

Agricultural Credit for Rural Development Project (II)~(V)

Report Date: February 2000

1 Project Summary and Japan's ODA Loan

(1) Background

This project was Two-Step-Loan which aimed to increase the production and income of small-scale farmers in rural poverty areas in Thailand by providing the farmers with investment finance through Bank for Agriculture and Agricultural Cooperatives (BAAC). In addition to financing for increasing the farmers' crop production, individual projects included the following measures within their scope:

- Phase (II) provided consulting services and sub-loans to agricultural cooperatives to stimulate their activities.
- Phase (III) provided farmers with sub-loans to stimulate agriculture-related activities (funding for the purchase of equipment for the processing and transportation of agricultural products).
- Phase (IV) and Phase (V) provided farmers with sub-loans to invest for afforestation projects and environmental conservation facilities (the latter was only under Phase (V)).

This project covered crop production in 46 provinces mainly in the north and northeast of Thailand, which are areas of rural poverty, and afforestation and environmental conservation nationwide.



(2) Project Scope

This project was Two-Step Loan which made sub-loans under the following conditions.

	Phase(II)	Phase (III)	Phase (IV)	Phase (V)
Purpose of Loan	- Project investments to crop production by individual farmers - Activities of agricultural cooperatives	- Project investments to crop production by individual farmers - Investment to agriculture-related activities by individual farmers	Project investments by the individual farmers to: - Afforestation project - Crop production	Project investments by the individual farmers to: - Afforestation project - Environmental conservation-related facilities (Biogas plant) - Crop production
Eligible Borrowers	- Individual farmers with income not exceeding Baht 40,000/annual per household - Agricultural cooperatives	The following individual farmers: - Crop production: Annual income not exceeding Baht 40,000 - Agriculture-related activities: Annual income not exceeding Baht 200,000	The following individual farmers: - Afforestation: No annual income conditions - Crop production: Annual income not exceeding Baht 50,000	The following individual farmers: - Afforestation, environmental conservation: No annual income conditions - Crop production: Annual income not exceeding Baht 60,000
Repayment Period	- Individual farmers: Within 20 years (grace period not exceeding 8 years of interest and 12 years of principal respectively) - Agricultural cooperatives: Within 15 to 20 years (not exceeding 5 years of grace)	- Crop production: Within 20 years (grace period not exceeding 8 years of interest and 12 years of principal respectively) - Agriculture-related activities: Within 20 years (not exceeding 5 years of grace)	- Afforestation: Within 15 years (not exceeding 15 years of grace) - Crop production: Within 20 years (grace period not exceeding 8 years of interest and 12 years of principal respectively)	- Afforestation: Within 15 years (not exceeding 15 years of grace) - Environmental conservation and crop production: Within 20 years (grace period not exceeding 8 years of interest and 12 years of principal respectively)
Interest Rate per year	- Individual farmers: 9% - Agricultural cooperatives: Loan conditions are the same with standard No.26 of BAAC. 10-13.5%.	- Same with standard interest rate of BAAC. - Crop production: Not exceeding Baht 60,000 =10%, Baht 60,001-not exceeding Baht 1,000,000=11.25%, more than Baht 1,000,000=12.5% - Agriculture-related activities: Not exceeding Baht 60,000=10.5%, Baht 60,001 ~ not exceeding Baht 1,000,000=11.5%, more than Baht 1,000,000=12.5%	- Same with standard interest rate of BAAC: Not exceeding Baht 60,000 =9%, Baht 60,001-not exceeding Baht 1,000,000=11.25%, more than Baht 1,000,000=13.5%	- Afforestation, environmental conservation: The interest rate is 1.75% lower than that of standard interest rate of BAAC (see Phase IV). - Crop production: Standard interest rate of BAAC.
Loan Amount	- Individual farmers: Baht 10,000-Baht 5,000,000 - Agricultural cooperatives: Not exceeding Baht 5,000,000	- Crop production: Baht 10,000-Baht 5,000,000 - Agriculture-related activities: Less than Baht 5,000,000	- Baht 10,000-Baht 5,000,000	- Baht 10,000-Baht 15,000,000

(3) Borrower/Executing Agency

Government of Kingdom of Thailand / Bank for Agriculture and Agricultural Cooperatives (BAAC)

(4) Outline of Loan Agreement

	Phase(II)	Phase(III)	Phase(IV)	Phase(V)
Loan Amount (Loan Disbursed Amount)	¥3,532 million (same as above)	¥8,350 million (same as above)	¥4,228 million (same as above)	¥12,300 million (84.1% as of March 1999)
Date of Loan Agreement	September 1993	September 1995	September 1996	September 1997
Final Disbursement Date	December 1997	September 1997	May 1998	On-going (January 2003)
Interest Rate	3%	2.7%	2.5% or 2.7%*1	0.75% or 2.7%*2
Repayment Period (Grace Period)	25 years (7 years)	25 years (7 years)	25 years (7 years)	40 or 25 years*3 (10 or 7 years)

Note:*1) Afforestation: 2.5%, crop production: 2.7%

*2) Environment-related: 0.75%, Others: 2.7%

*3) Environment-related: 40 years (Grace Period: 10 years), other 25 years (Grace Period :7 years)

2 Analysis and Evaluation

(1) Results of sub-loan disbursement (loans from executing agency to end-user) (see Table 1 and 2)

(i) Phase II

There were no changes in the basic project scope for the purpose of loans. No consulting services (advice on sub-loan implementation and on production and marketing etc.) were used in connection with the implementation of the project, but such services were approved by JBIC for the following reasons:

(a) BAAC had employed consultants in the past and built up its own experience.

(b) When necessary, local consultants could be employed with the executing agency's own funds.

This appears to have been an appropriate choice, considering the BAAC's past record of sub-loan implementation. The amount of the loan allocated for consulting services was channeled to sub-loan borrowing instead.

Sub-loans totaling ¥3,532 million, or 100% of the approved amount, were extended to 10,564 individual farmers and 26 agricultural cooperatives (ACs) and Agricultural Marketing Cooperatives (AMCs). Disbursement to individual farmers has made steady progress, but this has not been the case with ACs and AMCs.

(ii) Phase III

There were no changes in the basic project scope for the purpose of loans. Sub-loans totaling ¥8,350 million, or 100% of the approved amount, were extended to 8,605 individual farmers. Disbursement for crop production and agriculture-related activities made steady progress. The actual disbursed sub-loan amount for livestock and fruit/ orchards (including afforestation) exceeded the planned amount of sub-loans, reaching 119% and 116% of their allocations, respectively. However, demand for sericulture was low, and the disbursed amount was only 1.1% of the planned amount.

(iii) Phase IV

There were no changes in the basic project scope for the purpose of loans. Sub-loans totaling ¥4,228 million, or 100% of the approved amount, were extended to 5,897 individual farmers. Disbursement for afforestation came to ¥2,166 million, close to the anticipated amount of ¥2,114 million. For crop production, the largest amount of lending was ¥1,138 million for livestock, 224% of the anticipated amount. The disbursed amount for fishing and sericulture was small, with fishing receiving 9.5% of the anticipated amount and sericulture receiving no loans at all.

(iv) Phase V

This project is still in progress, with completion scheduled for January 2003. By March 1999 the amount disbursed under the project as a whole had reached 84.1% of the ¥12.3 billion approved as the total loan amount, providing loans as planned to 33,754 individual farmers. However, progress has been slow in providing sub-loans for afforestation projects and biogas plants. There is latent demand for both these project types, but considering the current financial and economic climate in Thailand, individual farmers are not keen to invest in projects that do not offer immediate returns. Given the progress being made in disbursing sub-loans for these project types, the allocations of funds between eligible loan purposes will probably have to be revised if disbursement is to be completed within the disbursement period. For future loans it may be necessary for the agencies concerned to review the loan conditions and consider the appropriateness of the sub-loan purposes and amount.

(2) Implementation Scheme and Credit Management Scheme

(i) Organization

BAAC was formed in 1966 when its predecessor Bank of Agricultural Cooperatives (BAC, founded in 1943) was reorganized into a state-owned corporation under the BAAC Law. It serves as a bank for farmers and agriculture-related agencies in order to promote agriculture. Its policies are set so that they support the government's policies for agriculture, and one of its main policy objectives is to target loan conditions for low-income farmers as a means of correcting income disparities. Between its head office and branches it has 13,382 workers in 76 provinces nationwide.

(ii) Appraisal System

As of September 1999, the head office was organized into eight groups (departments), of which the loan group approves loans of one million Baht or more. The managers of branches, which are under the authority of the branch management group, approve loans below one million Baht. There are also 667 local branches and mini branches nationwide, and below those there are 884 local offices, where loan officers keep in direct contact with farmers to offer and promote loans.

(iii) Appraisal System Used for this Project

Based on the above framework, most loan appraisal decisions on sub-loans given under this project were made by branches. In practice, most of the decisions are actually made by loan officers. The loan officers solicit borrowing, in line with the policies of their branch. However, as mentioned above (see "(1). Results of sub-loan disbursement"), there is a problem with some categories for which the allocated amount has not been disbursed (particularly afforestation and biogas plant). The following measures should be devised to ensure the planned disbursement:

- (a) Adoption of detailed funding plans for sub-loans and allocation of funds to branches on the basis of those plans.
- (b) Establishment of special teams to promote lending for specific loan purposes.
- (c) Building of a computerized monitoring system to track the progress made in sub-loan disbursement.
- (d) Collation of customer information in a database, information gathering to promote additional lending for environmental conservation projects, and promotion of farmers' investment through the provision of information and technical support on agricultural policy, subsidies, market trends and related matters.
- (e) Service improvements through staff training and reviews of interest rates on long-term loans to individuals.

(iv) Business Operation and Credit Management

The total disbursed loan amount of BAAC in FY 1997 (end of March 1998) was 125.255 billion Baht. Of that, 107.126 billion Baht (85.5%) was in loans to individual farmers, who are the target borrowers for this project. The BAAC's total assets have been growing at an average annual rate of more than 20% over the last five years, reaching 228.720 billion Baht by the end of March 1998. The net profit on its assets also grew, by an annual average of over 10%, to 1,377 million Baht at the end of March 1998. However, since July 1997 the impact of the economic crisis reduced equity from 12.167 billion Baht in the preceding financial year to 6,691 million Baht, and reduced net profit by approximately 5%. The proportion of loans in arrears was 20.8% in March 1999 but decreased 17% in June. While that is not a high level when compared to other government-affiliated financial institutions, the bank's business operation requires caution in future. Among the concerned projects, those funded by Phase IV were reported by PCR to have a total of 51 million Baht in arrears (1,801 loans), with an arrears rate of 4.9%. The other loans are likely to require post-monitoring.

(v) Revolving Fund

BAAC has established a special account for secondary disbursement. A secondary disbursement rate of 34.65% was reported for Phase II, but to date no secondary disbursements have been made to other loan-funded projects.

(vi) Environmental Considerations

At the appraisal stage, BAAC checks whether a project meets various standards. The bank's policy is not to extend loans to projects where environmental damage through problems such as water contamination or deforestation are anticipated.

3 Project Effects and Impacts

The beneficiaries of this project's sub-loans are 58,820 individual farmers.

This project appears to have yielded a wide range of effects, such as increased agricultural productivity, stimulation of agriculture-related activities and environmental protection. As an example of project effects, a questionnaire survey was conducted on the impact on farmers' activities and income, which yielded 240 valid responses. The survey found that, comparing situations before and after agricultural investment, the annual income per farming household rose from 171,000 Baht to 259,000, including agriculture-related and non-agriculture activities, and the farm surplus rose from 62,000 Baht to

Table 1 Planned and Actual Sub-loan Amounts

Phase (II)						
Sub-loan planned item	Plan			Actual		
	ODA loan portion (million Yen)	BAAC (million Baht)	Total (million Yen)	Sub-loan amount (million Baht)	Sub-loan amount (million Yen)	Percentage (%) in the ODA loan portion of actual amount
A. Individual Farmer (Crop Production)						
Fruit / Tree crops	1,163	65	1,450	79	317	27.2
Fisheries	483	28	607	84	336	69.7
Livestock / Dairy / Poultry	677	39	849	257	1,030	152.1
Edible Crops / Vegetables	775	44	969	391	1,566	202.0
Sericulture	63	3	76	3	11	17.1
Flowers / Ornamental Plant	67	4	85	28	110	164.4
Sub-total	3,228	183	4,037	842	3,370	104.4
B. Agricultural Cooperatives						
(1) BAAC/ANC	176	10	220	6	22	12.7
(2) AC	88	5	110	35	140	159.2
Sub-total	264	15	330	41	163	51.5
C. Consultant						
Consulting Services	40	1	44	0	0	0.0
Total	3,532	199	4,411	883	3,532	100.0
Exchange Rate	4.4			4.0		

Phase (III)						
Sub-loan planned item	Plan			Actual		
	ODA loan portion (million Yen)	BAAC (million Baht)	Total (million Yen)	Sub-loan amount (million Baht)	Sub-loan amount (million Yen)	Percentage (%) in the ODA loan portion of actual amount
A. Individual Farmer (Crop Production)						
Fruit / Tree crops, including afforestation	1,810	125	2,263	477	2,094	115.7
Fisheries	362	25	453	53	232	64.1
Livestock / Dairy / Poultry	2,895	200	3,619	785	3,442	118.9
Edible Crops / Vegetables	1,448	100	1,810	213	933	64.5
Sericulture	217	15	271	1	2	1.1
Orchid / Other cut flowers	148	11	188	19	82	55.5
Sub-total	6,880	476	8,603	1,547	6,786	96.6
B. Individual Farmer (Agricultural- related Activities)						
Sub-total	1,470	102	1,839	356	1,564	106.4
Total	8,350	578	10,442	1,903	8,350	100.0
Exchange Rate	3.62			4.39		

Table 2 Planned and Actual Sub-loan Amounts (including unfinished Phase (V))

Phase (IV)						
Sub-loan planned item	Plan			Actual		
	The ODA Loan portion (million Yen)	BAAC (million Baht)	Total (million Yen)	Sub-loan amount (million Baht)	Sub-loan amount (million Yen)	Percentage (%) in the ODA Loan portion of actual amount
A. Individual Farmer (Afforestation)						
Sub-total	2,114	125	2,639	651	2,165	102.4
B. Individual Farmer (Crop Production)						
Fruit / Tree crops	423	25	528	153	525	124.0
Fisheries	423	25	528	12	40	9.5
Livestock / Dairy / Poultry	507	30	633	332	1,138	224.4
Edible Crops / Vegetables	338	20	422	44	151	44.5
Sericulture	169	10	211	-	0	0.0
Orchid / Other cut flowers and compound agriculture	254	15	317	61	210	82.5
Sub-total	2,114	125	2,639	601	2,062	97.6
Total	4,228	250	5,278	1,253	4,228	101.6
Exchange Rate	4.2			3.43		
Phase (V)						
Sub-loan planned item	Plan			Actual		
	The ODA loan portion (million Yen)	BAAC (million Baht)	Total (million Yen)	Sub-loan amount (million Baht)	Sub-loan amount (million Yen)	Percentage (%) in the ODA loan portion of actual amount
A. Individual Farmer (Afforestation)						
Land preparation				15	65	
Seedlings				14	61	
Seedling supporting materials				0	0	
Other costs				55	233	
Sub-total	3,075	162	3,845	85	359	11.7
B. Individual Farmer (Environmental Protection/Conservation)						
Sub-total of construction of biogas plant and related-facilities	1,230	67	1,547	8	32	2.6
C. Individual Farmer (Crop Production)						
Fruit / Tree crops	2,460	129	3,073	693	2,924	118.9
Fisheries	815	31	963	42	176	28.7
Livestock / Dairy / Poultry	1,230	65	1,539	1,170	4,933	401.1
Edible Crops / Vegetables	1,599	84	1,998	350	1,474	92.2
Sericulture	815	31	964	0	1	0.2
Orchid / Other cut flowers and compound agriculture	1,476	78	1,847	106	447	30.3
Sub-total	7,995	419	15,375	2,361	9,956	124.5
Total	12,300	648		2,453	10,347	84.1
Exchange Rate	4.75			4.22		



Investment for Crop Production, a Corn Farm



Afforestation Project