

## Thailand

### Export Industry Modernization Program (2) (3) (IFCT LOAN (2) (3) )

**Report Date:** September, 2002

**Field Survey:** July, August, 2001

#### 1. Project Summary and Japan's ODA loan



Site Map: Thailand Nation Wide



Site Photo: Production Line for Canned Sardine  
(Sub-Loan Borrower:Lucky Cannery Co.Ltd)

#### 1.1 Background

Exports from the manufacturing sector in Thailand increased again after 1984, after having stagnated in the beginning of the 1980s. In 1985, manufacturing exports surpassed those from agriculture sector, accounting for over 50% of total exports. The Thai government planned to promote the export industry further under the Sixth National Development Plan(1987-1991), with an emphasis on export-oriented small and medium-sized enterprises.

#### 1.2 Objectives

To improve the export competitiveness of Thailand's small and medium-scale firms through the IFCT's package assistance program of soft loans and technical and management assistance.

#### 1.3 Project Scope

Project Title	EIMP(2)	EIMP (3)
1. Provision of Sub-loans to eligible export-oriented enterprises - Eligible Industrial Category	(1)Food processing (2)Garments(excluding knitwear) and other made-up textile goods (3)Rubber products (4)Electrical and Electronic products (5)Wood products and Furniture, (6)Metal processing (7) Foot wear (non-leather) (8)Toys (9)Plastic Products	(1)Food processing (2)Garments(excluding knitwear) and other made-up textile goods (3)Rubber products (4)Electrical and Electronic products (5)Wood products and Furniture (6)Metal processing (7) Foot wear (non-leather) (8)Toys (9)Plastic Products (10)Ceramic and glass products (11)Jewelry and ornaments (12)Stationery (13)Construction materials
- Eligible borrowers	(i)Small & medium scale enterprises whose total fixed asset are not more than	(i)Small & medium scale enterprises whose total fixed asset are not more than

	60million Baht, and which currently(in case of new project, within three years after the implementation.) export at least 30% of their annual sales	100million Baht, and which currently(in case of new project, within three years after the implementation.) export at least 30% of their annual sales
	(ii)Common Service Facilities Enterprises whose total assets are not more than 100 million Baht, and which provide facilities for small and medium scale enterprises indicated in (i). (ex. common print line for clothes, common testing facilities e.t.c.)	(ii) Subcontractor enterprises with aforementioned enterprises in (i).
	(iii)Subcontractor enterprises with aforementioned enterprises in (i) &(ii).	(iii)Common Service Facilities Enterprises whose total assets are not more than 120 million Baht, and which provide facilities for small and medium scale enterprises indicated in (i). (ex. common print line for clothes, common testing facilities etc.)
- Financing Items	Machinery/Equipment /Facilities, Factory construction	Machinery/Equipment/ Facilities, Factory construction
-Condition of Sub-loan		
Interest Rate	11.1% p.a.	11.52.% p.a.
Repayment Period (Grace Period)	6-15 years (1-5 years)	5-15 years (1-5 years)
Loan Amount (Baht)	200,000-6,000,000	200,000 –8,000,000
- JBIC loan portion	70% of sub-loan	70% of sub-loan
2. Consulting Service	-Marketing analysis -Identification of suitable technology -Management analysis -Monitoring and post-evaluation of sub-loan(Impact study of the program) -Assistance in Seminar & Training -Impact study on the project	- Advertisement for the program (inside and outside of Thailand) -Assistance in operation of Investment Service Center -Assistance in recruiting clients -Impact Study on the project

#### 1.4 Borrower/Executing Agency

The Industrial Finance Corporation of Thailand (IFCT), Guarantee by the Kingdom of Thailand

#### 1.5 Outline of Loan Agreement

Project title	EIMP(2)	EIMP(3)
Loan Amount	3,500 million yen	4,000 million yen
Loan Disbursed Amount	3,500 million yen	3,954 million yen
Date of Exchange of Notes	September 1987	February 1990
Date of Loan Agreement	September 1987	February 1990
Terms and Conditions		
Interest Rate	3.0% p.a.	2.7% p.a.
Repayment Period (Grace Period) *	25 years (7 years ) General untied	30 years (10 years ) General untied
Procurement	(Partially untied for consulting services)	(Partially untied for consulting services)
Final Disbursement Date	September 1992	June 1995

Note: \*The loans were fully repaid in July 2001.

## 2. Results and Evaluation

### 2.1 Relevance

The objective of the project was and still is relevant to development policy in Thailand. Thai government policy has focused consistently on the export sector as a means to earning foreign currency, and specifically on small and medium-sized enterprises, as they represent majority of all enterprises. In the late 1980s and early '90s, the Thai economy shifted to an export-oriented economy. In particular, SMEs necessitated capital resources at the time of appraisal because of limited source of finance. Therefore the Japanese ODA loan matched the demand of SMEs. Even now, in the Ministry of Finance's "Strategy Plan Framework Toward Quality and Sustainability of Thailand Economic Development" announced in July 2001, the National Economic and Social Development Board states that the key issues are financial support for Small and Medium-Sized Enterprises (SMEs) and promotion of Thai products for export.

The interest rate under the ODA loan conditions for the sub-loan borrowers shifted to be higher in comparison to prime rate in Thailand during 1993-1994 (in case of EIMP III ) and after the year 1999 (refer to **Table 1**); therefore advantage of the loan conditions relatively diminished during this period, and this could be one of the reasons for decrease in demand for the loan (as described in 2.2.1). The lending scheme to sub-loan borrower could have been flexible in order to promote the utilization of the sub-loans.

**Table 1: Interest rate applied for sub-loans**

Unit:%

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
EIMP(2)	11.1	11.4	11.55	11.55	11.55	11.55	11.55	11.55	11.7	11.7	11.7	11.7	11.7
EIMP(3)	-	-	11.67	11.82	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12
PRIME Rate*	12.00	12.50-13.50	16.25	14.00	11.50	10.50	11.75	13.75	13.00-13.25	15.25	11.50-12.00	8.25-8.5	7.5-8.25

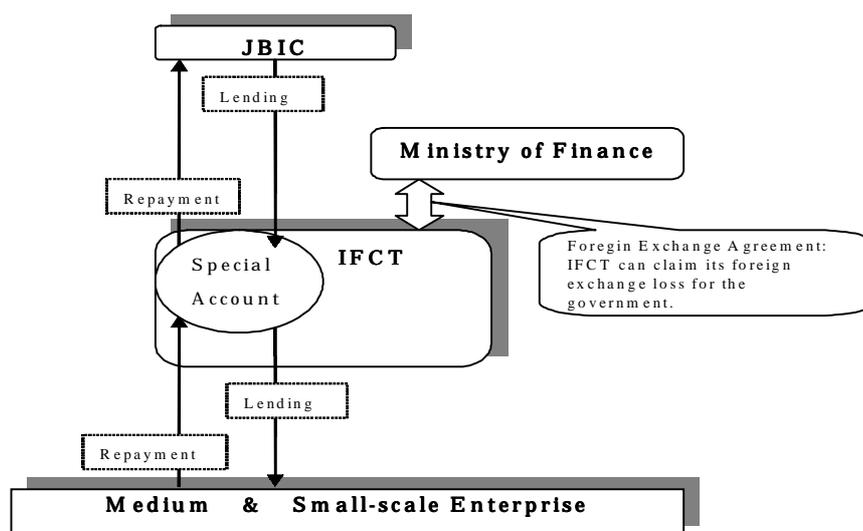
Source: IFCT, Bank of Thailand

Note:\*Minimum loan rate

### 2.2 Efficiency

Loans were disbursed from JBIC to IFCT, and IFCT to target SMEs as shown in Chart 1: Scheme for the Loan: JBIC to IFCT. IFCT established a special account for the administration of loans disbursed by JBIC. Payments from sub-loan borrowers were pooled in the special account (called the revolving fund) and re-disbursed to new borrowers who intend to use the fund for the same purpose (export-orient capital investment) until the IFCT's final repayment to JBIC. IFCT had an agreement with the Ministry of Finance so that the Ministry bears the exchange risk.

**Chart 1: Scheme for the Loan: JBIC to IFCT**



**2.2.1 Loan Disbursement Amount and Period**

The number of loans disbursed for the EIMP(2) & (3) was less than estimated, whereas the total amount was more than the planned amount in baht (refer to **Table 2 & 3**). This implies that the average loan size was larger than the planned; actual average sub-loan amount was 12.8 million baht for EIMP(2) and 17.7 million

**Table 2: Number of Loans Approved (Plan & Actual)**

**EIMP (2)**

Year	1988	1989	1990	1991	1992	Total
Plan	36	38	38	-	-	112
Actual	11	57	2	-	1	71

**EIMP (3)**

Year	1990	1991	1992	1993	1994	Total
Plan*	50	21	-	-	-	71
Actual	28	19	1	7	6	61

**Table3: Amount of Loans Disbursed (Plan & Actual)**

**EIMP (2)**

**(Unit: Million Baht)**

Year	1988	1989	1990	1991	1992	Total
Plan						
(JBIC)	81	153	196	118	79	627
(IFCT)	35	66	84	51	33	269
Actual						
(JBIC)	65	449	111	10	1	636
(IFCT)	28	192	48	4	0.4	272.4

EIMP (3)		(Unit: Million Baht)					
Year	1990	1991	1992	1993	1994	1995	Total
Plan (JBIC)	135	234	262	78	-	-	709
(IFCT)	58	100	113	33	-	-	304
Actual (JBIC)	200	379	65	35	52	23	754
(IFCT)	86	162	28	15	22	10	323

Source: JBIC Appraisal report & IFCT document

Note: Figures in all tables are only sub-loans disbursed under JBIC original loan, excluding the disbursement from revolving fund.

baht for EIMP(3), compared to estimates of 8 million baht (EIMP(2)) and 14.3 million baht (EIMP(3) at the time of appraisal).

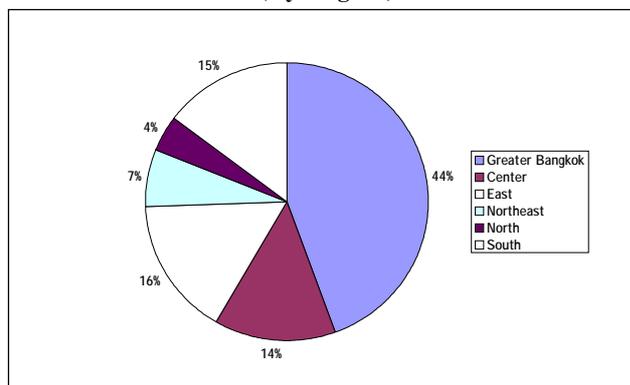
Loan disbursement for EIMP(2) was completed within the scheduled period; however, in case of EIMP(3), it was delayed two years. This is because demand for loans was not as high as estimated after year 1992. For 1992 and 1993, the interest rates applied for sub-loan borrowers under the ODA loan were higher than the prime rate in Thailand as shown in **Table 1**. It appears this is one of the reasons for the stagnation in demand.

#### 2.2.2 Distribution of Sub-loans (Region, Industry category, Nature of investment, etc.)

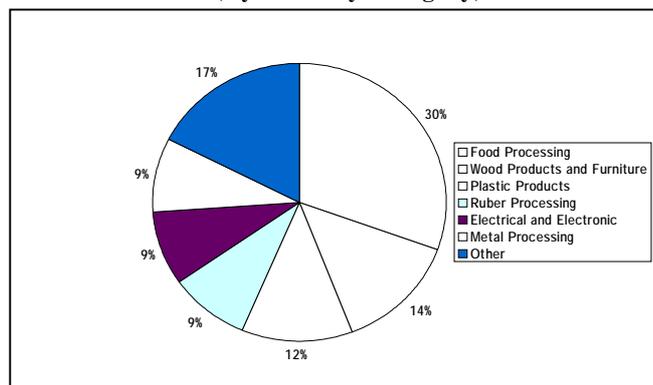
Regional distribution of sub-loans for EIMP (2) & (3) shows that 44% of the total number of loans was distributed in Greater Bangkok, 16% in the East, 15% in the South and 14% in Central regions (**Figure 1**). All these areas have concentrations of export-oriented enterprises. Distribution by industrial category is as follows: 30% for Food processing, 14% for Wood Products and Furniture, and 12% for Plastic Products, and the remaining 44% divided among four other categories (**Figure 2**). Regarding the nature of investment, 58% went for new projects, 34% of loans were used for expansion of facilities. (**Figure 3**). No loans were disbursed for common service facilities.

Most of the borrowers (70% of total) operated medium-scale enterprises (=net-fixed asset more than 10 million baht). The repayment period for almost all of the loans was less than 8 years.

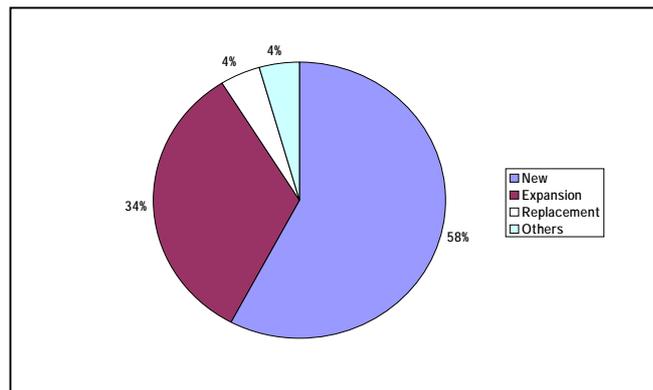
**Figure 1: Distribution of Sub-loans by number (By Region)**



**Figure 2: Distribution of Sub-loans by number (By Industry Category)**



**Figure 3: Distribution of Sub-loans by number  
(By Nature of investment)**



Source: IFCT Internal Document (EIMP II: as of Dec. 1991, EIMP III: as of June 1995. Precisely speaking, this was on approval basis and was not final information. However, since these records cover the most of the loans actually disbursed and are only available information currently, this report refers to this information to examine general tendencies.)

## 2.3 Effectiveness

### 2.3.1 Promotion of New Investment and Increase in Production

The mission's evaluation shows that the volume of production increased in some cases as a result of the loan. As discussed in "2.2 Efficiency", since more than 90% of borrowers used their loans to set up new facilities or expand existing facilities, it can be said that the project was effective in promoting new investment. It was impossible to obtain detailed effectiveness data for the project. As a point of reference, according to a limited survey of sub-loan borrowers (from a total of 17 enterprises, about 8 % of the total number of sub-loan borrowers) <sup>1</sup>, all respondents said that the volume of production had increased as a result of the project. Production increased 3.5 times on average.

### 2.3.2 Increase in Sales

In the sample survey, 16 of 17 respondents said that turnover increased after the project. On average, turnover quadrupled. Net income increased 3.6 times on average.

### 2.3.3 Survival Rate of Sub-loan Borrowers

It was difficult to find out the number of enterprises that were once borrowers of the sub-loans and still existing in the year 2001 from IFCT because once all loans were repaid, it did not keep the record of those borrowers. However, available information showed that 145 of a total of 216 loans disbursed under the ODA original loan and revolving fund (about 67%) had been repaid by the end of the year 2000. Nine sub-loan borrowers under the original loans (about 7 % of total sub-loans disbursed from original loans, in terms of number) were in arrears in March 2002, and those borrowers are assumed to have some difficulties in their

<sup>1</sup> The questionnaire survey was conducted in the year 2001. It was possible to contact only sub-loan borrowers that still had loans outstanding at the time of the survey (total 62). Of them, 28 sub-loan borrowers were possible to contact. Out of 28 borrowers, 17 answered the questionnaire.

operation. From this evidence it is possible to infer that most of the total number of borrowers had no serious problems affecting operations during the repayment period.

## **2.4 Impact**

### **2.4.1 Increase in Number of Employees**

Because IFCT financed new facilities or expansions in most cases, it can be expected that the project contributed to employment creation. In the sample survey, 13 out of 17 respondents noted that there was a change in the number of employees before and after the project. On average, the number of employees increased 1.6 times. According to IFCT, several major projects are located in provincial areas (i.e. outside of the capital, Bangkok), thus supporting the government's policy in creating jobs for people in the provinces.

### **2.4.2 Export of Products and Foreign Currency Earnings**

EIMP(2) and EIMP(3) provided financial assistance to export-oriented companies generating foreign currency earnings for the country. In the sample survey, 6 out of 17 respondents reported that export values increased after the project. Among them, 4 enterprises showed increases of export value by more than 260 percent.

In June 1995, IFCT conducted a survey of EIMP(3). In it, 24 of 64 respondents reported export values for three years after the project. Export values of 16 of those enterprises (about 70%) increased in two consecutive years. Exports as percentage of total sales was 66% on average. The total foreign exchange earnings of the 61 enterprises were calculated as 17,726 million baht. The major destinations for the products -- mostly processed food and electrical goods -- were the United States, Japan and other Asian countries.

Although the technical assistance from IFCT to the end-users may have had positive impacts on export promotion, there is no information available to evaluate this issue.

### **2.4.3 Environmental Impact**

When appraising sub-loans, IFCT checked the operation of borrowers with respect to environmental impact, following Ministry of Industry guidelines. After the commencement of the project, no problems were reported regarding environmental impact caused by sub-loan borrowers.

## **2.5 Sustainability**

### **2.5.1 Organization**

Established in 1952, IFCT has mainly financed to SMEs, as they are important players for Thai overall industrial development. It is a financial institution, with 30% of shares held by the governmental sector (including the Ministry of Finance in Thailand). Besides the provision of financial assistance, IFCT offers advisory services on finance, marketing, administration and management for SMEs through the SME development center.

There is a total staff at IFCT of 1,003 people, with 714 (71%) at the organization's headquarters and 289 (29%) in branches, as of August 2001. This represents an increase of 5% from the end of the year 1999. There are 33 branches, up from 28 at the end of 1999. Human Resource Development Department provides training courses, both domestically and overseas, to enhance the staff's knowledge and ability.

### **2.5.2 Loan Administration**

#### **(i) Debt Management**

Most sub-loan borrowers financed by the original loans (information on loans from the revolving fund could not be obtained in spite of requests) have completed repayment to IFCT. As of March 2002, nine loans were in arrears. These borrowers are in the food, wood, plastic, paper, and metal processing sectors. Three of these loans were in the process of being restructured.

IFCT has made efforts to reduce non-performing loans (NPLs = loans past due for over three months), by rescheduling payment terms, transferring assets and converting debt to equity, since the economic crisis in 1997. As a result, the ratio of total NPL amount to total amount of loans outstanding has been decreasing each year (Refer to **Table 3**). With its policy to push down NPLs, this ratio is expected to reach 14% by the end of 2001.

**Table 3: Total amount of NPL/Total Loan Outstanding (IFCT)**

Year		
1998	1999	2000
35.2%	27.8%	17.8%

Note: at the end of each year

Source: IFCT

#### (ii) Revolving Fund

IFCT has not kept the independent record of the revolving fund account. However, there were 84 loans made from the revolving fund for EIMP(2) and (3). The final disbursement date for the loans was the year 1997, after which no new sub-loans were disbursed because of limited demand due to high interest rates (see **Table 1**). The floating interest rate to end-users, as adopted in subsequent loans under the ODA loans, could have promoted disbursement from the revolving fund.

#### 2.5.3 Financial Status

Present financial conditions, in terms of profit and loss, seem to be improving (Refer to **Table 4**). Net losses have decreased in the last three years, mainly due to efforts to reduce total expenses. IFCT reported that in the first quarter of 2001, it recorded a positive performance by continuous decrease in its financial expenses mainly resulting from prepayment and refinance of the borrowing with high interest rates. The capital adequacy rate has exceeded 8% international BIS standard.

**Table 4: Selected Financial Indicators**

Indicators	(Unit: Million Baht)		
	1998	1999 <sup>1)</sup>	2000 <sup>2)</sup>
Loans and Receivables	133,250	132,439	144,725
Total Income	15,585	10,270	9,863
Total Expenses	20,270	18,199	11,533
Net Profit (Loss)	(4,684.7)	(7,929)	(1,648)
Total Assets	185,015	171,804	179,713
Total Liabilities	174,588	160,219	170,842
Shareholders' Equity	10,427	11,584	8,871
Capital Adequacy Ratio(%) (BIS)	9.1	10.8	9.8

Note:

<sup>1)</sup>Reclassified to conform with the 2000 financial statements

<sup>2)</sup>Consolidated

Source: IFCT Annual Report

### **3. Lessons Learned**

- In view of the limited availability of information on the performance of the project and assisted sub-projects, and the resulting difficulty of evaluating the effects and impacts of the project, it may be necessary for future TSL projects, JBIC and the executing agency agree on appropriate performance monitoring scheme and incorporate them into the project scope at the time of the loan agreement.

**Comparison of Original and Actual Scope  
EIMP(2) TXIII-11**

Item	Plan	Actual
(1) Project Scope	<ul style="list-style-type: none"> <li>• Provision of Loans to Eligible Borrowers for the promotion of Export-oriented medium and small scale industries (No. of the loans estimated: 112)</li> <li>• Consulting Service 36 M/M</li> </ul>	<p>As planned (Actual no. of loans:71)</p> <p>As planned</p>
(2) Implementation Schedule		
Sub loans disbursement	1988-1991	1988-1992
Consulting Service	1988-1989	1988-1990
(3) Project Cost		
Foreign currency	3,500 million yen	3,500 million yen
Local currency	1,500 million yen	1,500 million yen
Total	5,000 million yen	5,000 million yen
Out of which, JBIC Yen loan portion	3,500 million yen	3,500 million yen
Exchange Rate	1baht =5.5 yen	1baht =5.43 yen

**EIMP(3) TXV-5**

Item	Plan	Actual
(1) Project Scope	<ul style="list-style-type: none"> <li>• Provision of Loans to Eligible Borrowers for the promotion of Export-oriented medium and small scale industries (No. of the loans estimated: 71)</li> <li>• Consulting Service 25 M/M</li> </ul>	<p>As planned (Actual no. of loans: 61)</p> <p>As planned</p>
(3) Implementation Schedule		
Sub loans disbursement	1990-1993	1990-1995
Consulting Service	-	1993-1995
(3) Project Cost		
Foreign currency	4,000 million yen	3,954 million yen
Local currency	1,714 million yen	1,695 million yen
Total	5,714 million yen	5,649 million yen
ODA loan portion	4,000 million yen	3,954 million yen
Exchange Rate	1baht=5.6 yen	1baht=5.22 yen

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The PEDAC Survey 2001 covering IFCT Loan (2) (3) is by and large satisfactory in presenting correct evaluation. There are only three points that need qualifications. First, the IFCT seemed to be described as having some bias favoring medium-scale enterprises as they represented 70% of borrowers. Two reasons were behind such bias. Most small-scale enterprises could hardly export their products. Their limited capability restricted them to only domestic markets, thus disqualifying them for EIMP loans. Besides, after the EIMP was signed, the IFCT received the Small Industry Promotion Program (SIPP) loan from OECF which was not as stringent as EIMP regarding loan size. So the IFCT directed small borrowers to SIPP and utilized EIMP mostly for medium-scale borrowers.

Second, the evaluation report is correct in concluding that high interest rate in baht for sub-loan borrowers under the ODA, in comparison with low local prime rate, was the major reason behind decreases in loan demand. However, it was not mentioned that such high interest rate in baht was inevitable because the EIMP loans in yen contained fixed and high interest rates (2.7-3% p.a.) on a long-term basis (25-30 years). Those expensive and rigid terms coupled with swap premium, spread, and administration costs necessitated high interest rates (11.1-12.1%) for sub-loans in baht, which made them largely unattractive especially after the economic crisis emerged and excess liquidity depressed local interbank rates to only 1.8%. Rolling over or pooling sub-loan borrowers in the special account called revolving fund did not help in this context.

Third, one required condition, that IFCT hire a Japanese consultant, was deemed unnecessary, as IFCT was not an end-user of funds and ordinarily IFCT already screened and monitored progresses of sub-loan borrowers. So this requirement unnecessarily increased the cost of funds.

Other than the above-mentioned qualifications, the evaluation report depicts a legitimate image of IFCT, as the organization satisfactorily achieved the following: evaluate credit requests systematically before anything else, extend credits even after the crisis (in contrast with commercial banks), closely monitor borrowers' progresses after the credit extension, be able to lower NPL without transferring any loans to AMC or TAMC, reduce net losses by prepayment and efficient fund management. The only suggestion of IFCT to JBIC is to add some flexibility to the terms of future loans.

One underlying reason for IFCT's efficiency and transparency is that it is largely owned and operated by the public authority, so it does not have any incentive to hide any item or decorate its account. Instead, it continually exerts strenuous efforts at evaluating credit applications in detail and annually monitors progresses of clients rather than hinging only upon their collateral or guarantee. The IFCT arranges a special department dealing exclusively with NPL by several means, e.g. debt rescheduling, debt-equity conversion, petition, prosecution, debt restructuring, credit injection, and loss cutting. Thus far, the IFCT has attained good reputation for being impartial to customers, especially the low-income ones in rural areas with viable projects. Those poor and remote customers are often discriminated

against by large and/or foreign-owned private financial institutions on the basis of lacking enough collateral or guarantee or acquaintance with affiliated units.