

Thailand

BAAC Loan (X)

Report Date: March 2001

Field Survey: September 2000

1. Project Profile and Japan's ODA Loan



Site Map: The whole of the Kingdom of Thailand



Interview with Orchard Farmers in Surat Thani District

(1) Background

With the ongoing industrialization of the Thai economy, the share of GDP by agriculture declined from 21.4% in 1981 to 16.0% in 1987. Nevertheless, the agricultural sector was still important, because approximately 64% of the Thai population were farmers, and agricultural production accounted for 30% of the country's total export value. The income levels of farmers were extremely low, compared to non-farming employees (approximately 11%) and the income gap was widening. Even among farmers, there were big disparities between regions.

The Fifth Five Year Plan for Economic and Social Development, and the plans which preceded it, had been aiming to expand the major crop production of rice as the country's main crop, and to maintain the price of rice. The Sixth Five Year Plan (1987 ~ 1991) made a policy shift towards diversification of crops, changes to cash crops, improved quality, reduced production costs and other export-oriented policies. The Plan also aimed to make Thailand an agro-based industrial country in the future, by nurturing and strengthening agricultural products and related processing industries. This effort was supported by low interest loans to fund crop conversion, provided by the Bank for Agriculture and Agricultural Cooperatives (BAAC), which was set up as a governmental agricultural finance agency to alleviate poverty among farming and rural people and to close regional disparities.

In November 1988, the South of Thailand suffered flooding of a scale rarely seen (approximately 250,000 farms were affected). Financial relief measures were deemed necessary to recover from the flooding, and the BAAC was to provide part of the financial relief for agriculture.

As a government-affiliated agricultural finance agency, the BAAC has a major role to play in alleviating poverty among farming and rural people and closing regional disparities.

(2) Objectives

By encouraging the diversification of crop production to adapt to structural changes in the agricultural produce markets in Thailand and elsewhere, this project aimed to assist Thai government efforts to raise the incomes of regional farmers. It also aimed to help farmers in southern Thailand to recover from the floods of November 1988.

(3) Project Scope

The ODA loan provided funds to the BAAC to assist it in providing finance (sub-loans) for sub-projects in line with the Crop Diversification Program and the South Thailand Flood Region Rehabilitation Program. It also provided funding for consulting services to encourage the production and marketing of export-oriented crops.

[1] The conditions for eligible sub-projects are as follows:

- (1) Eligible farmers: Individual farmers with annual income not exceeding 50,000 Baht (no lower limit on income).
- (2) Loan value: 10,000 ~ 5,000,000 Baht per loan.
- (3) Value covered by loan: Up to 80% of the money required for the sub-project.
- (4) Lending terms: Interest rate 9% p.a., duration up to 20 years (grace period up to 12 years).
* The grace period for interest on sub-loans to rubber farmers in the Northeast was up to eight years (interest in the grace period is added to the value of loan principal).

[2] The content of consulting services is as follows:

- Advice on the implementation of sub-loans (BAAC loans (X)).
- Advice on production and marketing in Thailand and overseas.
- Support for the training of BAAC loan officers.
- Preparation of progress reports etc.

(4) Borrower/Executing Agency

The Bank for Agriculture and Agricultural Cooperatives (BAAC)

(5) Outline of Loan Agreement

Loan Amount/Loan Disbursed Amount	¥5,000 million / ¥5,000 million
Exchange of Notes/Loan Agreement	February 1990 / February 1990
Terms and Conditions	Interest rate: 2.7%, Repayment period: 30 years (grace period: 10 years), General Untied (partially untied for consulting services)
Final Disbursement Date	July 1993

2. Results and Evaluation

(1) Relevance

This project was implemented in line with the Sixth Plan for Economic and Social Development (1987 ~ 1991), which set objectives including the diversification of agricultural produce, the building up of agro-based industry, and the correction of regional disparities. In line with those objectives, the project used two-step loans to diversify the incomes of farmers through crop diversification, and therefore its objective was relevant.

(2) Efficiency

[1] The value and duration of finance

The finance plan was to provide ¥3.442 billion for crop diversification, ¥1.5 billion for southern flood relief measures, totaling ¥4.942 billion for sub-loan programs, with an additional ¥58 million for consulting services. Actual disbursement was ¥4.955 billion for sub-loan programs and ¥45 million for consulting services, which was largely as planned.

The planned disbursement duration was five years (May 1990 ~ May 1995) from the effectuation of the loan agreement. However, the high level of demand for funding led that actual disbursement of sub-loans from the BAAC to the end users took place between April 1990 and December 1992, as planned (see Table 1), and ODA loan financing was provided between May 1990 and July 1993 (Table 2).

Table 1 Planned Finance Values

Calendar year (Jan ~ Dec)	1990	1991	1992	1993	1994	1995	Total
ODA loan (¥ millions)	2,950	1,067	983	-	-	-	5,000.0

Table 2 Actual Finance Values (BAAC accounting year: April to March)

FY (April to March)	1990	1991	1992	1993	Total
ODA loan (¥ millions) ^(Note 1)	4,049.1	887.9	44.4	18.5	5,000.0
BAAC (millions of Baht) ^(Note 2)	809.8	117.3	8.5	-	935.6

- Notes
- 1) The consulting portion (¥45 million) is included.
 - 2) Sub-loan provision for crop diversification and southern flood relief.
 - 3) The conversion rate is 1 Baht = ¥5.34 on average.

[2] Record of finance by business types and regions

Table 3 shows the record of finance to farmers in each region for each program. A total of 935.6 million Baht was loaned to 15,693 sub-projects over two and a half years. The average value of each loan was 59,430.7 Baht. Finance for crop diversification is concentrated in the North and Northeast, while flood relief finance is concentrated in the South and West (accounting for 77.5% of sub-loans).

Table 4 shows the record of finance for each crop. Finance for fishing and silkworm raising is growing as a proportion of BAAC finance, but not as a proportion of ODA-based finance. The BAAC analyzes the reasons for this situation as follows.

The number of applications for loans from fishing was low because of the restrictions on loan size, and

because the loan was only for poorer fishers. Also, the BAAC limited loans for the construction of fish breeding pools because the felling of mangroves was restricted on environmental grounds. There was little growth in finance for silkworm growing because the cultivation of the necessary mulberry trees did not go well, and because the poor quality of the cocoons led to short threads which were uncompetitive products. Also, the available funds for loans were used up before the BAAC loan staff were able to make a strong effort to persuade farmers

Table 3 Record of Sub-loans to Each Region
(those marked [1] are for crop diversification, [2] are for flood recovery)

Region	No. of sub-projects		Value		Average loan value (Baht)
	No.	Share (%)	Value (millions of Baht)	Share (%)	
North	3,540	22.6	183.0	19.6	51,702.1
	0	0	0	0	0
Total	3,540	22.6	183.0	19.6	51,702.1
Northeast	6,070	38.7	205.3	22.0	33,821.5
	0	0	0	0	0
Total	6,070	38.7	205.3	22.0	33,821.5
Center and East	1,514	9.6	179.3	19.2	118,452.4
	0	0	0	0	0
Total	1,514	9.6	179.3	19.2	118,452.4
West and South	667	4.2	82.0	8.8	122,877.7
	3,902	24.9	283.0	30.3	72,534.0
Total	4,569	29.1	365.0	39.1	79,883.3
Nationwide	11,791	75.1	649.6	69.7	55,094.4
	3,902	24.9	283.0	30.3	72,534.0
Total	15,693	100.0	932.6	100.0	59,430.7

Source: BAAC materials

Table 4 Breakdown of Finance for Each Crop Type

Units: Millions of Baht

Crop	Crop diversification program	Southern Thai flood rehabilitation program	Total
Fruit and tree crops	87.7(13.5)	124.6(44.0)	212.2(22.8)
Fishing	24.9(3.8)	42.9(15.2)	67.9(7.3)
Livestock, dairy, poultry	279.9(43.1)	36.5(12.9)	316.4(33.9)
Feed crops and vegetables	240.6(37.0)	78.9(27.9)	319.6(34.3)
Silkworms	16.5(2.6)	-	16.5(1.7)
Totals	649.7(100.0)	282.9(100.0)	932.6(100.0)

Source: BAAC materials

Note: Figures in () are % shares.

(3) Effectiveness

[1] Direct effect (increased farmer income)

This project directly encourages the production activity of individual farmers, and the main direct impact is increased income for the recipient farmers.

According to an evaluation study by the BAAC, Table 5 shows the average annual incomes of farming households which received loans under this project was compared before and after the project (refer to Table 5). In Chiang Rai, income rose from 28,741 Baht to 47,414 Baht, a rise of 60%, in Kamphaeng Phet

it rose from 65,451 to 97,363 Baht, up 50%, and in Khon Kaen it rose from 32,279.3 to 82,279.3 Baht, up 150%. The project appears to be yielding income increases and lifestyle improvements for farmers. Even when the rate of inflation over the period is subtracted, the rises become 40% in Chiang Rai, 30% in Kamphaeng Phet and 120% in Khon Kaen. Thus the project's funds are believed to have made a visible contribution to the incomes of farmers.

Table 5 Recorded Average Annual Income for Farming Households

			Units: Baht
Region	Before loan: 1990	After loan: 1993 ^(note)	/
Chiang Rai	28,740.6	47,414.0 (41,671.6)	1.6 (1.4)
Kamphaeng Phet	65,450.8	97,362.6 (85,570.9)	1.5 (1.3)
Khon Kaen	32,279.3	82,279.9 (72,314.4)	2.5 (2.2)

Source: BAAC materials

Note Figures in () are corrected at 1990 prices, with reference to the CPI from the International Financial Statistics Yearbook (IMF, 1999).

[2] Impact on foreign currency earnings

At the time of the appraisal anticipated indirect impacts were foreign currency earning, foreign currency saving by import substitution, expansion of agricultural finance, and stimulation of rural areas. The share of agriculture within Thai exports overall is declining, but the value of exports is rising, and the export surplus in agricultural produce is growing. While these impacts are indirect, it appears that the project is playing a part in the realization of these effects.

[3] Rehabilitation of flood damage

The great flood of November 1988 damaged ten provinces, 2.8 million rai (4,480km²) of farm land, and 90,000 rai of fish breeding ponds, killing 500,000 head of domestic animals. The estimated rehabilitation cost was 7.3 billion Baht. This project was one of the relief methods applied to the damage¹. Damage was centered on the South, but it also spread to some parts of the West. The BAAC allocated 30.3% of the finance provided under this project to flood damage rehabilitation investment, of which 95% was used in the South. In the South the funding was mainly used for rehabilitation of orchards, and for landscaping to enable such rehabilitation. In the West, most of the funding was spent for the recovery of the livestock industry.

(4) Impact

[1] Improved marketing

With some results achieved on the agricultural production side, the BAAC sees the improvement of marketing as the focus of future efforts for modernizing agriculture. This perception led to its introduction

¹ The two scheduled disaster recovery measures were:

[1] Easing of loan terms through extension of repayment schedules, interest reductions and extension of credit limits.

[2] New finance to fund investment in rehabilitation (the ODA loan provided 283 million Baht within a total budget of 1.5 billion Baht).

of consulting services under this project. At the same time, the BAAC Law was amended in 1992 to allow the BAAC to provide finance for agriculture-related marketing.

The BAAC encouraged the foundation of Agricultural Marketing Cooperatives (AMCs) across the country, and built a system to support the promotion of agricultural product marketing through cooperation between the AMCs and BAAC branches. The BAAC also set up the Thai Agri-Business Co., Ltd. (TABCO) in 1992 as a joint venture with the private sector in an effort to strengthen market functions through greater cooperation between producers, cooperatives and consumers, followed by the foundation of the Thai Agro Exchange Co., Ltd. (TAECO) in 1994. TABCO and TAECO together were intended to ship agricultural produce to consumption areas and form wholesale markets in major cities, as well as communicate market information to farmers. TABCO targeted major cities outside Bangkok, but the ripe moment didn't come and performed poorly as a business. By now it has become a dormant enterprise. TAECO took over from TABCO, aiming to form a large and modern wholesale market in Bangkok, with reference to Japanese markets in Tsukiji and Ota. The functions of a central market for agricultural product (loading, shipping, freezing and storage) are being developed at the TAECO site. The BAAC, which aims for linkages between rural areas and markets, has set up a BAAC office within the market, where it collates information to provide to rural areas, and strengthens wholesale, retail and export functions for vegetables, fruit and fish.

[2] Environmental and social impact

The BAAC has three types of environmental impact check standard, to be applied to crop production projects, livestock projects and other projects. At the time of the appraisal, the decision was taken that finance would not be provided in cases where adverse environmental impact, such as pollution of soil, land and water, and destruction of forests, was anticipated. The fact that few loans were extended to the fishing sector, which was eligible for this project, is due to the consideration given to mangrove conservation. Therefore the negative impact of this project on the environment is believed to have been slight.

(5) Sustainability

[1] Executing Agency

(a) The status of the implementation scheme

The BAAC has provincial offices in 72 of Thailand's 76 provinces, and under those there are 587 district branches and 887 field offices. Approximately 3.5 million farming households are registered with the BAAC, which meets a wide range of the needs of farmers and rural areas in its capacity as a policy based finance agency. At the end of 1999, the BAAC had 11,570 staff in branches and 1,512 at its head office, for a total of 13,082 staff. The BAAC network of branches and field offices is the most extensive of any official or private finance agency in Thailand, and its finance support system is unique compared to other banks.

(b) Operation and maintenance

Besides expanding its finance operations, the BAAC has been concentrating on maintaining its financial soundness as a bank by raising its appraisal ability and managing its credits. There appears to be no problem with its executing ability. Through its ongoing experience, the BAAC has been developing its abilities in the areas of program formation, appraisal and credit management, and its executing ability is reliable.

- Appraisal system

Finance applications from farmers are received at the 887 field offices nationwide. Applications for up to one million Baht are appraised at the 587 district branches, and those up to two million Baht are appraised at provincial offices. There are different appraisal methods for loans over 500,000 Baht and over one million Baht. For short-term loans with up to 500,000 Baht, only the ability to repay the loan on a cashflow basis is appraised. For longer-term loans, the nature of the related project (the content and effects etc. of equipment investment) and other aspects such as profitability are analyzed. Applications over two million Baht are appraised at head office.

- Credit management (arrears status)

Credit management is handled by each branch and field office, and a credit management system is in place. However, since the economic crisis in 1997, there has been a considerable increase in arrears related to this project, which provided finance to poor individual farmers and flood damage rehabilitation loans. Farmers in arrears are not served with written calls for payment from the branches, but the loan officers in the field offices consult with the farmers concerned to discuss repayment methods.

According to the BAAC there are no figures for the number and balance of loans in arrears from the project and from ODA loans specifically. The ratio of the total value of loans in arrears against the BAAC's total capital balance averaged 11.92% between 1995 and 1999, but in 1999 it rose to 16.36%. As shown in Table 6, the arrears rate within the total value of loans to individual farmers was 5.7% in 1996, before the economic crisis, but after the crisis it rose gradually to 11.9% in 1998 and 12.1% in 1999. Short-term loans account for a high proportion of loans in arrears. The long-term loans, in which this project finance was included, are 24.2% of the total, with a rapid increase in such loans in 1998 and 1999.

Table 6 Arrears on Loans to Individual Farmers (Capital)

Units: Millions of Baht

	1995	1996	1997	1998	1999
Short-term lending	4,179	4,531	7,060	10,948	10,730
Medium-term lending	2,417	2,841	4,450	7,077	8,553
Long-term lending	1,423	1,860	2,876	4,668	6,150
Credit adjustment funds	55	102	152	218	276
Total (A)	8,074	9,334	14,538	22,911	25,709
Outstanding loan balance (B)	127,243	162,640	177,545	192,823	212,797
(A) / (B) (%)	6.3	5.7	8.2	11.9	12.1

Source: BAAC annual bulletin (1999).

Note Value in arrears = Capital which has fallen due for repayment – amount repaid. This table does not include loans which have been rescheduled. Years are accounting years.

(b) Revolving fund status

In the same way as previous BAAC loans, the BAAC has established a special account for sub-loans under this project. Repaid capital, plus interest after the deduction of related expenses, is transferred into the account, where it is managed separately from other funds. The use of this account as a revolving fund has been permitted, such that the funds can be reused for further loans on the same terms as the sub-loans for this project. The performance of the revolving fund is to be reported to the Japan Bank for International Cooperation (JBIC) annually.

A written statement of the revolving funds was requested for this study. Although it is believed that progress would have been made in the use of the revolving fund, the relevant data had not been compiled as this project has been completed long ago. The explanation given was that finance conditions had been changed after the economic crisis and some loans were still within their grace periods, making collation of the data difficult.

Comparison of Original and Actual Scope

Item	Original	Actual
Project Scope	(Sub-loans) ^(Note1)	
-Crop diversification program (nationwide)	-Eligible product types are orchard/ tree crops, fishing, livestock/ dairy/ poultry, feed crops/ vegetables, silkworms.	Same as left
-Southern Thai flood damage rehabilitation (nine southern provinces)	-Designation of eligible produce ^(Note2, 3)	
-Consulting service	-Consulting service ^(Note4)	
Duration of Loan	Feb. 1990 ~ May 1995	May 1990 ~ Jul. 1993
Project Cost		
Foreign currency	¥5,000 million	¥5,000 million
Local currency	¥1,250 million	¥1,250 million
Total	¥6,250 million	¥6,250 million
For ODA loan portion	¥5,000 million	¥5,000 million
Exchange rate	1Baht = ¥5.6 (August 1988)	1 Baht = ¥5.0 (December 1992)

(Note 1) Sub-loan terms

- (1) Eligible farmers: Individual farmers with annual income not exceeding 50,000 Baht (no lower limit on income).
- (2) Loan value: 10,000 ~ 5,000,000 Baht per loan.
- (3) Value covered by loan: Up to 80% of the money required for the sub-project.
- (4) Lending terms: Interest rate 9% p.a., duration up to 20 years (grace period up to 12 years).
 - * The grace period for interest on sub-loans to rubber farmers in the Northeast was up to eight years (interest in the grace period is added to the value of loan principal).
- [2] Collateral: Realty as collateral, or a guarantor (two guarantors if they are landowners, or a group of at least five guarantors otherwise), collateral value 70%.
- [3] Special account: A special account is to be established, which is used separately from funds in other accounts. Funds in the special account are used on a revolving basis on the same terms as sub-loans for this project.

(Note 2) Eligible produce types for sub-loans

- (i) Crop diversification program
 - [1] Orchard/ tree produce: Mango, tamarind, longan, lychee, cashew nuts, coffee, rubber, coconut, tea, oil palm, etc.
 - b) Fishing: Shrimps, other marine and fresh-water fish.
 - c) Livestock/ dairy/ poultry: Dairy cattle, cattle, domestic poultry, etc.
 - d) Feed crops/ vegetables: Maize, sorghum, tomato, asparagus, onion, other vegetables.
 - e) Silkworms.
- (ii) Southern Thai flood rehabilitation: No specified produce types.

(Note 3) Sub-loan procurement items

- Landscaping and improvement of farm land (tractor rental etc.).
 - Farming, stock-raising or fishing machinery (tractors, pumps, engines, sprinklers, threshers, milking equipment, boats).
 - Transport equipment (farm trucks, trailers).
 - Farm buildings (Buildings for raising cattle, pigs, silkworms etc.).
 - Other infrastructure (water supply equipment, nursery facilities etc.).
- * Funds for land purchases were financed up to 50,000 Baht by the BAAC from its own funds, but as JBIC excluded such finance from the scope of the project, the BAAC decided not to provide it after 1997.

(Note 4) Content of the consulting service

- Contract name: "Promotion of Crop Diversification among Small Scale Farmers and Southern Flood Project"
- Contract date: March 31, 1992.
- Contract value: ¥49,706,000 (of which ¥45 million was provided by the ODA loan).
- Contract content: Survey of the production and marketing of export-oriented crops.
Survey of the economic positions of farmers and instruction to improve the BAAC's operational performance.
Construction of an effective marketing system.
Instruction in the rehabilitation of farm land damaged in the South Thailand floods.
- The survey report was compiled at the end of 1992.