual Report.

Within the approved loans made by IFCT, the share of loans valued at ten million Baht or less has been declining continuously (Figure 6). The proportion of total loan amount provided by the JBIC loan, which is directed to small and medium businesses against the whole IFCT loan assets, has been falling, declining steadily from 15.7% in 1990 to level off at around 1% in recent years¹¹. Compared to, for example, the case with the Development Bank of the Philippines(DBP), whom JBIC provided with TSLs either, the JBIC share against the IFCT's total loan assets is rather small. Furthermore, the figures for small-scale finance as shown in Figure 6 only show the proportion taken by loans of ten million Baht or less, which means not all these loans are necessarily directed to small and medium businesses. Therefore it is important to note that the movements in the weighting of the JBIC finance programs, which are relatively small in both the amounts lent and the size of the borrowers, do not necessarily match the movements in Figure 6.

Figure 7 Weight of JBIC's Finance Programs within IFCT's Lending



Note: Figures in () are for totals of secondary loans.
 Source: IFCT materials

3.3 State of Sub-loan Implementation

(1) Disbursement of Sub-loans

The source of funds for the SSIPP sub-loans comprise 70% from the JBIC loan and 30% from the IFCT's own funds. Looking at the programs separately, under SSIPP (I) a total of 409.1 million Baht in loans (of which the JBIC portion was 286.37 million Baht) to 156 end-users were approved between the beginning of 1989 and September 1992. Under SSIPP (II), loans worth 286.6 million Baht (of which the JBIC portion was 200.62 million Baht) to 64 end-users were approved between February 1990 and January 1993. Therefore the total number of end-users had risen to 220 by that time.

¹¹ As noted earlier, in addition to the SSIPP programs JBIC has implemented the Export Industry Modernization Program (EIMP) and the Environmental Protection Promotion Program (EPPP) TSLs through IFCT. All programs are directed to small business.

Table 9 Comparison of Planned and Actual Sub-loan Disbursement

Unit: 1 million Baht

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | Total |
|---|-------|-------|-------|------|------|------|------|------|------|------|-------|
| SSIPP (I) (Whole of primary approval plan) | 78.2 | 112.0 | 109.5 | 80.8 | - | - | - | - | - | - | 380.5 |
| SSIPP (I) (Whole of primary disbursement plan) | 52.1 | 100.6 | 110.2 | 90.3 | 27.3 | - | - | - | - | - | 380.5 |
| SSIPP (I) (Planned disbursement from JBIC portion) | 36.6 | 70.4 | 77.2 | 63.2 | 19.1 | - | - | - | - | - | 266.4 |
| SSIPP (I) (Actual primary approvals from JBIC portion) | 135.0 | 75.2 | 24.4 | 7.8 | - | - | - | - | - | - | 242.4 |
| SSIPP (II) (Primary approval plan) | - | 125.2 | 85.1 | 42.2 | - | - | - | - | - | - | 252.5 |
| SSIPP (II) (Primary disbursement plan) | - | 50.0 | 109.2 | 68.0 | 25.3 | - | - | - | - | - | 252.5 |
| SSIPP (II) (Planned disbursement from JBIC portion) | - | 35.0 | 76.4 | 47.6 | 17.7 | - | - | - | - | - | 176.7 |
| SSIPP (II) (Actual primary approvals from JBIC portion) | - | 87.2 | 81.0 | 14.0 | 7.0 | - | - | - | - | - | 189.2 |

Note: The "Planned disbursement from JBIC portion" under SSIPP (I) was equivalent to 1.5 billion Baht at an exchange rate of 1 Baht = ¥5.5.

The "Planned disbursement from JBIC portion" under SSIPP (II) was equivalent to 1 billion Baht at an exchange rate of 1 Baht = ¥5.6.

Source: Appraisal materials, IFCT materials

Repayment of the loan from IFCT to JBIC began in 1995 for SSIPP (I) and in 1997 for SSIPP (II).

(2) Sub-loan Interest Rate

In the same way as other JBIC TSLs through IFCT, fixed interest rate was applied to the SSIPP sub-loans. The interest rates on sub-loans from IFCT to the end-users are calculated by combining the interest rate on the portion provided by IFCT and the rate on the JBIC portion, taking into account the proportions drawn from each source. Thus, the calculation formula is [(interest rate on JBIC loan portion × 70%) + (interest rate on portion provided by IFCT × 30%)]. The interest rate for the JBIC portion consists of the loan interest rate plus a spread to cover exchange risks, default risks, administration costs etc., amounting to 12.5%, which was applied for the entire duration of the SSIPP programs.

The interest rate on the IFCT portion was the IFCT's standard interest rate, which was revised as appropriate while reflecting the movements of the Thai market interest rates (The IFCT's standard interest rate was determined with reference to the Minimum Lending Rate (MLR) charged by commercial banks). Therefore when the IFCT interest rate changed, so did the sub-loan interest rate. When the sub-loan rate rose, a new sub-loan interest rate was applied, after prior consultation with the JBIC. (When the new sub-loan interest rate was lower, IFCT only had to notify JBIC of the change).

When the SSIPP program was introduced, both IFCT standard interest rate and the interest on the JBIC loan portion (12.5%) were below the market rate and the sub-loan rate reached by combining the two was quite concessional. However, from mid-1991 the market interest rate went into a declining phase, bringing the SSIPP sub-loan interest close to the commercial bank MLR, and there was concern that it would exceed the MLR.

However, as Table 10 shows, the SSIPP sub-loan interest rate never went above the [commercial bank

MLR + 4%] level¹². For Thai small and medium businesses it was extremely difficult to obtain long-term loans. Small businesses usually obtained funds through "roll-over" borrowing of a succession of short-term loans of six months or less, which obliged them to pay annual interest rates of over 25%. Therefore, compared to obtaining funds on the market, the SSIPP sub-loan interest rates were always concessional and attractive to small businesses.

Table 10 Comparison of Interest Rates

| | | IFCT standard rate | SSIPP sub-loan rate | Commercial bank MLR* | Commercial bank MLR+4% |
|------|------|--------------------|---------------------|----------------------|------------------------|
| 1987 | Sep. | 13.000 | 12.650 | | |
| 1989 | Jan. | 14.000 | 13.000 | 12.000 | 16.000 |
| | Aug. | | | 12.500 | 16.500 |
| 1990 | Feb. | 14.500 | 13.100 | 13.000 | 17.000 |
| | May | | | 14.500 | 18.500 |
| | Sep. | 15.000 | 13.250 | 15.000 | 19.000 |
| 1991 | Dec. | 16.000 | 13.550 | 15.875 | 19.875 |
| | Jan. | | | 16.250 | 20.250 |
| | Mar. | | | 16.000 | 20.000 |
| | Apr. | | | 15.000 | 19.000 |
| | Jul. | | | 16.000 | 20.000 |
| | Nov. | | | 14.500 | 18.500 |
| | Dec. | | | 14.000 | 18.000 |
| 1992 | Jan. | | | 13.500 | 17.500 |
| | Feb. | | | 13.000 | 17.000 |
| | Mar. | | | 12.500 | 16.500 |
| | Apr. | | | 12.000 | 16.000 |
| 1993 | Mar. | | | 11.250 | 15.250 |
| | Aug. | 14.000 | 12.950 | 11.500 | 15.500 |
| | Oct. | | | 11.000 | 15.000 |
| 1994 | Jan. | | | 10.250 | 14.250 |
| | Mar. | | | 10.125 | 14.125 |
| | Apr. | | | 10.250 | 14.250 |
| | Jun. | | | 10.750 | 14.750 |
| | Aug. | | | 11.250 | 15.250 |
| | Nov. | | | 11.650 | 15.650 |
| 1995 | Feb. | | | 12.750 | 16.750 |
| | Mar. | | | 12.625 | 16.625 |
| | Apr. | | | 13.325 | 17.325 |
| | Jul. | 15.000 | 13.250 | 13.500 | 17.500 |
| 1996 | Nov. | | | 13.625 | 17.625 |
| | Jul. | | | 13.500 | 17.500 |
| | Dec. | | | 13.250 | 17.250 |
| 1997 | May | | | 12.910 | 16.910 |
| | Jun. | | | 12.750 | 16.750 |
| | Jul. | | | 13.030 | 17.030 |
| | Sep. | | | 13.960 | 17.960 |
| | Oct. | | | 14.490 | 18.490 |
| | Dec. | | | 15.250 | 19.250 |
| 1998 | Jan. | | | 15.250 | 19.250 |

Note: * is the average MLR among the big four commercial banks.

Source: Appraisal materials, IFCT materials etc.

¹² "MLR + 4%" is set as the benchmark because, according to the regulations of the Bank of Thailand, finance institutions are allowed to lend at up to 4% above MLR, and for finance to small businesses the interest rate can be assumed to be at that upper limit.

(3) Distribution by End-User Scale

Dividing the SSIPP end-users into workforce size categories, the largest number of loans under both SSIPP (I) and (II) went to businesses in the "11~50 workers" category, followed by the "51 or more workers" and "10 or less workers" categories. For SSIPP (II) the maximum fixed asset value for eligible businesses and the maximum loan size were increased, which had the effect of increasing the share of loans directed to end-users in the "51 or more workers" category¹³.

The SSIPP programs are aimed at small businesses. Even under the workforce size classification, most loans went to businesses of "small" rather than "micro" size, which indicates that the programs serve their initial purpose. However, within the small businesses the actual lending was concentrated towards the larger end of the small business range. This was particularly true of SSIPP (II).

Table 11 Distribution by Workforce Size Category (SSIPP (I))

| Number of workers | Number of approved loans (absolute number) | Number of approved loans (shares) | Amount of sub-loans (millions of Baht) | Amount of sub-loans (shares) | Average approved amount (millions of Baht) |
|-------------------|--|-----------------------------------|--|------------------------------|--|
| 10 or less | 25 | 16% | 48.9 | 12% | 2.0 |
| 11 - 50 | 96 | 62% | 259.6 | 63% | 2.7 |
| 51 or more | 35 | 22% | 100.6 | 25% | 2.9 |
| Total | 156 | 100% | 409.1 | 100% | 2.6 |

Table 12 Distribution by Workforce Size Category (SSIPP (II))

| Number of workers | Number of approved loans (absolute number) | Number of approved loans (shares) | Amount of sub-loans (millions of Baht) | Amount of sub-loans (shares) | Average approved amount (millions of Baht) |
|-------------------|--|-----------------------------------|--|------------------------------|--|
| 10 or less | 10 | 16% | 31.2 | 11% | 3.1 |
| 11 - 50 | 29 | 45% | 128.7 | 45% | 4.4 |
| 51 or more | 25 | 39% | 126.7 | 44% | 5.1 |
| Total | 64 | 100% | 286.6 | 100% | 4.5 |

Source: Prepared from Progress Reports for both Tables 11 and 12.

¹³ The distribution by workforce size for all manufacturing businesses in Thailand has only 2.9% in the "50 or more" category and 8.7% in the "10~49 workers" category. 88.5% are in the "ten workers or less" category.

Table 13 Comparison of Distribution by Borrower Asset Size Between SSIPP and Overall IFCT Lending

| Asset size | SSIPP (I) | | SSIPP (II) | | Overall IFCT (1997) | |
|--------------------------|--------------|-----------------|--------------|-----------------|---------------------|-----------------|
| | No. of loans | Approved amount | No. of loans | Approved amount | No. of loans | Approved amount |
| 0-1 million Baht | 5.8% | 5.0% | 0.0% | 0.0% | | |
| 1-5 million Baht | 44.9% | 31.9% | 21.8% | 7.4% | | |
| 0-5 million Baht | 50.7% | 36.9% | 21.8% | 7.4% | 43% | 3% |
| 5-10 million Baht | 44.2% | 57.0% | 34.3% | 25.1% | 18% | 3% |
| 10-15 million Baht | 4.5% | 5.1% | 14.0% | 16.2% | | |
| 15-20 million Bhat | 0.6% | 1.0% | 29.7% | 51.3% | | |
| 10-20 million Baht | 5.1% | 6.1% | 43.7% | 67.5% | 13% | 4% |
| 20-50 million Baht | | | | | 12% | 8% |
| 50-100 million Baht | | | | | 7% | 10% |
| 100 million Baht or more | | | | | 7% | 72% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Each SSIPP Progress Report, 1997 IFCT Annual Report.

The distribution of end-users among the asset size categories differed markedly between SSIPP (I) and SSIPP (II). Under SSIPP (I) the loans were concentrated, by number, on end-users in the "1~5 million Baht" and "5~10 million Baht" categories of net fixed assets. By approved amount they were concentrated on end-users in the "5~10 million Baht" categories.

In contrast, under SSIPP (II), the number of loans was highest in the "15~20 million Baht" category. Comparing the SSIPP (I) and SSIPP (II), it is clear that SSIPP (II) provides more finance to larger small businesses than SSIPP (I) does.

The distribution by approved amount shows that the proportion of larger sub-loan amount increased due to the increase in the maximum loan amount, from five million Baht under SSIPP (I) to ten million Baht under SSIPP (II). The shift is very evident in the average approved amount, which rose from 2.6 million Baht under SSIPP (I) to 4.5 million under SSIPP (II).

Table 14 Distribution of SSIPP Sub-loans by Approved Amount

| Loan size | SSIPP (I) | | | | SSIPP (II) | | | |
|-------------------|------------------|-------|----------------------------------|--------|------------------|--------|----------------------------------|-------|
| | No. of sub-loans | (%) | Approved amount (1 million Baht) | (%) | No. of sub-loans | (%) | Approved amount (1 million Baht) | (%) |
| 0-1 million Baht | 25 | 16.0% | 23.0 | 5.6% | 4 | 6.3% | 3.2 | 1.1% |
| 1-3 million Baht | 79 | 50.6% | 167.7 | 41.0% | 24 | 37.5% | 54.1 | 18.9% |
| 3-5 million Baht | 52 | 33.3% | 218.4 | 53.4% | 15 | 23.4% | 67.2 | 23.4% |
| 5-7 million Baht | 0 | 0.0% | 0 | 0.0% | 10 | 15.6% | 65.5 | 22.9% |
| 7-10 million Baht | 0 | 0.0% | 0 | 0.0% | 11 | 17.2% | 96.6 | 33.7% |
| Total | 156 | 100% | 409.1 | 100.0% | 64 | 100.0% | 286.6 | 100% |

Source: Each SSIPP Progress Report

(4) Distribution by Loan Period

Under SSIPP (I) the repayment period was set at 6~8 years, with little deviation among end-users in the repayment periods. In fact, most loans were disbursed within the initial time frame set¹⁴.

As noted above, IFCT asked to match the terms of SSIPP (II) with those of EIMP (III), and the loan period was considerably increased accordingly, to 5~15 years. The actual result was that the deviation in loan period reduced, with no loans being approved for more than eight years, and only one being approved for five years.

Table 15 Distribution by SSIPP Loan Period

| Loan period | SSIPP (I) | | | | SSIPP (II) | | | |
|---------------------|--------------|-------|----------------------------------|--------|--------------|--------|----------------------------------|-------|
| | No. of loans | (%) | Approved amount (1 million Baht) | (%) | No. of loans | (%) | Approved amount (1 million Baht) | (%) |
| 5 years or less | 14 | 9.0% | 33.6 | 8.2% | 1 | 1.6% | 2.0 | 0.7% |
| 5-8 years | 142 | 91.0% | 375.5 | 91.8% | 63 | 98.4% | 284.6 | 99.3% |
| 8-10 years | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| 10-15 years | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Total | 156 | 100% | 409.1 | 100.0% | 64 | 100.0% | 286.6 | 100% |
| Average loan period | 5.88 years* | | 5.91 years** | | 6.02 years* | | 6.05 years** | |

Note: * Average weighted by number of loans. ** Average weighted by approved amount.

Source: Each SSIPP Progress Report.

(5) Regional Distribution

Comparing the regional distribution of loans under SSIPP (I) and (II) with the regional distribution of IFCT loans as a whole, the SSIPP loans were more concentrated in the North, Northeast and South. The shares for the Central and East areas are low in SSIPP loans and IFCT loans as a whole, but it should be noted that under the SSIPP programs the shares to the greater Bangkok area are lower than among overall IFCT loans¹⁵. As noted above, the nurturing of regional industries and the regional dispersion of industry are accorded top priority in Thailand, and they were among the objectives of the SSIPP programs. Thus the SSIPP programs have made a substantial contribution towards the attainment of these goals.

Table 16 Regional Distribution of SSIPP Loans and Overall IFCT Finance

| | SSIPP (I) | | SSIPP (II) | | Overall IFCT ('93) | |
|----------------------|--------------|-----------------|--------------|-----------------|--------------------|-----------------|
| | No. of loans | Approved amount | No. of loans | Approved amount | No. of loans | Approved amount |
| Greater Bangkok area | 16.7% | 19.7% | 15.6% | 24.6% | 28.9% | 41.0% |
| Central | 3.2% | 2.7% | 9.4% | 12.6% | 9.3% | 18.7% |
| East | 3.8% | 3.9% | 6.3% | 3.2% | 7.1% | 16.4% |
| Northeast | 30.8% | 28.3% | 28.1% | 20.5% | 18.7% | 8.2% |
| North | 25.0% | 23.0% | 25.0% | 24.2% | 20.5% | 8.5% |
| South | 20.5% | 22.4% | 15.6% | 14.9% | 15.6% | 7.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Note: The greater Bangkok area includes Bangkok and the five neighboring provinces.

Source: Each SSIPP Progress Report, 1993 IFCT Annual Report.

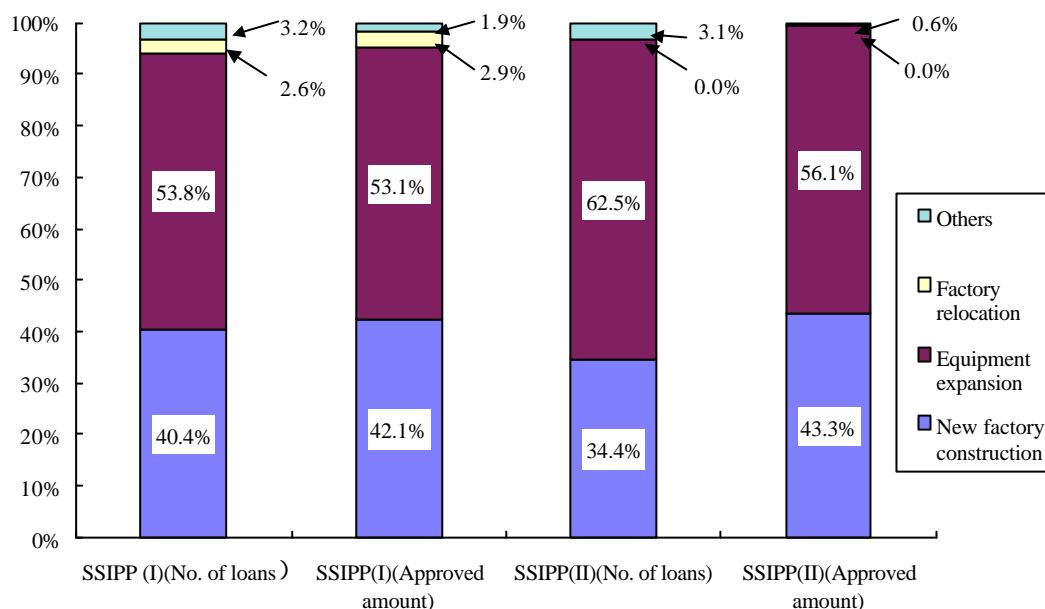
¹⁴ Under SSIPP (I), 14 sub-loans were approved for terms of five years.

¹⁵ In 1997 the share of the IFCT's total approved loan amount which was directed to the greater Bangkok area rose to 56.2% as concentration to the capital increased.

(6) Distribution by Purpose of Loan

Equipment expansion was the major purpose of loan under both SSIPP (I) and (II), followed by new factory construction. Therefore we can conclude that the SSIPP programs assisted in building production capacity.

Figure 8 Distribution of SSIPP Sub-loans by Purpose of Loan



Source: IFCT materials

(7) Distribution by Industry Type

The distribution of SSIPP sub-loans by industry type (shares of the number of sub-loans) shows that large shares went to agricultural produce and related products, and food and beverages. In addition, relatively large shares went to metal processing, electrical equipment and general machinery.

Table 17 Breakdown of Approved Loan Amount by Industry

| | SSIPP (I) | SSIPP (II) | Overall IFCT ('93) | Overall IFCT ('96) |
|--|-----------|------------|--------------------|--------------------|
| Agricultural produce related, mining, food and beverages | 34.5% | 23.5% | 20.0% | 16.6% |
| Textiles, apparel, leather goods | 5.4% | 13.2% | 2.6% | 1.3% |
| Wooden ware, furniture | 7.5% | 7.2% | 7.2% | 2.7% |
| Paper, printing, publishing | 2.7% | 6.5% | 3.8% | 2.2% |
| Chemicals, rubber, refined oil, petroleum products | 13.4% | 14.1% | 11.3% | 5.8% |
| Nonmetal (mineral) products, pottery, glass products | 7.8% | 0.3% | 9.8% | 2.5% |
| Metal processing, electric equipment, general machinery | 17.8% | 16.6% | 20.1% | 25.8% |
| Industrial gas, water supply, warehouse etc. | 3.8% | 0.0% | 4.1% | 24.4% |
| Building materials | 0.0% | 8.6% | 7.2% | 4.6% |
| Service industry | 4.6% | 9.1% | 7.5% | 8.7% |
| Other industries | 2.4% | 0.9% | 6.5% | 5.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Note: Classifications which differ between SSIPP and overall IFCT have been adjusted as required.

Source: IFCT materials, each SSIPP Progress Report

The breakdown of Thailand's entire manufacturing industry by numbers of places of business shows that 56.2% are concentrated in seven types, namely agricultural produce processing, mining, foods and beverages, textiles, apparel, timber and furniture. The distribution of SSIPP end-users by business type is largely the same as the business type breakdown among all Thailand's manufacturing businesses in 1996.

The breakdown of the IFCT's finance by industry type has seen a steady share going to Thailand's traditional industries, which are agricultural produce processing, mining and other food-related fields, over the last ten years. The share for electrical goods and office equipment is rising, and the share for infrastructure-related finance for transport and communications, and for electrical, gas and water supply, is highly variable. Overall, the IFCT emphasizes traditional industries dealing with agricultural produce processing and foods, but it is also increasing the share of its finance provided to the new electrical industry. The SSIPP end-users are in line with the IFCT's overall finance strategy.

(8) Overdue Loans

As soon as the SSIPP project started, problems arose with overdue loans (overdue payments for even one day) to the IFCT. This problem reflects the nature of the project, which is directed at small businesses.

Under both SSIPP (I) and (II) a high proportion of the overdue loans were of three months or less in the first several years after the start of loan disbursement. Most of these were due to trivial reasons such as "forgot the payment date", and were remedied swiftly¹⁶. However, in cases where arrears exceed three months, the tendency is for them to become progressively longer¹⁷. Arrears of one year or more were becoming increasingly common in both SSIPP (I) and (II) even before the economic crisis. Under SSIPP (II) there was a constant level, in terms of the number of cases and their amount, of arrears of one year or more. This level continued regardless of the state of the economy and starkly illustrates how difficult it is for small businesses to solve their arrears problems once they have fallen into repayment difficulties.

The IFCT's credit management of its small-scale clients has reached an adequate level, and end-users which have the ability to pay but do not do so are made to repay promptly, and IFCT has gained some ability to prevent overdue loans. However, the economic crisis began before IFCT had any radical measures in place to prevent lengthening overdue loans, and a major increase in bad debts resulted.

When a sub-loan becomes an "overdue loan"¹⁸, IFCT re-examines the end-user's business and management and, where there is no prospect of a solution through rescheduling, it takes legal liquidation measures, such as disposal of collateral. In Thailand it takes a considerable amount of time before such liquidation measures can be carried out, and other solutions must be attempted before the situation reaches that stage. IFCT needs to establish countermeasures against long-term overdue loans.

¹⁶ It is customary for small businesses in Thailand, and in developing countries in general, to fail to honor payment dates strictly. As a result there is a strong risk of increased loan administration costs, which is one reason why financial institutions do not offer loans to such clients.

¹⁷ There was no great change in this trend after the economic crisis which erupted in the second half of 1997.

¹⁸ The definition of "overdue loan" used by the Bank of Thailand was changed in March 1998 from "no payment of interest or principal for six months" to three months. This change made the IFCT's loan administration system stricter than it was before.

Table 18 Movements in the Amount of Overdue Loans

(Units: Thousand Baht)

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---------------------|---------------------|----------------------|----------------------|----------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
| 1 Outstanding balance from SSIPP (I) | 134,585 68 loans | 272,111 96 loans | 319,347 147 loans | 295,902 152 loans | 196,392 156 loans | | | | | |
| 2 Total amount of loans in arrears from SSIPP (I) | 2,064 28 loans | 11,624 71 loans | 12,009 31 loans | 18,965 34 loans | 47,970 72 loans | | | | | |
| Amount 2 in arrears/ balance (%) | 1.5% | 4.3% | 3.8% | 6.4% | 24.4% | | | | | |
| 3 Amount of arrears within value 2 from end users not more than 3 months in arrears | 2,064 28 loans | 6,423 61 loans | 3,163 19 loans | 1,740 9 loans | 8,084 48 loans | | | | | |
| Amount 3 in arrears/ balance (%) | 1.5% | 2.4% | 1.0% | 0.6% | 4.1% | | | | | |
| 4 Amount of arrears within value 2 from end users in arrears for 3~12 months | 0 0 loan | 4,148 9 loans | 3,723 8 loans | 6,104 14 loans | 2,415 3 loans | | | | | |
| Amount 4 in arrears/ balance (%) | 0.0% | 1.5% | 1.2% | 2.1% | 1.2% | | | | | |
| 5 Amount of arrears within value 2 from end users more than 12 months in arrears | 0 0 loan | 1,053 1 loan | 5,123 4 loans | 11,121 11 loans | 37,471 21 loans | | | | | |
| Amount 5 in arrears/ balance (%) | 0.0% | 0.4% | 1.6% | 3.8% | 19.1% | | | | | |
| 5 Outstanding balance from SSIPP (II) | | 52,712 20 loans | 232,313 57 loans | 230,386 60 loans | 149,043 64 loans | 100,382 50 loans | 97,761 50 loans | 25,392 26 loans | 24,142 14 loans | 21,580 12 loans |
| 6 Total amount of loans in arrears from SSIPP (II) | | 506 15 loans | 1,150 4 loans | 3,344 10 loans | 25,543 36 loans | 26,201 24 loans | 31,920 27 loans | 19,459 17 loans | 22,116 13 loans | 19,857 12 loans |
| Amount 6 in arrears/ balance (%) | | 1.0% | 0.5% | 1.5% | 17.1% | 26.1% | 32.7% | 76.6% | 91.6% | 92.0% |
| 7 Amount of arrears within value 6 from end users not more than 3 months in arrears | | 506 15 loans | 400 3 loans | 2,444 7 loans | 7,890 25 loans | 5,361 14 loans | 5,327 16 loans | 1,014 8 loans | 200 3 loans | 357 1 loans |
| Amount 7 in arrears/ balance (%) | | 1.0% | 0.2% | 1.1% | 5.3% | 5.3% | 5.4% | 4.0% | 0.8% | 1.7% |
| 8 Amount of arrears within value 6 from end users in arrears for 3~12 months | | 0 0 loan | 750 1 loan | 900 3 loans | 213 1 loan | 1,098 2 loans | 4,048 3 loans | 631 2 loans | 237 2 loans | 198 2 loans |
| Amount 8 in arrears/ balance (%) | | 0.0% | 0.3% | 0.4% | 0.1% | 1.1% | 4.1% | 2.5% | 1.0% | 0.9% |
| 9 Amount of arrears within value 6 from end users more than 12 months in arrears | | 0 0 loan | 0 0 loan | 0 0 loan | 17,440 10 loans | 19,742 8 loans | 22,545 8 loans | 17,814 7 loans | 21,679 8 loans | 19,302 9 loans |
| Amount 9 in arrears/ balance (%) | | 0.0% | 0.0% | 0.0% | 11.7% | 19.7% | 23.1% | 70.2% | 89.8% | 89.4% |

Note: "Amount in arrears" is the total of principal and interest for which payment is overdue at any point in time.
 Figures for 1992, 1995 and 1998 are for the end of June. Other figures are for the end of the calendar year.

Source: Progress Reports

(9) Revolving Fund

The IFCT has established a revolving fund account where it manages principal and interest paid by end-users to IFCT. The money in the account, the revolving fund, is to be reused under the same scheme for the same purposes. The state of operation of the revolving fund, including movements in its overall amount, is reported in "Statement of Special Account" semi-annually.

Approved lending from the SSIPP revolving fund has been running at around 20~30 million Baht per year, with a peak in 1990.

3.4 Consulting Services

For SSIPP (I), consultants were used for the design and supervision of the program as a whole, and for the management of end-users and other technical assistance. The service was covered by ODA loan for the foreign currency cost and a part of the interest rate spread on the ODA loan covered the local currency cost. The same group of consultants (one Thai and two Japanese companies) which was used for the EIMP (I) program, which began in 1985, was employed for SSIPP (I) on a direct contracting basis. These consultants carried out the following tasks:

- Technical support to appraisals of sub-projects by IFCT staff.
- Preparation of promotional pamphlets and support for publicity seminars.
- Support was provided for the recording and reporting of progress reports and other information on sub-loans.

For SSIPP (II), the same consultants employed under SSIPP (I) were employed again, for the same purpose and on a direct contracting basis. The consultant provided the following services:

- Seminars for small and medium businesses.
- Support for the provision of investment and marketing information through the Information Service Center set up within IFCT.
- Surveys of demand for the program (an investigation of around 100 companies in eleven industries).

Table 19 Content of Consulting Services

| SSIPP (I) | SSIPP (II) |
|--|--|
| A: Support for program promotion activities | A: Support for improved productivity among small and medium businesses |
| B: Support for sub-loans | B: Support for Information Service Center |
| C: Support for program information management | C: Support through demand surveys and other activities |
| D: Support for cooperation between JBIC and IFCT | D: Support for cooperation between JBIC and IFCT |

Source: IFCT materials

The main results yielded by these consulting services were improved sub-loan appraisal techniques among IFCT staff, the establishment of a publicity system for the IFCT's special finance programs¹⁹ and a higher level of information management on sub-loans. Initially it was planned that the consultants would tour around end-users, giving them positive and systematic managerial and technical support, but that aim was not achieved due to limitations on consultant staff numbers and the duration of their contract²⁰. Therefore with the exceptions of some occasions when end-users made their finance applications directly to IFCT head office and received advice from consultants as well as IFCT staff, and a few isolated studies of end-users, there were no direct technical guidance services by the consultants for the end-users. Furthermore, no impact surveys were conducted on the end-users.

¹⁹ For example, IFCT ran television commercials in 1990 promoting its special finance programs, including SSIPP. The field survey conducted for the post evaluation of this project interviewed some end-users who said they had heard of SSIPP from these commercials.

²⁰ For four programs, SSIPP (I) and (II) and EIMP (I) and (II), a team was assembled comprising around ten Japanese and ten Thai consultants, for a total of 20 members. Within the team, only 1-3 members were allocated to managerial and technical guidance for small businesses.

3.5 End-Users' Evaluations of SSIPP and JBIC Loan

(1) Summary of the Interview Survey of Sample End-Users

Local consultants were commissioned to conduct this evaluation. They interviewed 33 end-users (companies) over the two months of December 1998 and January 1999 (this survey is referred to below as the "post evaluation interview survey"). The questions asked focused on the following:

The state of the IFCT's end-user management.

The advantages of ODA loan.

The information gained from this survey is the basis for the following data, including profiles of end-users, the state of IFCT management and the impact and merits of the SSIPP programs.

The selection of candidate sample end-users was made randomly by JBIC from the list of end-users submitted by IFCT. IFCT then furnished the contact addresses of these candidates and they were asked to provide interviews²¹. The survey method was to directly visit and interview the sample end-users if they are in or near the greater Bangkok area. Sample end-users in other areas were interviewed by telephone, with follow-up by fax.

Basically, all the sample end-users had relatively good relations with IFCT. However, some end-users declined to be interviewed or cooperate with the investigation, and the breakdown by industry of the sample group differed from that of the SSIPP end-users as a whole. Therefore the results of this sample survey are somewhat limited, but they still serve to give a broad grasp of the actions and ideas of the end-users.

Table 20 Content of the Sample Group for the Post-Evaluation Interview Survey (Classified by Industrial Field)

| Industrial field | Sample number* | IFCT classification of industrial field | Overall SSIPP (I) | Overall SSIPP (II) |
|-----------------------------------|----------------|---|-------------------|--------------------|
| Agricultural products | 4 (12.9%) | Agricultural produce related, mining, food and beverages | 34.5% | 23.5% |
| Foods processing | 5 (16.1%) | | | |
| Plastic products | 2 (6.5%) | Chemicals, rubber, refined oil, petroleum products | 13.4% | 14.1% |
| Industrial chemical products | 1 (3.2%) | | | |
| Textile, apparel products | 4 (12.9%) | Textile, apparel, leather products | 5.4% | 13.2% |
| Leather products | 1 (3.2%) | | | |
| Metal products | 3 (9.7%) | Metal processing, electrical equipment, general machinery | 17.8% | 16.6% |
| Electrical equipment parts | 1 (3.2%) | | | |
| Wooden ware, furniture | 5 (16.1%) | Wooden ware, furniture | 7.5% | 7.2% |
| Ceramics, soil and stone products | 1 (3.2%) | Nonmetal (mineral) products, pottery, glass products | 7.8% | 0.3% |
| Service industry | 3 (9.7%) | Service industry | 4.6% | 9.1% |
| Refrigeration warehouse | 1 (3.2%) | Industrial gas, water supply, warehouse etc. | 3.8% | 0.0% |
| Construction materials | 2 (6.5%) | Construction materials | 0.0% | 8.6% |
| | | Other industries | 2.4% | 0.9% |
| | | Paper, printing, publishing | 2.7% | 6.5% |
| Total | 31 | Total | 100.0% | 100.0% |

Note: * Figures in () are shares. The sample end-users are not segregated between SSIPP (I) and SSIPP (II) users.

Source: Post-evaluation interview survey.

²¹ A number of the sample end-users were contacted by consultants from the commercial telephone directory, after checking with IFCT that there were no legal problems.

Of the 33 sample end-user companies, 27 were SSIPP (I) users and six were SSIPP (II) users. There were fewer SSIPP (II) users in the sample group because fewer loans were made under SSIPP (II) than under SSIPP (I).

(2) Effects of SSIPP

Impact on number of workers

Comparing numbers of workers before end-users received SSIPP finance and at the time of the post-evaluation interview survey, 24 companies had more workers and nine had less. Considering the fact that the survey was conducted after Thailand's economic crisis, the result that a majority of end-user companies had more workers suggests that the project had a considerable positive effect in job creation. The number of workers employed by sample end-user group as a whole was 1,100 higher at the time of the survey than it was before the finance was provided, an average increase of 33 workers per company.

However, the sample end-user group included a wide range of industries, which makes it impossible to evaluate the project directly from these figures. Furthermore, the check sheets used for SSIPP approvals show that a considerable number of sample end-users used their loans to invest in equipment that reduced their workforce. It is also impossible to say so simply whether or not the productivity of those sample end-users was improved. These points must be borne in mind.

Finance to new startup businesses

The sample end-user group included eight companies which had received finance from the IFCT within one year of being established in their current form. That indicates that the SSIPP program financed new startup businesses. However, it is important to note that the time when the SSIPP programs were implemented was during the peak of the Thai economy's high growth period. At that time, all finance institutions were moving to capture new clients.

The impact of the SSIPP programs, as perceived by the end-users

When asked whether the receipt of SSIPP finance had a positive effect on their subsequent access to finance, 21 companies answered yes. Specifically, eight responded that they had "received finance from another commercial bank or finance company for investment in equipment" and 13 responded that they had "received finance from another commercial bank or finance company for working capital" (multiple responses were allowed). By becoming clients of the IFCT for long-term credit, the end-users had acquired prestige which appears to have made it easier for them to acquire credit elsewhere later.

Table 21 Impact of SSIPP Programs, as Perceived by Sample End-Users

| Question: Do you think the JBIC loan had a positive effect on your subsequent funding? | | Frequency |
|--|---|-----------|
| Response | | Frequency |
| Yes | | 21 |
| | Received loan from another commercial bank or finance company for investment in equipment | (8) |
| | Received loan from another commercial bank or finance company for working capital | (13) |
| No | | 12 |

Material: Post-evaluation Interview Survey.

(3) State of Management by IFCT

The post-evaluation interview survey was used to check, based on information from the end-users, how IFCT managed its clients in practice.

Of the 33 sample end-users, 29 said that they had received some form of guidance before they reached the stage of preparing loan application documents. Twenty of them said they had frequently received full and detailed explanations from IFCT and were judged to be satisfied with the service. Nine companies replied that they had received guidance, but it was inadequate, and two replied that the IFCT staff concerned had been unable to give detailed explanations of matters such as the loan conditions imposed under each program.

Four companies responded that while they had received guidance from IFCT, they never received any advice from IFCT staff on how to prepare their loan application documents. One sample end-user commented that "the branch office staff did not know the details of the SSIPP programs, such as loan conditions, and so I had to go to the regional head branch at my own expense". These experiences suggest that the level of skill and knowledge within the IFCT varies widely between branches and between individual staff.

Table 22 Management of Clients by IFCT

| | Guidance before the loan application* | Advice on the preparation of application documents | Visit to the company/ factory inspection | Submission of financial and managerial data during the repayment period |
|-------------|---------------------------------------|--|--|---|
| Yes | 29 (9) | 25 | 25 | 23 |
| No | 4 | 7 | 7 | 8 |
| No response | 0 | 1 | 1 | 2 |
| Total | 33 | 33 | 33 | 33 |

Note: *Figures in brackets are responses that "there was guidance but I did not understand it".

"No response" indicates the response that "I cannot answer because I do not recall the details".

Source: Post-evaluation interview survey.

In response to the question of whether any IFCT staff actually visited the applicant company at the time of the loan appraisal, most of the sample end-users responded that they had been visited, with the exception being one "no response". Thus the IFCT staff had been checking the business viability of the end-user companies. However, seven companies reported that their factories had never been inspected, which shows that the IFCT's handling of inspections was inconsistent.

Most of the sample end-users had been asked to submit financial and managerial data at least once per year, but eight replied that they had not been asked to submit such data since receiving their loans.

When asked about overdue loans, 15 companies replied that they had fallen into arrears at some stage²², of which six had had their debts rescheduled by IFCT, three had received advice on how to improve their business and one had had an interest rate review. As far as can be gauged from these cases, IFCT appears to have responded appropriately as a financial institution. However, of the six companies which received debt rescheduling or advice, two had never submitted their financial and managerial data, which indicates that IFCT’s response was not adequate in all cases, and there is still room for improvement.

(4) Merits of SSIPP Programs

The post-evaluation interview survey included an evaluation by the end-users of the separate aspects of the SSIPP programs (five grades for each aspect, five being the highest score). The results are tabulated below. The length of the repayment period was particularly highly regarded.

Table 23 Merits of SSIPP Programs

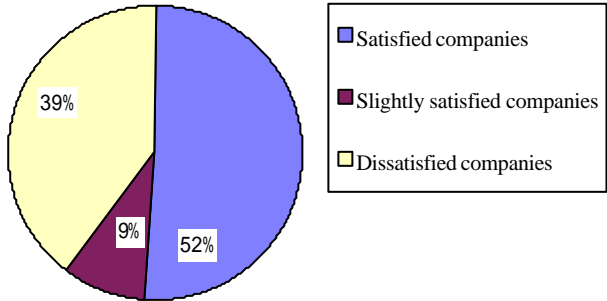
| | Repayment period | Level of interest rate | Interest rate stability | Form of interest | Amount of loan |
|---------------|------------------|------------------------|-------------------------|------------------|----------------|
| Average value | 4.09 | 3.48 | 3.45 | 3.45 | 3.33 |

Material: Post-Evaluation Interview Survey

The grades, in descending order, were 4.09 for "repayment period", 3.48 for "level of interest rate", 3.48 for "interest rate stability", 3.45 for "form of interest" and 3.5 for "amount of loan".

Furthermore, of the 33 companies, 17 (51.5%, referred to below as "satisfied companies") replied that they were satisfied with the amount of loan approved for them under SSIPP. Three (9.1%, referred to below as "slightly satisfied companies") replied that the amount was "not satisfactory, but acceptable". Another thirteen (39.4%, referred to below as "dissatisfied companies") replied that the amount was "unsatisfactorily small".

Figure 9 Evaluation on Amount of Loan under SSIPP



Note: No. of samples = 33
 Source: Post-Evaluation Interview Survey

²² Responses did not indicate when the arrears arose.

We will examine the evaluations by the "satisfied companies", "slightly satisfied companies" and "dissatisfied companies" separately. The "dissatisfied companies" tend to give a poorer evaluation overall, including elements other than the amount of loan. Looking at each factor separately, for "amount of loan" there is naturally a large gap between those companies which were satisfied with the amount of loan and those which were not, but the same is also true for the "form of interest". The evaluation of "level of interest rate" was low in general. For "interest rate stability" there was no clear pattern linking groupings and evaluations.

Table 24 Merits of SSIPP Programs (Grouped According to Satisfaction with Amount of Loan Approved)

| | Loan period | Level of interest rate | Interest rate stability | Form of interest (fixed) | Amount of loan |
|------------------------------|-------------|------------------------|-------------------------|--------------------------|----------------|
| Satisfied companies | 4.06 | 3.76 | 3.71 | 4.06 | 4.12 |
| Slightly satisfied companies | 5.00 | 4.33 | 5.00 | 3.33 | 2.33 |
| Dissatisfied companies | 4.10 | 2.80 | 3.00 | 3.00 | 2.30 |

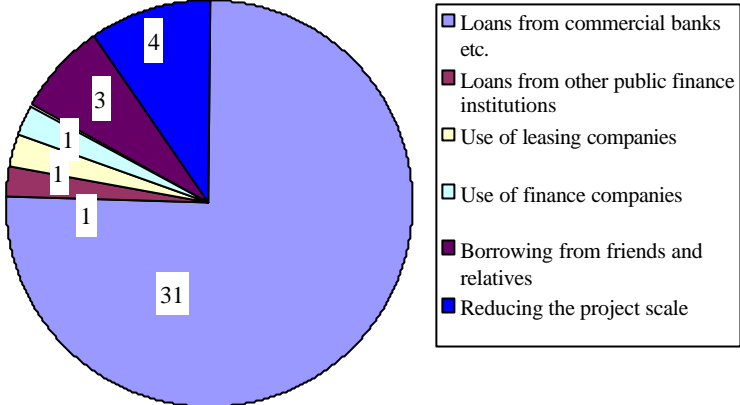
Material: Post-Evaluation Interview Survey

The characteristics of "dissatisfied companies" group is that it includes all the end-users who did not receive proper guidance from IFCT when they made their loan applications. Many in the group also received advice less time in the preparation of their application documents. This question basically asks for evaluation of the attractiveness of the SSIPP program itself, and not for an evaluation of the attitude of the IFCT staff, but there is the possibility that the end-user did not understand the attractions of the SSIPP programs because the staff concerned was unable to adequately explain them.

(5) The Second-best Source of Funds

The responses on what the end-users' second-best choice would have been if that had not got SSIPP finance (multiple responses allowed) showed that the most common option was "replace with borrowing from commercial banks etc.", chosen by 31 companies. Two of those 31 end-users also responded that they would "reduce the scale of the project". Only three of the sample end-users replied that they would "borrow from friends or relatives" in addition to finance from commercial banks etc. From the findings of this survey we can infer that "financial help from a network of friends and relatives", which is said to be typical Thai behaviour, is no longer commonplace, at least among small businesses at the level targeted by SSIPP. Two of the sample end-users only responded that they would "reduce the scale of the project". Other than the use of substitute borrowing from commercial banks, the responses "use finance companies", "borrow from public finance institutions" and "use leasing companies" were only chosen by one company each.

Figure 10 Second-best Choice When SSIPP Program is Neglected



Note: The figures in the graph are the numbers of users choosing each response, using multiple responses.
 Source: Post-Evaluation Interview Survey

(6) Awareness of JBIC Financing

The post-evaluation interview survey included the question "Were you aware that the source of funds for SSIPP was JBIC loan (Japanese ODA)?" to investigate whether the sample end-users were aware of the JBIC loan.

Table 25 Were You Aware that the Source of Funds for SSIPP Was JBIC Loan?

| | Yes | No |
|------------------|-----|----|
| No. of responses | 13 | 20 |

Source: Post-Evaluation Interview Survey.

The answers showed that of the 33 sample end-users only 13 were aware that JBIC loan was the source of funds for the SSIPP programs. While the sample size was limited, the majority were unaware of the JBIC connection²³. IFCT prepared pamphlets in Thai to promote SSIPP from the start of the project, and distributed them to customers and others, in a strong effort to provide end-users with information, but if the end-users themselves did not ask where the funds came from, the IFCT staff may not always have mentioned it²⁴.

By now JBIC asks that executing agencies in TSL projects where sub-loans are financed by JBIC loan (i.e. Japanese ODA) to explain that fact thoroughly to the end-users, and the situation appears to be improving.

²³ A similar survey of end-users conducted in the Philippines found that all end-users answered "yes" to this question, despite the fact that a tier of Participating Financial Institutes (PFIs) was interposed between them and the executing agency (the Development Bank of the Philippines, DBP).

²⁴ When SSIPP (I) and (II) started, JBIC did not make any particular demand that IFCT should include the fact that "SSIPP is funded by JBIC loan" in the pamphlets it provided for end-users. The pamphlets for the EIMP (IV) and EPPP programs, which began recently with IFCT as the executing agency, explain that "JBIC loan is the funding source" for those finance programs.

3.5 Project Effects and Impacts

The aim of the SSIPP programs was to provide Thai small businesses with concessionary finance and technical support to nurture and strengthen them. A further objective, common to all TSLs, is to enhance the ability of the executing agency. The post evaluation for this project suggests that both these objectives have been attained to some extent.

(1) Nurturing and Strengthening Small Businesses

As a result of the SSIPP programs, 220 end-user companies were supplied with funds at concessionary terms for equipment investment and the related initial operating costs. As this post evaluation lacks quantitative data, we have not been able to analyze the direct effects for nurturing small businesses, such as increases in added value, but it is clear that the end-users used the SSIPP funds to expand their businesses. Furthermore, many users have built up credit history using SSIPP which has made it easier for them to get long-term finance from private-sector financial institutions, which would otherwise have been very difficult to obtain. As noted above, the SSIPP programs actually included almost no direct technical or managerial guidance, but they yielded great results by finding small businesses that were able to build their business through their own efforts, and providing them with appropriate funding.

Discussions with the end-users companies which were visited in the field survey stage of this post-evaluation and the post-evaluation interview survey, showed that some end-users had been gravely damaged by the recent Asian economic crisis, but we also confirmed that others have overcome that situation by their own efforts and are now planning new business ventures. In the same survey, several end-users commented that SSIPP had enabled them to achieve booming growth.

The above indicates that the provision of concessionary funds through the SSIPP programs made a reasonable level of contribution to the nurturing of Thai small businesses.

(2) Improved Executing Agency Ability

JBIC TSLs, which supply long-term funds to many small (and medium) scale businesses, demand orderly finance appraisal systems and a high level of loan administrating ability. IFCT, which was the executing agency for the SSIPP programs, had little experience of finance to small businesses when SSIPP began, and it was in the process of building up its finance appraisal and administration systems. IFCT also had a limited branch network, which made it difficult to find superior small scale clients from within a narrow client base and manage them closely.

However, through the SSIPP programs, IFCT was able to work to build up its expertise in the field of small business finance. As a result its rate of overdue loans for short period is declining steadily. Small-scale clients tend to have a slack attitude to repayments, but IFCT is increasingly able to manage them in such a way that they observe payment schedules. Furthermore, they aim to substantially improve their information management system, and when they build their new head office building in 2000 they will establish a system for more advanced information sharing between head office and branch offices that will make their customer management more efficient and precise.

As noted earlier, IFCT has been shifting to larger-scale lending in recent years, and the importance

attached to lending to small businesses of the kind targeted by the SSIPP programs is declining. However, since the Asian economic crisis, IFCT appears to be looking to small and medium businesses as the way forwards, rather than debt-saddled large companies (at the branch near Bangkok which was visited in the field survey for this evaluation, the branch manager was highly motivated and personally involved in developing new business with small-scale customers). We hope the IFCT's ability in the field of small business finance will improve further.

Chapter IV Lessons Learned

Policy-based directed credit program to small (and medium) businesses (development loan through banking system – DLBS) produces direct effects by enabling end users to access long-term funds at fixed and low interest rates. It also has the secondary effect of giving end users experience of borrowing from DLBS, which strengthens their credit-worthiness and makes it easier for them to obtain fund from various sources.

It is generally difficult for small businesses in developing countries to obtain long-term funds for capital investment. In the second half of the '80s and the first half of the '90s, when Thailand was enjoying rapid economic growth, small businesses usually had to rely mainly on their own funds and make up the shortfall by borrowing from friends and relatives, as well as taking successive short-term (roll-over) loans from financial institutions. Long-term funds were still hard to come by.

Under such conditions, SSIPP end-users have credit history of borrowing from the IFCT which they can use to win long-term credit from private-sector financial institutions which would have been inaccessible before. Successive instances of that kind of credit history makes further credit increasingly easy to obtain in a virtuous circle.

Thus policy-based directed credit program through government financial institutions provides direct benefits for the small and medium businesses through concessionary sub-loans, but beyond that, there is a secondary benefit in the form of enhanced creditworthiness. This gives small and medium businesses easier access to various financial agencies and systems and makes it easier for them to build investment plans. By extension, it becomes easier for them to build long-term business strategies and raise their sustainable growth potential.