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INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROJECT PAPER

THAILAND: Rural Industries and Employment.
(493-0343)

August 27, 1986

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AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number	DOCUMENT CODE 3
2. COUNTRY/ENTITY Thailand		5. PROJECT NUMBER 493-0343		
4. BUREAU/OFFICE ANE		5. PROJECT TITLE (maximum 40 characters) Rural Industries and Employment		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 19 96		7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 86 B. Quarter 4 C. Final FY 88		

8. COSTS (\$000 OR EQUIVALENT \$1 = 226.4)

A. FUNDING SOURCE	FIRST FY 86			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,350	9,800	11,150	1,350	12,750	14,100
(Grant)	(1,350)	(9,800)	(11,150)	(1,350)	(12,750)	(14,100)
(Loan)	()	()	()	(-)	(-)	(-)
Other U.S.						
1.						
2.						
Host Country	-	899	899	-	899	899
Other Donor(s) (Thai private sector)	-	11,920	11,920	-	17,820	17,820
TOTALS	1,350	22,619	23,969	1,350	31,469	32,819

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) 103	270	110	-	-	-	14,100	-	14,100	-
(2)									
(3)									
(4)									
TOTALS						14,100	-	14,100	-

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

111	112	042	819	840	
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11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BL				
B. Amount	14,100				

13. PROJECT PURPOSE (maximum 480 characters)

Sustained expansion of town based industries outside the greater Bangkok area.

14. SCHEDULED EVALUATIONS

Interim	MM YY	MM YY	Final	MM YY
	4 8 9	4 9 2		4 9 6

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature: *John B. Erickson*

Title: Director, USAID/Thailand

Date Signed: MM DD YY
08 27 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID THAILAND
BANGKOK, THAILAND

TELEPHONE: 252-8191-9

CABLE: USAID THAILAND

PROJECT AUTHORIZATION

KINGDOM OF THAILAND

Rural Industries and Employment
Project No. 493-0343

1. Pursuant to Section 103 of the Foreign Assistance Act (FAA) of 1961, as amended, I hereby authorize the Rural Industries and Employment Project (the "Project") for the Kingdom of Thailand (the Cooperating Country) involving planned obligations of not to exceed \$14.1 million in grant funds over a three year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing certain foreign exchange and local currency costs for the Project. The planned life of the Project is ten (10) years from the date of initial obligation.
2. The goal of the Project is to contribute to the promotion of rural employment and increased rural incomes in Thailand. Its purpose is to facilitate the sustained expansion of small-scale industrial development outside the greater Bangkok area. The Project includes seven activities: a Small Industries Guarantee Facility, Training for Rural Entrepreneurs, Technical Assistance for Rural Entrepreneurs, Strengthening of Rural Business Associations, an Information Services Unit, Joint Public/Private Sector Dialogue, Policy Studies and Evaluation.
3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:
 - (a) Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in the United States,

except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on vessels under flag registry of the United States.

Signature John R. Eriksson
John R. Eriksson
Director

August 27, 1986
Date

Clearances:

	<u>Initial</u>	<u>Date</u>
O/PERE:JEvans.	<u>JE</u>	<u>8/26/86</u>
O/PRO:EPloch	<u>EP</u>	<u>8/26</u>
O/FIN:TFallon	<u>TF</u>	<u>8/27</u>
DD:LTwentyman	<u>LT</u>	<u>8/27/86</u>
RLA:BMiller (phone) 8/26/86		

I. Summary and Recommendations:

A. Recommendation

It is recommended that a grant of \$14,100,000 be authorized for this project with \$11,150,000 provided in FY-86 and \$2,950,000 provided in future fiscal years subject to the availability to AID of funds for this activity. Such future year funds should be available for financing a portion of the first component of the project, the Small Industry Guaranty Facility.

B. Summary Description

The goal of this project is to increase rural employment and rural income. The purpose of the project is sustained expansion of town based industries outside the greater Bangkok area.^{1/} The project contains eight components designed to alleviate the constraints to the establishment or expansion of such industries. The components are: 1) a Small Industries Credit Guarantee Fund to be managed by the Industrial Finance Corporation of Thailand (IFCT) (\$8.3 million); 2) an Information Services Unit to be managed by the Ministry of Industries' Department of Industrial Promotion (\$1.0 million); 3) Training for Rural Entrepreneurs to be administered by the Institute for Management Education in Thailand Foundation (IMET) (\$1.6 million); 4) Technical Assistance for Rural Entrepreneurs to be provided by the International Executive Service Corps (IESC) and by IMET through the establishment of a Thai Executive Service Corps (\$700,000); 5) Strengthening Rural Business Associations to be implemented by the Thai Chamber of Commerce and the Association of Thai Industries (\$500,000); 6) Joint Public Private Dialogue to be managed by the National Social and Economic Development Board (\$300,000); 7) Policy studies to be implemented in association with NESDB (\$1.0 million); and 8) Evaluation, Monitoring, and Contingencies (\$700,000). It is anticipated that funding for these activities will be provided through separate project agreements with IFCT, IMET, IESC, and DTEC. The project life is ten years, however, it is expected that all project activities will be completed in six years except for payments under the guarantee fund for possible defaults on guaranteed loans.

C. Issues

There are no outstanding issues. Issues which arose during project design and the resolution of those issues is noted below.

^{1/} The Greater Bangkok area includes Bangkok, Thon Buri, and the provinces Samut Prakan, Samut Sakhon, Nakhon Pathom, Nonthaburi, and Pathum Thani.

1. Issue: ANE's PID approval cable noted that this project should be a prime target for affording Gray Amendment firms procurement opportunities and directed that the PP procurement plan focus on this point and if necessary provide for AID direct contracting to permit Gray Amendment firms to participate.

Resolution: Project design provides for AID Direct contracting for a firm to coordinate and subcontract policy studies and for a firm to carry out evaluations of the project. These actions are expected to result in contracts with Gray Amendment firms totaling \$1.4 million.

2. Issue: ANE approved the PID but only provided conditional approval of the grant financed guarantee fund component of the project. This approval was conditioned on the Mission demonstrating innovative mechanisms for substantial policy reforms. The purpose of these reforms was to allow commercial banks to cover the costs of lending to target borrowers during and after the project. ANE indicated that this could be accomplished through higher loan interest rates or guarantee fees covering both administrative costs and risk of defaults for both lender and guarantor. The Mission's planned approach to accomplish these policy reforms must be concurred in by AID/W before the Mission authorizes the project.

Resolution: USAID advised AID/W that USAID had initiated a policy dialogue with the Bank of Thailand (BOT) on policy reform and on the question of appropriate interest rates and guarantee fees. The BOT has recently implemented policies that move in the direction sought by AID/W and BOT is agreeable to continuing the policy dialogue and considering further policy modifications as the project unfolds. To provide better information on administrative costs and appropriate spreads USAID plans that one of the first studies under the project will focus on this area.

The policies agreed to and implemented by BOT which will impact favorably on this project are that the guarantee facility can charge participating banks a guarantee fee of 1 1/2% per year on the amounts guaranteed which the banks can pass on to borrowers over and above the interest rate ceiling; and that in contrast to previous BOT policy, BOT and the banks have agreed to lower deposit rates across the Board by approximately 1% without requiring a corresponding reduction in the maximum lending rate. This remains at 15%.

The impact of these reforms has been to significantly increase the spread between banks' cost of funds and the interest banks can earn. Barring further reductions in the deposit rate the cost of funds is expected to be about 7%. This leaves a spread of 9 1/2% for loans which will be made under the guarantee facility to cover administrative and risk costs. Neither USAID nor the Bank of Thailand can be certain that this spread will be sufficient to induce lending to rural industries and it is likely to be sometime before better judgments on an appropriate spread can be made. This is because research into financing for small industries indicates that only over time and with experience will bank increase lending to such clients primarily because of the inexperience of bank staff and the reluctance of bank branches to hold perceived risky portfolios even if overall bank interest receipts make up for many small losses.

It is clear, however, that the current spread does provide scope for such lending because available evidence indicates that bank administrative costs for lending to small industries are on the order of 6%, leaving 2% for any default costs the banks will incur and 1 1/2% for administrative and default costs of the guarantee facility. In addition, current loans for super prime customers (those that can borrow internationally through local banks) are available at 8 - 9%, and prime customers are paying 12 - 13%, leaving a further gap of 2 - 3% for riskier borrowers.

It is unlikely that the 1 1/2% fee banks will charge and pay into the guarantee facility will cover administrative costs of the guarantee facility and defaults under the facility initially, because theory and practice in other guarantee funds indicates high initial default rates. However, this fee on \$6 million for 4 year term loans with a grace period of 1 year on repayment of principal would be sufficient to cover administrative costs of about \$20,000/year and a default rate of about 4%. It is not possible obviously at this point to determine whether guarantee fund administrative costs and default rates can eventually stabilize at this level but these rates do appear attainable given that initial administrative costs are estimated at \$40,000/year and current default rates for traditional loans in the better managed commercial banks are reported to be less than 2%.

The Bank of Thailand has agreed to continue to monitor the impact of the current spread on lending and in particular to consider adjustments in the guarantee fee based on experience under this project.

The USAID Mission believes that the current interest rate policy represents considerable progress on policy reform especially when several further factors are considered. These factors are: (a) the political climate (national elections are scheduled for July 27) which certainly inhibits any inclination Thai authorities might have to raise the interest rate ceiling when interest rates are declining; (b) a BOT concern that given imperfect competition between banks, the absence of an interest rate ceiling could lead to artificially high interest rates on loans; (c) the very positive interest rate structure that now exists given that inflation is less than 3%; (d) Bank disinterest in pushing for removal of the interest rate ceiling; and finally (e) a general awareness among prominent Thai and foreign economists that while in theory the market will determine appropriate interest rates, in practice the financial markets especially in LDC's work neither smoothly nor quickly with the possible result that high institutional rates of interest push some borrowers into the informal credit market or out of the credit market altogether, resulting in less overall investment.

3. Issue: A&E's PID review, while noting the validity of grant financing if the guarantee facility was accompanied by innovative mechanisms for policy reform and while approving the other project components did state that the use of grant funds must be justified against the criteria for grant financing in AID's "guidelines on the terms of AID" which were provided to USAID in 85 STATE 178281. In essence these guidelines provided that assistance to countries like Thailand should be loan financed except under certain circumstances. Two of the exception criteria pertinent to this project are: a) an activity involves highly innovative concepts, techniques, or procedures which characterize it as a pilot or demonstration project; b) an activity entails a high level of risk for the recipient country because of uncertain outcome or unproven technologies.

Resolution: This project satisfies both criteria. The concept of a streamlined guarantee facility for loans to the target audience, dependent to a major extent on the full faith and credit of indigenous banks is unique in Thailand and most, if not all, LDC's. Thus the concept, techniques, and procedures for the facility are highly innovative. The project's guarantee facility is also at a demonstration or pilot level since it will guarantee only 211 million baht in lending of a perceived unmet lending demand of 8 billion baht. Also AID's financing procedure

is unique in that disbursements will only be made in case of default. The net effect of this will be to return substantial unexpended funds to the U.S. Treasury. Finally, the guarantee facility entails a high level of risk to the recipient country or presumed borrower. Calculations indicate that if the default rate exceeds 20 - 30% it would be financially unsound for Thailand to borrow funds even at AID's concessional rates to finance the guarantee facility. It is not expected that this default rate will be exceeded over the life of the project but this innovative guarantee mechanism is untested and high default rates are not uncommon for guarantee facilities in LDC's.

4. Issue: AID policies provide in essence that certain AID procurement policies apply to the procurement of goods and services with AID funds made available to intermediate credit institutions. The basic case to which this policy applies is when AID lends funds to a lending institution which on-lends those funds to borrowers. Under the proposed project no funds are being providing for on-lending, instead the project will finance a guarantee facility under which banks will receive payments if their borrowers default on loan payments. Therefore, it would appear that AID's policies with regard to procurement provisions and restrictions do not apply to this project. However, at the current time, the applicability of these ICI provisions (which are described in HB 1 Sup B, Chapter 19) to this project are uncertain.

Resolution: Our RLA is seeking a GC opinion on this issue. AID's procurement requirements and restrictions will apply to loans guaranteed under this project to the extent they are applicable.

5. Issue: The procedures for financing the guarantee facility through L/COMMs which will only be drawn down in the case of defaults are likely to result in a significant apparent pipeline. Normally a large pipeline is considered to indicate a lack of project progress.

Resolution: This situation was recognized when AID/W approved the PID for this project. AID's PID approval cable noted that "In effect we have determined that it is preferable to have a substantial pipeline of unliquidated obligations than to have disbursed into the baht guarantee fund far in advance and far in excess of baht payment requirements ... To keep the pipeline as small as possible, PP should provide for timely deobligations as outstanding balances of guaranteed loans are paid off." Project design provides for such deobligations.

II. Project Rationale and Description

1. Rationale

A. Perceived Problem

The Government of Thailand anticipates that employment generation will be one of the major problems facing Thai economic development in the medium term. While fertility has been declining rapidly in the past decade and is expected to continue to fall, the high fertility and survival rates of the 1960s and earlier will translate into a rapid increase in the size of the labor force in the years ahead and in potential new family formation. Employment is estimated to be growing by 2.4% annually, compared to 3% growth in the labor force. Agricultural employment growth is down to around 1% and declining. Open unemployment among university graduates is already severe. In addition, seasonal unemployment of women is already severe and in the future, unemployment among women is expected to be higher than for men. The emergence of an employment problem will present a sharp contrast with the labor market conditions of the past. The traditional escape value -- pushing back the land frontier -- is virtually gone. The more recent escape valve -- several hundred thousand migrant workers in the Middle East and elsewhere -- may continue to employ the numbers already there but recently these numbers appear to be declining. Further, a decline in Middle East development activity could add substantially to the numbers of skilled and unskilled laborers returning to rural areas.

It is important to understand the ambiguity of applying standard notions of employment and unemployment. With very little observed open unemployment (a little more than 1%), any residual between formal job growth (in manufacturing and services) and labor force growth must be absorbed in agriculture or the informal services sector. (The picture is further complicated by the seasonal swings and the much greater difficulty in an agricultural economy of defining involuntary idleness). Thus, agriculture sector employment will continue to grow as required, but at a cost of declining marginal productivity due to a combination of (a) further expansion of cultivation into very marginal lands, and (b) rising disguised unemployment as the land/labor ratio declines in settled areas. Similarly, in the informal services sector, more employment can be absorbed by increasing division of micro retailing and other occupations. At an aggregate level these outlets for new job-seekers will keep official unemployment rates relatively low, but at the cost of restraining growth in per capita income on family farms and depressing wage rates. In sum, without more rapid growth of labor-intensive agricultural intensification along with labor-intensive growth in industry and services, real wages (especially for the unskilled) will stagnate if not decline and regional income inequalities begin to widen again after a long period of narrowing.

Rural industrialization can absorb underemployed rural labor and increase rural wages. To a large extent this industrialization

is dependent upon increased rural demand arising from increased income from agricultural production or specialized crop production resulting from agricultural intensification. At the same time certain types of rural industrialization can help promote intensified agricultural production and increased agricultural income. For example, more efficient local industries serving local agricultural requirements can reduce agricultural production costs resulting in increased discretionary income to increase demand for other locally produced consumer goods.

Small scale town-based industries such as those producing agricultural and local consumer goods, while also dependent on the growth of rural incomes, offer extensive possibilities for increased employment and incomes because such industries are numerous and widespread (in 1980 there were about 17,000 such registered industries outside the greater Bangkok area excluding rice mills and ice plants) and because of the extensive involvement of women as owners and operators of small rural industries. Major constraints to the expansion of these industries are the high cost of credit, outdated technology and procedures, lack of market information and the lack of management expertise.

Finally, appropriate government policies and regulations will continue to be necessary to stimulate rural industrialization and better cooperation within the rural private sector and between the private and public sectors will strengthen the capability of small scale industries to solve local problems and affect national policy.

This Rural Industries and Employment project will assist in alleviating these constraints to small industry expansion by: supporting a guarantee facility for loans to small industries, establishing an Information Services Unit to funnel technology and market information to rural industries and information about the capabilities of such industries to larger markets, providing technical assistance to small industries, providing training for rural entrepreneurs, strengthening rural business associations and the dialogue between the public and private sector, and by supporting a series of policy studies on national issues affecting the development and expansion of rural industries. These activities will be carried out primarily by the private sector.

B. Conformity with Recipient Country Strategy/Program

Thailand's Sixth National Economic and Social Development Plan (1987-91) will have employment as a central concern and will assign high priority to promoting rural industries as a means to stimulate rural employment. The proposed project is a direct response to a request by the RTG that a major emphasis of AID's program during the next five years be on rural employment and industries. In support of a program of rural employment and income generation the RTG is continuing to adjust policies and programs to strengthen rural growth. These efforts cover a broad range of activities including devaluing the Baht, rationalizing tariffs, limiting the size of overdraft privileges for clients of commercial banks,

streamlining Board of Investment approval procedures for smaller projects, supporting the relationship of farmers on irrigation systems to agro-processing facilities, expanding the dialogue between the public and private sectors to rural areas, and encouraging the formation of associations of private sector firms in the provinces. While all these efforts and a variety of other activities being studied or developed will support attainment of the proposed project's purpose and goal, there is no specific action that the RTG must take for the project to succeed. However, appropriate private sector policies are important to achieving project success. Most important among these policies are a willingness by the commercial banks to balance collateral loan requirements against consideration of borrower project viability and a willingness by banks to make a concerted effort to increase term lending for small town based industries and to increase and train staff to carry out such a program. There is sufficient indication that under this project banks are willing to make this effort for project development to proceed.

C. Relationship to AID Strategy Statement

The proposed project is one of four projects (Science and Technology for Development, Emerging Problems in Development II, Natural Resource Management) which form the bulk of the Mission's planned loan and grant program for the CDSS period. These projects are all geared to address problems appropriate for Thailand's status as an emerging middle income country. The Science and Technology Project has the potential to provide significant support to attaining the purpose of this Rural Industries and Employment project because research funded by that project is expected to lead to the expansion of larger industries and the start-up of new industries which are likely to require inputs from smaller industries, and because quality control information on domestic and export markets and the Technology Information Access Center under the S&T project will provide information which can be adapted for smaller rural industries. In addition, the various activities to be undertaken under EPD II will support this project as they lead to overall improvements in the economy and a better environment for business in general.

2. Project Description

A. Project Goal and Purpose

The sector goal to which the project will contribute is to increase rural employment and rural income. The purpose of the project is sustained expansion of town based industries outside the greater Bangkok area. Achieving the project purpose will contribute to attaining the sector goal through the jobs and income generation that will occur directly as a result of the project, and through the continuing impact of: increased credit for rural business which will result from institutionalizing within the banking sector a positive program of loans to rural industries; improved small business management because of the training provided under the project; continuing small business access to

information and technical assistance due to project supported initiatives; and stronger rural business associations and enhanced public/private sector dialogue supported under the project.

B. Project Elements

This project has eight components or elements. These are: 1) a Small Industries Guarantee Facility (SIGF) to be managed by the Industrial Finance Corporation of Thailand (IFCT) under which AID will finance guarantees for 50% of the value of loans for small rural industries made by participating banks, a portion of the administrative costs of operating the guarantee facility, and the cost of a review of a sampling of loan borrowers; 2) an Information Services Unit (ISU) in the Ministry of Industries' Department of Industrial Promotion (DIP) which will provide technical and market information to small rural entrepreneurs and for which AID will finance staff, operating expenses, material, travel and per diem, workshops and meetings, equipment and computers, vehicles, and technical assistance; 3) training for rural entrepreneurs which will be administered by the Institute for Management Education in Thailand (IMET) and for which AID will finance staff, operating expenses, overhead, materials, and the costs of the training; 4) technical assistance for rural entrepreneurs which will be provided by the International Executive Service Corps (IESC) and by a Thai Executive Service Corps (TESC) to be set up under and managed by IMET and for which AID will finance staff, operating expenses, overhead, and a portion of volunteer expenses for travel and per diem and in the case of TESC, an honorarium for volunteers; 5) strengthening Rural Business Associations under which AID will finance staff, overhead, travel, per diem, seminars, workshops, training, and vehicles to enable the Association of Thai Industries (ATI) and the Thai Chamber of Commerce (TCC) to strengthen their rural affiliates and expand their services for small industries; 6) Joint Public Private Sector Dialogue for which AID will fund staff, operating expenses, travel and per diem, workshops and seminars to assist the National Economic and Social Development Board (NESDB), the Secretariat of the Joint Public Private Sector Consultative Committee, and the Joint Standing Committee of Trade and Industry to expand and strengthen the dialogue between the public and private sectors in rural areas; 7) policy studies of issues affecting the expansion of rural industries and data collection to support such studies under a program to be coordinated by NESDB and for which AID will fund the cost of the study program; and 8) project evaluation monitoring and coordination for which the project will fund a local consultant for DTEC. The project also includes a contingency fund to support the above project elements and other activities which may be appropriate to attain the project's purpose and goal. These project elements are described below. The description of the project elements is followed by a summary of the project inputs and the expected outputs and achievements of the project (pps 18-20, Table 1).

1) Small Industry Guarantee Facility (SIGF), \$8.3 million

A major constraint to the expansion of small industries is their lack of access to credit from the banking sector. As a result, funds for business expansion must come from the owner's equity, friends and relatives, and money lenders. This results in at best, delays in expansion and it inhibits the chances for successful endeavors because of the high rates of interest such small producers must pay. Bank reluctance to lend to such producers results from bank inexperience in dealing with them, a perception that such lending entails high risks, an unwillingness to lend on the basis of project appraisal, and therefore a high collateral requirement which many small producers are unable to provide.

To alleviate this constraint the project will provide funding to guarantee 50 per cent of loans of \$38,000 (Baht 1 million) or less to industries with less than \$200,000 (Baht 5 million) in net fixed assets which are located outside the greater Bangkok area. Banks, in turn will be required to limit the collateral required for loans qualifying for guarantees to half of that which is now required and to provide term loans with a grace period.

As a result of a review of the operations and results of guarantee facilities in Thailand and in other countries this guarantee facility has been designed to operate in a streamlined fashion in order to minimize the facilities' overhead and the participating banks' administrative costs in availing themselves of the guarantees.

The facility will be managed by the Industrial Finance Corporation of Thailand as a second window to the existing Small Industry Credit Guarantee Fund (SICGF) it already manages. This existing fund is supported by contributions of banks and the RTG and is targetted at larger rural industries and Bangkok industries with less than \$400,000 (Baht 10 million) in net fixed assets.

The operations of the existing SICGF are far more complex than those planned for the second window supported by this project. Among the requirements for the existing guarantee fund are a lengthy application by banks detailing aspects of the project to be supported by its loan; in most cases, an independent review by fund staff of the borrower's project; and deferral of payment in case of default until there is a court order permitting the bank to move against the borrower's collateral. These procedures may be appropriate and practical for guarantees for larger loans in rural areas and for loans in Bangkok where there is ready access to borrowers, but they have inhibited bank interest in the existing facility and they are not practical for guarantees for smaller loans in rural areas because they would entail excessive overhead and administrative costs as well as the delays in approval of guarantees and default payments which are present in the current scheme.

The project supported SIGF will operate quite differently. The guarantee application will be no longer than one page and will primarily consist of a certification by the bank that the sub-loan meets SIGF criteria, the amount of the guarantee and loan, and identification data on the borrower, type, and location of the project. Facility management will not review the borrower's project, instead the project finances an independent review of a sampling of projects after the guarantee has been provided to insure that it complies with SIGF criteria. Banks will be paid the guaranteed amount in the case of defaults at an earlier time, e.g. when the bank moves for a court order against the borrower.

Banks will pay a fee for the guarantee and the charge can be passed along to borrowers. The fee will accrue to the guarantee facility to go toward administrative costs and future defaults. AID funds to support the guarantee facility will be provided through direct letters of commitment to IFCT which will be drawn down only in the case of defaults. New guarantees can be issued for six years under the project but unless IFCT assumes a contingent liability for paying part of the guaranteed amount, the amount of guarantees outstanding cannot exceed the \$8 million the project will provide to back up such guarantees.

Letters of commitment will be reduced as old loans are repaid, and increased as new guarantees are provided. The last letter of commitment will terminate when the last guaranteed loan is repaid. This will be not later than the project's PACD which is ten years after the date the agreement is signed which in turn is approximately four years after the last guarantee is issued. Banks would have to make a minimum of \$16 million in loans to fully utilize the AID financed guarantee facility. A larger amount of loans is also possible because as loans are repaid funds backing the guarantee for the old loans become available to back new guarantees. It is anticipated that it will require approximately 528 loans to fully utilize the guarantees that would be offset by AID's funds because it is assumed that the average value of loans will tend to be near the maximum permitted under the program.

Banks participating in the program will include IFCT and qualifying Thai commercial banks. It is expected that these banks will be identified by the time the project agreement is signed. If they are not, their identification will be a condition precedent to disbursement.

To support the guarantee facility the project will provide AID financing for a portion of the administrative costs of managing the facility and the costs of independent review of a sampling of sub-loans in addition to the \$8 million to back up guarantees. The administrative costs will be paid on a lump sum basis periodically to IFCT based on an AID approved proposal for these costs to be submitted by IFCT. The costs for the independent review will be paid in accordance with a contract IFCT will negotiate and AID will approve.

2) Information Services Unit (ISU), \$1.0 million

In addition to lack of appropriate financing, a major constraint to the growth of rural industries is their lack of access to information. They are relatively isolated by distance, language, culture, and education from the world outside Thailand and to a large extent, from the information available in Bangkok. Although they receive some general information from the mass media, few are readily able to access information relevant to their marketing and technical problems.

A parallel problem is that outside groups with the potential to benefit small enterprises are unaware of the problems of small industries and the opportunities they offer to produce quality goods at attractive prices. Most of the groups have historically interacted exclusively with business in Bangkok and its surrounding provinces. As a result, rural manufacturers miss out on the opportunities to tender bids, subcontract, produce specialty products, purchase better inputs, and receive training and other services.

The project will speed this two-way linkage by supporting the initiation of an Information Services Unit (ISU) in the Department of Industrial Promotion (DIP) of the Ministry of Industries.

The ISU's primary role will be to provide technical and management information through its sector specialists to be located in each region, to those industry groupings (agro-processing, wood and furniture, construction materials, metal working and machinery, ceramics, rubber products, and silk) which are already represented in rural areas, and which have significant potential to grow.

ISU will produce and distribute general information materials on each industry sector, process information requests from individual entrepreneurs on specific interests, and provide data on available services in marketing, technology, training, finance and various functional areas including those services which will be available through the various other elements of this project.

In addition to providing services to entrepreneurs, ISU will also provide information to other groups seeking information on rural industries. This will include information to commercial suppliers and potential customers on the needs and resources of specific industries and industry groupings, and information for policy makers on the problems and status of the various industry sectors on which ISU will focus.

ISU will provide these services through a headquarters unit which will process requests, gather information and disseminate it to the regions, and through a staff of 24 regionally based Sector Analysts who will travel throughout their regions contacting individual manufacturers and groups of manufacturers. These Sector Analysts will be assisted in contacting local entrepreneurs by the Ministry of Industries' provincial

industrial officers in each province. Staff will be mobilized partly by transferring staff from existing divisions and partly by hiring new staff.

The project includes funding for vehicles, office equipment, materials, computers, and limited technical assistance as well as staff salaries and operating expenses.

3) Training for Rural Entrepreneurs, \$1.6 million

Lack of management skills is one of the major constraints to the expansion of small rural industries. To alleviate this constraint this element of the project will provide management training for rural entrepreneurs through short courses designed to expose them to modern management principles and techniques applicable to small rural businesses. The training programs will be managed by IMET which is a non-profit tax exempt foundation supported by AID and by contributions from the private sector and they will be implemented by IMET through the private sector and the business faculty of Thai universities.

Under the project, IMET, after consulting with AID and the managers of the other project components, will determine the location for each training program and its focus. IMET will then call for proposals from the private sector and participating universities to carry out the training, review and approve proposals, fund the training, and monitor and evaluate the training programs. IMET will call for applications for the training and participants will be selected by IMET with input as appropriate from those involved in the other project components. IMET's network of more than 3,000 former trainees is expected to be of considerable assistance in encouraging applications for these training programs.

Under the project AID will finance IMET overhead, increased staff for IMET, operating expenses, the cost of the training programs and their preparation, and workshops and seminars for previous trainees. The project also provides funds to increase the access of the business faculty of regional universities to Bangkok based business and management seminars.

During the period of this project, IMET will continue to raise funds for its other programs by soliciting contributions from the private sector and participants, by charging registration fees for training programs including those which this project finances, and by soliciting support from private businesses who wish their names to be associated with these training programs. Funds so raised from the private sector will be used to support other IMET training activities. The cumulative size of such contributions is expected to enable IMET to be self-sustaining by the end of the project.

4) Technical Assistance for Rural Entrepreneurs, \$700,000

a) Thai Executive Service Corps (TESC), (\$400,000)

Along with improved financing, better information, and management training, many small rural manufacturers would benefit from technical assistance just as larger businesses benefit. However, these rural firms have been reluctant to allow "outsiders" to view their business operations and have been extremely reluctant to pay for any such assistance particularly since in its presently available forms it is often relatively expensive. The Department of Industrial Promotion has had some success in providing this type of assistance to rural firms and will continue such programs but DIP's efforts will continue to be limited by fund availability and staff capability. Instead, small Thai firms would gain greater and more widespread benefits if they had access to and could become comfortable using assistance from the more developed private sector.

The International Executive Service Corps (IESC) has a long history of successfully providing such private sector to private sector assistance through the services of retired American executives for up to three months to larger local firms on a cost sharing basis, and as noted below, IESC will play a role in this project. However, even the moderate costs of an IESC executive volunteer are too high for a small firm to bear and the IESC volunteer's skills are limited by the language barrier. Furthermore, while IESC builds strong links between U.S. and Thai businesses, they do not build the links between small rural firms and the larger Thai firms in and around Bangkok.

Therefore, under this project, AID plans to initiate a local equivalent of IESC, the Thai Executive Service Corps or TESC. TESC will be developed, managed, and implemented by IMET.

One of IMET's more recent programs is a business diagnosis service which brings a team consisting of a university professor, a Bangkok business executive, and usually an IMET Board member, to the business of a leading provincial business person to review the business, diagnose its problems, and recommend solutions. The consultation lasts less than a day and there may or may not be a follow-up. IMET pays the travel costs of the team and an honorarium, and the local business person pays the small local costs.

This limited service grew from the requests for such a service by business people who attended IMET's training programs. It has been successful and accepted by local business people because of their trust in IMET and because of the presence of an academic person in an environment where such people are admired. However, because of the high cost of the service, limited duration of the consultation, and senior position of those involved, it is not likely that this program could have a wide or lasting impact. It has, however, laid the groundwork for the planned program.

TESC will operate under IMET and will provide volunteer technical and managerial assistance to the rural private sector primarily through the Bangkok based private sector. The operations of TESC will be guided by the IMET Board of Directors through the IMET Managing Director. The TESC Project Director will report to the IMET Managing Director and will supervise TESC staff.

TESC clients will receive the following services:

(a) An initial consultation with TESC staff to determine the problem to be addressed;

(b) An initial consultation for up to three days by an industry specialist and a member of a university faculty; and

(c) two additional visits by the industry specialist for up to three days each time.

Subsequent contact is up to the private parties involved in the consultation.

A number of Bangkok businesses have already indicated interest in this program and in supplying salaried staff to assist rural businesses. IMET's business diagnosis experience indicates a willing audience for the service. Clients will come from the large coterie of IMET trainees, business people who hear of IMET through customers of the business diagnosis service, and from referrals by those involved in other elements of the project.

The project will fund increased staff of IMET to manage the program, IMET overhead, materials and supplies, staff travel and per diem and the travel of the industry specialist and faculty member and a small honorarium for each. The employers of the faculty members and industry specialists will pay their salaries and the client will pay their food and lodging. In the last two years of this project component, the client will be expected to pay a portion of the travel expenses also.

b) International Executive Service Corps, (\$300,000)

While small rural businesses will benefit from TESC and the services of Bangkok based business people for limited periods that it will provide, larger rural businesses which can generate considerable rural employment and sector agglomerations of small rural businesses do often have problems which require the services of a person experienced in related modern businesses for assignments of up to 3 months in duration. Under the project, IESC with its 21 years of experience in Thailand, and extensive network of recruiters and volunteer executives will be tapped to provide and manage these services. Clients for IESC's services will be identified by IESC and by those involved in other elements of the

project such as DIP's ISU sector analysts, IMET, and IFCT and commercial banks. IESC has already identified a number of such clients which it lacks current funding to serve despite partial financial support from the identified clients.

The project will fund a portion of the direct cost of IESC volunteers for approximately 60 assignments to assist rural industries over the life of the project. AID's sharing of such costs is expected to average \$5,000 for each assignment. The client will pay the remaining direct costs which are estimated to average \$8,800. IESC will fund their overhead for this effort, primarily from funds provided under a grant administered by AID's Bureau for Private Enterprise.

5) Strengthening Rural Business Associations, \$500,000

Individually, small rural industries have little strength to influence local and national policies and procedures, however, if they join together they have the potential to work for their own good. Two private sector business associations predominate in playing this role for the private sector, the Thai Chamber of Commerce (TCC) and the Association of Thai Industries (ATI). Representation in both associations is heavily weighted toward larger Bangkok area based businesses. Both, however, have become more active in the past few years in expanding a network of related rural associations.

The Thai Chamber of Commerce, which in many rural areas in particular has members from both the industrial and commercial sectors, is attempting to establish local chambers in each province. The Chamber has been quite successful in this effort. In 1984 there were 7 rural chambers of commerce. By 1986 there were 64 such chambers. The Association of Thai Industries focuses primarily on industry and because of this narrower membership base has focused on the establishment of local industry associations in areas with relatively large industry concentrations and on the creation of various specialized industry clubs. ATI now has 6 up-country branches (in Pathum Thani, Samut Prakarn, Khon Kaen, Nakhon Sawan, Chiang Mai, and Songkhla). It plans to establish three new affiliates in 1987 and an additional seven affiliates in 1988. For the most part both TCC's and ATI's rural business associations represent the larger and more powerful businesses in their areas.

This element of the Rural Industries project will be managed by ATI and TCC and will fund staff and operating expenses to strengthen these rural business associations and broaden their programs to work with small rural industries and will help in establishing new rural industry associations in at least ten rural areas.

Under the program with the Thai Chamber of Commerce, five field staff will be hired to assist rural chambers of commerce to expand their small industry membership base and to assist small industries to gain access to markets and technology and to prepare projects for bank

financing. These field staff will be supervised and given technical guidance by TCC's Bangkok headquarters.

Under a similar though broader program with ATI, six field operation officers and a managing supervisor will be hired and trained at ATI and rotated through ATI's rural affiliates to assist them in getting established and developing service programs for their members. Field officers will be supervised by a managing field supervisor who will be under the supervision of the Deputy Executive Director of ATI.

The project provides funding for salaries, per diem and travel, materials, motorcycles (4), and overhead.

6) Joint Public/Private Sector Dialogue, \$300,000

Historically, the relationship between the Thai government and the private sector has been at best uneven. In varying intensity the government viewed the private sector as a necessary evil to be controlled while the private sector viewed the government as the source of unnecessary and ill advised constraint. More recently this attitude has changed a great deal at least at the upper levels of the government structure and among the more prominent private sector organizations. Instead of continual confrontation there is often cooperation in exploring the issues jointly affecting these sectors. Unfortunately this progressive relationship is not reflected throughout Thailand's rural provinces.

Considerable inputs to this constructive dialogue have been provided by the Joint Public Private Sector Consultative Committee (JPPCC) whose work has been supported in part by USAID's Private Sector Development Project (493-0329). This Committee is composed of the economic ministers of the government and representatives of the Thai Banker's Association, the Board of Trade, TCC, and ATI. It meets regularly to explore and resolve common concerns and is staffed by a Secretariat in NESDB and to a lesser extent by the Joint Standing Committee of the private sector members.

For various reasons, much of the Committee's work has been focused on the concerns of its Bangkok based membership. In the past two years, however, three regional JPPCC meetings have been held with the support of USAID's project, and the NESDB Secretariat has initiated action to establish regional and provincial joint public/private secretariats. The purpose of establishing such secretariats is to extend government and private sector cooperation throughout the country thereby giving smaller rural businesses a voice and opportunity to solve problems at the local level or raise them for resolution at the national level.

This rural cooperative policy dialogue effort is still in a fledgling status and this component of the project is designed to help to strengthen and institutionalize it, thereby alleviating constraints on the expansion of rural industries.

This project component will be implemented by NESDB and includes funding for staff, in-country training, travel, workshops, seminars, data gathering, equipment, and related activities.

7. Policy Studies, (\$1 million)

In order to improve the prospects for the growth of rural industries overall, the project will provide funds for a coordinated study program designed to learn more about the nature of the various layers of rural industries, to analyze issues significant to their expansion, and to recommend policies and future programs which would lead to this expansion. This study program will be implemented under the auspices of NESDB and the work under the program will be carried out through technical assistance provided by a U.S. firm. Much of the research to support the studies will be performed by Thai experts. Illustrative of the studies to be undertaken are the following:

- a) Cost and Risk of Lending to Small Rural Industries;
 - b) The Role of Micro-Enterprise in Development;
 - c) The Role of Local Government in Small Industry Development;
 - d) Participation Finance in Thailand;
 - e) Feasibility of Producing Electricity from Sugar Cane Residue.
- 8) Evaluation, Coordination, and Contingency (\$700,000)

This project component provides funding for evaluations of the project (\$400,000), for a financial systems review and annual non-federal financial audits of IMET (\$40,000), for 29 months of Thai technical assistance to DTEC to assist in coordinating the project's components (\$60,000) and for contingencies related to the above project components or other activities appropriate to the promotion of rural industries and employment (\$200,000).

III. Cost Elements and Financial Plan

A. The following tables and their supporting notes provide information on project costs and their source, costs related to outputs, and the projection of expenditures by years.

B. Cost Derivation

The costs provided in Table 2 were estimated as follows:

C. Inputs and Achievements:

TABLE 1

ELEMENT	INPUTS	FUNDING 1/ (\$000)		ACHIEVEMENTS
		AID	NON AID	
1. Small Industry Guarantee Facility (SIGF) (\$8.3million - AID, \$16.57 million non-AID)	1.a. Loan guarantees	8,000	-	- 528 loans for expansion (start-up of small rural industries) - 2,500 jobs created directly - 2,500 jobs created indirectly - Sustained increased lending for small rural industries
	1.b. Administrative expenses	240	570	
	1.c. Contract-post guarantee compliance review	60	-	
	1.d. Loans	-	16,000	
2. Information Services Unit (\$1.0 million - AID, \$524,000 non-AID)	2.a. Capital costs			By the End of three years: - Provision of information materials on industry trends and opportunities to 6,000 rural entrepreneurs and others - 10,000 site visits and consultations with rural entrepreneurs - Processing of 12,000 information requests - Provision of information on rural Industries to policy makers, Bangkok entrepreneurs, etc. - Establishment of an ISU in DIP supported by the Ministry of Industries
	i. vehicles (12)	156	-	
	ii. office equipment	58	-	
	iii. office furniture	-	19	
	2.b. Staff salaries	101	165	
	2.c. Staff travel and per diem	156	105	
	2.d. Consultant costs			
	i. Management Info. Sys.	10	-	
	ii. Local	148	-	
iii. Senior Advisor	186	21		
2.e. Seminars and workshops	84	12		
2.f. Operating expenses	27 ^{2/}	164 ^{3/}		
2.g. Contingency	74	38		
3. Training for Rural Entrepreneurs (\$1.6 million - AID, \$125,000 - non-AID)	3.a. Staff salaries, benefits, travel and per diem (Project Director, Evaluation officer, Secretary)	293	-	During the Six year life of this project element: - 350 leading provincial business people trained - 1,250 district level business people trained - 1,600 rural business people trained in small business management - regional university faculty trained or participate in management related seminars (some will be repeats) - IMET established as on-going self-sustaining private sector management training institute.
	3.b. Training for Leading Provincial Business People	416	-	
	3.c. Small Business Management Training	139	-	
	3.d. Training for District Level Business people	610	-	
	3.e. Training and seminar/workshop support for regional university faculty/IMET alumni	30	30	
	3.f. Overhead	68 ^{4/}	143 ^{5/}	
	3.g. Contingency	44 ^{4/}		

C. Inputs and Achievements: (Cont'd)

ELEMENT	INPUTS	FUNDING 1/ (\$000)		ACHIEVEMENTS
		AID	NON AID	
4. Technical Assistance for Rural Entrepreneurs	4.a.i. Staff salaries, benefits, travel + per diem (Project Director, Project officer, Executive Asst., Accountant)	293	-	- Thai Executive Service Corps institutionalized and operating to provide private sector technical assistance to 100 clients/year.
a. IESC (\$400,000 AID, \$274,000 non-AID)	4.a.ii. Volunteer Support Honorarium + travel Salary Food + lodging	95 - - -	- 201 73	- Technical Assistance provided by the Thai private sector to 320 clients during 6 year life of this project element.
	4.a.iii. Materials and supplies	12	-	
b. IESC (\$300,000 AID project support, \$528,000 non-AID)	4.b. Financial support for U.S. technical assistance to rural industries	300	528	- 180 person months of technical assistance provided to approximately 60 rural industry clients over the life of the project. Based on IESC experience, this is expected to result in the creation of 1,800 jobs.
5. Strengthening Rural Business Associations	5.a.i. Field staff salaries, benefits and travel	206	-	- Permanent staff hired by five rural chambers of commerce,
a. Thai Chamber of Commerce (\$250,000 AID, \$84,000 non-AID)	5.a.ii. Overhead and headquarters supervision	44	-	- small industry membership in rural chambers expanded,
	5.a.iii. ICC supporting activities	-	84	- assistance provided by rural chambers to small industries to prepare business plans and apply for loans from banks.
b. Association of Thai Industries (\$250,000 AID, \$141,000 non-AID)	5.b.i. Staff salaries, benefits, travel, and per diem (1 supervisor, 6 field officers)	217.5	-	- 10 new rural ATI affiliates established by 1989
	5.b.ii. Vehicles (4 motorcycles)	4	-	- All ATI affiliates establishing programs to support small rural industries
	5.b.iii. Materials and supplies	2.5	-	
	5.b.iv. Contingency	26	-	
	5.b.v. ATI Support			
	1. Cash	-	52	
	2. In kind	-	89	
6. Joint Public Private Sector Dialogue (\$300,000 AID, \$75,000 non-AID)	Operating expenses (staff support) travel and per diem, materials, seminars and workshops, training	300	75	JPPCC Secretariat established and operating in four regions and 10 provinces.

C. Inputs and Achievements: (Cont'd)

ELEMENT	INPUTS	FUNDING 1/ (\$000)		ACHIEVEMENTS
		AID	NON AID	
7. Policy Studies (\$1 million AID, \$250,000 non-AID)	Technical Assistance to coordinate and carry out a planned program of studies	1,000	250	Approximately five studies of issues affecting the expansion of rural industries.
8. Evaluation	Technical Assistance to carry out baseline studies and evaluations	400	100	Two mid term evaluations and a final impact evaluation.
9. Contingency <u>6/</u>	UNK	300	0	
TOTAL PROJECT		14,100	18,719	

1/ Baht expenditures are converted to \$ at rate of 26.4 Baht = \$1.

2/ Information, Education, and Communications Materials.

3/ Office Supplies, postage, utilities, vehicle O + M, field office rental, DIP and MOI staff support, misc. overhead.

4/ Includes overhead and contingency for Thai Executive Service Corps.

5/ Includes the value of IMET office space which at commercial rates = \$48,000 for 6 years of rent.

6/ Includes \$40,000 for financial systems review and annual non-federal financial audits of IMET, and \$60,000 for a Thai consultant to assist DIEC for 29 months to coordinate project components.

Table 2
Summary Cost Estimate and Financial Plan
(U.S. 000)

Source/Use	AID		Host ^{1/} Country	Private ^{1/} Sector	Total
	FX	LC			
<u>1. SIGF:</u>					
A. Loan guarantees	-	8,000	-	-	8,000
B. Admin. expenses	-	240	-	570 ^{2/}	810
C. Compliance contract	-	60	-	-	60
D. Loans	-	-	-	16,000	16,000
<u>2. ISU:</u>					
A. Capital costs	156	58	19	-	233
B. Staff salaries	-	101	165	-	266
C. Staff travel and per diem	-	156	105	-	261
D. Consultants	186	158	21	-	365
E. Seminars/Workshops	-	84	12	-	96
F. OE	-	27	164	-	191
G. Contingency	-	74	38	-	112
<u>3. Training for Rural Entrepreneurs:</u>					
A. Staff salaries, travel and per diem	-	293	-	-	293
B. Training	-	1,165	-	-	1,165
C. Seminars/Workshops	-	30	-	30	60
D. Overhead	-	68	-	143	211
E. Contingency	-	44	-	-	44
<u>4. Technical Assistance for Rural Entrepreneurs:</u>					
A. Staff salaries, benefits, travel and per diem	-	293	-	-	293
B. Volunteer support	300	95	-	802	1,197
C. Materials and supplies	-	12	-	-	12
<u>5. Strengthening Rural Business Associations</u>					
A. Staff salaries, benefits, travel and per diem	-	423.5	-	-	423.5
B. Overhead	-	44	-	-	44
C. Vehicles	-	4	-	-	4
D. Materials and supplies	-	2.5	-	-	2.5
E. Contingency	-	26	-	-	26
F. TCC support (Cash)	-	-	-	84	84
G. ATI support -					
Cash	-	-	-	52	52
Kind	-	-	-	89	89
<u>6. Joint Public/Private Sector Dialogue:</u>					
Staff salaries, travel and per diem, materials, seminars, training, and workshops	-	300	25	50	375
<u>7. Policy Studies:</u>					
Technical assistance and study cost	250	750	250	-	1,250
<u>8. Evaluation</u>					
Technical Assistance	300	100	100	-	500
<u>9. Contingency</u>					
	150	150	-	-	300
<u>Total:</u>	1,350	12,750	899	17,820	32,819

^{1/} All host country and private sector costs are estimated to be local costs.

^{2/} Generated from guarantee fees, to be used for administrative expenses and default payments.

1. SIGF:

The amount for loan guarantees is the amount AID will make available. The amount for loans is the amount that would have to be loaned to fully utilize the amount available for guarantees. AID funded administrative costs are estimated at \$40,000/yr for six years. Private sector administrative costs represent 1.5% per year of the amount of guarantees projected to be outstanding in each year which is the fee banks would pay for guarantees. This is estimated to cover administrative costs during years 7 - 10 of maintaining the accounts on the guarantee fund and a certain amount of defaults. Administrative costs during these years are estimated at \$20,000/yr. The costs of the compliance contract are that amount estimated to be required for a contract to review 58 guaranteed loans - 10% of the loans expected. This estimate is derived from costs of a current similar contract related to PVO financial reviews.

2. ISU:

These costs are described in the proposal for ISU support prepared by DIP with the assistance of an AID-funded consultant. This proposal is available in O/PERE.

The foreign exchange cost is based on an expectation of hiring a resident expatriate for 2 - 3 years as a senior advisor to DIP under a HCC for personal services.

3. Training for Rural Entrepreneurs:

Staff costs and overhead are noted in the Appendix to Annex F's Financial Analysis and are based on current prevailing costs. Costs for training are based on IMET's experience to date with similar training programs and are reflected in IMET's strategic plan which is available in O/PERE.

4. T.A. for Rural Entrepreneurs

The detailed budget for the Thai Executive Service Corps is provided in the Appendix to Annex F's financial analysis. The AID and private sector's costs for IESC's volunteer program are based on IESC's costs for the past year for direct volunteer costs and on the average contribution by clients for such volunteers during this period.

5. Strengthening Rural Business Associations

The costs for the TCC component of this element are detailed in the Appendix to Annex F's financial plan. The costs for ATI's component are contained in USAID's description and analysis of this component which is available in O/PERE.

6. Joint Public Private Sector Dialogue

The amount of AID's contribution is based on experience with similar activities funded under the Private Sector in Development Project and a recognition that these activities would be expanded under this project to cover many rural areas. Specific funding requirements will be identified in annual financial plans. The private sector and host country contributions are essentially in-kind contributions reflecting NESDB and provincial government costs in housing and supporting JPPCC secretariats, and private sector costs of participation in the secretariats and their activities. The amount of this non-AID contribution is probably understated.

7. Policy Studies

AID's contribution is estimated on the basis of five studies, averaging \$200,000 each. These costs include an estimated requirement for 12 person months of expatriate assistance and support to design, supervise, and synthesize studies.

8. Evaluation:

Evaluation costs are estimated on the basis of three evaluations. The first two "mid-term" evaluations are expected to require five expatriate person months of assistance at an average cost of \$20,000/month. The final impact evaluation is expected to require eight months of expatriate technical assistance at an average cost of \$25,000/month. In addition, these evaluations are expected to utilize 75 months of local technical assistance at a cost of Baht 35,000/month (\$1,326/month).

9. Contingency:^{1/}

For some elements contingency funds are included in the budget for that element. In addition, an overall contingency amount of \$300,000 or 2% of project costs is included. Total contingency amounts from AID funds equal \$444,000 which is 3% of project costs. This contingency level is appropriate for a project in which all capital costs will be incurred early in the project, no construction is involved, and 57% of the project (the guarantee amount) does not require contingencies.

C. Costing of Project Outputs and Inputs

In many project papers this section consists of a table showing the costs of project inputs compared to each project output. In this project paper this information is provided in Table 1.

D. Projection of Expenditures by Fiscal Year

These projections are shown in Table 3. The projected expenditures do not equal the total of obligated funds because it is not expected that all funds obligated to support the guarantee facility will be required to be expended for defaults on loans supported by the guarantee facility. This unusual situation was anticipated and approved in the PID approval cable, STATE (1986) 180611.

IV. Implementation Plan:

A. Framework

This project has eight components, and involves eight implementing agencies in addition to USAID. Funds will be provided for the project through four separate project or grant agreements. The project components, major implementing agencies, and parties to the agreements for each project component are noted in Table 4. The basic design of the project provides for each project component to be implemented separately, however, a committee will be established and chaired by NESDB which will meet quarterly to insure appropriate information exchange between the components of the project. The committee will consist of a representative of each component of the project, USAID, and a project funded Thai consultant who will serve as the committee's secretariat. Thus, the committee will have approximately ten members.

^{1/} \$100,000 of this overall contingency amount has already been identified as being required for a financial systems review and non-federal financial audits of IMET (\$40,000), and Thai technical assistance to NESDB to coordinate project components (\$60,000).

Table 3

Projection of Expenditures by Fiscal Year ^{1/}
(U.S. \$000)

<u>Fiscal Year</u>	<u>AID</u>	<u>Host Country</u>	<u>Private Sector</u>	<u>Total</u>
87	1,205	261	1,268	2,734
88	1,274	262	2,271	3,807
89	1,352	288	3,314	4,954
90	898	4	4,171	5,073
91	925	4	4,219	5,148
92	991	30	2,262	3,283
93	80	-	140	220
94	-	-	70	70
95	10	-	60	70
96	225	50	45	320
<u>Total:</u>	6,960	899	17,820	25,679

B. Procedures

1. SIGF

IFCT, and specifically the staff of IFCT's Small Industry Credit Guarantee Fund (SICGF) will serve as custodian of the SIGF. SIGF/SICGF staff will receive policy guidance from the Board of Directors of the SICGF. After IFCT satisfies conditions precedent to disbursement of AID's grant, IFCT will request that AID issue a Direct Letter of Commitment to IFCT for a portion of the funds AID makes available for supporting guarantees. The L/COMM will be amended to match planned guarantees.

IFCT will publicize the availability of the guarantee facility, review requests from participating banks for guarantees for loans that meet agreed criteria, and provide the guarantees. If a borrower defaults on a loan the lending bank will apply to the courts to permit the bank to seize the borrower's collateral. The bank will provide evidence of default and initiation of court action to IFCT and IFCT will pay the bank the amount of the outstanding guarantee and IFCT will be paid this amount under the Letter of Commitment. (However, IFCT will seek payment under the Letter of Commitment only when it has exhausted other funds which are available to IFCT to pay defaults. These other funds are the amounts generated by the payment of guarantee fees by the banks.)

^{1/} Inflation and contingency are included in the annual expenditure projections.

If the court subsequently does not find in favor of the bank or the bank withdraws the court action, or the borrower repays the loans, the bank must repay IFCT the guarantee payment. Such repayments will be paid to AID and will remain available during the first six years of the project to offset new guarantees.

IFCT is not required under this project to review the borrower, rather IFCT reviews the application submitted by the bank. However, to insure compliance with the criteria for eligible borrowers and loans, IFCT will contract with an independent firm to make such a post-guarantee review of a sampling of loans. The criteria for subloans, projects, banks that participate, the terms of reference for the independent review, and the language of the guarantee agreement must be acceptable to AID.

Table 4

Project Elements and Implementing Agencies

<u>Element</u>	<u>Implementing Agencies</u>	<u>Parties to Project Agreement</u> ^{1/}
1. Small Industries Guarantee Facility	IFCT	AID and IFCT
2. Information Services Unit	DIP, Ministry of Industries	AID and DTEC
3. Training for Rural Entrepreneurs	IMET	AID and IMET
4. Technical Assistance for Rural Entrepreneurs:		
A. TESC	IMET	AID and IMET
B. IESC	IESC	AID and IESC
5. Strengthening Rural Business Associations	ATI, TCC	AID and DTEC
6. Joint Public Private Sector Dialogue	NESDB	AID and DTEC
7. Policy Studies	NESDB	AID and DTEC
8. Evaluation	DTEC and AID	AID and DTEC

^{1/} In toto there are four project agreements, one between AID and DTEC, one between AID and IFCT, one between AID and IESC, and one between AID and IMET.

To support IFCT's administration of the guarantee facility AID will finance administrative costs including such related costs as workshops and training.

AID funds will be available to support administrative costs and guarantees made during the first six years of the project. If at the end of six years outstanding guarantees are less in value than the amount in the Letter of Commitment, the L/COMM will be reduced to the value of the outstanding guarantees. Subsequently, as loans are repaid and guarantees reduced, the L/COMM will also be reduced. It is expected that these excess funds will be deobligated. The L/COMM will expire at the PACD of the project. This is expected to be 10 years after the date the agreement is signed.

2. Information Services Unit

The Department of Industrial Promotion will manage this project through a project manager to be appointed. DIP will provide office space for project staff and, with the Ministry of Industries, will assign existing staff and hire new staff to fill the project's professional and clerical staff requirements. Following satisfaction of conditions precedent to disbursement for this project component AID will fund expenses connected with the project in accordance with instructions provided in project implementation letters, at the request of DIP through DTEC. Project commodities and technical assistance will be procured by DTEC. ISU programs will be directed at small rural industries.

Conditions precedent will include a requirement that DIP present detailed financial plans and an implementation schedule for each of the years in the three year life of this project component. A detailed plan for the first year of the project is already being prepared by DIP.

3. Training for Rural Entrepreneurs

AID's grant to IMET will identify the training activities and administrative support that the grant will finance as well as the broad criteria for eligible trainees and other conditions of grant use. AID will advance funds to IMET periodically to finance projected training and administrative costs. IMET will determine the broad outline of training programs and the general location of training programs and will solicit proposals from the private sector and the business faculties of Thai universities to carry out these programs. IMET will review these proposals, require modifications as appropriate, approve proposals, fund the training, and evaluate the impact of the training. Periodically IMET will report to USAID the progress of training and its impact.

The training programs carried out under this component of the project are expected to be held in hotel conference rooms as well as other locations such as RTG conference facilities. The project will finance the full costs of such training including, if IMET determines it

appropriate, the cost of room and board of trainees at a rate not to exceed the per diem rate for AID's staff. IMET, however, may set a registration fee for participants, encourage voluntary contributions from trainees for IMET's programs, and solicit contributions from private sector IMET sponsors whose names may be associated with the project funded training. Any such contributions will accrue to IMET to support the costs of non-project IMET activities. This support is intended to help IMET to become self-sufficient by the end of the six year period of this project component.

Under this activity AID will also advance funds for the cost of organizing and implementing programs to organize seminars and workshops for IMET alumni and programs to enable the faculty of regional universities to participate in management seminars and workshops. The content and location of, and participants attending such activities will be determined by IMET.

IMET will be responsible for the selection of participants in training programs and alumni and faculty activities. In determining such participants IMET will solicit suggestions from business faculties, former participants, local business associations and government agencies, and representatives of the other components of this project. Such trainees must come from small rural industries.

To support this project component IMET will hire on a full time basis a project director, an evaluation officer, and if necessary, a secretary. The project will finance the salary, benefits, and travel and per diem costs of such staff, however, IMET will finance or provide office space and supplies for this staff to the extent that this support as well as general overhead support exceeds Baht 25,000/month. The project will finance the first Baht 25,000 of such overhead costs in lieu of a fee to IMET for carrying out this program.

4. Technical Assistance for Rural Entrepreneurs

This project element includes two activities, the establishment and activities of a Thai Executive Service Corps (TESC) to be organized and administered by IMET, and the provision of technical assistance through the International Executive Service Corps (IESC).

a) TESC

TESC is a new program for Thailand which will be implemented by IMET. Under this program volunteer Thai executives and technicians and Thai business faculty will assist small rural industries to solve management, financial, and marketing problems constraining the expansion or profitability of their businesses. To carry out this program IMET will solicit requests from small rural businesses for assistance, solicit support from universities and the private sector to provide such assistance, match support with needs, organize the assistance program and monitor its impact. In soliciting requests from rural businesses for

assistance IMET will be responsive to proposals from representatives of other components of this project as well as its network of former trainees.

To support this program IMET will hire a project director, an executive assistant, a project officer, and an accountant at the time and to the extent these are required.

AID will advance funds periodically, as required to finance assistance, staff, and materials. The salaries of volunteers providing the assistance will be provided by their employer, the local costs of food and lodging will be provided by clients, and the cost of office space for IMET staff will be provided by IMET.

b) IESC

AID's grant agreement with IESC will provide that AID's funds are to be used to finance a portion of the direct costs of volunteer U.S. executives to assist rural Thai business or Thai businesses whose expansion or start up will lead to the direct creation of jobs outside the greater Bangkok area, and that AID's project cost of volunteers will average approximately \$1,667 per month of volunteer services over the three year life of this project component. IESC will be responsible for the selection of clients and volunteers and the implementation of all aspects of this component of the project. USAID will advance funds to IESC for IESC's estimated quarterly requirements of USAID's share in this program. IESC will report to USAID monthly on the progress of this project component. Such reports will identify clients, volunteers, and costs by source. In identifying clients IESC will utilize its own sources and information provided by those involved in the other components of this project including IMET, IFCT, banks, DIP, TCC, and ATI. To assist in identifying clients IESC will form an advisory council consisting of representatives of these organizations and any others of IESC's choosing. It is expected that under this project component IESC volunteers will assist at least 60 clients.

5. Strengthening Rural Business Associations

This project component provides assistance to the Thai Chamber of Commerce and the Association of Thai Industries and through these organizations to rural chambers of commerce and the affiliates of ATI outside the greater Bangkok area. To carry out this program each organization will hire the staff which the project will fund to assist rural business associations to expand their programs for small industries and to strengthen their organizations. AID will finance either the overhead costs of TCC in administering this program or additional staff necessary to provide field staff with guidance and supervision. AID will also finance additional ATI staff to organize services, and support rural affiliates and four motorcycles which will be procured locally to make mobile such rural staff. In addition, the project will finance staff travel costs, staff training, and seminars and workshops. Prior to the disbursement of funds

for initial and subsequent years of the program each organization will provide an annual financial and implementation plan for project financed activities which will identify the activities to be undertaken including the funding for these activities from both USAID and the relevant business association. USAID will advance funds for these programs directly to each association on the request to USAID of that association's authorized representative. Copies of such requests, financial and implementation plans, and USAID's correspondence will be provided to DTEC. Vehicles will be procured by ATI. USAID will approve the scope of work for project funded ATI and TCC staff and such staff will be selected competitively but the selection of staff will be determined by each association. Salaries and benefits for staff will comply with the policies of each organization.

Each organization will provide quarterly reports to USAID and DTEC identifying progress against annual plan targets and expenditure of USAID's and the association's funds.

6. Joint Public Private Sector Dialogue

Under this project element the project will finance staff, operating expenses, travel and per diem and workshops and seminars designed to increase the public and private sector dialogue and cooperation predominantly in areas of Thailand outside the greater Bangkok area. This project component will be administered by NESDB which will make requests directly to USAID for advances or reimbursement of such activities as may be agreed to by USAID and NESDB. Copies of such requests and USAID's response will be provided to DTEC.

Prior to the initial disbursement for this activity and to disbursement for subsequent year's activities NESDB will provide a financial and implementation plan to USAID and DTEC for the following year's activities identifying planned activities, their cost, and the source of funding. NESDB will provide quarterly reports to USAID and DTEC identifying progress in reaching planned annual project targets.

7. Policy Studies

The project will finance a series of studies related to the alleviation of constraints on the expansion of rural industries or activities which will lead to the expansion of rural employment through industrial development. USAID will contract with a U.S. firm to develop the terms of reference for such studies, to subcontract with local individuals or organizations to carry out such studies, to coordinate the study program and to edit the reports of such studies. It is anticipated that NESDB, USAID, and appropriate Thai ministries will jointly agree on the study topics and their terms of reference and that the overall study program will be carried out under the auspices and direction of NESDB. The project funded Thai consultant who will assist NESDB in coordinating project components and who will serve as the project committee's secretariat will also assist NESDB in liaising with the U.S. firm coordinating the

studies. The contract for this effort is expected to be a level of effort type contract which provides for project buy-ins. Under this contract, the contractor will be guaranteed a payment for an initial level of effort and the contract will be amended to add additional funding based on pre-negotiated rates as each study under the contract is approved by USAID and NESDB.

8. Evaluation

Technical assistance to provide mid term and final evaluations of the project will be provided under an AID direct contract with a U.S. firm in accordance with the evaluation plan noted in Section VIII of this project paper.

9. Contingencies

The allocation of overall project contingency funds in excess of those required for the financial systems review and annual IMET audits, and the project coordinator consultant for DTEC will be determined jointly by DTEC and USAID.

C. Implementation Schedule and Responsibilities

Figure 1 indicates the estimated timing for project implementation activities and the organizations with major responsibility for carrying out such activities.

V. Monitoring Plan:

This is a complex project because it includes seven components in addition to evaluation, and eight implementing agencies. This complexity will add to the monitoring workload on AID staff and therefore, where appropriate, technical assistance has been included in the project in part to facilitate monitoring. Two aspects of the project balance this complexity and will result in AID's overall project management responsibility being only moderately staff intensive. These aspects are that each project component can be managed for the most part independently of the other project components, and therefore inter-agency coordination is necessary only to exchange information and assist in implementation, and that the project requires only a small amount of equipment procurement.

The nature and timing of the project workload and primary monitoring systems and responsibilities are:

1. SIGF

This component will require substantial initial AID staff involvement including assistance from the RLA and O/FIN to insure that various documents and systems that must be developed meet AID's requirements

Figure 1 - Implementation Schedule and Responsibilities

Activity	Responsible Authority									Schedule	(Fiscal Years)																			
											1987				1988				1989				1990 to 1992				1993 to 1996			
	AID	DTEC	IFCT	DIP	IMET	IESC	TCC	ATI	NESDB		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
1. <u>SIGF</u>	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
a) Satisfaction of C.P.'s	-	-	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
b) Provision of Loan Guarantee	-	-	X	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X					
c) Issuance of L/COMMS	X	-	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X					
d) Contract for Loan Review	-	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
e) Anticipated Defaults	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X					
f) Payment of Admin Costs	X	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X					
2. <u>ISU</u>	-	X	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
a) Satisfaction of C.P.'s	-	X	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
b) Appoint Project Manager	-	-	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
c) Prepare Overall and 1st Yr. Plan	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
d) Approve Workplan	X	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
e) Develop TORs for DIP Staff	-	-	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
f) Develop TORs for Senior Advisor	-	-	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
g) Advertise for Senior Advisor	X	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
h) Select Senior Advisor	-	X	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
i) Contract for Senior Advisor	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
j) Approve Contract	X	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
k) Select DIP Staff	-	-	-	X	-	-	-	-	-	-	X	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
l) Prepare Equipment Specs.	-	X	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
m) Develop TORs for Local/ MIS Consultants	-	-	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
n) Select Local Consultants	-	-	-	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
o) Contract Local Consultants	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
p) Contract MIS Consultants	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
q) Set-up ISU Offices	-	-	-	X	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
r) Procure Computer Equipment	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
s) Procure Office Equipment	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
t) Produce ISU Brochure	-	-	-	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
u) Produce Industry Surveys	-	-	-	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
v) Develop Entrepreneur Info Needs Questionnaire	-	-	-	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
w) Orientation Seminar	-	-	-	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-					
x) Provide Industrial Officer Workshops	-	-	-	X	-	-	-	-	-	-	-	X	X	-	-	-	-	-	-	-	-	-	-	-	-					
y) Initiate Field Work	-	-	-	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
z) Produce 2nd Year Plan	-	-	-	X	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
aa) Approve 2nd Year Plan	X	X	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
bb) 2nd and 3rd ISU Seminars and PIO Workshops-	-	-	-	X	-	-	-	-	-	-	-	-	-	X	-	-	-	X	-	-	-	-	-	-	-					
cc) Procure Project Vehicles	-	X	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-					
dd) Termination of USAID Assistance	X	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	X	-	-	-	-	-	-	-					

Figure 1 - Implementation Schedule and Responsibilities (Cont'd)

Activity	Responsible Authority									Schedule	(Fiscal years)																			
											1987				1988				1989				1990 to 1992				1993 to 1996			
	AID	DTEC	IFCT	DIP	IMET	IESC	TCC	ATI	NESDB		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
6. <u>Joint Public/Private Dialogue</u>	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
a) Annual financial plan developed	-	-	-	-	-	-	-	-	X	X	-	-	X	-	-	-	X	-	-	-	X	-	-	-	X	-	-	-	-	
b) Annual plan approved	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
c) Hire staff	-	-	-	-	-	-	-	-	X	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
d) Field programs	-	-	-	-	-	-	-	-	X	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
e) Completion of USAID assistance	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	
7. <u>Policy Studies</u>	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
a) Develop TORs for General Contractor	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
b) Approve TORs	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
c) Publish RFP	X	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
d) Select consultant	X	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
e) Negotiate contract	X	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
f) Implement studies	-	-	-	-	-	-	-	-	(Consultant)	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
g) Completion of USAID assistance	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	
8. <u>Evaluation</u>																														
a) Determine TORs (general)	X	X	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
b) Publish RFP	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	
c) Select consultant	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	
d) Negotiate contract	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
e) Determine eval. plan									(consultant with others above)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1) Mid term eval.									(consultant, DTEC, AID)	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	
2) Mid term eval.									(consultant, DTEC, AID)	-	-	-	-	-	-	-	-	-	-	-	-	1992	X	-	-	-	-	-	-	
3) Impact eval.									(consultant, DTEC, AID)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1996	X	-	-	
9. <u>Monitoring and Coordination</u>																														
a) Financial systems review (IMET)	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
b) Selection of DTEC coordinator	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
c) Completion of funding for systems coord.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-	-	-	-	-	-	-	-	

and thus satisfy C.P.'s. These documents or systems include the financial arrangements between AID and IFCT, the terms of the guarantee between IFCT and banks, and IFCT's financial system for managing the guarantee fund. Once past this initial stage the requirement for AID staff input should be minimal. Monitoring will consist of reviewing IFCT's quarterly facility management reports, reviewing with IFCT the reports of the contractor carrying out post guarantee reviews, and occasional site visits in conjunction with other field trip activities to gain a direct impression of this project component's impact. Such site visits will include visits to bank branches to determine their awareness of, and marketing for, the guarantee facility.

2. ISU

This project component is more complex than the SIGF activity as far as the requirement for USAID project officer involvement because the component includes procurement of equipment and technical assistance. The bulk of the workload will occur in the first nine months of the project. To alleviate this workload to some extent, USAID has hired a consultant to work with DIP for three months to prepare for actions noted as occurring in the first three months of project implementation.

Project monitoring will be done through reviews of various procurement documents, quarterly reports from DIP and DTEC, PIRs, and site visits to the different regions of Thailand. The project officer will develop a schedule for regular site visits over the three year life of this project component. These are expected to take place at least once a quarter.

3. Training for Rural Entrepreneurs

The workload to manage this project component is expected to be light based on USAID's experience with IMET in a similar program in the past, the fact that minimal USAID approvals are required, and the fact that no technical assistance or equipment will be procured. Project monitoring will consist primarily of site visits to selected training activities and review of quarterly progress reports.

4. Technical Assistance for Rural Entrepreneurs

Similarly to the training for rural entrepreneurs component, this component is expected to generate a light workload for USAID staff because few AID approvals are required, there is no contract procured technical assistance to manage the component, there is no project financed equipment, and both implementing agencies (IESC and IMET) are familiar with the provision of technical assistance through their experiences with similar or related programs. Project monitoring will consist of consultations with IMET staff and infrequent site visits to clients and review of IMET quarterly reports, and consultations with IESC and review of their monthly reports to USAID.

5. Strengthen Rural Business Associations

This project component will require a moderate amount of USAID staff involvement because although the funding for this element is not large, neither implementing agency (TCC, ATI) has had a coordinated externally financed program to strengthen rural associations and both must develop detailed plans for providing such assistance. Initially AID's monitoring responsibilities are likely to require extensive discussions with ATI and TCC staff and monthly site visits. After the first year or two of effort, assuming the project component is well underway, less frequent visits will be required and project monitoring will utilize quarterly grantee progress reports to a greater extent.

6. Joint Public/Private Dialogue

This project component will require a light to moderate workload for the USAID project officer not because the component is complicated but essentially because it is a process the specific elements of which will only become clear over time. Therefore, it is possible that along with a coherent program of assistance to establish regional and provincial JPPCC secretariats, the component will also fund a number of discrete activities. Each of these may require a separate USAID approval and therefore a continuing USAID dialogue with counterparts. Project monitoring will be carried out by site visits, seminar attendance, meetings with counterparts, and review of quarterly progress reports.

7. Policy Studies

This component will require a moderate amount of workload for USAID staff including USAID's Program Office and the services of the Area Contract Office. The initial work will involve determining contract TORs with NESDB, and advertising, selecting, and negotiating a TA contract. Subsequent work will involve consultations with the contractor and NESDB on TORs for specific studies and various actions to encourage the adoption of study recommendations. Project monitoring will be done primarily through discussions with the contractor and reviews of the contractor's periodic reports.

8. Evaluation

USAID's workload on this project activity will be heavy only during the period of developing the full evaluation plan and those periods leading up to each evaluation. This workload should be less than that for a normal evaluation program because project design calls for all evaluations to be done under one contract.

9. Summary Project Workload and USAID Staff Requirement

The heaviest project workload on USAID staff will occur during the first nine months of the project when all activities are being

initiated. During this period O/PERE will have available three full time staff and one part time PSC.

The other responsibilities of this staff during this period include primarily routine monitoring and an evaluation of the Private Sector in Development project and routine backstopping of PRE projects. Thus, O/PERE resources, augmented as necessary by assistance from O/PROG, O/FIN, the RLA, and the ACO will be sufficient to accommodate this heavy workload.

Workload will then be moderate during years two and three of the project and will primarily involve O/PERE staff at the level of staff contemplated for that office during that period. After year three, workload will be light because the ISU and IESC components are completed in three years. After year six project workload will be minimal since the only live part of the project will be payment for defaults. No full time USAID project staff will be required during this period.

VI. Summary of Analyses

The analyses in the project paper indicate that the project package is economically, socially, financially, administratively and technically feasible. The financial and implementation plans are sufficiently developed so that project implementation can begin as soon as the project agreements have been completed. It is concluded that the project is feasible and that it can contribute significantly to the promotion and expansion of small rural industries in Thailand as well as foster reforms in commercial bank lending policies with regard to small industrial entrepreneurs. Furthermore, the project will contribute to the building of an institutional capability to assist rural industries and will strengthen management and effectiveness of RTG industrial promotion programs.

The technical analysis of the project in Annex F(i) shows that each component of the project is technically feasible. Because the project is comprised of a number of different activities, however, the question arises as to whether the overall project is technically feasible, i.e., is the project as conceived a technically feasible approach to alleviating the constraints to the expansion of small rural industries in Thailand and to creating additional employment opportunities in rural areas? The administrative analysis concludes that the project as a whole is administratively feasible. While each component of the project will benefit from successes elsewhere in the project, the failure of one or more components will not negate the benefits accrued to any one component. If the guarantee facility fails to attract lending for small rural industries, they will nevertheless benefit from the knowledge, cooperation and training gained in other components. Similarly, should the ISU fail to be responsive to the information needs of rural industries, they will still benefit from training, cooperation and financing. Therefore, it is clear that not only are the individual components of this project technically feasible, but the project in its entirety is technically feasible as well.

The net present value (NPV) of the project package, calculated in Annex F(ii), is \$0.230 million, indicating that NPV is positive and acceptable as both economically efficient and cost effective. Considering the non-quantifiable but probable benefits of some of the project components and the potential for achieving a guarantee fund default rate of less than 25%, there is little doubt the stream of benefits is considerably understated in the NPV calculus. The resultant employment generation attributable to operation of the guarantee fund should yield about 3,000 jobs over the life of the project. This increase, even if underestimated at 3,000 represents nearly one-half of one percent of total open unemployment, a not insignificant contribution. It is hoped that support to small scale industry located in provincial towns will relieve to some extent the pressures for out-migration and aid in attaining the government's objectives of industrial dispersal and the reduction of regional income disparities.

Successful implementation of the guarantee scheme and its supporting components is bound to change attitudes, mitigate fears and stimulate the interest of both rural entrepreneurs and institutional lenders. The very project objectives which aim to reduce perceptions of risk will also dissipate a fair amount of the mutual mistrust which hitherto separates the borrower from the lender. As explained in Annex F(iv), it may be confidently asserted that the project package is socially sound and feasible, and the likelihood for spread and replication of project innovations is strong.

The administrative analysis in Annex F(v) assessed the capabilities of the organizations primarily responsible for implementing the project. It was determined that the Industrial Finance Cooperation of Thailand (IFCT) Small Industry Credit Guarantee Fund (SICGF) has the capability to operate USAID's proposed Small Industry Guarantee Fund (SIGF). The simple SIGF procedures, experienced SIGF staff and commitment by senior IFCT management to oversee the program ensure that IFCT can handle the responsibilities related to the SIGF. The Department of Industrial Promotion (DIP) of the Ministry of Industry assists existing manufacturers achieve greater productivity and growth and promotes the establishment of new medium- and small-scale industries in regional areas. If project funded staff augmented by technical assistance and the procurement services of the Department of Technical and Economic Cooperation are not sufficient to manage effectively the activities of USAID's proposed Information Services Unit (ISU) at DIP, project contingency funds will be provided to enhance capability. It appears, however, that such contingency funds will not be required because DIP's administrative capability augmented by planned project assistance should be sufficient to implement the ISU component of the project.

The past success of IMET in implementing programs similar to those planned under the project provides promise that IMET is administratively capable of implementing the project's training and technical assistance programs. The provision of additional staff under the project to IMET ensures that this component will provide quality technical and managerial assistance to rural industries. The International Executive Service Corps

(IESC) has been operating successfully in Thailand since 1965 and worldwide since 1964. The additional financing IESC will receive under the project combined with IESC's lengthy experience in developing and supporting at least 20 technical assistance efforts per year and the improved access to rural clients that other project components will provide IESC collectively indicate that IESC's technical assistance under the project is administratively feasible.

The Thai Chamber of Commerce (TCC) currently has inadequate numbers of staff to provide needed assistance to strengthen the many newly formed rural chambers. This project will provide such staff. USAID currently provides assistance to TCC under the Private Sector in Development Project. TCC's efficiency in handling this assistance has at times been hampered by TCC's staff's need to refer matters to a supervisory Board Member for consideration and approval. While this procedure insured the involvement of TCC's top policy makers in the project, it sometimes slowed implementation because Board members were often occupied by their businesses. TCC has agreed to resolve this problem by providing more responsibility to full time TCC staff to implement this project component. With this change TCC should be fully capable of administering this project component. With regard to the Association of Thai Industries (ATI), its activation is similar to that of TCC as are the administrative improvements that will be provided through the project.

AID has been providing assistance to the NESDB's Joint Public and Private Sector Consultative Committee Secretariat's activities since 1983. NESDB has done an excellent job in administering this assistance. The project will provide similar assistance and NESDB's performance to date indicates this assistance will be capably administered. The staff NESDB plans to add to the Secretariat should enable this assistance to be even more effective.

The administrative feasibility of the project vis-a-vis AID's responsibilities for project management are discussed in Section V of the project paper (Monitoring Plan). This discussion shows that it is administratively feasible for AID/Thailand to manage the project.

II. Conditions and Covenants

Since it is planned that this project will be funded through four separate project agreements, conditions and covenants will be negotiated for each separate agreement. These are noted below:

1. Agreement between IFCT and AID:
 - A. Condition precedent to first disbursement
 - Designation of IFCT's authorized representative(s) under the project.

B. Conditions precedent to disbursements for the issuance of L/COMMs to back up defaults:

- Submission by IFCT to USAID in form and substance satisfactory to AID of:
 - i) the criteria for lending organization participation in the guarantee program;
 - ii) the guarantee agreement that will be used;
 - iii) the criteria for loans including size, type, terms, borrower, activity, and location;
 - iv) the format and content of the participating bank's guarantee application;
 - v) the procedures IFCT will apply in reviewing guarantee applications; and
 - vi) the financial and administrative procedures that IFCT will use to manage the guarantee facility.

2. Agreement between IMET and AID:

A. Condition precedent to the first disbursement:

- Appointment of a project director for training, and
- Appointment of grantee's authorized representatives.

B. Condition precedent to disbursement for training:

- Submission of a training plan including estimated costs for the first year's training program.
- Submission of a financial and implementation plan for administrative and other expenses for the first year of the program.

C. Condition precedent to disbursement for technical assistance activities:

- Appointment of a project director for TESC.
- Submission of an annual workplan for the first year of the project.

3. Agreement between IESC and AID:

- Condition precedent - formation of an advisory council for assistance to small rural industries.

4. Agreement between DTEC and AID:

A. Condition precedent to first disbursement:

- Appointment of authorized representatives for DIP, NESDB, DTEC, TCC, and ATI.

B. Condition precedent to disbursements for Information Services Unit:

- Submission of a financial and implementation plan for the initial year of the project.

C. Conditions precedent to disbursement for strengthening Rural Business Associations:

- For disbursement to ATI - submission of a financial and implementation plan for the first year of project activities;
- For disbursement to TCC - submission of a financial and implementation plan for the first year of project activities.

D. Condition precedent for disbursement for the Joint Public Private Sector Dialogue:

- Submission to AID of a general plan for the activities to be undertaken over the life of the project and of a financial and implementation plan for the activities to be undertaken in the first year of the project.

E. Condition precedent to disbursements for policy studies:

- No C.P. - however, there should be a covenant that NESDB agrees to consider the recommendations arising from such studies and to take actions mutually agreeable to AID and the RTG on such recommendations.

VIII. Evaluation Arrangements:

The evaluation of this project involves five steps: 1) the development of an evaluation plan identifying the available baseline information on the status of rural industries, employment, rural finance,

management capability, and related policies which the project will affect; the additional baseline information which needs to be generated; the indications of project progress which need to be identified as the project is implemented; and noting the outline terms of reference and human resource requirements for subsequent project evaluations; 2) the collection of required information during the life of the project; 3) an interim evaluation in 1989; 4) an interim evaluation in 1992; and 5) a final impact evaluation in 1996.

USAID has earmarked \$25,000 in FY-86 Program Development and Support funds for a contract to develop the evaluation plan and its components noted in step one above. The information collection requirements identified by this plan will be reflected in PIL instructions for reporting requirements for each component of the project during project implementation. It is expected that this plan will be developed in September and October of 1986.

The proposed project agreement with DTEC includes \$400,000 for the three planned project evaluations of the total project described in this Project Paper. Continuity in such evaluations is important to insure a full understanding of the project. Therefore, it is planned that all three evaluations will be carried out by the same organization under contract to USAID. The terms of reference for these evaluations will be determined in part by the recommendations in the initial evaluation plan. The contract for these evaluations is expected to be signed in 1989.

Related activities under the project are AID's requirements for (a) review of financial systems to insure these are adequate to account for the receipt and disbursement of AID funds; and (b) annual non-federal financial audits of selected project activities. It is expected that annual financial audits will be required for the project elements dealing with IMET, TCC, and ATI, and that financial systems reviews will be required for IFCT, IMET, IESC, ATI, and TCC. The annual audits of TCC and ATI and the financial systems reviews of IFCT, IESC, ATI, and TCC, will be performed in-house by AID. The annual financial audit and financial systems review of IMET will be performed under AID direct project funded contracts with funds allocated for overall project contingency at a total estimated cost of \$40,000.

RURAL INDUSTRIES AND EMPLOYMENT
PROJECT PAPER
ANNEXES

- A. Approved Revised PID (STATE 180611)
- B. Preliminary Logical Framework
- C. Statutory Criteria Checklist
- D. Grantee Request for Assistance
- E. Bibliography
- F. Project Analyses

ANNEX A.

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(9) ACTION AID4 INFO AMB DCN2 ECON CHRON

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LOC: 30 606
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CN: 23101
CHRC: AID
DIST: AID

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E.C. 12356: N/A
TAGS: N/A
SUBJECT: RURAL INDUSTRIES AND EMPLOYMENT PROJECT (RIE)
(493-2343) - ANFAC REVIEW

REFERENCE: A. BANGKOK 160802; B. 85 STATE 170201

1. ANFAC APPROVED REVISED PID FOR RIE APRIL 30 WITH MODIFICATIONS TO GUARANTEE COMPONENT SEEING (A) SIGNIFICANT POLICY REFORM PERMITTING COMMERCIAL BANKS TO COVER COSTS OF LENDING TO TARGET BORROWERS TO JUSTIFY THIS UNUSUAL USE OF AID DEVELOPMENT RESOURCES; (B) LIMITATION OF DISBURSEMENTS OF AID FUNDS TO COVER DEFAULTS; AND (C) THAT GUARANTEE FEES COVER DEFAULTS.

PLEASE DISCUSS THESE MODIFICATIONS WITH THE THAI AND OBTAIN THEIR AGREEMENT AS YOU DEVELOP THE PP. WE ASK THAT YOU SHARE WITH US THE GUARANTEE COMPONENT APPROACH ACCEPTABLE TO THE THAI AND A-ALL OUR CONCURRENCE BEFORE YOU AUTHORIZE RIE. WE APPRECIATE THE EFFECTIVE PARTICIPATION OF MISSION REPRESENTATIVE JEFF EVANS IN THE REVIEW PROCESS. HIS COLLABORATION WAS CRUCIAL TO MODIFYING THE PROPOSAL ALONG LINE WE HOPE ACCEPTABLE TO THE MISSION.

WE APPROVE THE OTHER PROJECT COMPONENTS (INCLUDING EPD II AMENDMENT) WITH THE PROVISIO THAT MAXIMUM GRANT AMENDMENT PROCUREMENT MUST BE OBTAINED. THE FOLLOWING IS GUIDANCE FOR PP DEVELOPMENT.

2. POLICY REFORM: ANFAC REVIEW CENTERED ON THE RATIONALE FOR THE GUARANTEE COMPONENT IN THE REVISED PID. WE CONCLUDED THAT THIS COMPONENT MUST DEMONSTRATE USE OF INNOVATIVE MECHANISMS FOR SUBSTANTIAL POLICY REFORM TO JUSTIFY THIS UNUSUAL USE OF GRANT FUNDS. THIS REFORM SHOULD INCLUDE ALLOWING COMMERCIAL BANKS TO COVER THE ADDITIONAL COSTS OF LENDING TO TARGET BORROWERS ("LOW-BASED INDUSTRIES" IN THE PID) DURING AND AFTER THE PROJECT. THIS CAN BE THROUGH HIGHER LOAN INTEREST RATES OR GUARANTEE FEES COVERING BOTH ADMINISTRATIVE COSTS AND RISK OF DEFAULTS FOR BOTH LENDERS AND GUARANTOR.

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OVER THE LIFE OF THE PROJECT. EXPERIENCE WILL INDICATE WHAT SUCH COSTS AND RISKS ARE. LENDERS WILL BE ABLE TO CONTINUE SUCH LENDING, PRESUMABLY (BUT NOT NECESSARILY) WITHOUT A GUARANTEE MECHANISM, AND THE RTC WILL HAVE A BASIS FOR APPROVING HIGHER INTEREST RATES REFLECTING COSTS OF SERVING THESE BORROWERS. IN SHORT, THE END PRODUCT WILL BE AN IMPORTANT REFORM OF THE BANKING SECTOR.

3. GRANT VS. LOAN: THE GUARANTEE COMPONENT TYPE OF ASSISTANCE TO PRIVATE ENTERPRISE IS USUALLY ON A LOAN BASIS AT COMMERCIAL RATES (SEE HANDBOOK 1, POLICY PAPER ON PRIVATE ENTERPRISE DEVELOPMENT (REVISED), SECTION V D, PAGE 12). ADDITIONALLY, MIDDLE INCOME COUNTRY STRATEGY FOR THAILAND CALLS FOR GREATER LOAN FUNDING THAN FOR LOWER INCOME COUNTRIES. THE USE OF GRANT FUNDS MUST BE JUSTIFIED AGAINST THE CRITERIA FOR GRANT FINANCING IN THE AGENCY'S "GUIDELINES ON TERMS OF AID" (TRANSMITTED TO THE FIELD IN 85 STATE 170201).

AS MODIFIED IN OUR REVIEW OF THE REVISED PID, THIS SHOULD INVOLVE LITTLE OR NO AID DISBURSEMENT WHILE EFFECTING REFORMS NORMALLY ACHIEVED ONLY BY GREATER AID DISBURSEMENT. THUS, THE GUARANTEE COMPONENT WOULD SERVE TO DEMONSTRATE A WAY THE COMMERCIAL BANKS CAN SERVE TARGET BORROWERS RATHER THAN PROVIDING AID FUNDS TO FINANCE CREDIT OR GUARANTEES TO THEM. IF SUCCESSFUL, THIS INNOVATION WOULD OPEN NEW POSSIBILITIES FOR INFLUENCING PRIVATE SECTOR INSTITUTIONAL FINANCING OF SMALL RURAL INDUSTRY IN THAILAND AND ELSEWHERE.

4. DISBURSEMENTS FOR GUARANTEE FUND: AS AN ALTERNATIVE TO DISBURSING INTO THE GUARANTEE FUND, AID RESOURCES NEEDED TO BACK GUARANTEES CAN BE MADE AVAILABLE BY LETTER OF COMMITMENT TO THE IFC-ADMINISTERED GUARANTEE FUND. THIS AVOIDS PUTTING BANT FOR COLLARS, BANT WHICH MIGHT NEVER BE NEEDED TO COVER DEFAULTS.

IF NECESSARY TO FACILITATE START-UP OF THE GUARANTEE FUND, A SMALL DISBURSEMENT (PERHAPS UP TO 500 THOUSAND BASED ON PP ANALYSIS) MIGHT BE JUSTIFIED. HOWEVER, FEES PAID INTO THE FUND SHOULD BE DRAWN UPON FIRST TO COVER DEFAULTS. OVER THE LIFE OF THE PROJECT, THESE FEES SHOULD BE SET AT LEVELS TO COVER ANTICIPATED DEFAULTS. IT SHOULD PROJECT DISBURSEMENTS IN FINANCIAL ANALYSIS SECTION.

5. PIPELINE IMPLICATIONS: SUBSTANTIAL AID RESOURCES COULD STILL BE FROZEN IN L/COMMS TO BACK THE GUARANTEE FUND. ASSUMING FEW DEFAULTS (WE SHARE THE MISSION'S ASSESSMENT THAT CONSERVATIVE THAI BANKING PRACTICES WILL HAVE THIS RESULT), VERY LITTLE OR NO AID FUNDS SHOULD BE SET

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DRAWN DOWN TO COVER DEFAULTS. HOWEVER, GIVEN A SUBSTANTIAL POLICY REFORM BENEFIT, THIS RESOURCE ALLOCATION IS JUSTIFIED TO ACHIEVE PROGRAM PURPOSES.

IN EFFECT WE HAVE DETERMINED THAT IT IS PREFERABLE TO HAVE A SUBSTANTIAL PIPELINE OF UNLIQUIDATED OBLIGATIONS THAN TO HAVE DISBURSED INTO THE BANT GUARANTEE FUND FAR IN ADVANCE AND FAR IN EXCESS OF BANT PAYMENT REQUIREMENTS (SEE HANDBOOK 19, APPENDIX 1B, SECTION B3F). TO KEEP THE PIPELINE AS SMALL AS POSSIBLE, PP SHOULD PROVIDE FOR TIMELY OBLIGATIONS AS OUTSTANDING BALANCES OF GUARANTEED LOANS ARE PAID OFF.

C. GRAY AMENDMENT: BUREAU REVIEW OF GRAY AMENDMENT ACHIEVEMENTS SHOWS VERY LITTLE UNDER THE THAI PROGRAM. THIS PROJECT, WITH GRANT-FUNDED TECHNICAL ASSISTANCE COMPONENTS, SHOULD BE A PRIME TARGET FOR AFFORDING GRAY AMENDMENT FIRMS PROCUREMENT OPPORTUNITIES. PP PROCUREMENT PLAN SHOULD FOCUS ON THIS POINT AND, IF NECESSARY, COMPONENTS SHOULD BE CONVERTED FROM HOST-COUNTRY TO DIRECT CONTRACTS TO PERMIT GRAY AMENDMENT FIRMS PARTICIPATION. SHULTZ

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ANNEX B

PROJECT DESIGN SUMMARY
PRELIMINARY LOGICAL FRAMEWORK

Life of Project: From FY-86 to FY-96
 Total U.S. Funding: \$14.1 million
 Date Prepared: June 24, 1986

Project Title & Number: Rural Industries and Employment (#493-0343)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Goal:</u> Increase rural employment and rural income	1. Rate of growth in manufacturing increases in areas outside of Bangkok; 2. Minimum wage increases in areas outside of Bangkok.	NESDB, Bank of Thailand, NSO reports.	1. Free enterprise policies maintained with minimum government control; 2. No drastic drop in ME employment of Thai workers.
<u>Project Purpose:</u> Sustained expansion of town based industries outside the greater Bangkok area.	<u>End of Project Status:</u> 1. Expanding flow of bank credit to small scale industries; 2. IMET is self-sustaining; 3. TESC is self-sustaining and/or is subsumed by for profit TA providers; 4. ISU fully funded by DIP/MOI; 5. Policies affecting rural industries have improved; 6. JPPCC activities are institutionalized at regions and most provinces; 7. Business associations exist in each province and meet regularly.	1. Bank of Thailand reports 2. Project reports 3. Project evaluations 4. RTG budget	1. RTG/private sector relations do not deteriorate 2. Agricultural prices do not fall 3. IMET can raise at least \$1 million from the private sector.
<u>Outputs</u> See PP Table 1	<u>Magnitude of Outputs</u> See PP Table 1	1. Project reports 2. Evaluations	1. Banks participate in loan guarantee program 2. Interest rates remain positive 3. Rural clients solicit and accept Thai T.A.
<u>Inputs</u> See PP Table 1	<u>Type, Quantity, Cost</u> See PP Table 1	1. Project Records	-

Statutory Criteria Checklist

- 9 -

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:
 B.1. applies to all projects funded with Development Assistance loans, and
 B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

Yes

GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution - Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A congressional notification is required and will be submitted in accordance with agreed procedures prior to authorization.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No legislative action is required.

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
The project will foster private initiative and competition and improve the technical efficiency of industry.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Technical assistance will be provided by U.S. firms or individuals in the private sector.

9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The local cost contribution equals 57% of project costs.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

None. Owned.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

12. FY 1986 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

The ultimate beneficiaries of the project are rural laborers who will be hired by small rural industries. Such industries are unlikely to produce significant commodities for export or are therefore likely to cause injury for U.S. producers.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests? Yes. Tropical forests not affected. Activities financed by guaranteed subloans are not subject to environmental review in accordance with Reg. 16, Section 216.2(C)(2)(X)
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including
- \$1.4 million.

B. FUNDING CRITERIA FOR PROJECT

Development Assistance
Project Criteria

- a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?
- a) The project is designed to expand small rural industries. These are generally labor intensive. Project design funds transfer of knowledge on appropriate technology. Benefits are focused on rural towns;
- b) The project will lead to more jobs and higher incomes for the rural poor; and
- c) Foster sustained increased incomes;
- d) A large portion of the beneficiaries will be women who own operate, and are employed by rural industries;
- e) N/A.
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- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes.
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes, especially with regard to small businesses.
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? Yes
- e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes.

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f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes, the project includes components to institutionalize self-financing private sector organizations whose work will benefit the poor majority through the creation of employment in rural areas.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The project is focused on the needs of rural industries and will utilize the country's intellectual and human resources to foster growth and employment.

2. Development Assistance Project
Criteria (Loans Only)

- a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. N/A
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

3. Economic Support Fund Project
Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? N/A
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? N/A
- c. ISACA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified N/A

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A.

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ANNEX D

DEPARTMENT OF TECHNICAL AND ECONOMIC COOPERATION
Krung Kasem Road, Bangkok, Thailand
Cable: DTEC.
TEL. 817555

No. 1702/๒๑๕๖๗

August ๒๖ , B.E. 2529

Dr. John R. Eriksson
Director
USAID/Thailand

Subject : Rural Industries and Employment Project
AID Project No. 493-0343

Dear Dr. Eriksson,

The Department of Technical and Economic Cooperation (DTEC) wishes to refer to discussions between officials of the Royal Thai Government (RTG) and USAID regarding the Rural Industries and Employment Project in which it was agreed that the RTG should submit an official request for a project grant from the United States Government.

On behalf of the Royal Thai Government, we hereby request a grant of US\$ 14.1 million for financing partial costs of this project. The RTG agrees to provide sufficient funds for financing its' share of the remaining costs of the Project.

We trust that our request will have your early and affirmative reply.

Yours sincerely,



(Mr. Pracha Chaowasilp)
Deputy Director-General
for Director-General

DEC-I
United States of America
Sub-Division
Tel. 2813963, 2821322

ANNEX E.

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ANNEX. F.

Project Analyses

i. Technical Analysis

The Rural Industries and Employment project contains seven components designed to alleviate financial, managerial, and technical constraints to the establishment and expansion of rural industries and to increase cooperation among industries and between the public and private sector in rural areas. These components are a credit guarantee fund, an information services unit, training for rural entrepreneurs, technical assistance for rural entrepreneurs, strengthening rural business associations, and joint public private sector dialogue. Each component is designed to stand by itself and result in benefits, however, the components are mutually supportive and the benefits from the total project are expected to be greater than the sum of the benefits of each component. The purpose of this section of the project paper is to examine and determine the technical feasibility of each project component and of the project as a whole.

A. Small Industry Guarantee Facility (SIGF)

This analysis will compare the proposed SIGF to other guarantee facilities in LDC's and in Thailand to determine design features which indicate its potential for success or failure. It will also indicate whether a demand exists for the type of lending the fund will support, whether such lending can be profitable for participating banks, and whether such a guarantee facility can ever be self-sustaining.

1. Credit Guarantee Funds - Summary of Experience in Developing Countries

For this analysis, The guarantee programs reviewed were those in Latin America, many of which (e.g. Bolivia, Paraguay and Costa Rica) were sponsored by AID and those funded in whole or in part by the World Bank (i.e. Jamaica, Cameroon, Sri Lanka, Morocco and Portugal). Special attention was paid to the schemes in Malaysia, Indonesia and the Philippines which were deemed of special interest and relevance to Thailand. Guarantee Funds operating in Taiwan and Korea were considered to be not comparable in scope and purpose to the Thai Project. Attention was also given to IFCT's existing Small Industry Credit Guarantee Fund and to the AID/PRE facility with Thai Danu Bank, which have been recently set up in Thailand.

The most striking aspect of the guarantee funds is their great diversity. The diversity extends to objectives, to structure and to operational mode.

In principle, most if not all of the guarantee funds purport to facilitate the entry of the small (and medium) scale enterprise to the formal financial market institutions. But they differ greatly in their definition of the target groups, in designation of the financial institutions, and in type of credit made available. More significantly, perhaps, the currently operating funds are not clear or consistent about the

ultimate goals. Facilitating entry of small (and medium) scale enterprise is perceived variously as a means to assist this segment of private enterprise generally, or else to stimulate industrial growth, or else to generate employment or, finally, to induce industrial dispersion. Moreover, the nature of the barriers to entry is also seldom sharply delineated and seldom explicitly addressed in the operational scheme.

Among the most frequently cited barriers to entry are commercial banks risk aversion, lack of adequate collateral among borrowers, and the dearth of project-based term finance with generous grace period and extended loan duration. Thus for example, even though, most, if not all, of the guarantee funds emphasize the lack of collateral as the principal rationale for the partial assumption of risk by the funds, none of them (with the possible exception of the Philippine ILGF) specifically imposes a ceiling on the borrower's collateral as a condition of eligibility.

The vast majority of the guarantee funds look to the commercial banks as the primary lenders and employ a variety of devices to insure their participation. The ILGF does so in essence, by providing the participating banks with funds obtained from external donors. The Indonesian Askrindo uses state owned banks as a principal vehicle, and the two Malaysian funds rely on mandatory proportions imposed on total assets of the private commercial banks.

In fact, most of the guarantee funds either combine their guarantee operations with on-lending or rediscounting functions or else rely (as in Latin America) on extensive and elaborate supportive systems of technical assistance and training aiming both at the commercial banks personnel and at their clients.

The diversity of aims and objectives is reflected in the structure and operational modes of the funds. There is a great variety of arrangements in apportionment of authority, in allocating responsibility and in assumption of risks. The guarantee as a percentage of loan range from 25% to 90%. In some schemes the lenders assume full responsibility for appraisal and recovery, in others, a large part of the responsibility is vested in the guarantee authority and so on.

Given the great variety of the funds, it is difficult to generalize but a number of tentative conclusions do emerge, to wit:

- a. Sharply focused schemes appear to achieve their basic objectives better than multipurpose schemes. This applies with special force to such ultimate objectives such as opening up of bank credit to very small enterprise, or facilitating entry to indigenous entrepreneurs, or dispersion of manufacturing activities. When the several goals are combined and attempted at once there is great difficulty in tracing the effectiveness of the program and there are greater opportunities for opportunism. Thus, for example,

where a given scheme allows the banks to make loans to small scale enterprise in general, most loans will go to financing trade rather than manufacturing, where lenders can lend to small and medium scale borrowers, most of the loans will go to the larger firm, and so on.

- b. Complex procedures for allocating responsibility between the lender and the fund authority add little to effectiveness of the scheme but cause delays and increase costs thus further impeding the genuine participation of the commercial lenders in the programs. Precise eligibility criteria and clear and unambiguous conditions precedent seem preferable to intricate arrangements for regulating the relative functions and powers of the lender and the guarantee fund.
- c. Full participation of commercial banks in the guarantee scheme, and true orientation toward specific developmental objectives is seldom achieved in spite of elaborate and very costly programs designed for that purpose. As an illustration, the Philippine ILGF, the oldest of the guarantee schemes (among LDC's) offers a guarantee of 80% of the value of the loan to commercial banks using their own funds but, in the 35 years of its history, found no takers among the private commercial banks. The only scheme considered by the World Bank to have succeeded in drawing the commercial banks into lending to designed targets was one in Portugal where the guarantee fund operated by a specialized development institution (IAPMEI) for number of years, has demonstrated its economic and financial viability to the commercial banks.
- d. Guarantee funds, if they are to succeed in their developmental aims must be prepared to face risks and to incur losses. Those funds which claim to make a "profit" do so either because their revenues come from other sources, or because they do not achieve their objectives and allow diversion of loanable funds to other purposes. There is no evidence that any of the funds could cover its liabilities out of the proceeds of the insurance premiums alone.

Of particular interest are AID/PRE's current guarantee facility with Thai Danu Bank and IFCT's Small Industry Credit Guarantee Facility. The former appears to be quite successful. The latter has get to prove so. The Thai Danu Bank facility guarantees 50% of loans to enterprises around Bangkok and rural areas with net fixed assets of less than \$400,000 excluding land. There is no limitation on the amount of collateral that Thai Danu Bank can accept and no requirement that loans be for a specific term. This guarantee facility totals \$2,350,000 and thus far after only six months of operations 11 loans totalling \$one million have been guaranteed. Of these 40% have been in the Greater Bangkok area.

While this guarantee facility is too new to be evaluated thoroughly, on the surface it appears to be successful in reaching its limited aim - increasing competition in banking by moving one bank into a new area of lending. It must be noted, however, that this new customer base for Thai Danu is already serviced by larger banks which provide loans essentially under the same terms and conditions as those for the loans PRE guarantees. This guarantee facility is not designed to serve the new market of the facility under the proposed project.

IFCT's SICGF however, was designed to serve a new market though a slightly larger market than that proposed for the SIGF (SICGF guarantees minimum loan of \$7,600 maximum loan of \$76,000 to borrowers with net fixed assets of less than \$380,000; project funded SIGF guarantees loan of no minimum, maximum of \$38,000 to borrowers with net fixed assets of less than \$19,000). It also had the major advantage of commercial bank participation from its beginnings through their provision of funds for a portion of the capital assets of the guarantee fund. Despite this advantage, to date, after 8 months of operations, the SICGF has provided a guarantee for only one loan.

Analysis of the SICGF operations indicate that the primary reason for its lack of activity to date has been the concern of fund management to preserve the capital base of the fund essentially because those who contributed to the fund are committed to make up short falls in fund assets in the case of defaults in proportion to their original fund contribution. In effect, banks have written off their initial contribution to the fund and do not wish to commit additional funds. This has resulted in initiate guarantee procedures designed to avoid defaults. These procedures include an application for guarantees which provides extensive information on a loan, a requirement that fund staff review each borrower's project, and a delay in payoff in case of default until a court issues an order for a bank to move against a borrower's collateral.

It appears that these procedures will serve the aim of limiting defaults. Unfortunately, they have also had the effect of creating disinterest in participation in the guarantee facility because the application adds to administrative costs, the review delays loan approval (and certainly adds to overhead costs), and the pay off in case of default is uncertain and at best delayed for several years.

The proposed guarantee facility has been designed to incorporate the lessons learned from other guarantee facilities and particularly from the SICGF. Firstly, it is sharply focused on the provision of term credit to a certain size of rural productive business, secondly, it is initially focused on and will be supported by a few banks which meet defined eligibility criteria, and thirdly, it will be unique in operating with extremely simplified administrative procedures which will ensure rapid approval of guarantees for qualifying loans and early payoff in case of defaults. Primary among these latter procedures are provision of a guarantee based on submission of a form by participating banks certifying

that the guaranteed loan meets guarantee criteria, no pre-guarantee review of borrowers, and payment for default when a bank initiates legal action against a borrower.

Evidence from the operation of previous and existing guarantee facilities indicates that this approach to a loan guarantee facility is technically feasible. The question is though, will this simplified guarantee approach lead to guarantees for doubtful enterprises and therefore, excessive defaults. This question is addressed below.

2. Default Prospects

There are basically three possible outcomes to the introduction of the proposed guarantee facility. These are (a) banks will not participate in the facility; (b) banks will participate but loans will not be additive and will go to old reliable customers; and (c) banks will participate and make loans to the target audience with a default rate that is currently unknown. The likelihood of these first outcome occurring is mitigated by two factors - initially the program will be implemented by only a few banks which have expressed interest in the program and which have the resources to carry it out and, if the program is for some reason unattractive to these banks, collateral requirements can be adjusted to increase the program's incentives. The likelihood of the second alternative is also limited by two factors - banks must pay a fee to use the facility and it is therefore unlikely banks would want to charge and pay this fee for loans the banks would make in any case, and a post-guarantee review of a sampling of loans will be made to ensure compliance with guarantee facility criteria. This leaves the third outcome as most likely i.e. the program will work but at an unknown default rate.

It is expected that this default rate will not be excessive for the following reasons: a) On current lending banks experience a default rate which is reported to be less than two per cent. It seems reasonable to assume that over time with collateral halved banks would attempt to avoid a default rate more than double that now experienced. b) Bank branch managers, who will bear prime responsibility for finding borrowers will want to avoid the accumulation of risky loans even with a guarantee for defaults because their future depends on evidence of sound banking. Bank branches are extensive enough (the top three commercial banks have 500 rural branches) so that no one branch must find large numbers of customers for the expected 528 loans that will fully utilize the guarantee facility and close supervision of borrowers is possible. c) Banks bear 50% of the risk of defaults and even though this share of defaults is covered by collateral, banks will wish to avoid defaults because of the difficulties of collecting collateral and the bad public relations such collection generates.

3. Bank Profitability

The current spread between the cost of funds and the maximum legal lending rate is now about eight per cent. It is estimated that the

administrative costs of making loans to small rural industries is about six per cent. That leaves two per cent for risk and profit. However, in this program, risk is covered by the guarantee facility and the borrower's collateral. If the value of collateral also includes the cost of collecting collateral (as bank's intend) then the remaining two per cent spread represents profit. To the extent collateral on defaulted loans doesn't cover the cost of the amount of default and the collection of collateral profits are diminished. This is expected to be a further factor inhibiting risky loans and excessive defaults.

4. Sustaining the Guarantee Facility

Because this is a new program aimed at a new class of borrowers and implemented through bank staff with little experience in lending to the target clientele default rates are likely to be higher in the earlier stages of the project than later when more experience has been gained. Eventually, an equilibrium state should be achieved at a basic level of defaults. The equilibrium state that would enable a guarantee facility to be self-sustaining with a one and a half per cent guarantee fee would be when the costs of administering the facility are less than 1/4th of 1% of the outstanding guaranteed amount (i.e. \$20,000/yr. on \$8 million in guarantees), defaults do not exceed 4%, and loans are for four years with a one year grace period on repayment of principal.

It is not likely that this equilibrium state can be achieved during the six year period for new guarantees under this project, but it is likely that this project can demonstrate the potential for the attainment of such a state and therefore the very real possibility for a follow-on self-sustaining guarantee facility.

5. Demand for Credit

Total credit needs of small scale industry have been estimated in 1983 and in 1984, by the World Bank and by Japanese experts, at 12 billion and 13 billion baht respectively. A present estimate should be raised to, say, 14 billion.

Against this admittedly tentative estimate of demand, the current supply of credit can only be approximated through a series of more or less plausible assumptions, to wit:

- a) The ratio of manufacturing credit to total credit has not significantly changed since 1982.
- b) The proportions of manufacturing credit flowing to small scale enterprise is the same for the commercial banks and finance companies as for IFCT (this assumption almost certainly overstates the supply figure).
- c) These ratios will remain reasonably steady in the next decade.

The supply figure thus arrive at is not more 6 billion baht, leaving 8 billion baht as one reflecting the pent-up demand.

It should be noted that both the supply and the demand estimates pertain to the formal financial must market only. The pent-up demand figure would be considerably greater were the conditions to change, enabling the customers in the informal markets to turn to the formal lending institutions.

6. Summary

This analysis has shown that the proposed SIGF is technically feasible, profitable for banks, that the default rate over time is not likely to be excessive, that the SIGF will demonstrate that such a guarantee facility can be self-sustaining, and that there is a demand for credit far in excess of that which the project will mobilize. Omitted from the above analysis was a discussion of the impact of the other project components on the SIGF. This impact will be positive and activities under the other project components will only strengthen the SIGF as they provide technical assistance, management training, and technological and market information to rural entrepreneurs thus improving their qualities as borrowers. The technical feasibility of these other project components is analysed in the following sections of this technical analysis.

B. Information Services Unit (ISU)

In addition to lack of appropriate financing, a major constraint to the growth of rural industries is their lack of access to information. They are relatively isolated by distance, language, culture, and education from the world outside Thailand and to a large extent, from the information available in Bangkok. Although they receive some general information from the mass media, few are readily able to access information relevant to their marketing and technical problems. They don't know if or where information exists, they lack the time to track it down (and the depth of management which would permit such time), they are only able to read Thai, and they feel uncomfortable in contacting the relatively sophisticated information sources in the capital.

A parallel problem is that outside groups with the potential to benefit small enterprises are unaware of the problems of small industries and the opportunities they offer to produce quality goods at attractive prices. Most of these groups have historically interacted exclusively with business in Bangkok and its surrounding provinces. As a result, rural manufacturers miss out on the opportunities to tender bids, produce specialty products, purchase better inputs, and receive training and other services. As a result, however, of a slowly growing awareness of the opportunities for markets outside their immediate vicinity, rural manufacturers are reaching out for information and as a result of increased costs, Bangkok groups are beginning to take a new interest in the potential of rural industries.

The project proposes to speed this two-way linkage by supporting the initiation of an Information Services Unit (ISU) in the Department of Industrial Promotion (DIP) of the Ministry of Industries. The Ministry of Industries has agreed to bear an increasing share of the costs of ISU over time and to fully fund its operations after the third year of the project.

The Ministry of Industry is the major RTG organization charged with licensing, controlling, and fostering the growth of rural industries. Current RTG policy is to focus less on controlling industry and more on promoting the growth of rural industries.

Within the Ministry, DIP, through its five divisions (Industrial Productivity, Handicrafts Promotion, Industrial Services, Textile Industry, and Cottage Industry) and three regional industrial promotion centers (Chiang Mai, Khon Kaen, and Songkhla) is the leading Thai Agency for supporting rural industrial development. Its mode is to assist existing manufacturing enterprises to expand and improve efficiency, and to promote the establishment of new small manufacturers especially outside the Bangkok area. The Ministry of Industries plan is to expand and strengthen DIP's ability to carry out its mandate, in large measure by creating and institutionalizing a new Division, the Information Services Unit which this project will support.

The ISU's primary role will be to provide technical and management information, through its sector specialists to be located in each region, to those industry groupings (agro-processing, wood and furniture, construction materials, metal working and machinery, ceramics, rubber products, and silk) which are already represented in rural areas, and which have significant potential to grow.

ISU will produce and distribute general information materials on each industry sector, process information requests from individual entrepreneurs on specific interests, and provide data on available services in marketing, technology, training, finance and various functional areas including those services which will be available through the various components of AID's rural industries project.

In addition to providing services to entrepreneurs, ISU will also provide information to other groups seeking information on rural industries. This will include information to commercial suppliers and potential customers on the needs and resources of specific industries and industry groupings, and information for policy makers on the problems and status of the various industry sectors on which ISU will focus.

ISU will provide these services through a headquarters unit which will process requests, gather information and disseminate it to the regions, and through a staff of 24 regionally based Sector Analysts who will travel throughout their regions contacting individual manufacturers and groups of manufacturers. These Sector Analysts will be assisted in contacting local entrepreneurs by the Ministry of Industry's provincial industrial officers

in each province. Staff will be mobilized partly by transferring staff from existing divisions and partly by hiring new staff.

The project includes funding for vehicles, office equipment, materials, computers, and limited technical assistance as well as staff salaries and operating expenses. There are no apparent constraints to providing these inputs.

Given DIP's considerable experience, the Ministry of Industry's extensive contacts at the local level, growing mutual interest in developing contact between rural and urban businesses, the project inputs that will be provided, the well focused task of ISU, and the extensive contributions to the ISU planned by the RTG, this element of the RIE project is technically feasible.

C. Training for Rural Entrepreneurs

Thai businesses are slowly changing from traditional family owned and operated concerns to those managed by professionally educated staff. This process is most apparent in Bangkok. In rural areas visible change in this direction is primarily evidenced to a small extent only in the placement in some stage of the family business of better educated offspring who often instead are attracted to Bangkok. Thus, in the absence of interventions it is likely that businesses in the Bangkok area will have more dynamic educated management while those in rural areas will progress more slowly.

To improve this situation, this project component will provide management training for rural entrepreneurs through short courses designed to expose them to modern management principles and techniques applicable to small rural businesses. This training will be carried out through the Institute for Management Education in Thailand (IMET) by the business faculty of Thai universities and participating private sector business people.

IMET was established in 1982, as a private non-profit tax exempt foundation whose major objectives are to improve the quality and relevance of management education in Thailand and to train people in the private sector, primarily in rural areas, in modern management techniques. It is the only organization in Thailand offering managing training to the private sector in rural areas except for the limited programs offered by DIP. IMET is governed by a Board of Directors and employs a full time managing director and three part time staff, an executive assistant, an accountant, and a secretary. IMET's Board operates primarily thru Program, Evaluation, Finance, and Public Relations Committees headed by Board members. The training programs that IMET supports are implemented by the business faculty of Thai universities augmented by lecturers and panel members from the private sector. In the past, these universities have been those based in Bangkok. In the future IMET plans to incorporate regional universities into its training programs.

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In response to Board decisions on annual program concentration participating universities submit training proposals for IMET's review and approval. Programs are announced and applying target participants are selected by IMET and the university based on applications and recommendations of business organizations, former trainees, etc. Training programs are evaluated by independent observers appointed by the Evaluation Committee of the Board. Most recently these evaluators have come from the training staff of businesses and banks.

To date, IMET programs have trained approximately 3,000 business people, the majority of whom are from rural businesses. Much of the cost of this training has been funded by a grant from AID's Bureau for Private Enterprise, although IMET has also received substantial contributions from the private sector.

Trainees have been enthusiastic about the value of IMET training and many have donated funds to IMET and organized alumni groups which meet annually to exchange information and maintain inter-provincial business contacts. An AID financed evaluation in 1985 of IMET noted that IMET's training programs have been successful, have led to changes in individual businesses which have increased employment and profits, and have been especially useful in broadening the contacts and therefore, the markets for rural entrepreneurs.

Under the "Training for Rural Entrepreneurs" component of the Rural Industries project, IMET's training programs will be expanded to train more leading provincial business people and district level business people and funds will be provided to increase the access of the business faculty of regional universities to Bangkok based business and management seminars.

During the period of this project, IMET will continue to attract contributions for its work from the private sector including from organizations who wish their name to be associated with programs funded under the project. It is IMET's intention that these non-AID contributions will be invested to support future IMET training programs and that by the end of the project, IMET's investments will be large enough for it to become self-sustaining.

During the period of the project, IMET also plans to undertake or continue other training efforts which taken together are expected to require substantial effort by IMET though less effort than the project supported training will require. It is doubtful that IMET's current small staff and volunteer committee structure could carry out all the work these efforts will require on a sustained basis. Therefore, the project includes funding for a full time project director, evaluation officer, and secretary. IMET's current offices can accommodate this staff.

Given IMET's successful experience to date in implementing training programs similar to those planned under the project, the positive reaction to this training by previous participants, and the additional staff to be

provided IMET under the project, this project component is technically feasible.

D. Thai Executive Service Corps (TESC)

Along with improved financing, better information, and management training, many small rural manufacturers would benefit from technical assistance just as larger businesses benefit. However, these rural firms have been reluctant to allow "outsiders" to view their business operations and have been extremely reluctant to pay for any such assistance particularly since in its presently available forms it is often relatively expensive. The Department of Industrial Promotion has had some success in providing this type of assistance to rural firms and will continue such programs but DIP's efforts will continue to be limited by fund availability and staff capability. Instead, small Thai firms would gain greater and more widespread benefits if they had access to and could become comfortable using assistance from the more developed private sector.

The International Executive Service Corps (IESC) has a long history of successfully providing such private sector to private sector assistance through the services of retired American executives for up to three months to larger local firms on a cost sharing basis, and as noted below, IESC will play a role in this project. However, even the moderate costs of an IESC executive volunteer are too high for a small firm to bear and the IESC volunteer's skills are limited by the language barrier. Furthermore, while IESC builds strong links between U.S. and Thai business, they do not build the links between small rural firms and the larger Thai firms in and around Bangkok.

Therefore, under this project, AID plans to initiate a local equivalent of IESC, the Thai Executive Service Corps or TESC. TESC will be developed managed and implemented by IMET.

IMET's overall operations are described under section C above. One of IMET's more recent programs is a business diagnosis service which brings a team consisting of a university professor, a Bangkok business executive, and usually an IMET Board member, to the business of a leading provincial business person to review the business, diagnose its problems, and recommend solutions. The consultation lasts less than a day and there may or may not be a follow-up. IMET pays the travel costs of the team and an honorarium, and the local business person pays the small local costs.

This service grew from the requests for such a service by business people who attended IMET's training programs.

This limited service has been successful and accepted by local business people because of their trust in IMET and because of the presence of an academic person in an environment where such people are admired. However, because of the high cost of the service, limited duration of the consultation, and senior position of those involved, it is not likely that this program could have a wide or lasting impact.

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It has, however, laid the groundwork for the planned program under which an academic and a private sector technician will make an initial visit to a business which then would be followed up by several short term visits by the technician to help solve particular problems. After this, subsequent contact is up to the private parties involved in the consultation. A number of Bangkok businesses have already indicated interest in this program and in supplying salaried staff to assist rural businesses. IMET's business diagnosis experience indicates a willing audience for the service. These will come from the large coterie of IMET trainees, business people who hear of IMET thru customers of the business diagnosis service, and through referrals by those involved in the other elements of the project.

The project funds the additional staff IMET will require to initiate this effort which is new to Thailand. IMET will require additional office space for this staff and is currently exploring acquiring such space.

This modest initiative is expected to provide services to 320 clients over six years. Experience with the program will determine if IMET will continue it. It offers the prospects for solving immediate problems and expanding rural businesses and for developing long term linkages between the rural and Bangkok based private sector.

An independent expert consultant has examined this component of the project and found it feasible. His report is available in the project files in USAID/T/PERE.

E. International Executive Service Corps

While small rural businesses will benefit from TESC and the services of Bangkok based business people for limited periods that it will provide, larger rural businesses which can generate considerable rural employment and sector agglomerations of small rural businesses do often have problems which require the services of a person experienced in related modern businesses for assignments of up to 3 months in duration. Under the project the IESC with its 21 years of experience in Thailand, and extensive network of recruiters and volunteer executives will be tapped to provide these services. Clients for IESC's services will be identified by IESC and by those involved in other elements of the project such as DIP's ISU sector analysts, IMET, and IFCT and commercial banks. IESC has already identified a number of such clients which it lacks current funding to serve despite partial financial support from the identified clients.

IESC's experience world-wide and in Thailand are evidence that this element of the project is feasible.

F. Strengthening Rural Business Associations

Individually, small rural industries have little strength to influence local and national policies and procedures, however, if they join together they have the potential to work for their own good. Two private sector

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business associations predominate in playing this role for the private sector, the Thai Chamber of Commerce (TCC) and the Association of Thai Industries (ATI). Representation in both associations is heavily weighted toward larger Bangkok area based businesses. Both, however, have become more active in the past few years in expanding a network of related rural associations.

The Thai Chamber of Commerce, which in many rural areas in particular has members from both the industrial and commercial sectors, is attempting to establish local chambers in each province. The Chamber has been quite successful in this effort. In 1984 there were 5 rural chambers of commerce. By 1986 there were 65 such chambers. The Association of Thai Industries focuses primarily on industry and because of this narrower membership base has focused on the establishment of local industry associations in areas with relatively large industry concentrations and on the creation of various specialized industry clubs. ATI now has 6 up-country branches (in Pathum Thani, Samut Prakarn, Khon Kaen, Nakhon Sawan, Chiang Mai, and Songkhla). It plans to establish three new in 1987 and an additional seven affiliates in 1988. For the most part both TCC's and ATI's rural business associations represent the larger and more powerful businesses in their areas.

This component of the Rural Industries project will fund staff and operating expenses to strengthen these rural business associations and broaden their programs to work with small rural industries and will help in establishing new rural industry associations in at least seven rural areas. This is expected to strengthen small rural industries.

Under the program with the Thai Chamber of Commerce, staff will be hired to assist rural chambers of commerce to expand their small industry membership base and to assist small industries to gain access to markets and technology and to prepare projects for bank financing. These field staff will be supervised and given technical guidance by TCC's Bangkok headquarters.

Under a similar though broader program with ATI, staff will be hired and trained at ATI and rotated through ATI's rural affiliates to assist them in developing service programs for their members. Field officers will be supervised by a managing field supervisor who will be under the supervision of the Deputy Executive Director of ATI.

In both cases the project provides funding for salaries, travel, and materials.

Both ATI and TCC have experience in organizing field affiliates and substantial headquarters staff to provide administrative and technical support to the planned new field staff. The project approach is innovative for both organizations because it represents their first efforts to apply significant coordinated resources to such organizing but the general approach of using field staff for such efforts is technically feasible.

G. Joint Public/Private Sector Dialogue

Historically, the relationship between the Thai government and the private sector had been at best uneven. In varying intensity the government viewed the private sector as a necessary evil to be controlled while the private sector viewed the government as the source of unnecessary and ill advised constraint. More recently this attitude has changed a great deal at least at the upper levels of the government structure and among the more prominent private sector organizations. Instead of continual confrontation there is often cooperation in exploring the issues jointly affecting these sectors. Unfortunately this progressive relationship is not reflected throughout Thailand's rural provinces.

Considerable inputs to this constructive dialogue have been provided by the Joint Public Private Sector Consultative Committee (JPPCC) whose work has been supported in part by USAID's Private Sector in Development Project (493-0329). This Committee is composed of the economic ministers of the government and representatives of the Thai Banker's Association, the Board of Trade, TCC, and ATI. It meets regularly to explore and resolve common concerns and is staffed by a Secretariat in NESDB and to a lesser extent by the Joint Standing Committee of the private sector members.

For various reasons, much of the Committee's work has been focused on the concerns of its Bangkok based membership. In the past two years, however, three regional JPPCC meetings have been held with the support of USAID's project, and the NESDB Secretariat has initiated action to establish regional and provincial joint public/private secretariats. The purpose of establishing such secretariats is to extend government and private sector cooperation throughout the country thereby giving smaller rural businesses a voice and opportunity to solve problems at the local level or raise them for resolution at the national level.

This rural cooperative policy dialogue effort is still in a fledgling status and this component of the project is designed to help to strengthen and institutionalize it, thereby alleviating constraints on the expansion of rural industries.

This project component will be implemented by NESDB and includes funding for staff, in-country training, travel, workshops, seminars, data gathering, equipment, and related activities.

The overall public/private sector consultative approach is innovative and perhaps unique. Considerable progress has been made thus far and this component of the project is planned to extend and broaden that progress in rural areas. Previous activities initiated by NESDB and the private sector provide evidence that this project component is technically feasible.

H. Overall Project Technical Feasibility

The above discussion has shown that each element of the project is

technically feasible, however, the project does have many elements and the question arises as to whether the overall project is technically feasible, i.e., is the project as designed a technically feasible approach to alleviating the constraints to the expansion of small rural industries and thereby creating additional employment opportunities in rural areas? The response to this question essentially involves determining if the project as a whole is administratively feasible and the extent to which the overall project will fail if any one or more elements fail.

The administrative analysis has concluded that the project can be administered as designed. A review of the project elements noted above makes it clear that while each element of the project will benefit from successful outcomes of each element of the project, the failure of one or more components will not negate the benefits of any one element. If the guarantee facility fails to attract lending for small rural industries, they will still benefit from the knowledge, cooperation, and training inherent in other elements. If the ISU fails to be responsive to the information needs of small rural industries, they will still benefit from training, cooperation, and financing etc.

Therefore, in this project, it is clear that not only are its components technically feasible, but that the overall project is technically feasible.

ii. Economic Analysis

I. Introduction

Before proceeding with the analysis of the economic effects of the implementation of the Intervention set, it may be useful to deal, albeit briefly, with that hardy perennial: why interfere with the market?

The main argument in favor of interventions remains the desideratum of increasing the efficiency of the system by removing or reducing the existing distortions of factor prices which, in the aggregate, tend to inhibit the growth and prosperity of small scale industry. A variety of macro and micro policy measures in the developing countries which include trade barriers, overvalued currency, interest rate ceilings and investment incentives have, demonstrably, tended to make capital and foreign exchange cheap for some manufacturing firms, who grew large as a result. Interventions are thus seen as an effort to bring about a situation which would exist had these distortions not taken place.

But the approximation to an open market is not the only reason for justifying interventions. There is also the perceived discrepancy between private and social benefits. One instance of this discrepancy is entrepreneurial failure which is a clear loss to the owner of the enterprise but a benefit to society in that it has acquired the experience of an entrepreneur whose skills and acumen could be employed elsewhere. This incubation function of small scale industry is a valuable social resource and one which is unexploited to the extent that entry is restricted or difficult to those would-be entrepreneurs. Last, but not least, the barriers to entry and expansion of small scale industrial firms need to be lowered, it is argued, on grounds of equity, in order to reduce the glaring inequities in income distribution. Small scale industry may, for example, be the only alternative open to landless laborers, who, for one reason or another, are unwilling or unable to emigrate.

Economic Effects of Interventions

For analytical purposes, it may be useful to distinguish three categories of Project activities which constitute, in the aggregate, the Intervention set. The first category consists of those activities which are aimed at reducing the barriers to entry to institutional finance of small scale industrial produces in the out-lying provinces, with emphasis on the "Second layer" or small scale producers. They are:

1. The Guarantee Fund
2. Assistance to the Executive Service Corps
3. Management and Related Training
4. Assistance for the Information Service Unit at the DIP/MOI

The second category consists of a series of policy studies whose purpose is to obtain information and insights into the nature and problems of the small scale provincial industry in general, but with special reference to the first and third layer of producers i.e. medium size firms and micro-enterprises. They may include such studies as

1. Industrial Profiles of Provincial Towns
2. Role of Micro-Enterprise in Development
3. Planning Interface with Local Governments
4. Participation Finance in Institutional Credit
5. Elements of Evaluation Exercise
6. Analysis of the administrative costs of Small Industry Lending.

The last category is best described as containing those activities which reinforce the existing structures and which maintain a favorable climate for AID interventions. They are:

1. Assistance to the JPPSCC
2. Assistance to TCC
3. Assistance to ATI

In undertaking a social cost-benefit calculus of the Project package it is necessary to differentiate between those components which are amenable to numerical analysis and those which are not.

The guarantee fund falls clearly into the first category. Its concepts are capable of being expressed as macro-economic variables and their movement over time can be predicted with a fair degree of confidence.

For all the other components it would seem appropriate to assume that their benefits equal costs but with a two year lag. This assumption almost certainly understates the likely benefits, quantifiable or not, of these activities, but is a convenient one as it makes it unnecessary to speculate on the possible future economic impact of policy studies or of institutional assistance. On the other hand, in a relatively open economy, such as Thailand, it can be safely assumed that, by and large, the price paid for commodities and services tends to approximate the marginal value products of these purchases. A typewriter acquired by DIP or a bill paid for a conference hall by the JPPSCC are presumed to yield benefits to the purchasers at least equal to their costs.

Turning to the guarantee fund, its economic benefits are derived from the key assumptions regarding the operation of the fund. At the end of the 10th year of its operation, the fund will have provided \$8 million in guarantees but only \$2 million in actual disbursements, thus making it possible for \$16 million worth of loans to be advanced to "the second layer" borrowers. Of these loans if we assume a default rate of 25%, only three-fourths will be repaid, resulting in an aggregate incremental investment of \$24 million (including borrowers equity). With the ICOR in

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Thailand currently at 4, the increase in the Gross Domestic Product resulting from the operation of the fund, will be, at the end of 10 years, \$6 million*.

With respect to costs, the total AID/Thailand contribution is \$8.1 million i.e. \$2 million disbursed under the guarantee scheme and \$6.1 million contributed to the other components of the Project package. To this must be added \$1.5 million baht equivalent, representing the value of host country contribution. Based on the Flow of Funds Table in the Financial Analysis Section of the PP (Annex F.iii), the total cost of the Project package, \$9.6 million, will be disbursed over the first 8 years of the Project operation, as indicated below:

Project Costs
(in million of \$US)

YEAR	GUARANTEE FUND	OTHER COMPONENTS	TOTAL
1	-	1.7	1.700
2	-	1.9	1.900
3	0.125	1.1	1.225
4	0.125	1.0	1.125
5	0.250	1.0	1.250
6	0.375	.9	1.275
7	0.500	-	0.500
8	0.625	-	0.625
TOTAL	2.0	7.6	9.6

* ICOR (Incremental Capital-Output Ratio) is an empirically derived relationship between changes in investment flows and the associated changes in aggregate output (i.e. Gross Domestic Product - GDP)

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The benefits are of two kinds; those attributed to the guarantee fund operation, and the lagged benefits of the other components of the Project.

Project Benefits
(in million USD)

YEAR	GUARANTEE FUND	OTHER COMPONENTS	TOTAL BENEFITS
1	-	-	-
2	-	-	-
3	0.2	0.7	0.9
4	0.3	1.9	2.2
5	0.5	1.1	1.6
6	0.8	1.0	1.8
7	1.0	1.0	2.0
8	1.2	1.0	2.2
9	1.0	0.9	1.9
10	1.0	-	1.0
TOTALS	6.00	7.6	13.6

Given the nature of the data, perhaps the best single measure of the economic efficiency of the Project is its Net Present Value, which is the measure most consonant with the least-cost analytical approach.

NPV (net present value) is the measure of the discounted flow of net benefits anticipated from the implementation of the Project over the relevant time span, here assumed to be 10 years.

To compute the NPV, given the time period and the expected flow of costs and benefits, all that is necessary is to determine the discount rate.

The discount rate is a concept which quite simply states that the value of a cost or of a benefit at some time in the future is less than at present. The more distant the future, the less its present value. For the purpose at hand the discount rate (measured as per cent) is taken to be 12%, the figure currently adopted in the calculations underlying World Bank projects.

Stated in algebraic terms, the net present value is equal to the discounted difference between the stream of costs and benefits over 10 years*: The figure thus obtained is \$0.230 million indicating that NPV is positive and therefore acceptable as both economically efficient and cost-effective.

In spite of the conjectural nature of the benefits there is little doubt that they are considerably understated in the NPV calculus. The underestimation was deliberate in accordance with the "least cost" analytical approach and in order to insure that moderate changes in the elements of the calculus would not significantly effect the outcome.

The three principal reasons for the underestimation of the benefits are:

1. The possibility of a potential higher gearing ratio in the last four year of operation of the guarantee fund**.
2. The non-quantifiable but probable benefits of some of the "other" components.
3. The potential for lower than a 25% default rate.

In addition, from the standpoint of economic effects it is also arguable that a portion of the loans defaulted could still yield some increases in income and employment, however temporary.

Turning to the non-quantifiable components of the Project package the assumption that their cost equals their benefits is a very conservative one.

This belief stems from the applicability of the "Triple S" approach employed in the selection of a number of the components in the package, particularly the policy studies and the training/information activities. While essentially unpredictable, the combined effects of synergy, symbiosis and serendipidity can only have a positive impact on income and employment generation. One small scale producer who learns of new technology, of new products or new markets may happen to hit on an idea

$$* \quad NPV = \sum_{i=0}^n \frac{(bi - ci)}{(1 + r)^i} = 0.230$$

where n = 10

r = 12

IRR = 13.26%

B/C = 1.03

** See "Financial Analysis" Section.

whose payoff over time could exceed the entire cost of the project package. Granted that such a happenstance will not occur frequently (or may not occur at all) it still remains true that, given fixed costs of the non-quantifiable components, their benefits cannot be but underestimated.

Qualifications of the Analysis

The NPV calculus, as it stands, raises a number of questions, both technical and substantive, which need to be addressed.

One such question is that of the need to adjust the NPV calculus for inflation. Were the streams of costs and benefits more or less parallel over time, there would be no need for adjustment. However, as indicated in the schedules, the streams appear to be consecutive rather than parallel (benefits lag behind costs), so that there would seem to be an a priori case for adjustment.

Upon reflection, however, the inflationary adjustment appears superfluous. This is so for two reasons. First, the record of price stability in Thailand is exceptional among developing countries. Second, it is the stream of benefits which is the further into the future. Any increase in the real value of benefits over time, relative to those of costs, would further strengthen the conclusion that the positive number calculated for NPV is substantially understated.

A more complex question is that of "additionality". The principal objective of the guarantee fund component of the Project package was to ensure, insofar as possible, that the productive investments made possible by it, are not made by those industrialists who would obtain credit for that purpose in any case. The eligibility requirement and other features of the guarantee fund were designed with the express purpose of facilitating the access to institutional credit of small scale, "second layer" producers in the provinces to whom that access was largely interdicted in the past. To the extent that the guarantee fund will operate as planned, there is a strong presumption that "additionality" will, in fact, take place, i.e. the resulting investments will be over and above those which would occur in the absence of the Project. But some nagging questions still remain.

The key question which begs an answer is the possibility that the new investments undertaken under the guarantee would reduce the size of the market for existing enterprises and thus reduce output and employment therein. Similarly, competition for inputs, including skilled labor, may impinge upon the profitability of existing enterprises and on the prospects of those enterprises whose financial needs are not covered by the Project.

Those possibilities and probabilities cannot be gainsaid and, furthermore, their quantitative impact is impossible to estimate. But there are at least two considerations which suggest that such impact need

not invalidate the conclusions regarding the positive value of NPV. In the first place, economics, unlike, say, poker, is not a zero sum game. The entry of new firms into the product or input markets does not necessarily mean that the size of those markets facing the competitors will shrink.

Industrial track record is replete with instances where the very opposite has occurred. There are powerful forces at work which cause markets to expand rather than contract, pari passu with increases in incomes, in standards of living, in acquisition of skills and so on. Nevertheless, instances will occur where, if only for a transitional period, local markets for both inputs and products will not grow as much as assumed in calculating NPV. On the other hand, the NPV calculus did not consider the impact of the so called income and employment multipliers, where secondary increases in investments and incomes are associated with the primary effect of the incremental investments under the Project. A hitherto unemployed person now hired by a small scale industrial producer in a provincial town becomes a customer of a local shopkeeper who, in turn, may consider hiring another employee, and so on.

It is implicitly assumed that the effects of the market shrinkages due to intensified competition of new entrants will be more or less offset by the expansionary effects of the multipliers. While there is no certainty that these offsetting forces will always be of equal weight, there is no reason to question the validity of the chief conclusion of the analysis, to wit, the positive value of NPV. But, and it is a weighty but, the NPV calculus is based on a number of assumptions whose plausibility is crucial. This being so, it is necessary to discuss these assumptions at some length.

Validity of Underlying Assumptions

The first of these crucial assumptions is that the guarantee fund scheme will work more or less as planned (Annex F.i, A.). This is a technical rather than an economic issue and need not be dealt with here. It should be mentioned, however, that the scheme was designed after an analysis of the problems and pitfalls encountered by a number of similar schemes in a number of LDC's whose stage of development resembles that of Thailand. Every effort was made to minimize these problems and to avoid the pitfalls.

Two crucial issues remain. Stated simply they are:

1. Are there, in fact, in the up-country areas of Thailand, hundreds if not thousands of viable industrial projects whose success is held back by restricted access to institutional finance?
2. Can such projects be successfully and profitably implemented by small scale industrialists in these provinces?

There is an impressive accumulation of evidence, both at the micro and at the macro level, which documents the validity of the following assertions:

1. Small scale industrial enterprises show remarkable survival powers in spite of the generally unfavorable policy setting.
2. The proportion of small size firms in manufacturing tends to decrease over time but remains high for middle income LDC's. During that development stage their number increases in absolute terms.
3. A high proportion of small scale industries becomes large firms.
4. A significant proportion of small scale firms which remain small seem to adapt themselves to existing constraints among which barriers to entry to institutional finance loom large.

Unfortunately, the large number of longitudinal studies tracing the history of small scale manufacturing units over time, do not include Thailand. However, the available literature does disclose sporadic evidence drawn from Thailand's small scale industry which appears consistent with the findings elsewhere. In general, there is no reason to doubt that the existing provincial manufacturing firms in Thailand are capable of expansion, or that new firms will emerge, *pari passu* with the improvement of the efficiency of the existing delivery system.

The persistence of small scale enterprise even in such highly industrialized countries as Japan, and its continued growth (albeit at a decelerating pace) in Korea and Taiwan, is most commonly explained by a number of factors drawn from location theory, to wit:

1. When rural incomes are rising, up-country industries will find additional outlets and opportunities.
2. As long as transport and marketing costs remain high in the outlying provinces, small scale industry will thrive.
3. Weight-losing and perishable products will continue to find comparative advantage in locating in rural areas.
4. The spread of subcontracting and service industries will favor provincial firms.
5. A number of specialized and differentiated products will find low scale economies when locating outside major metropolitan centers.
6. Innovative activities will continue to find profitable niches outside metropolitan areas.

What is particularly interesting is that there appears to be a significant number of small enterprises which either grew to considerable size or else continued to be profitable at low sizes in the absence of any of the standard locational advantages. This was true in Korea and elsewhere and is explained by the presence, in some rural areas, of capable entrepreneurs who prosper even though they do not appear to enjoy any of the advantages listed above. In one of the few existing studies of such areas in Thailand (Sukhotai) this proposition was fully documented. It would seem, therefore, that while entrepreneurship may not be a "slack variable" in the linear programming sense (i.e. not a constraint in growth models) it is certainly likely to be less of a problem here than in a number of other developing countries. Thai entrepreneurs have shown themselves responsive to new opportunities and to new techniques, even though they do not always explore these opportunities in the most efficient manner. This is one reason why the record of small scale industry world-wide, as well as in Thailand, does show a high mortality rate for small scale industrial enterprises, especially those located in the outlying provinces (and helps to explain the high concentration of very small scale enterprise in the Bangkok area).

The point made about no apparent shortage of entrepreneurial talent but a dearth of efficient entrepreneurs and managers, is an important one and is documented in the Le Crow study in the case of Thailand*.

It suggests that inefficiencies to be found in the conduct of small scale industrial enterprise arise out of uncertainties associated with choices among production functions, that is, the appropriate technology to be adopted in production, especially when considering expansion.

But there are other inefficiencies which are prevalent in the conduct of small industrial units, over and above those which are external to the firms and over which the entrepreneurs - owners-managers have no control.

These internal inefficiencies include lack of an accounting base for managerial planning and decision making, lack of information about markets and suppliers and the barriers, real or perceived, to institutional finance. The Project Package is an attempt to alleviate these deficiencies and thus insure that small scale industrial projects can be carried to a successful conclusion.

Accordingly, the requirement for project-based appraisal under the lending stimulated by the guarantee fund, the IMET training activities, and the information network to be set up at the DIP, are all components of the Project package expressly designed to reduce these entrepreneurial inefficiencies.

* D. J. Le Crow "Choice of Technology in Low Wage Countries"
Quarterly Journal of Economics, Nov. 1979.

In conclusion, therefore, while the final outcome cannot be predicted with any degree of certainty, there are reasons to believe that the Project package, in conjunction with the existing delivery system (which, hopefully, will continue to improve under the influence of other germane activities) will bring about the results expected.

Socio-Economic Benefits

The macro-economic impact of the Project Package which assumes an increase of GDP of \$4 million or 105 million baht cannot be said to constitute a major developmental thrust. Measured as a proportion of value added in manufacturing, it amounts to a minute fraction of one per cent. With GDP about five times the size of manufacturing, the influence of the Project on the growth rate of aggregate supply of goods and services will be negligible.

The rather marginal changes in GDP which can be expected from interventions designed to assist small scale industrial producers in the up-country areas, is one important reason why that segment of private enterprise has, until very recently, operated in an atmosphere of benign neglect. But the growing awareness of the perils of large scale open unemployment and particularly of the high proportion therein of high school and university graduates has turned the attention of the authorities to small scale industry and to its employment - generating potential. Open unemployment, as distinct from disguised, or seasonal unemployment has been growing at an accelerating rate and now approaches 3% of the labor force. The current number is close to 700,000 and an equal number is estimated to be looking for work but not officially counted as unemployed. The attention now being given to small scale industry is due to the belief that this segment of manufacturing is more labor intensive than the medium and large scale industry and that efforts to assist it will be more cost-effective and more immediate.

In actual fact, it is not certain that, for any given product mix, a small scale industrial enterprise is more labor intensive than a large firm. What is certain, however, is that small scale enterprises tend to be concentrated in more labor-intensive subsectors of industry so that, in effect, assistance to small producers will yield more workers per unit of capital and per unit of time.

Small scale producers use less capital, generally use capital more efficiently and so, accordingly, show a much lower capital intensity than larger firms.

To estimate the net increase in employment which will result from the full cycle operation of the guarantee fund, is not possible in any precise fashion. Even if data on ICOR's and Cobb-Douglas functions were available by size of assets of industrial enterprise, it would not be possible to predict, ex ante, the pattern of investment which will be created as a result of loans yet to be made under the aegis of the guarantee fund.

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Accordingly, only a rough estimate can be attempted, based on comparative data for industrial investment in Thailand.

There are two sets of data which are relevant to the task at hand. The first set of data is derived from the mid-term evaluation of the loan to the Siam Commercial Bank disbursed during 1983 and the other source is the analysis of the data in the files of BOI.

In the case of the SCB loan, the loan cost per job was estimated at \$4,775. Allowing for a generous increase in the cost, for inflation, of about 25% during the duration of the loan activity under the guarantee scheme, and assuming further than only three fourths of the \$16 million of loans made thereunder will actually result in actual investment, 2,400 new jobs would be created directly over the duration of the guarantee fund.

The 2,400 figure is almost certainly underestimated and must be taken as the lowest possible outcome. The major, but not the only reason for underestimation, is that the loan disbursed by the SCB were to the "first layer" of small scale industrial enterprise whereas the guarantee fund is designed for the "second layer", whose investment projects are likely to be substantially more labor intensive.

The BOI data show that, in 1982, the average employment per million baht of investment for the promoted projects was 1.4 persons compared with 4.7 persons per one million of investment for the industry as a whole. Twelve million dollars of loans (three fourth of assumed sound loans under the guarantee) represent 625 million baht of investment (it will be recalled that the loans under the scheme are not to exceed 50% of the cost of the project). The resultant employment generation should yield about 3,000 jobs attributable to the operation of the guarantee scheme. In this calculation no adjustment was made for inflation because it is certain that the number of jobs per unit of investment made by the beneficiaries of the guarantee scheme will be a multiple of the average for the industry as a whole.

The increase in employment directly attributable to the guarantee fund, even if understated even at 3,000, represents nearly one half of one per cent of total open unemployment, a not insignificant contribution. When compared with the Siam Commercial Bank loan, the guarantee fund generates employment at less than one seventh of the cost per job (\$634 versus \$4,775).

While the employment generation effects of the Project are implicit in the estimates of additional GDP, there are related socio-economic benefits which can be expected to flow from the 3,000 or so additional workers employed by the small scale provincial producers. In the first place, a substantial proportion of this additional employment is likely to be unskilled. A number of empirical studies conducted in a variety of middle income LDC's, confirms the assertion that less sophisticated technology used in the production functions of small scale industry tends to employ higher proportions of unskilled labor. Secondly, rural-based manufacturing firms

will draw on a larger pool of landless laborers, whether skilled or unskilled, than is likely to be the case with larger scale enterprises based in or near metropolitan centers.

To the extent that unskilled and landless laborers are identified as the hard core of the pockets of absolute poverty in most developing countries, the Project activities will mitigate the incidence of this intractable social problem. Similarly, the support to small scale industry located in provincial towns can be expected to relieve, to some extent, the pressures for out-migration, and to aid in the objectives of industrial dispersal and the reduction of regional income disparities.

These socio-economic benefits are not easily amenable to quantification, nor is their order of magnitude likely to be great. They do, however, engender forces which are consonant with developmental objectives other than the increase in the rate of growth of value added and almost certainly greater than any equal-cost effort focused on larger scale industrial enterprise.

The developmental objective of improving the balance of payments position deserves brief mention. Unfortunately, there is no clear cut evidence regarding the effects of the growth of small scale industry on exports and imports relative to that of the expansion of the larger scale firms. But it may be worth mentioning that the current fashion of emphasizing export promotion as the primary instrument of redress of balance of payments disequilibria should not obscure the fact that import substitution, properly interpreted, can also be effective, and that indeed, it is more amenable to government control than export promotion. Import substitution has, in the past, connoted excessive protection of domestic production which sought to replace imports of consumer durables destined for the high income households. But import substitution can also mean the production of mass-consumption items, as well as of intermediate capital goods, even if, on occasion, the quality of these locally produced goods may not come up to world standard. There are reasons to believe that small scale firms will use local materials and local labor relatively more than other segments of manufacturing enterprise.

iii. Financial Analysis

PART I

For the purpose of this analysis the entire Intervention Set will be viewed as an Integrated Project Package with the small scale industry guarantee fund as its core and the study and subprojects grants as complementing, reinforcing and supporting the operation of the loan component. Accordingly, the analysis will concentrate on the financial viability and efficiency of the core component, with occasional arguments and data pertaining to the others components of the Project package adduced whenever appropriate.

Effect on Project Participants

There are three sets of participants involved in the core activity of the Project. First and foremost, the small scale enterprises, the intended beneficiaries of the guarantee scheme. Second, the IFCT (Industrial Finance Corporation of Thailand) which will pioneer project-based, partly collateralized term-lending and manage the guarantee facility, and, thirdly, the domestic commercial banks who are expected to join and effectively participate in the scheme. The custodial and managerial function is not considered a participant in the sense implied in the analysis, because the impact is meant to be neutral, that is the custodian/manager will neither benefit nor lose from the scheme, as designed.

The case for the existence of powerful financial incentives to motivate the participation of small scale industrialists in the guarantee scheme is based on strong evidence that the existing barriers which inhibit this layer of enterprise from seeking credit from the financial market are those of stringent collateral requirements, dearth of project-basic appraisals of loan applications, the limited duration of loan repayment schedules, combined with narrow grace periods and such access factors as will be addressed by the training and technical assistance components of the project.

Empirical studies conducted by NIDA (National Institute of Public Administration) and by others, establishes quite clearly that the collateral problem is especially acute for small scale industrialists. They are discriminated against in several ways. In the first place, in spite of the banking systems alleged emphasis on collateral (i.e. pledge of a marketable asset as a safeguard against default) half of the asset portfolio of Thai commercial banks is extended either without any collateral or with a personal or corporate guarantee. These loans and advances, however, are confined to prime risks and/or to borrowers with a variety of links to the lender. Indeed, there is a striking correlation between the average size of loan and the nature of the collateral, again reinforcing the relative disadvantages of small scale entrepreneurs. Furthermore, for small producers, fixed assets account for a lower proportion of total assets, a

fact which constrains their borrowing capacity even more. Finally, many small scale borrowers are effectively confined to land and buildings as collateral because, in order to be eligible to offer equipment as collateral it must be registered by the Ministry of Industries, a procedure which they often choose to by pass. Add these discriminating features to the general limitations on the nature of collateral and to the reluctance of most lenders to accept second mortgages, and the importance of loosening the collateral constraints becomes paramount for small scale industrialists.

Closely related to the collateral problem is the scarcity of loans made on the basis of the appraisal of the project to be financed. Even though the commercial banks will usually require the submission of a balance sheet, profit and loss statements, etc. from borrowers seeking expansion finance, and of cash flow and other pro-forma documents from new borrowers, the approval of the loan hinges on other considerations.

With the exception of the IFCT, there is seldom any attempt by the lender to estimate the economic impact of the project to be financed and almost never a reliance on the project's viability as the chief source of loan amortization. The commercial banks do point out, with some justification, that even a very good project will not guarantee repayment of the loan if its sponsor diverts the loan to consumption purposes or if he absconds to Taiwan or Hongkong with the loan proceeds. But it is difficult to see why such a guarantee of bona fide must amount to up to twice the value of the loan, over and above the value of the assets acquired through the loan itself.

In consequence of these attitudes and practices, term-loans, that is loans extended for a period of several years with a provision for exemption from payment of interest and/or principal for an initial year or two of grace period, is a neglected instrument within the Thai commercial banking system. This is demonstrated by the extremely high ratio of short term to long term credit obtaining in Thailand, of 9:1 which is about four times the conventional ratio and far in excess of the legitimate need to maintain liquidity in the commercial banks balance sheets. For reasons indicated above, the shortage of long term credit is particularly acute for small-scale borrowers.

When project-based term loans are made by the commercial banks, they seldom extend to 3 years and rarely offer a grace period of one year, or over. Both these limitations are especially difficult to conform to by small scale borrowers who are less familiar with machinery, with production processes or with marketing than medium and large scale firms, thus also more vulnerable to changes in demand and market conditions.

Given the reluctance of the commercial banks to engage in term lending, on the one hand, and the growing demand of the manufacturing sector for this type of finance on the other, the financial market in Thailand resorted to an ever increasing reliance on overdrafts as the principal instrument for financing the acquisition of long term assets. Currently, some 60% of all

1
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commercial bank loans and advances are in that form. Basically, overdraft is the extension by the lender of the privilege to draw checks on the client's account even if the account is insufficient to cover the check.

On the face of it, the overdraft system offers definite advantages to both the lenders and the borrowers. The lenders benefit from maintaining deposits which have to be replenished from time to time, and they have better control of their liquidity position than would be the case under genuine term lending. The borrowers are not required to repay the principal during the duration of the overdraft facility and are sure of roll-over of the credit at current market rates. But, again, such benefits are virtually confined to large scale borrowers and are very seldom attainable by small scale ones.

Moreover, from the standpoint of social benefit, the overdraft system leaves much to be desired. It favors investment with a short-horizon, with quick financial returns, over those with greater economic benefits in the long run. Under overdraft financing banks need not inquire too closely into the relative efficiency of use for which withdrawals are made, compared with alternative uses. Nonetheless, overdraft financing is here to stay and indeed is likely to become even more popular in a period when interest rates appear to be more volatile and show a declining trend. But there is clearly a need to reduce their preponderance in the system and to make term finance available to those who need it most and receive least, i.e. small scale industry in the provinces*

There is therefore, little doubt that the loan guarantee scheme, the core of the Project package, embodies powerful incentives for the small scale enterprises to enter the scheme. But, there is a reluctance on the part of that segment of the free enterprise array, to enter the formal financial market, for reasons which extend beyond the perception of existing obstacles to entry. Accordingly, the Project package includes a number of subprojects designed to highlight the advantages, to facilitate the procedures to secure entry and to overcome the attitudinal and other reservations of would be borrowers. The DIP/ISU subproject is specifically designed to that end, as are other elements of the package.

The very nature of the guarantee scheme insures that once the small scale industrialist chooses to avail himself of the new facility, there should be no problems with ascertaining cash flows and other financial requirements which, in this Project, will be handled by professionals.

* All available information suggests that small scale industry, outside the Central Region, is even more disadvantaged than the subsector in general. Even IFCT, the staunch adherent of project-based term-lending has been unable to diversify its loan portfolio, geographically, to any significant extent.

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Turning to the other participants in the guarantee scheme, i.e. IFCT and the commercial banks, there are reasons to believe that the guarantee fund could be structured in a way to provide adequate incentives to both types of lenders, with the proviso, however, that the strength of these incentives may not become fully apparent to all commercial banks early in the project. For this reason the fund is expected to be initially available only to IFCT and to selected banks who have expressed interest in starting the program.

Financial Viability of the Project Package

The Project Package is a non-revenue undertaking. But the non-revenue aspect is, in a sense, a misnomer. While it is true that the project components are not profit generating, the economic benefits expected to accrue to RTG and to the country as a whole, will exceed the dollar input cost.

The analysis of the financial viability of the Project package will take the form of "financial plans" indicating the flow of funds in a schematic form*. Two such plans will be presented below, one for the guarantee fund and the other for the remaining components of the package. The distinction between the two plans lies in the nature of the managerial control of the activities. The guarantee fund component relies heavily on the IFCT and on the cooperation of some of the biggest and most reputable commercial banks for the management of its operations. The other components will be under overall management of DTEC, IMET, and IESC. In all cases, however, AID/Thailand will retain the usual controls over the use of the grants.

Loan Guarantee Fund - The Financial Plan

In devising the financial plan for the guarantee fund, considerable attention was given to the desideratum of insuring its viability at the least possible cost. The concatenation of a ceiling for obligational authority, the use of letters of commitment and the limited duration of the Project, add up to a prudent management structure deemed necessary in implementing an activity as yet untested in Thailand, and one whose success hinges on the validity of a number of debatable assumptions.

The obligational authority is set at \$8 million, a figure which could only be disbursed under a highly unlikely "worst case" scenario whereby \$16 million of loan agreements are contracted, none of which are repaid. Under this scenario, AID will honor its letters of commitment and both the

* A schematic presentation does not pretend to forecast the exact phasing of flow of funds but, instead, indicates a simplified allocation of total funds over time

obligational authority and the guarantee fund itself will be terminated*.

The aggregate value of the letters of commitment will thus never exceed \$8 million even in the extreme case cited above. More significantly, the device of letters of commitment enables AID to monitor closely the flow of funds in and out of the guarantee fund and to take remedial steps whenever appropriate. Thus for example, AID may wish to re-examine the modulus operandi of the fund, should the default rate prove to be greatly above the assumed base case, or should the volume of loan agreements turn out to be very low.

In this connection, the limitation of AID's active participation in the guarantee fund component of the Project package to six years, acquires an importance which goes beyond the merely administrative one of congruity with the other Project package components. This is so, because at the end of second year of operation of the guarantee fund, some valuable intelligence and insights will be gained regarding both the rate of loans and the loss experience. These insights and intelligence could be inserted, if need be, into the operations in the scheme beginning in the third year, and again, given a four year duration of an average loan, at the end of the sixth year, when, hopefully, the guarantee fund could be demonstrated to become self-sustaining if supported by new infusions of funds. The last letters of commitment will be issued at the end of that year and even though disbursements under those letters will occur in the four succeeding years, there will be no further need for AID's active participation in the scheme.

The schematic flow of funds, presented below, is based on assumptions which are deemed both modest and plausible**. It posits a total of loans made over the 6 year period of \$16 million, at a direct cost of AID cash contribution of less than \$2 million. The flow of funds is so structured that at no time the volume of loans outstanding is more than twice the amount of obligational authority. The gearing ratio shown of 8 to 1 (i.e. ratio of loans generated to AID cash contribution) is made possible by the assumed loan default ratio of 25% of the loan volume, at the maximum. It will be recalled that the fund agreement calls for reimbursement of lender losses to the tune of 50%, with the other half borne by the lenders themselves. The high gearing ratio, whereby \$16 million worth of loans are made possible by the injection of only \$2 million of donor funds is, of

* Letters of commitment, it will be recalled, will be issued by AID to cover the contingent liability of AID against the loans made under the guarantee scheme. Inasmuch as the fund guarantees only half of the losses, the disbursement from the fund cannot exceed \$8 million.

** A conceptual and empirical justification of the assumptions underlying both the *raison d'etre* and the operational validity of the guarantee scheme are given elsewhere in this Project Paper. See the Technical Analysis of SIGF.

course, the principal attraction of a successful loan guarantee scheme and one which makes it extremely cost-effective compared with standard on-lending schemes. Indeed, even in the "worst-case" scenario, a guarantee fund has a higher gearing ratio than a on-lending scheme fed by concessionary funds*.

Under the proposed structure of the financial plan the total amount of loans made under the guarantee scheme is limited to twice the amount of the obligational authority even though the loss ratio (i.e. defaults occurring within one year of the expiration of the grace period) is only one fourth of the loans. However, should the experience during the first six year of operation demonstrate a lower loss ratio, the volume of loans could be adjusted accordingly, beginning in the seventh year if the fund received future support. Be that as it may, the guarantee scheme will generate no less and probably considerably more than \$16 million in loans during the 10 years of its planned operations.

In financial terms the lending of \$16 million worth of loans will not encounter problems either on the demand or on the supply side of the loanable funds schedule. As noted in the technical analysis of the SIGF, unmet demand is estimated to be at least 6 billion baht.

The guarantee fund will thus be called upon to supply but a small fraction of the pent-up demand for loans. However \$16 millions, or some 422 million baht equivalent of loans to largely new entrants to the formal financial market, would test the ability of any one lender participating in the guarantee scheme. The only comparable effort actually undertaken by a Thai credit institution in recent years was that of the Small Scale Industry Department of the IFCT, which, between 1983 and the end of 1985 has lent 230 million baht on 120 loans, averaging 2 million baht per loan. However, about half of these loans were made to enterprises located in Bangkok and the Central Region provinces and were made chiefly to the "first layer" of small scale producers. It is clear, therefore, than in order to make \$16 million worth of loans averaging .8 million baht or some 528 loans, as envisaged under the guarantee scheme, the participation of commercial banks and their vast network of provincial branches will be the sine qua non of the scheme's success.

* The exact gearing ratio of a loan guarantee fund is a function of the actual default rate and of the proportion of losses covered by the guarantee. At the limit, where losses are 100% and the guarantee is also 100%, the gearing ratio becomes unity.

Loan Guarantee Fund
Schematic Flow of Funds Table
(in millions of US\$)

YEAR OF OPERATION	LOANS SIGNED	LETTERS OF COMMITMENT	LOSS EXPERIENCE	DISBURSEMENT BY AID
1	1.0	0.5	-	-
2	1.0	0.5	-	-
3	2.0	1.0	0.250	0.125
4	3.0	1.5	0.250	0.125
5	4.0	2.0	0.500	0.250
6	5.0	2.5	0.750	0.375
7	-	-	1.00	0.500
8	-	-	1.250	0.625
9	-	-	-	-
10	-	-	-	-
TOTALS	16.0	8.0	4.0	2.0

Legend:

1. Loan amounts are arbitrary but the figures are meant to imply a gradual increase, pari passu with the growing experience of the lenders.
2. Letters of Commitment are one half of the value of loans signed and are issued or amended concurrently.
3. Defaults cannot occur before two years have elapsed from the signing of the loan agreement, because arrears are tolerated for up to one year following the first year of grace period.
4. Disbursements cannot exceed one half of the loss (defaults) and are made in the year the defaults occur.

Financial Analysis

PART II

The objective of Part II of this analysis is to determine the financial viability of the remaining six RIE project activities. Since all of these activities are non-revenue producing, findings and conclusions on their financial soundness are based on analyses of the proposed budgets, the proposed mechanisms to be used in providing project funds, demonstrated capabilities of the implementing organizations to manage the funds, and plans/expectations for these organizations to continue project activities when USAID support is terminated.

Budgets

Detailed budgets have been submitted for most of the project activities, and generally are well prepared and in sufficient detail to conclude that sufficient funds are programmed to meet the individual project element purposes.

USAID funds under these project elements are generally proposed to meet specific operating expenses of the implementing agencies. Some difficulty is encountered in comparing operating expenses of one agency with another since some (i.e., ISU and NESDB) are RTG agencies, while IMET, TCC and ATI are not. However, it is useful to identify some of the cost differences for these costs between and within these organizations. The differences are explained simply by the nature of the job responsibilities and of employer.

	<u>Monthly</u> <u>Salaries</u>	<u>Monthly</u> <u>Travel Costs</u>
	<u>(In Thai Baht)</u>	
<u>ISU</u>		
Project Manager	11,000	3,500
Sector Analysts	5,000	6,580
<u>IMET (TESC)</u>		
Project Director	35,000	5,333
Project Officer	35,000	5,333
<u>IMET (Training)</u>		
Project Director	35,000	5,333
Evaluation Officer	30,000	5,333
<u>TCC</u>		
Field Staff	15,000	1,000
<u>ATI</u>		
Managing Supervisor	12,000	3,300
Field Operations Officer	8,100	1,825

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Some per diem rates proposed by ISU exceed current RTG rates. Since the RTG will be paying a portion of these costs, RTG regulations will apply and these differences will be resolved in a Project Implementation Letter.

Similarly, contingencies included in the implementing agencies budgets vary considerably:

ISU	13%
IMET	5%
ATI	12%
TCC	0%

These variations in budgeted costs and contingencies and other budget questions will be handled in the following manner:

- USAID management will decide whether the varying salary levels and travel/per diem rates proposed by the implementing agencies are acceptable. The USAID decision will be included in Project Implementation Letters addressed to each implementing agency.
- Although the level of detail in the proposed budgets is sufficient for the Project Paper, detailed Financial Plans will be submitted and approved each year for each project element. This requirement will also be included in a Project Implementation Letter addressed to each implementing agency.
- The IESC budget is based on historical cost data. Specifics on which costs are to be supported under the USAID project, and how they are to be calculated, recorded and reported, will be included in a Project Implementation Letter. These payments are expected to be lump sum on the order of \$1,667 per month of volunteer services.
- Payment of overhead fees to IMET and TCC are expected to be lump sum based on agreements with each organization.

Funding Mechanisms

The project design contemplates four separate Project Grant Agreements:

- With IFCT, for the Small Industry Guaranty Fund;
- With IMET, for the training for Rural Entrepreneurs, and the Thai Executive Service Corps;
- With IESC, for their role in the Technical Assistance for Rural Entrepreneurs element; and
- With DTEC, for the ISU, TCC, ATI, and Evaluations elements.

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USAID Grant funds, except for the ISU and Evaluation elements, are planned to be released directly to the cognizant Implementing Agency. Although not addressed in the draft Project Paper, an initial advance of funds will be made from the USAID Office of Finance, with reimbursement vouchers submitted by the implementing agency at the end of a specific time period. Detailed instructions will be provided to each Implementing Agency, in a Project Implementation Letter, outlining the USAID accounting and reporting requirements.

DTEC Counterpart funds will be made available to cover local costs of the expatriate advisor to the ISU and for the local costs support of the Evaluations project element.

RTG budget funds will be made available for a portion of the local costs of the ISU and of the NESDB-implemented project elements.

Private sector funds will be made available to cover a portion of local costs for the project elements implemented by IMET, IESC, TCC and ATI.

Adequate mechanisms are in place for the release and accounting for USAID grant funds by the Implementing Agencies. An issue that will be addressed and resolved is the extent to which DTEC is involved in the management of these funds, especially for those project elements covered in the USAID/DTEC Grant Agreement. This issue will be resolved prior to the signature of the Grant Agreement. DTEC's role in project management will be resolved prior to the signature of the Grant Agreement.

Financial Management Capabilities of Implementing Agencies

Based on information made available during this analysis, there is but one real concern about the capabilities of the implementing agencies to manage the USAID-provided funds. In an evaluation report issued in July 1985, IMET's accounting system was described as a "hybrid", which was unable to provide financial information in an accessible, useful manner. The evaluators attributed much of the problem to the lack of good communications with IMET on the subject of financial record keeping, reporting and analysis. Therefore, a financial systems review on IMET will be performed prior to the disbursement of project funds.

This situation illustrates the need for clear and thorough instructions and understandings about financial management under the Grant Agreements. This need is underscored by the number and diversity of the organizations implementing the project.

The procedures and reports to be developed need not be complex - but will be developed on a collaborative basis and then recorded in PILs. A brief but structured systems analysis will be performed of the internal controls and accounting/reporting systems of each of the implementing agencies which will receive funds directly from USAID. Specific improvements will then be included in a PIL.

As noted above, detailed annual Financial Plans will also be required, substantiated by financial reports on prior releases of funds.

For agencies receiving USAID Grant funds through DTEC, the concern is that DTEC procedures and requirements can be overly standardized, complicated, and time consuming. But it is also true that USAID can be relatively assured that funds are being spent in accordance with outlined rules and regulations.

Future Financing of Project Activities

Considerable thought and planning has been given by the Department of Industrial Promotion to the continuation of ISU program activities at the end of the three years of planned USAID support. In their detailed budget proposal submitted to USAID, the DIP has planned for RTG assuming a greater share each year of the recurring ISU costs - in the third year, the proposed RTG budget covers almost 75% of these recurring costs. The RTG Fiscal Year 1987 Budget already includes sufficient funds to cover the planned DIP contribution to this project.

Similarly, the TCC proposes to pick up 50% of the direct costs during the fifth and sixth year of their project activities.

IMET and ATI "straight line" the USAID contributions during the entire six years of their project activities. Inasmuch as they are being requested by USAID to support specific project activities, the mission does not consider it significant that these organizations have not made plans to continue with these project activities after USAID support is terminated.

TABLE 1

ANNEX F (iii)

Appendix 1

AID FUNDED
Budget for IMETThai Executive Service Corps
(Baht 000)

Description	Year						Total
	1	2	3	4	5	6	
1. Project Director							
Salary (35,000/mo. + 10%/yr.)	420	462	508	599	615	676	3,240
Local Travel (1,333/mo. + 5%/yr.)	16	17	18	19	20	21	111
Up-country Travel + Per Diem (5,333/mo. + 5%/yr.)	64	67	71	37	39	41	249
2. Executive Assistant							
Salary (10,000 + 10%/yr.)	120	132	145	160	176	193	926
Local Travel	5	5	6	6	6	7	35
Up-country Travel + Per Diem	8	8	9	9	10	10	54
3. Project Officer							
Salary			420	462	508	559	1,949
Local Travel			10	11	11	12	44
Up-Country Travel + Per Diem			78	82	86	90	336
4. Accountant							
Salary		132	144	156	180	192	804
5. Materials and Supplies	50	53	55	58	61	64	341
<u>Subtotal:</u>							<u>8,089</u>
6. Volunteer Budget							
# Clients	15	25	40	60	80	100	320
Cost to Project	164	273	436	654	436	545	2,508
<u>Subtotal:</u>	847	1,149	1,900	2,253	2,148	2,410	<u>10,597</u>
	32	43	71	85	81	89	
<u>Total Thai Executive Service Corps Budget:</u>							10,597
							=====
							(\$401,000)

Operation of TESC

The Thai Executive Service Corps will operate under the Institute for Management Education in Thailand and will provide volunteer technical and managerial assistance to the rural private sector primarily through the Bangkok based private sector. The operations of TESC will be guided by the IMET Board of Directors through the IMET Managing Director. The TESC Project Director will report to the IMET Managing Director and will supervise TESC staff.

TESC clients will receive the following services:

- a) An initial consultation with TESC staff to determine the problem to be addressed;
- b) An initial consultation for up to three days by an industry specialist and a member of a university faculty member; and
- c) two additional visits by the industry specialist for up to three days each time.

The project will fund the cost of travel for the industry specialist and faculty member and a small honorarium for each for the first four years of the project. The employers of the faculty member and industry specialists will pay their salaries. The client will provide their food and lodging.

In the last two years clients will be expected to pay a proportion of the travel expenses as well. For budget purposes the proportion is estimated to be 50%.

The budget is based on half the clients being in the North and half in the Northeast (although clients may actually be elsewhere as well.)

The honorarium is estimated at Baht 500/trip. The project cost of servicing one client after the TESC consultation is therefore:

First Consultation:

Faculty honorarium	Baht 500
Industry honorarium	500
Taxi	600
Airfare	<u>4,000</u>
<u>Subtotal:</u>	<u>Baht 5,300</u>

Second Consultation:

Honorarium	Baht 500
Taxi	300
Airfare	2,000
<u>Subtotal:</u>	<u>Baht 2,800</u>

Third Consultation

Baht 2,800

Total:

Baht 10,900

=====

Private Sector Contribution:

- | | |
|--|-----------|
| A. Salary, Baht 1,380/day x 12 days x 320 clients
= Baht 5,299,200 = | \$201,000 |
| B. Food and Lodging Baht 500/day x 12 days
x 320 clients = Baht 1,920,000 = | \$73,000 |

TABLE 2

AID FUNDED
Budget for IMETTraining Program
(Baht 000)

Description	Year						Total
	1	2	3	4	5	6	
1. Project Director							
Salary (35,000/mo. + 10%/yr.)	318 <u>1/</u>	462	508	559	615	676	3,135
Local Travel (+ 5%/yr.)	12	17	18	19	19	20	106
Up-country Travel + P.D. (+ 5%/yr.)	48	67	71	74	78	81	419
2. Evaluation Officer							
Salary (Baht 30,000/mo. + 10%/yr.)	270 <u>1/</u>	396	436	479	527	580	2,689
Local Travel	6	8	9	9	10	10	53
Up-country Travel	32	67	71	74	78	82	404
3. Secretary							
Salary (Baht 10,000/mo. + 10%/yr.)	90 <u>1/</u>	132	145	160	176	193	896
Local Travel	5	5	6	6	6	6	34
<u>Subtotal:</u>	Baht 781	1,154	1,264	1,380	1,509	1,648	7,736
	\$ 29.6	43.7	47.9	52.3	57.2	62.3	(\$293,000)
4. Training Leading Provincial Business People							
# Trainees	-	70	70	70	70	70	350
Cost	-	1,988	2,087	2,192	2,301	2,416	10,984
5. Small Business Management Training							
# Trainees	-	400	400	400	300	100	1,600
Cost	-	848	890	935	654	343	3,670
6. Management Training For District Level Business People							
# Trainees	-	250	250	250	250	250	1,250
Cost	-	2,915	3,061	3,214	3,374	3,543	16,106
<u>Subtotal:</u>							30,761
							(\$1,165,000)

1/. Assumes 9 months in 1st year.

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TOTAL IMET BUDGET

	<u>Baht</u>	<u>\$</u>
Thai Executive Service Corps	10,597,000	401,000
Training Programs	38,496,000	<u>1,458,000</u>
<u>Subtotal:</u>	49,093,000	1,859,000
Contingency 4% <u>1/</u>	1,964,000	74,360
IMET Overhead (Baht 25,000/mo.)	1,800,000	<u>68,000</u>
<u>Subtotal:</u>	52,857,000	2,001,360
	<u>TOTAL (Rounded):</u>	<u>2,000,000</u> =====

1/ Includes an estimated \$30,000 for training, workshops, and seminar attendance by Regional University Business Faculty.

TABLE 4

AID FUNDED BUDGET (Baht 000)
 Thai Chamber of Commerce
 Strengthen Rural Business Associations

Description	Year						Total
	1	2	3	4	5	6	
1. Field staff:							
No. of staff	2.5	5	5	5	5	5	
salary ^{1/}	450	990	1,089	1,198	659	724	5,110
Travel	30	66	73	80	44	49	342
<u>Subtotal:</u>	480	1,056	1,162	1,278	703	773	5,452
TCC overhead 17%	82	180	198	217	120	131	928
<u>Subtotal:</u>	562	1,236	1,360	1,495	823	904	6,380
Misc.							<u>220</u>
<u>Total:</u>							6,600
							=====
							(\$250,000)

^{1/} Assumes Baht 15,000/month + 10%/yr.

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TOTAL IMET BUDGET

	<u>Baht</u>	<u>\$</u>
Thai Executive Service Corps	10,597,000	401,000
Training Programs	38,496,000	<u>1,458,000</u>
<u>Subtotal:</u>	49,093,000	1,859,000
Contingency 4% <u>1/</u>	1,964,000	74,360
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<u>Subtotal:</u>	562	1,236	1,360	1,495	823	904	6,380
Misc.							<u>220</u>
<u>Total:</u>							6,600 =====
							(\$250,000)

1/ Assumes Baht 15,000/month + 10%/yr.

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iv. Social Soundness Analysis

The components of the Rural Industries and Employment project are focused on the establishment and expansion of "second layer" enterprises employing up to 50 workers with good potential and prospects but without a well-documented track record and limited fixed capital deploying rather rudimentary technology. The enterprises own some land and buildings but these usually represent the family home, as well as the assets of the firms. On occasions such enterprises may avail themselves of the facilities offer by institutional lenders but they encounter difficulties in obtaining term loans and in satisfying collateral requirements. It is this level of enterprise on which the social soundness analysis focuses.

Sociocultural Feasibility

A perusal of the ample collection of anthropological and social psychology studies dealing with Thailand discloses a number of customs, beliefs and attitudes which appear inimical to economic growth and development. Attachment to tradition, conformity to social hierarchy and a culture of authority are among the characteristics cited in support of that contention. Whatever the validity of these findings, their potency has either greatly diminished over time, or else was overshadowed by other, stronger influences. The historical record, especially in the last decade or two, has conclusively dispelled the myths of Thai entrepreneurial lethargy, lack of assiduity or dearth of acumen. Small scale industrial enterprise, including provincial industry, has grown faster than agricultural production and has proven more rewarding and more profitable than traditional pursuits in the up-country areas.

While there can be little question that cultural obstacles to innovation, to risk taking and to individual initiative exist and persist, these obstacles cannot be considered critical within the ambit of the Project package. The growing openness of the Thai economy, the exemplary tolerance of its people, and the widespread recognition of socio-economic benefits which flow from sustained economic growth have, in the aggregate, proven much stronger than the forces acting to maintain the status quo.

The optimistic prognosis of the Project's contextual fit with the fabric of Thai provincial society does not assume an even and smooth progress of the Project's activities. There will be problems to face and obstacles to overcome. Whether or not these problems and obstacles stem from the peculiarities of Thai society and culture or else derive from its stage of economic development is immaterial for the purpose at hand.

The more significant of these perceived impediments to project activities have been touched upon in the technical analysis (Annex F.i) but merit additional discussion here. The first of these is the assymetry of risks facing the lender and the borrower. Even though the "second layer" industrialists are, in a sense, self-selected risk-takers by the very

nature of their occupation, the order of magnitude of the additional risk incurred in financing expansion or of the start-up of another production line, is not only of degree but of kind. A failure may involve not only the loss of business assets but, possibly, of the family land and house, and of the status in the community. The reluctance to accept such risk by those who eke a modest living producing on a small scale, using simple machinery financed largely by friends and relatives, is both widespread and understandable. It explains the continued reliance on the informal market for working capital requirements, and the maintenance of distance from both institutional lenders and from public support services.

Another impediment is perceived on the side of institutional lenders. Given the limited, if any, contact in the past, the lenders are both ignorant and mistrustful of the ability of the second layer entrepreneurs to adhere to the provisions of loan agreements and consider the costs of acquiring such knowledge excessive. This mistrust is fed by instances when borrowers divert the loan proceeds to consumption purposes or when they simply disappear. The lenders insistence on real estate collateral is motivated by their anxiety to insure that this does not happen too often but they have found that recovery of collateral in the event of default is not always a paying proposition even when the assessed value of the land and building is in excess of the loan amount. Apart from the court and other costs of recovery, the eviction of the defaulting borrower from his family house is an awkward process and one undertaken with a good deal of reluctance and foreboding.

Last, but not least, is the social distance which separates small scale industrialists in the remote provinces not only from the institutional lenders but also from persons of authority, be they government officials, bankers, or outside experts of all types. This social chasm is a by-product of the rather authoritarian past of Thai bureaucracy which remains of concern even now and which spills over onto all those whose background, training, customs and general behavior differ sharply from those of the inhabitants of a remote province.

To the extent that these perceived obstacles are susceptible to removal by outside interventions, the Project package has taken cognizance of them and has incorporated therein devices and measures to that end. Some of these measures and devices are discussed below.

To change the very subjective perception of risks is a major objective of the guarantee fund. The three key elements of the scheme; lowering of the collateral requirement, the extension of the currency of the loan (including the grace period), and the emphasis on the viability of the project as the basis for loan appraisal, are all designed to that end. The borrower is encouraged to seek institutional credit by the knowledge that the lender gives him preferential treatment and by his apparent willingness to share the risks. At the same time, the borrower is effectively discouraged from diverting the loan proceeds to consumption purposes by the fear of losing his only piece of property which may include his family home.

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More importantly, the borrower is reassured about the success of the enterprise by the acceptance of his proposal by the lender and further encouraged by the longer period allowed him to amortize the loan.

The lender obtains some information about the borrower from a study of his application which gives the business plan and details the proposal and is further encouraged by the sharing of the risk with the guarantee fund.

The very factors which tend to reduce the perception of risks on both sides of the negotiating tables are bound to dissipate a good deal of the mutual mistrust which hitherto separated the borrower from the lender.

Several components of the Project package aim at reducing the social distance between the small scale industrial producers and the formal institutional structure. The ISU activity brings government officials down to the rural entrepreneur instead of requiring the reverse, TESC provides for an academic person to join advisory business people on initial consultations because academics are trusted and admired, the rural business association activity provides for hiring local people to work with local small business, many of the project activities link rural entrepreneurs to the financial system, and the IMET Training Activity is geared directly to the real needs of business.

Indeed, training in all its aspects receives a considerable amount of attention in the design of the Project package. From past experience with such efforts and in particular from IMET training programs to date, valuable lessons have been learned and incorporated into the design of this Project. Thus, for example, in recognition of the fact that most small scale producers have little formal education, appropriate teaching modules have been developed which are then assembled and arranged so as to better suit the need of specific audiences. Even more important is the recognition that many small scale producers need, in addition to standard classroom instruction, a form of training that is more sharply focused on their special problems and is more practical and pragmatic in both its form and its content.

Field surveys of small scale provincial industries indicate that the more recently established firms tend to be larger in size and to be run by better educated owners-entrepreneurs (only about 13% of all small scale firms are partnerships or corporations.) It would seem, therefore, that as the size of the enterprise grows the recognition of the need for professional qualifications of management will become more widespread and gradually more acceptable to the traditional old-line owner-managers.

An interesting feature of the training components of the Project is the expectation, if not a formal requirement, that the beneficiaries of the training programs contribute to the costs of future programs thru registration fees which will accrue to IMET. These contributions can serve as a performance index of the value of the training to the recipients.

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In order to be able to reduce the social distance to any significant extent and, in doing so, wean the "second layer" away from the informal market, the supporting components must be both pro-active and flexible. The ISU sectoral specialists cannot sit in their offices and await inquiries but must go out to the field and work actively with the second layer entrepreneurs in identifying problems and concerns and speedily answering them. The project provides for them to do so. IMET training program must constantly adapt curriculum and methods to actual needs encountered and tailor training to the specific audiences. The prestige and status attached to the Executive Service Corps, the JPPCC secretariat or to district officials of the TCC/ATI, which have, in the past, tended to distance them from the small scale entrepreneurs, will have to be and are planned to be deployed to do the opposite. The "second layer" entrepreneurs must feel wanted and even cosseted but not patronized. Thus, for example, when a training seminar or workshop is held at a hotel, the guests should feel honored but should also be given an opportunity to contribute to the cost of training, albeit on a voluntary basis.

It should be noted that the thrust of the Project Package is on the "second layer" which is deemed most susceptible to a behavioral and attitudinal change in the short run, and most capable of yielding real accretion to the economy. The concerns of the other two layers of small scale provincial enterprise have been relegated to the policy studies in the hope that the results of these studies will yield the basis of pragmatic interventions of value to the first and third layers.

Spread Effects

The extent to which the guarantee scheme, the core of the Project package, will demonstrate the feasibility of term leading to small scale industries and therefore will result in an expanded flow of funds to these industries when the project ends will depend on the success of this intervention. This, in turn, will hinge on the degree of participation of the commercial banks in the scheme, the economic viability of the loans granted thereunder and on the repayment record of the borrowers. It will further depend on the efficacy of the measures, discussed in the preceding section, in bringing the borrowers into the institutional markets.

In other sections of this project paper it is argued that the basic assumptions underlying the operational feasibility of the guarantee fund are consistent with the evidence available (Annex F.I.A.). In this section additional attention will be given to the social and behavioral aspects of the scheme.

First of all, it is worth noting that the Thai society not only is exceptionally receptive to modernization of financial markets but also singularly free of social constraints and taboos which abound in other societies, whether for religious or doctrinal reasons. This is of special significance in the acceptance of interest, in the tolerance of ethnic and other minorities, and in willingness, to deal with novel institutions and instruments. Secondly, there can be little question that the pressure for

off-farm employment and occupations will be sharply accentuated in the years to come. The compelling reasons for a shift to more intensive agricultural cultivation will mean, in many instances, a greater degree of redundancy within the agricultural labor force. The anticipated budgetary stringency will exacerbate the problems of educated unemployed, hitherto absorbed by the public sector. The growing congestion and underemployment in the Bangkok area, will dim the lure of migration somewhat and the larger provincial cities may expect increasing pressures for public services.

Thirdly, the processing and fabricating activities in and around the provincial towns will be increasingly perceived as an opportunity to cope with seasonal unemployment and underemployment and, given the adaptability of the Thais, such activities will be organized accordingly.

There is no reason to doubt that provincial entrepreneurs will find ways to produce goods and services which can be sold profitably even when there are no obvious "locational" advantages of the type often most often listed in the literature. Indeed, there is increasing evidence that besides such standard locational advantages as weight-losing, perishability, specialized markets and so on, it is the existence and tenacity of the local entrepreneur which matters. In Sukhotai, where transport related industry is a major undertaking, both the raw materials and the markets are outside the province, yet the industry thrives, largely because of the commitment of local entrepreneurs to live and work where they are.* A recent survey of provincial entrepreneurs found that 90% of the sample were born in the locality or were resident for over ten years.

The strength of this "familiarity factor" can be taken as an offset to the migrational pull, where the migrants tend to be the better educated young males and females,** who are usually better off than the average. This suggests that migration is a "second best" solution for the more enterprising and that alternative off-farm outlets would be the most effective means of reducing rural exodus.

It is clear that objective conditions exist for the spread of the project's initiatives to be very substantial, should the guarantee fund scheme prove successful.

Granted that the motivation to enter the institutional market is inherently strong and that there is abundance of both worthwhile investments and a sufficiency of entrepreneurs to properly exploit them, it still remains uncertain whether the borrowers, on the one hand, and the lenders on the other, will be willing and able to play unaccustomed roles under the guarantee fund scheme.

* See Kosit Panpiemras, Rural Industrialization in Thailand, NESLB, Bangkok, 1983, pp. 31-32.

** Somewhat surprisingly, in many areas of the country where daughters inherit land and are, by tradition, supposed to stay with the family (uxori), the number of young female emigrants exceeds that of males.

For the borrower, the participation in the scheme involves disclosures of personal as well as business matters, fear of losing not only control of business but of his home and his status in the community, and the assumption of a contractual obligation under conditions of uncertainty. For the lender, it implies a troublesome and risky process that may not, in the short-run, prove very profitable given alternative use for his funds.

Some of the preconditions for success of the guarantee fund have been discussed at length elsewhere in this Project Paper (see Annex F.i.). The crucial question which remains is the validity of the assumption that the default rate could be kept below 25%, an assumption which is pivotal to the scheme because a higher default rate becomes unprofitable for banks.

There is no ex-ante way to estimate the default rate except on a judgmental basis, after examining the experience of similar funds in other countries and of the relevant repayment record in Thailand. The 25% assumed maximum default ratio appears consistent with that evidence but there is no assurance it will, in fact, obtain. It is expected that after the lenders acquire more experience, train their staff and gain acceptance and confidence of the borrowers, the default rate will significantly decrease below this level. There are four important factors which suggest that over time this default rate will be considerably less than 25%. The first is that small rural businesses in Thailand are already growing even with their dependence on higher non-formal sector financing; secondly, overall in the banking system default rates run between one and two percent at current levels of collateral. Halving the collateral requirement coupled with the conservative nature of Thai bankers and the profit orientation of banks is not likely to permit over time default rates much above double the current rate; thirdly, as opposed to other countries which have tried guarantee programs with mixed success, the branch system of Thai commercial banks is well developed permitting closer supervision of smaller borrowers; and fourthly, under the planned program, risks are shared by the banks.

A few other points need to be made which are germane to the key issue of defaults. First, and perhaps most importantly, the guarantee scheme, as propounded, is to be managed and operated as a private institution strictly on business lines. Worldwide experience demonstrates that guarantee schemes which rely on public funds, or on public sector institutions or which are perceived as politically motivated, result in extremely high default rates.

Second, and related to above, the lenders must make every effort, no matter how time consuming, costly or unpleasant, to recover the collateral in order to demonstrate their seriousness of purpose, and to test the responsibility of the borrowers. It is largely to insure this that the provision that the recovery of collateral will accrue to the lender's account was inserted into the scheme. The insistence on market valuation of the limited collateral, together with the incentives to recover it, are the two key aspects of the scheme designed to insure its additionally, on the one hand, and its viability, on the other.

Third, as indicated in the section describing the operation of the fund (see Annex F. and PP section II) the amounts, made available to the fund's custodian, will be sufficient to cover up to 100% of the guarantees, even though the default rate will be far less than 100%. The operations of the guarantee fund will demonstrate the feasibility of operating a guarantee program with a ratio of guarantees to reserves significantly in excess of 2 to 1, thereby showing that in the future guarantee reserves can support a much more extensive lending program.

Finally, worldwide experience has demonstrated that while reluctance to disclose information, or the fear of loss of control and similar considerations are real and significant, these tend to lose their importance rather quickly once the borrower is convinced of the profitability of the enterprise and the commonality of interests with the lender.

In conclusion, therefore, there are good reasons to believe that the guarantee scheme, when conducted along the lines indicated in the technical section, will be successful and every reason to believe that its success will spread widely through either replication or continuance.

The likelihood of the spread or replication of the other project components is at least equal to that of the guarantee facility.

IMET, after only a few years of existence is already well known and valued among rural business people nationwide. Its current fund raising plans and progress on those plans indicate that it will be self-sustaining by the end of the project and thus without additional donor assistance will be able to continue training rural business people.

ISU, with no fund raising function will only be self-sustaining and spread its work if as a government entity it continues to receive RTG support. The RTG has indicated it will provide such support and indeed, will provide a high level of support through out the project. More germane to the question of spread, however, is not so much the future of ISU as it is the future of the diffusion of information itself to small entrepreneurs. It is reasonable to assume that once rural business people begin receiving information useful to their business not only will they continue to access such information, but other businesses will learn of the information and strive to attain it to remain competitive.

The Thai Executive Service Corps is a new concept for Thailand and therefore is untested. However, there is substantial evidence that private sector to private sector technical assistance will spread. IMET is already well supported by key people in the private sector and the level of Bangkok private sector volunteer source required under the project is a negligible proportion of the total resources available. A growing social consciousness on the part of larger businesses and a high likelihood that donor businesses themselves will benefit from providing volunteers is evidence that a growing cadre of volunteers will become available. It is possible that the full cost of volunteers can eventually be borne by the recipients of assistance.

In the last year of the project, full project borne costs are estimated to be \$910 per client. Economies of scale are likely to decrease this cost. Finally, all growing economies exhibit specialization frequently supported by outside short term expertise. If clients find value in the assistance provided by TESC and IESC, there is every reason to believe they will value such assistance sufficiently to purchase it from the private sector.

There is already evidence that rural business associations and joint public private sector cooperation is expanding fairly rapidly. Barring unforeseen opposition in the RTG to these developments, the project can only help to speed and spread this growth.

Benefit Incidence

In the last section of the "Economic Analysis" some attention was given to the anticipated socio-economic benefits ensuing from the implementation of the Project Package. This section will expand on the theme.*

Between 1975 and 1981 average per capital incomes grew in real terms, that is, increased faster than the cost of living index. This was particularly true of rural incomes which grew nearly as fast as those in urban areas and whose growth can be explained by the rapid rise in farm incomes during the period.

It should be borne in mind, however, that the years between 1975 and 1981 were exceptionally favorable ones to farmers whose output prices reached a peak in 1981 and have been rapidly declining even since. Indeed, non-farm households in rural areas (which account for over a third of all households) which include a large proportion of laborers, found their incomes barely rising. On the other hand, those non-farm households which turned to manufacturing activities have become more prosperous suggesting that the landless laborers continue to be the poorest households in the Kingdom, even when the overall economic situation is excellent.

Even more disturbing are the trends in spatial income distribution, both between and within regions. In 1981, incomes in Bangkok were higher and in the Northeast lower, than in 1975. In 1975 the average income in the Northeast was 38% of average income of Bangkok households. By 1981 the proportion fell to 32%. Furthermore, there are indications that the overall increase in average incomes between 1975 and 1985 masks sharp increases in income inequalities within households, especially farm households, where the rising prosperity appears to have been concentrated in the hands of the richer farmers.

* The discussion in the text draws on the analysis of the data of the two Socio-Economic Surveys of the whole Kingdom, that of 1975/6 and the one in 1981, the latter is as yet unpublished. The statistical analysis is contained in a World Bank publication, Thailand - Poverty Review, a staff document prepared in March 1985.

On the other hand, entrepreneurial income has been increasing both absolutely and relatively, especially in urban areas outside Bangkok, suggesting that provincial manufacturing activity provides a viable outlet for those households whose land is either of inferior quality or too small for application of mechanized cultivation.

The increase in average real incomes in the period 1975-1981 has led to a dramatic reduction of absolute poverty in all regions of the Kingdom.*

The incidence of poverty continues to remain most severe in the Northeast and the upper North and is concentrated on landless laborers. In the upper Northeast 46.4% of laborers fall below the poverty line. For the Kingdom as a whole, the percentage of those living below the poverty line fell from 31.7% in 1975 to 23.9% in 1981 but the proportion of non-farm entrepreneurs continued to decline and in 1981 amounted to 11.5%.

The statistical evidence is clear. Interventions in the delivery system of assistance to small scale industrial producers would be socially most beneficial were they oriented toward two primary objectives: increasing the proportion of non-farm entrepreneurs in the provinces and increasing the members of landless laborers in the labor force in manufacturing. These two objectives are firmly embodied in the design of the Project package.**

A successful implementation of the guarantee facility would, as shown in the "Economic Analysis" section (Annex F.ii) increase employment directly in or around provincial towns by some 2,500 persons. These 2,500 persons will be primary beneficiaries of the Project even though a portion of this net accretion to the manufacturing labor force may have come from other occupations, or from part-time or from seasonal employment. The very fact of entry into the manufacturing labor force is evidence that the previous occupation, if any, was deemed to be less beneficial than the present one. Assuming, rather modestly, that each of these primary beneficiaries has one other dependent person, the number of those benefiting directly from the augmentation of the industrial labor force will be 5,000.

* Poverty (or absolute poverty) is defined as income below a poverty line which is calculated at 3,454 baht a year for rural households and 5,151 baht for urban households. It is arguable that the extent of poverty may be overstated in rural areas inasmuch as the poverty demarcation is derived from the cost of a food basket of adequate nutritional content. In rural areas not all food requirements need to be purchased.

** Econometric studies of the determinants of household income attach considerable weight to education. Field surveys indicate that the educational level of provincial entrepreneurs is low but increases with the size of the firm. The training components of the Project package can thus be viewed as providing educational inputs in a very cost effective way, i.e. to entrepreneurs who increase the size of their operations by hiring landless laborers.

Apart from providing an outlet for the landless laborers, the most deprived segment of Thai society, the incremental employment generated by the Project can be expected to provide a sorely needed outlet for employment of women. As indicated earlier, available data disclose that in some parts of country, notably in Northeast, more women emigrate than men, contrary to world-wide experience with demographic trends. There are a number of reasons for this but an important contributing factor is certainly the limited employment opportunities for women in small scale provincial industry. Survey data show that only 30% of the labor force in provincial small scale manufacturing are females, although the proportion varies according to nature of the product or the location of the firm.*

The growth of provincial small scale processing and fabricating establishments will widen the range of opportunity for women both as employees and as managers.**

Of the more than 500 projects which are expected to be financed under the guarantee loan scheme, most, but not all, will be operated by single proprietors. Unlike the new entrants to the labor force, single proprietors tend to be the sole purveyors of income to their families. Inasmuch as the average size of a nuclear family in Thailand is about 4.5 persons, the new investment would add some 2,250 to the number of primary beneficiaries.

Table 1 in the text of the Project Paper identifies primary beneficiaries from the other project elements. These include rural small business people who benefit in the following ways:

- 3,200 will be trained by IMET;
- 6,000 will receive consultations by ISU and industry specific information;
- 320 will receive technical assistance from TESC;
- 60 will receive assistance from IESC; and

large numbers will participate in the rural business associations and joint public private sector dialogue. It is not possible to determine the job creation that will result from these other project elements nor can the

* In the South, where for social and religious reasons female participation in the labor force is not encouraged, this proportion falls to 18%.

** A study conducted by Thai Manufacturers Association in 1980 found women occupied 38% of managerial and executive positions in industry as a whole. From rather fragmentary and indirect evidence and indicate evidence it would appear that the proportion is lower in the "second layer" segment of enterprise.

number of indirect beneficiaries from the guarantee facility be estimated with any precision. The secondary repercussions of the facility among suppliers, shopkeepers and vendors of all kinds of services can only be approximated by taking the multiplier value to be a modest 1.5, that is, assuming the secondary beneficiaries to be half of the number of primary ones.

But the benefit incidence of some 11,000 from the guarantee facility and more than 10,000 from the other project elements as estimated above need not be confined to the duration and scope of the Project. A successful implementation of the guarantee scheme and its supporting components is bound to change attitudes, mitigate fears and stimulate interest of both borrowers and lenders in a variety of other ways, using other instruments and operating through other institutions. All in all, it can be confidently asserted that the Project is both socially sound and feasible, has a large likelihood of spread and replication, and will provide significant benefits to those less economically advantaged in rural areas.

v. Administrative Analysis

The purpose of this administrative analysis is to assess the administrative capabilities of the various public and private sector agencies and organizations which will be responsible for implementing the different elements of the Rural Industries and Employment project. This analysis will focus on the capability of these organizations to carry out the actions that each project component requires.

1. The Industrial Finance Corporation of Thailand (IFCT)

The Industrial Finance Corporation of Thailand was established by the Industrial Finance Corporation of Thailand Act in 1959. A copy of this Act is available in USAID's project files. IFCT is essentially Thailand's development bank. Its main objectives are to promote and finance the development of private sector industrial enterprises and the domestic capital market in a manner which while consistent with the Royal Thai Government's (RTG) development policies also produces an appropriate rate of return to its shareholders. These shareholders are identified in Appendix 1 to this Annex and represent private and public and foreign and domestic ownership. IFCT is managed through a Board of Directors by professional staff. The Chairman of the Board is the Minister of Finance. Board membership and senior management are identified in IFCT's Annual Report for 1985, which also includes information on sources of capitalization, balance sheets, organizational structure, and major recent initiatives.

Shares in IFCT are publicly traded on the local stock exchange. Currently IFCT's ownership is more than 60% in the private sector and Board membership is more than 50% from the private sector. IFCT's operations have been profitable for the past 27 years.

In essence, IFCT is a private sector bank whose main emphasis is on the provision of medium and long term loans at a fixed rate of interest to private sector enterprises. Additional services that IFCT offers include:

1. The provision of working capital to the projects for which IFCT has provided term loans;
2. Equity participation in private sector enterprises;
3. Coordination of financial packaging activities with other local or foreign financed institutions;
4. Investment advisory services; and
5. Underwriting activities.

In addition, IFCT plays a role in managing special funds set up by the RTG including the Industrial Development Fund, the Capital Market Development Fund, and most recently, in conjunction with other private sector banks and the RTG, the Small Industry Credit Guarantee Fund (SICGF).

IFCT's staff currently includes 353 professionals and 149 non-professionals. Its organization chart is included in Appendix 1 to this Annex.

Detailed descriptions of IFCT's procedures for processing loan applications, monitoring loans, and enforcing collection remedies are provided in IFCT's Handbook on operational policies and procedures which is available in USAID's project files.

Throughout its life time IFCT has been the recipient of assistance from many foreign donors including A.I.D., ADB, and IBRD. Over the past five years IFCT has received financial and technical assistance from Japan, Netherlands, United States, Germany, OECF, ADB, IBRD, JICA and others. Programs funded by these donors have generally been successful as evidenced by continued donor support and IFCT's capability to raise capital on international financial markets.

This analysis of IFCT's overall operations indicates that IFCT is one of the more successful development banks. Of particular interest to AID, however, is IFCT's capability to manage the proposed Small Industry Guarantee Fund (SIGF). This SIGF will be simpler to manage than IFCT's existing Small Industry Credit Guarantee Fund (SICGF) since IFCT will merely be the custodian of this fund, however, because the SIGF will be a second window to the SICGF, an examination of the latter provides insights to the capability to manage the SIGF.

The SICGF was established in June 1984 by order of the RTG to serve as a mechanism for providing guarantees for loans to small scale industries. It operates in IFCT under the guidance of a Board of Directors which consists of the following members: Sukri Kaocharern and Aswin Kongsiri, IFCT; Manas Leeviraphan, Supachai Pisitvanij and Padetpai Meekhuniam, Ministry of Finance; Sathit Uthaisri, Bangkok Bank; Pakkawat Kawiattanapong, Thai Farmers Bank; Sonthaya Vimoljitta, Krung Thai Bank; and Abiwat Nandhapiwat, Laem Thong Bank.

The fund was initially capitalized at Baht 200 million with the Government and domestic banks providing equal shares. In 1985, the fund's management obtained approval of the rules and regulations governing its operations and it trained staff in profit appraisal, loan supervision and procedures in bank lending. This staff currently consists of 11 professional and 4 clerical people organized into a credit guarantee management division, a finance and administration services division, and an office of business promotion. The heads of these offices report through a Deputy Manager to the Fund's Manager who is the Executive Vice President of IFCT.

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This sizeable staff is required because the operations of the SICGF require fund review of complex guarantee applications and in most cases field review of subloans prior to guarantee approvals. The capability of staff to perform this role is largely untested because only in 1986 did SICGF provide its first loan guarantee. However, recent technical assistance from ADB and IFCT's experience in broad banking activities provide evidence that staff will be capable of carry out the activities SICGF requires.

The operation of the SIGF funded by the project will be far simpler to manage than that of the SICGF primarily because of much simpler application procedures and no requirement for IFCT review of subloans prior to guarantee approval. In essence, fund staff manage the SICGF but only serve as the custodian of funds for the operation of SIGF. Since current staff are expected to be almost fully occupied with operating the SICGF some additional staff will be required to manage the SIGF second window. The project provides funding for such staff in the form of a \$40,000/year budget for administrative expenses.

The simple SIGF procedures, experienced extensive SICGF staff, augmentation of such staff through the provision of project funding, and the overall management of the program by senior IFCT management indicate that IFCT will have the capability to manage the loan guarantee component of the project.

2. Information Services Unit - Department of Industrial Promotion

The Information Services Unit (ISU) will be a division in the Department of Industrial Promotion (DIP) which is one of three Departments in the Ministry of Industries. DIP's mandate is to assist existing manufacturing businesses to attain greater productivity and growth and to promote the establishment of new medium and small scale industries in regional areas. DIP performs this role through eleven divisions or offices with a total staff of 1,322 and a current budget of Baht 89 million (\$3,371,000)/year. The Information Services Unit will be formed under the project with a staff of 56 located in Bangkok and Thailand's four regions. During the life of the project it is planned that this unit will become an additional division within DIP. The organizational structure of the ISU is noted in Appendix 1 to this Annex as is DIP's organization.

Since the ISU will be a new organizational unit within DIP it will require staff and staff support to be effective. These staff must include both management and technical capability. Such staff will be financed with both AID and RTG funds. The numbers and types of staff to be provided were based on an independent analysis by an expert familiar with Thai organizations under a contract funded by AID. Technical assistance has been provided by AID to help organize this new unit and additional assistance will be provided under the project for this purpose and to augment staff technical expertise.

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Under AID financed projects a major difficulty with such new organizations is often their ability to procure project inputs including equipment and technical assistance. Under this project these services will be performed by the Department of Technical and Economic Cooperation (DTEC), an RTG organization with extensive experience in performing this role on AID financed projects.

If project funded staff augmented by technical assistance and the services of DTEC are not sufficient to manage this project component and provide the planned services to rural industries, project contingency funds will be provided to enhance capability. It appears that such contingency funds will not be required and that DIP's administrative capability augmented by planned project assistance will be sufficient to implement the ISU component of the project.

3. Training and Technical Assistance for Rural Entrepreneurs

A. The Institute for Management Education in Thailand (IMET)

IMET is an independent non-profit institution established in 1982. It is governed by a Board of Directors which consists primarily of key figures in the Thai private sector. (IMET's Board is identified in Appendix 1 to this Annex.) IMET's purpose is to expand management training for the Thai private sector and to increase the relevance of academic business training to the realities of doing business in Thailand. Since 1983 IMET's Board has directed that such training be focused on the private sector in Thailand's rural areas.

IMET funding has been provided by grants from AID's Bureau for Private Enterprise (\$1.4 million) and contributions from the private sector (\$141,000 equivalent). Since 1983 IMET programs have provided training for more than 3,000 people in the private sector. An AID evaluation of IMET in 1985 concluded that IMET's training programs had been successful and had contributed substantially to the expansion of the private sector in Thailand.

IMET operates through a small staff consisting of a Managing Director, an accountant, a secretary, and a part time executive assistant. This staff receives support from governing Board Program, Evaluation, Finance, and Public Relations Committees whose members serve voluntarily and include Board Members and other selected participants. Permanent staff have been kept small by design. Additional "staff" to coordinate and manage individual training programs are funded through such training programs and come from the organizations carrying out the training activities. These activities are implemented by the business faculties of Thailand's universities augmented by people from the Thai private sector. Because IMET has been partially funded by AID, it reports its financial status and program progress to AID periodically. IMET's finances are independently audited annually.

IMET's basic operating procedure is for its Board to establish an annual focus and locus of training programs following which IMET solicits proposals to carry out these training programs from the business faculty of universities. These proposals are then reviewed by IMET's Program Committee for design, cost, and responsiveness to findings on previous training programs by the Evaluation Committee. Once approved by IMET, the programs are implemented by the selected university assisted by IMET staff, and are concurrently evaluated by a representative of the Evaluation Committee. Recent IMET guidelines require that all training programs charge a registration fee to participants. This fee is applied to IMET's administrative expenses and to the endowment fund designed to make IMET self-sufficient in the future.

IMET's administrative procedures and staff have been effective in the past in enabling training to be provided at low overhead. This has been due to both the dedication of current key staff and the active voluntary support of IMET's board members. However, this commendable success may be difficult to sustain over the medium term because it depends so heavily on the contributions of a few key individuals. Therefore, as IMET expands it will be essential to augment paid and voluntary "staff" by additional permanent staff.

Such staff will be provided under the project for both the training program for rural entrepreneurs and the operations of the Thai Executive Service Corps. The past success of IMET in implementing programs similar to those planned under the project provides promise that IMET is administratively capable of implementing the planned training and technical assistance programs. The provision of additional staff as planned under and provided for in the project provides assurance that the promise will become a reality.

B. IESC

IESC has been operating successfully in Thailand since 1965, and worldwide since 1964. Its office in Thailand is staffed to develop and support at least 20 technical assistance efforts a year as evidenced by its programs over the past few years. Despite difficulties in finding rural clients primarily because of the language barrier, inadequate funding, and an inactive advisory council, it has identified at least four potential clients in rural areas to begin its programs under the project.

The additional financing provided under the rural industries project and the access to rural clients that the various project components will provide indicate that IESC's technical assistance under the project is administratively feasible.

4. Strengthening Rural Business Associations

A. Thai Chamber of Commerce (TCC)

TCC is organized to render support and advisory services to all sectors of the business community and to provide advisory services to government agencies by conducting research and offering proposals for the development of the economy. The Chamber is guided by a Board of 30 Directors of whom three must represent rural chambers. There are 64 rural chambers of commerce affiliated with TCC. All but 13 of these were established in the past two years.

The Chamber operates through sub-committees and branches of industry sector groupings and through a paid secretariate staff of forty three professionals.

The TCC now has approximately 1,075 members. Rural chambers vary in size from 40 members to 347 (Korat) members, only a few of these rural chambers have paid staff. TCC's annual budget is about \$450,000. TCC's operations are described more completely in their annual membership directory which is available in USAID. Appendix 1 to this Annex contains TCC's organization chart.

TCC will administer their share of this project component through its Secretariat's Provincial Chamber of Commerce Department/Section. This group has a staff of eight professional employees and is headed by an Assistant Secretary-General of TCC. In implementing this project, this group will report to TCC's Second Vice President.

TCC currently has inadequate numbers of staff to provide needed assistance to strengthen the many newly formed rural chambers. This project will provide such staff. USAID currently provides assistance to TCC under the Private Sector in Development project. TCC's efficiency in handling this assistance has at times been hampered by TCC's staff's need to refer matters to a supervisory Board Member for consideration and approval. While this insured the involvement of TCC's top policy makers in the project, at times it slowed implementation because Board members are frequently occupied by their businesses. TCC has agreed to resolve this problem by providing more responsibility to full time TCC staff to implement this project component. With this change TCC should be fully capable of administering this project component.

B. Association of Thai Industries (ATI)

The Association of Thai Industries exists to promote the development of Thai industries, to cooperate with other local and International Business Associations, and to cooperate with the RTG to help Thai industries reach international standards. ATI is guided by a Board of 25 Directors from various industry sectors. It has 1,400 members grouped in 21 Industry Clubs and six rural affiliates. The clubs meet separately

servicing their own members' interests. As opposed to TCC which is attempting to establish an affiliate in each province, ATI concentrates on strengthening its clubs and the establishment of affiliates in areas of industrial concentration. There are currently 6 ATI affiliates. Ten more are to be formed under the life of the project. ATI's annual budget is expected to grow from \$285,000 in 1984 to \$534,000 in 1987. Its actual expenses in 1985 were \$416,000 against revenue of \$470,000.

ATI currently has a staff of 54 professionals in its Secretariat headed by an Executive Director. It now has no unit focused on the development of rural affiliates. Such a unit will be formed with staff funded under this project component. This unit will report to ATI's Deputy Executive Director through a field management supervisor.

AID currently provides assistance to ATI under the Private Sector in Development project. The assistance provides staff and studies support to the Association. At times ATI has experienced difficulties in administering this assistance primarily because lines of responsibility were not clear and recourse to various ATI Board members was necessary. As a result of these problems the design of this project component provides that new staff report to full time ATI Secretariat staff and fund disbursement is predicated on the provision of detailed annual financial and implementation plans by ATI.

With this design it should be administratively feasible for ATI to manage this project component.

5. Joint Public Private Sector Dialogue - National Economic and Social Development Board (NESDB)

This component of the project will be administered by NESDB through the Government and Private Cooperation Planning Section in the Government and Private Sector Cooperation Division. This Section was formed in 1986 and serves as the Secretariat of the Joint Public Private Consultative Committee. The Secretariat has a staff of 4 professionals in 1986 with a budget of \$11,000. This is expected to increase to 9 staff and a budget of \$43,460 in 1987. Prior to the establishment of this Section the Secretariat function was performed by individuals in NESDB.

AID has been providing assistance to the NESDB's JPPCC Secretariat's activities since 1983. By May of 1987, this assistance will total \$100,000, of which \$50,000 will be spent in the final 12 months of the project. NESDB has done an excellent job in administering this assistance. The project will provide similar assistance at about the same annual level. NESDB's performance to date indicates this assistance will be capably administered. The staff NESDB plans to add to the Secretariat should enable this assistance to be even more effective.

6. AID

The administrative feasibility of the project vis a vis AID's responsibilities for project management are discussed in Section V of the project paper (Monitoring Plan). This discussion shows that it is administratively feasible for AID/Thailand to manage the project.

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ANNEX F

V. ADMINISTRATIVE ANALYSIS

APPENDIX 1

Organization Charts

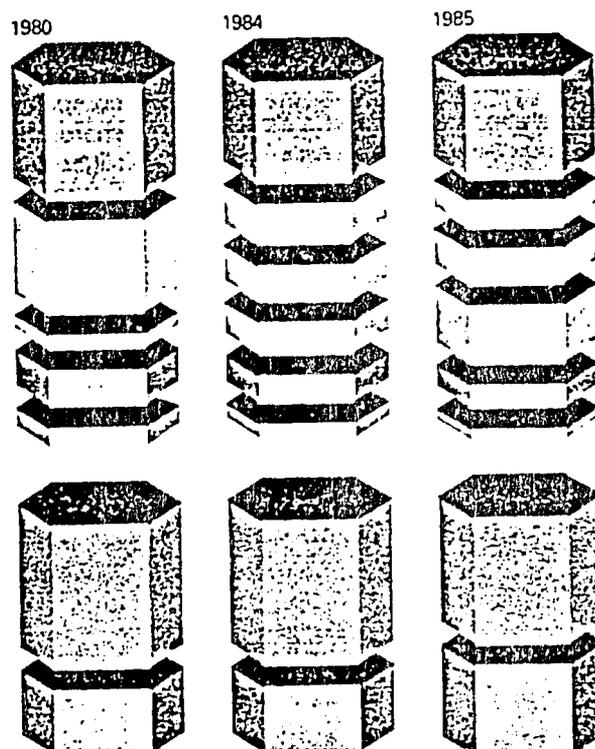
IFCT's Shareholding Structure

(As at December 31, 1985)

The shareholders of IFCT can be divided into 6 major groups. The largest group consists of commercial banks, holding 41 per cent of total shares. Private companies hold the second highest portion of about 22 per cent. The Government through the Ministry of Finance owns 15 per cent of the total.^{1/} Finance and securities companies as a group hold about 11 per cent. For the remaining portion, 9 per cent is held by ordinary persons and 2 per cent is held by insurance companies. In terms of nationality, 59 per cent of the total shares is held by Thai shareholders and 41 per cent by foreign shareholders. Of the total 1,778 shareholders at the end of 1985, 1,725 are Thais and 54 are foreigners. The majority of shareholders are ordinary persons, accounting for 90 per cent of the total number of shareholders.

As a result of the share capital increase in August 1985, the shareholding structure of IFCT at the end of 1985 changed significantly from the ownership structure at the end of 1984. The shareholding in IFCT by private companies rose from 10 per cent to 22 per cent whereas those of the commercial banks and the finance and securities companies declined from 47 per cent and 16 per cent to 41 per cent and 11 per cent, respectively. Meanwhile, foreign shareholders' portion of total shares increased from 33 per cent to 41 per cent.

^{1/} The government owns directly and indirectly about 26 per cent of total shares, with 15 per cent being held by the Ministry of Finance and another 11 per cent being held by the Krung Thai Bank (a Government commercial bank).

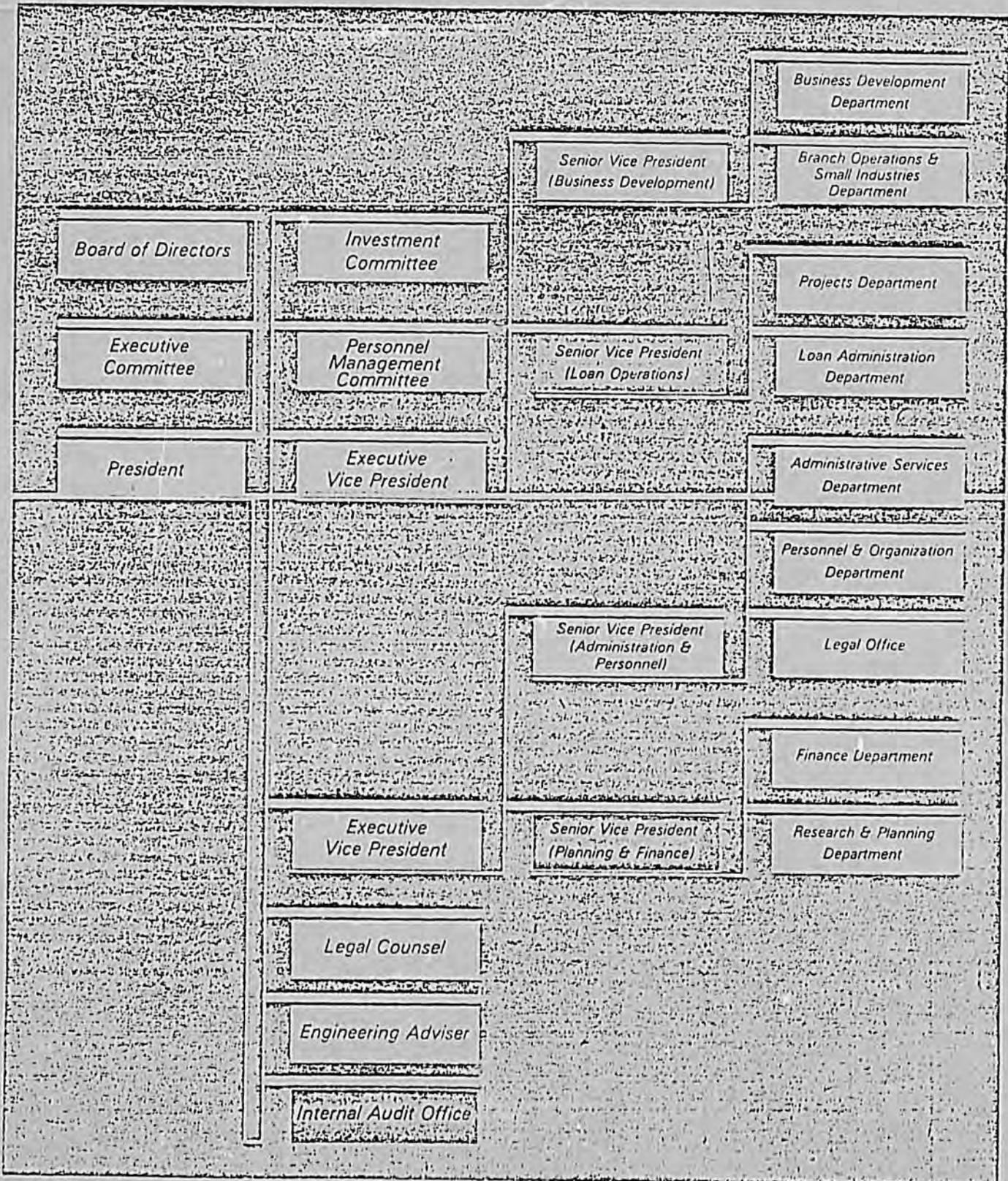


IFCT's Shareholding Structure

- Commercial Banks
- Finance and Securities Companies
- Ministry of Finance
- Private Companies
- Individuals
- Insurance Companies
- Thai Shareholders
- Foreign Shareholders

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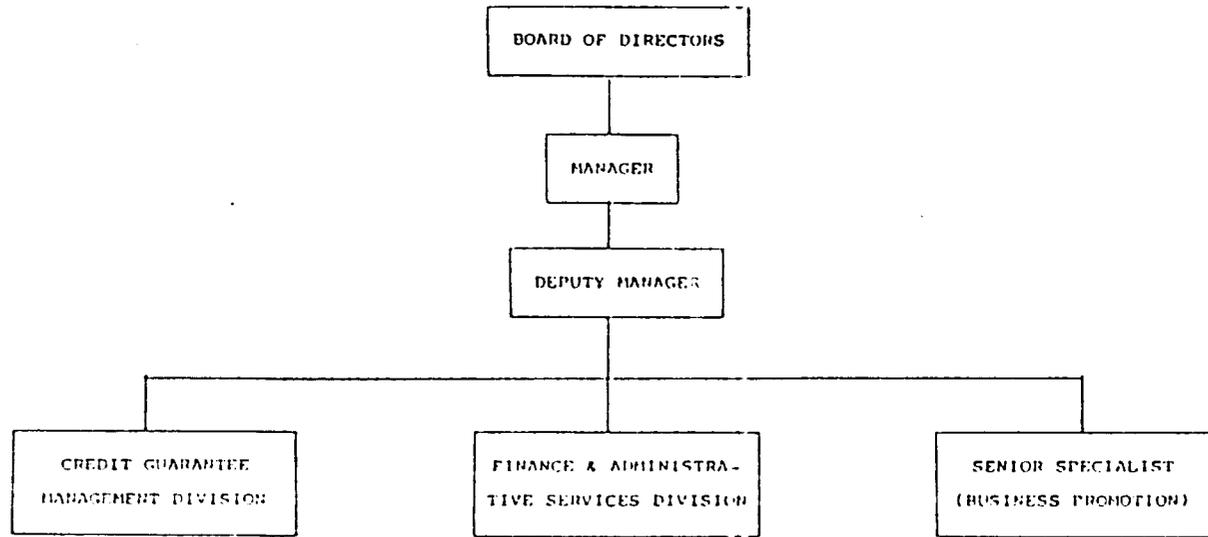
IFCT's Organization Chart*



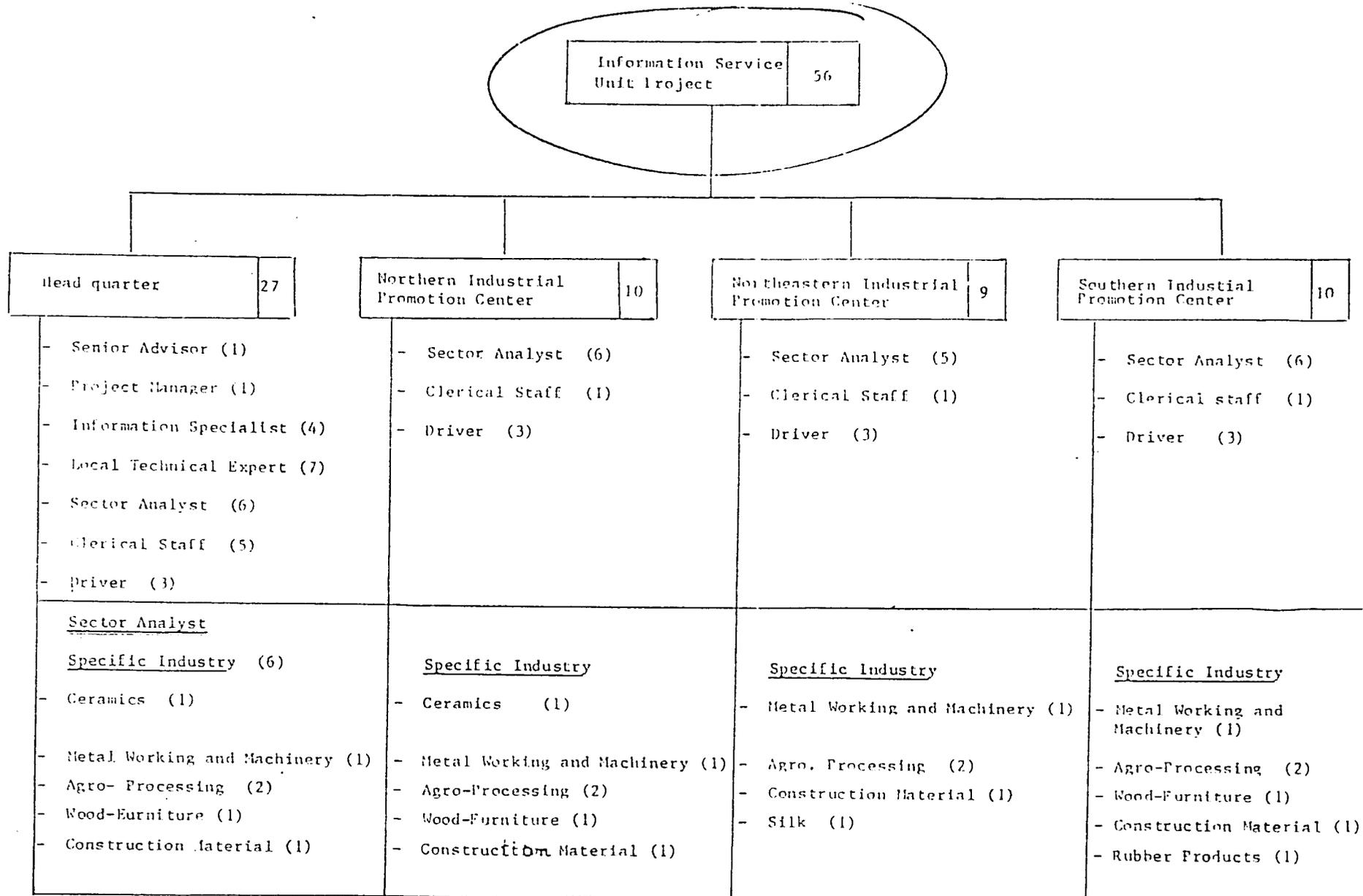
* Approved at the 274th Board Meeting, July 30, 1984

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SMALL INDUSTRY CREDIT GUARANTEE FUND



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CURRENT AND PAST BOARDS OF DIRECTORS
AND COMMITTEE MEMBERS

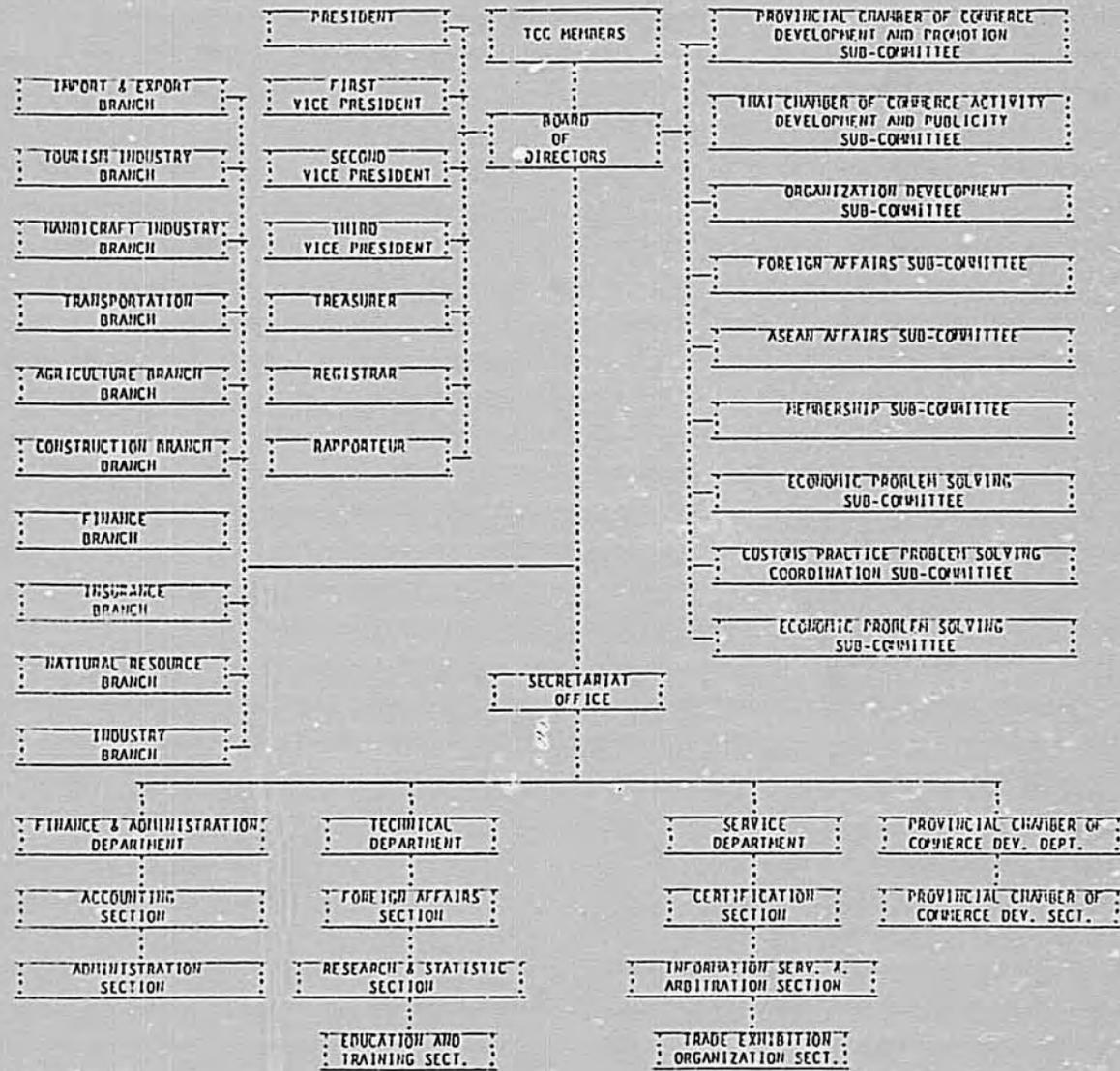
I. Current Board of Directors of IMET

- | | | |
|-----|--|-----------|
| 1. | Dr. Chaovana Na Sylvanta
Privy Councillor and Chairman of the Board,
Petroleum Authority of Thailand (PTT) | Chairman |
| 2. | U.S. Ambassador to Thailand (ex officio) | |
| 3. | Dr. Som Jatusripitak
Director, Berli Jucker Co. | Treasurer |
| 4. | Mr. Banyong Lamsam
President, Thai Farmers Bank Ltd. | |
| 5. | Mr. Somboon Nandabhiwat
President, Laem Thong Bank Ltd. | |
| 6. | Mr. Tawat Yip In Tsoi
Owner, Yip In Tsoi & Jacks Co., Ltd. | |
| 7. | Mr. Pong Sarasin
Chairman, Thai Nom Thip Co., Ltd., | |
| 8. | Mr. Vichien Techapaibul
Director and Senior Executive, Vice President
Bangkok Metropolitan Bank Ltd. | |
| 9. | Mr. Chatri Sophonpanich
President, Bangkok Bank Ltd. | |
| 10. | Mr. Kasame Chatikavanij
Chairman, Sayam Bank Ltd. and
Chairman, Thai Oil Refinery Co. Ltd. (TORC), | |
| 11. | Mr. Paron Israsena
President, Siam Cement Co. | |
| 12. | Mr. Staporn Kavitanon
Deputy Secretary-General,
Board of Investment (BOI) | |

13. Mr. Apilas Osatananda
Director General,
Department of Technical and Economic Cooperation, (DTEC)
14. Mr. Sukree Kaewcharoen
President,
Industrial Finance Corporation of Thailand, (IFCT)
15. Mr. Charas Xuto
Chairman, Siam Cement
16. Mr. Tarrin Nimmanahaeminda
President, Siam Commercial Bank Ltd.
17. Dr. Tongchat Hongladarom
Governor
Petroleum Authority of Thailand (PTT)
18. Mr. Sukum Navapan
Owner
Navathoni Real Estate Development Company
19. Dr. Titaya Suvanajata
Managing Director, IMET

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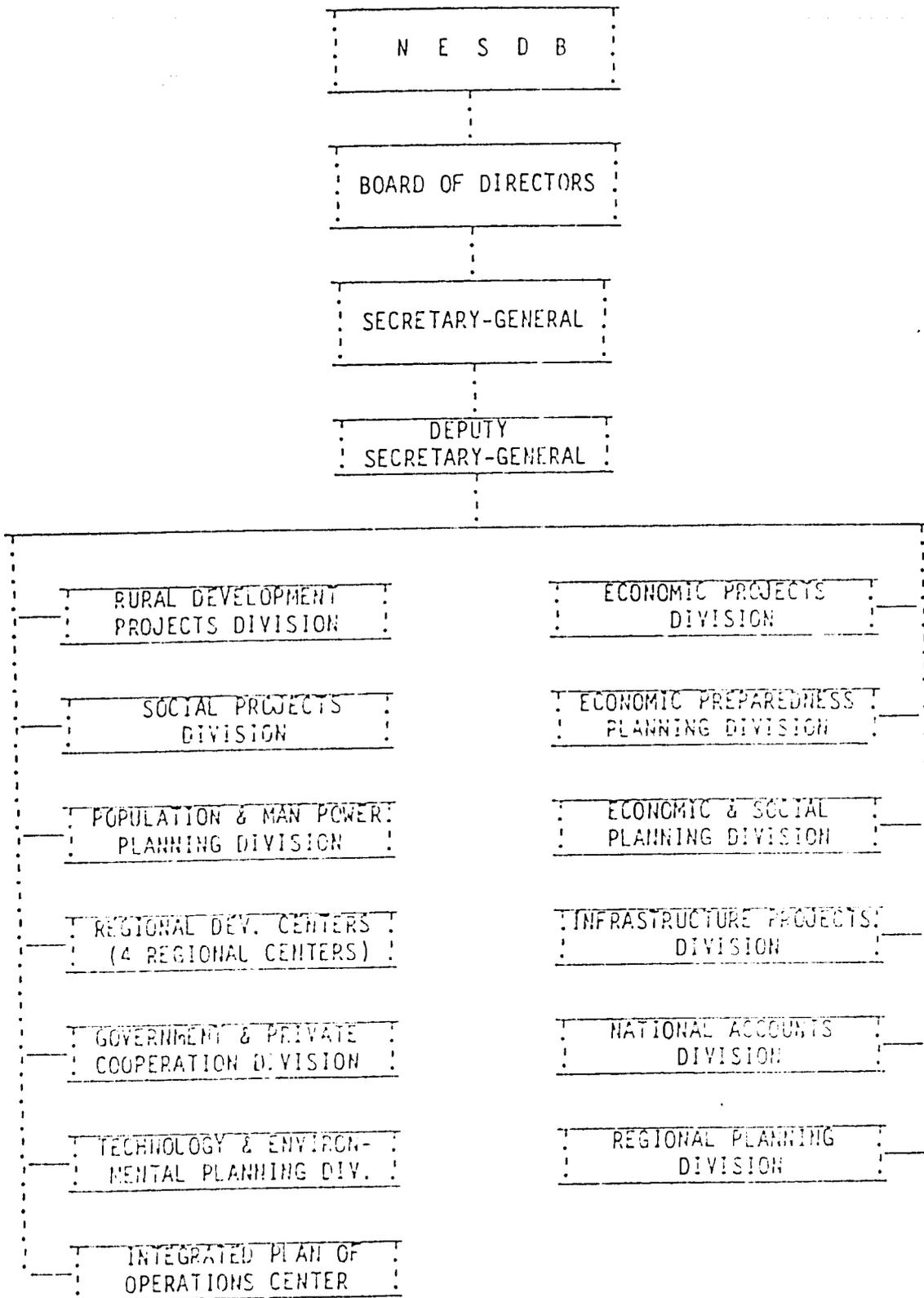
ORGANIZATION CHART



43 professional staff
8 involved w/ provincial industry development

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NESDB'S ORGANIZATION CHART



ORGANIZATION CHART

NESDB's Government and Private Sector Cooperation Division

