

# Small Scale Industry Promotion Program (SSIPP) (1) (2)

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Field Survey: January 1999

## 1 Project Summary and Japan's ODA Loan

### (1) Background

Since the beginning of the 1980s, the absorption of surplus labor from the agricultural sector and the correction of income disparities between the cities and the rural areas have been major policy objectives in Thailand. Small businesses in the rural areas have been nurtured as a means of achieving those ends. Since the mid-'80s the strengthening and encouragement of small businesses has been regarded as an essential policy for reinforcing the Thai economy and specific small business promotion policies have been sought.

### (2) Objectives

This project aims to strengthen and nurture Thai small businesses by providing them with the loans at low and fixed interest rates over medium and long terms which are normally difficult for them to obtain. By strengthening and nurturing Thai small businesses, the project was expected to reinforce the Thai economy.

### (3) Project Scope

This project was a development loan through banking system (DLBS), with sub-loans provided under the following conditions:

Eligible businesses:

SSIPP (1): companies with net fixed assets not exceeding 10 million Baht before the loan.

SSIPP (2): companies with net fix assets not exceeding 20 million Baht before the loan.

Purpose of loans:

Construction, expansion and modernization of factories, and the purchase of machinery & equipment and spare parts.

Finance conditions:

The limits of loan are 200,000 ~5,000,000 Baht for SSIPP (1) and 200,000~10,000,000 Baht for SSIPP (2).

Interest rates were 12.65% for SSIPP (1) and 13% for SSIPP (2) (both rates as set at the time of appraisal).

Repayment periods were 6~8 years for SSIPP (1) and 5~15 years for SSIPP (2).

ODA loan ratio was 70% of sub-loan amount.

(Refer to 2.(2) below for details of loan conditions set by JBIC for the executing agency).

### (4) Borrower/Executing Agency:

Industrial Finance Corporation of Thailand (IFCT) respectively (guaranteed by Thai Government)



## (5) Outline of Loan Agreement

	(1)	(2)
Loan Amount	¥1,500 million	¥1,000 million
Loan Disbursed Amount	¥1,500 million	(¥995 million)
Loan Conditions		
Interest Rate	3.0%	2.7%
Repayment Period (Grace Period)	25years(7years)	30years(7years)
Procurement	General Untide	General Untide
Date of Loan Agreement	September 1987	February 1990
Final Disbursement Date	September 1992	June 1995

## 2 Analysis and Evaluation

### (1) Sub-loan Results

(i) Project Scope: Loans were implemented with all eligible end-users, applications and conditions as initially planned.

(ii) The Number and Amount of Sub-loans Approved:

(1) 156 loans, 409.1 million Baht (286.4 million Baht from the ODA loan).

(2) 64 loans, 286.6 million Baht (200.6 million Baht from the ODA loan).

(iii) Breakdown by Size: (1) Ten employees or less: 12%, 11~50: 63%, 51 or more: 25%.

(2) Ten employees or less: 11%, 11~50: 45%, 51 or more: 44%.

(iv) Breakdown by Usage: (1) Construction of new factories: 42%, expansion of equipment: 53%, factory relocation etc.: 5%.

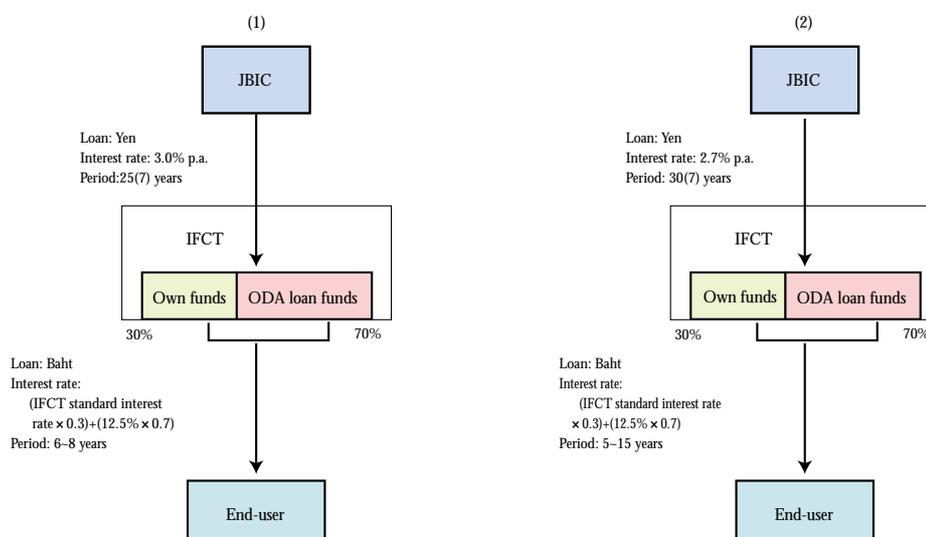
(2) Construction of new factories: 43%, expansion of equipment: 56%, factory relocation etc.: 1%.

(v) Breakdown by Industry: Breakdown by business type is as follows.

	(1)	(2)
Agricultural produce related, mining, food and beverages	34.5%	23.5%
Textiles, apparel, leather goods	5.4%	13.2%
Wooden ware, furniture	7.5%	7.2%
Paper, printing, publishing	2.7%	6.5%
Chemical, rubber, refined oil, petroleum products	13.4%	14.1%
Nonmetal (mineral) products, pottery, glass products	7.8%	0.3%
Metal processing, electric equipment, general machinery	17.8%	16.6%
Industrial gas, water supply, warehouse etc.	3.8%	0.0%
Building materials	0.0%	8.6%
Service industry	4.6%	9.1%
Other industries	2.5%	0.9%
Total	100.0%	100.0%

### (2) Project Implementation Scheme

Under this project, the flow of funds to deliver the sub-loans was as shown below.



(i) Sub-loan Repayment

The proportion of overdue sub-loans in arrears of less than three months is declining every year, but the number and amount of sub-loans in arrears of one year or more is static, which indicates that some countermeasures should be taken.

(ii) Revolving Fund

IFCT has established a revolving fund and disburses secondary loans. However, in recent years IFCT has been limiting loans to small businesses, and the impact of the economic crisis in the country makes the revolving fund somewhat limited.

### (3) Project Effects and Impacts

(i) Nurturing and strengthening small businesses

In line with the initial objective of the project, it has supplied long-term loans at low and fixed rates of interest to small businesses which are eager to invest, thus promoting their growth. Many end-users were able to use this project to obtain long-term finance which had previously been extremely hard to obtain from private-sector financial institutions.

(ii) Enhancement of the Executing Agency's Ability

IFCT took this project as an opportunity to build up their expertise in providing finance to small businesses. The result is a steady decline in the incidence of arrears for short-period and a general improvement in the IFCT's credit management ability.

## 3 Lessons Learned

Policy-based directed credit program to small (and medium) businesses (financial intermediary loan) 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.



End-user's Project, a Lathe Plant



End-user's Project, an Operating Lathe Plant



End-user's Project, a Hog Raising Farm