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**THAI DANU BANK LTD.  
IFI LOAN CASE STUDY  
PRE PROJECT NUMBER 940-0002.48**

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## THAI DANU BANK

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Note: U.S.\$1 = Baht 25.73 (as of September 2, 1987)

## EXECUTIVE SUMMARY

This evaluation of the Bureau for Private Enterprise (PRE) Revolving Fund investment project in Thailand was conducted in September 1987. It is one of a set of nine studies carried out for the PRE Office of Program Review of PRE investment projects. The objective of this evaluation effort is to discover and disseminate lessons that have been learned about the effectiveness of investment project models that PRE has used. The evaluation methodology employed here is a multiple case study design in which each of the nine projects is treated as an independent case. Standardized data collection guides were used in all cases. The emphasis of the studies was to determine (1) the development impact of project sub-loans to Small- and Medium-Scale Enterprises (SMSEs); and (2) institutional changes in the intermediate financial institution (IFI), government and USAID Mission resulting from the operations of the PRE project.

Included in the research were the following tasks: (1) review of project documentation and interviews with PRE Investment Officers; (2) review of relevant experiences of other similar projects in the country; (3) site visits to approximately one-third of sub-borrowers, including interviews with sub-borrowers and examination of business operations; and (4) review of documents and conduct of staff interviews in the IFI participating in the project.

PRE established a \$2.35 million guarantee facility for the Thai Danu Bank. The guarantee facility covered 50 percent of the credit risk of Thai Danu Bank's five-year term loans to SMSEs outside of the Bangkok metropolitan area. Thai Danu Bank is a 100 percent privately owned commercial bank that is ranked eleventh in assets out of thirteen commercial banks in the country.

The project addressed two major development problems in Thailand. First, local banks were generally unwilling to lend to SMSEs, particularly in rural areas, because of traditionally conservative lending practices. Second, despite Thailand's recent impressive economic growth record, growth has been highly concentrated in the Bangkok area. Government services, public infrastructure, investment capital and employment opportunities are increasingly concentrated around the capital city, while unemployment and economic stagnation are common in rural areas. The Thai Danu Bank project was aimed at stimulating private commercial lending to SMSEs outside of Bangkok, and at directly providing long-term credit to this target sector.

As of September 1, 1987 76 loans had been made under the facility, and the average loan under the project was \$63,690. The overall quality of the SMSE loan portfolio was judged by the study team to be high. All loan recipients met the criteria established by the project, and ranged in size from extremely small rural farms with practically no assets to several modern manufacturing and retail companies with over \$350,000 in net fixed assets. The average borrower had about \$97,000 in net fixed assets. All of the sub-

borrowers reviewed appeared to have excellent business prospects and had used the loans for productive purposes. There had been no defaults by sub-borrowers under the facility to date.

Loans under the guarantee facility resulted in significant increases in production and employment outside of Bangkok. Two areas where production increases were particularly large were in agricultural produce (such as chicken, pork, fresh-water fish, and oranges), and in traditional Thai handicrafts. Approximately one-third of the loans went to new business starts. Estimated total employment generated up to the half-way point in the project was 325 full-time and 255 part-time jobs.

The additionality of this project, namely the extent to which it resulted in the provision of credit to businesses that otherwise would not have received commercial bank credit, was high. Thai Danu Bank made numerous loans under the guarantee facility that it otherwise would not have made. Approximately one-third of the loans went to new business starts, and the bank made ten loans to businesses with significantly less collateral than it usually allows. Clients under the facility included many women, and many firms using new technologies.

Thai Danu Bank was a very good choice for this project. Bank staff were enthusiastic about the project and attempted to implement the project agreement fully and carefully. In addition, the timing and fit of the facility with the bank's longer term strategy were excellent. The project was integrated into normal operations of the bank, and provided a strong underpinning for its new branch expansion strategy. This strategy was adopted in part to comply with recently passed Government of Thailand requirements that banks lend 20 percent of deposits in rural areas.

From a national economic perspective, use of a guarantee rather than a direct loan was an appropriate mechanism for the high financial liquidity situation that existed at that time.

Through its experience in lending to rural SMSEs the bank gained significant expertise in identifying small business loans, and it is apparent that long-term changes have been made in the bank's ability and willingness to lend to SMSEs. Bank officers also stated that they intend to continue to lend to these types of businesses after the termination of the project.

The project was closely monitored by USAID/Thailand, and it subsequently provided a successful model that has been incorporated into the design of the Small Industries Guarantee Facility, a larger USAID/Thailand financed guarantee scheme.

## Recommendations and Design Implications

The guarantee mechanism can be very effective as a tool to induce IFIs to lend to target businesses. The costs of lending to the target group, in this case SMSEs, are borne largely by the IFI, while the guarantee provides ample incentive for the IFI to implement targeted lending seriously.

Selection of a well-managed and profitable IFI to cooperate in SMSE lending projects is an important determinant of project success. Sound management and overall profitability of the IFI increase the likelihood that the institution will be able to administer the project efficiently, and bear the additional costs of undertaking a new type of lending.

In addition, using the IFI's usual organization and procedures can minimize administrative costs to the financial institution and increase institutional development by disseminating experience with targeted clients directly into routine credit operations.

Working with smaller private banks provides important advantages over working with larger banks. Smaller banks are likely to give serious attention to guarantee projects because the guarantee facility can cover a substantial portion of their portfolios, and can make significant increases in earnings possible. (In Thai Danu's case, the facility covered 2.3 percent at full utilization.)

There are, however, several drawbacks associated with working with smaller IFIs. Because a project may induce significant changes in smaller IFIs, it is necessary for project designers to keep in mind the risks that a project may bring to an IFI. In addition, relatively small IFIs may be easier to change, but they have little influence on financial markets. In general, institutional changes in smaller IFIs will have significant national impacts on private enterprise development only if these changes provide models that other IFIs adopt.

Finally, the relatively close working relationship that existed between PRE and the USAID/Thailand Mission contributed to the success of the Thai Danu project, thereby demonstrating the importance of involving the local USAID Mission during design and implementation of centrally funded projects of this type.

## I. GENERAL ECONOMIC ENVIRONMENT

Thailand is a free, open and competitive economy with a dominant agricultural sector, a relatively small but rapidly growing industrial sector, and a strong and generally robust private sector. Because of its increasing openness and its dependence on the international market for export of agricultural products and import of industrial inputs, especially oil, Thailand's economy is strongly influenced by external economic conditions.

Agriculture is the mainstay of Thailand's economy. Despite the decline in the relative importance of agriculture in GDP over the last decade, this sector still accounts for a quarter of value added, occupies 73 percent of the country's labor force, provides livelihood for over 80 percent of the population and accounts for some 60 percent of export value.

From mid-1984 through mid-1986, Thailand experienced an economic recession reducing the rate of economic growth to 3.2 percent in 1985 and an estimated 4 percent in 1986. This was in contrast to a remarkably rapid and sustained economic growth of 7.5 percent, the average for two decades prior to 1984. During this period, per capita GNP decreased in terms of U.S. dollars from \$798 to \$713 in 1985 and partially recovered to \$763 in 1986. It should be noted that this reflects a decline in the dollar/baht exchange rate. In real terms, personal income in Thailand grew slightly from 1984 to 1986, but the dollar value of personal income fell.

Likewise, gross fixed capital formation decreased from \$9.7 billion in 1984 to \$8.5 billion in 1985, and partially recovered to

\$8.9 billion in 1986. In the National Account, personal income decreased by 8.4 percent in 1985 and partially recovered in 1986, and the unemployment rate, as officially stated, increased from 5.1 percent in 1984 to 6.1 percent in 1985 and 6.8 percent in 1986. Thailand, however, was not alone in this regard, as most agriculture-based developing economies shared in this recession. In fact, by international comparison, Thailand's economic performance during this difficult period, as in the past, was above average.

External public debt is under strict management control of the government. According to the Deputy governor of the Central Bank (Bank of Thailand), immediately after the IMF/World Bank annual meeting of 1984 in Toronto, when the Mexico debt problem emerged, the Thai government established the Foreign Debt Policy Committee. The Committee has been quite successful in monitoring and managing the external debt. In 1986, Thailand's debt service nevertheless stood at 22 percent of total exports.

During 1986, in order to stimulate more rapid economic recovery, the government implemented several policy measures and relaxed numerous rules and regulations. The measures included the reduction of tax rates, public utility charges, domestic oil prices and interest rates, as well as a relaxation of trade regulations. Also, in May 1987, the government established the National State Enterprise Committee, chaired by the Deputy Prime Minister, with responsibility for monitoring the performance of state-owned enterprises (SOEs) and providing guidelines for their efficient operation and potential privatization. At present there are 67 SOEs,

as compared to 120 in the 1970s.

As a result of these measures the fiscal position of Thailand was substantially improved. For the nine-month period October 1986 to June 1987, as compared with the same period in the previous year, government revenue increased by 16.6 percent while expenditure increased by only 1.2 percent. During the same period government domestic borrowing was reduced from B29.6 billion (\$1.15 billion) to B14.6 billion (\$567 million), net foreign borrowing was in fact negative at B-2.4 Billion (\$93,276,331), and the overall fiscal deficit was reduced from B31.8 billion (\$1.2 billion) to B13.4 billion (\$521 million), a reduction of 58 percent. These fiscal accomplishments, however, were partly due to the recession of mid-1984 to mid-1986 which the government hoped to overcome by the implementation of monetary and fiscal policy measures. The Central Bank expects an economic rate of growth of 6 percent for 1987 and 7 percent for 1988.

Despite the impressive recent economic growth record, there are several national economic problems that affect small- and medium-scale enterprises. Principal among these is the issue of regional imbalances and inequality. Economic growth has been highly concentrated in the Bangkok metropolitan area. It is estimated that over 43 percent of all manufacturing establishments are located in this area, and another 27 percent in the immediately surrounding central region.<sup>1</sup> The vast majority of Thailand's poor, however,

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<sup>1</sup> Thai Danu Bank Guarantee Facility Investment Proposal; USAID, Bureau for Private Enterprise, Office of Investments, July 1985.

are located outside of the Bangkok metropolitan area, primarily in the North and Northeast regions of the country.<sup>2</sup> Largely as a consequence, underemployment is at unacceptably high levels, particularly in rural areas. Concentration of government services, public utilities and facilities, employment opportunities and personnel skills in the Bangkok metropolitan area has become a significant barrier to the development of small- and medium-scale enterprises outside of Bangkok.

There has been a growing recognition of the problems of resource concentration in Bangkok and increasing poverty in rural areas. Recently the Government of Thailand and international and bilateral donor agencies have sought strategies to increase income and employment opportunities outside of Bangkok. One of the main approaches adopted to address this problem is to stimulate business activity outside Bangkok. The Thai Danu Bank Revolving Fund Guarantee Project is one of several projects and programs aimed at stimulating small- and medium-sized enterprises outside Bangkok.

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<sup>2</sup> Thai Danu Bank Guarantee Facility Investment Proposal, op cit., p. 9.

## II. BANKING AND FINANCE

### A. Institutional Framework

Thailand's financial system consists of the Central Bank, 30 commercial banks, 100 finance companies, 25 leasing companies, 1,059 agricultural cooperatives, 595 savings cooperatives, 334 pawnshops, 12 life insurance companies and a number of specialized institutions including: the Government Savings Bank, the Bank for Agriculture and Agricultural Cooperatives, the Government Housing Bank, the Industrial Finance Corporation of Thailand and the Small Industrial Finance Office.

The Thai financial system is in an advanced stage of development. It operates in an open-economy environment with market forces determining rates of interest and the flow of credit. The majority of financial institutions are owned and operated by the private sector. In 1986, the system provided total credit of B927 billion (\$35 billion) to the economy, with approximately one-third going to the government and two-thirds to the business and household sector.

The Bank of Thailand has regulatory and supervisory responsibility for the system. Like central banks in most countries, the Bank acts as the note issuing authority, as banker to the government and other banks and as fiscal agent of the government in its dealings with international monetary organizations. The Bank is also authorized by the Ministry of Finance to manage the public debt, and to administer exchange controls.

### Commercial Banks

Domestic commercial banks dominate the financial system in terms of both deposits and lending. There are 30 commercial banks, 16 domestic and 14 foreign. In 1986, domestic banks had 1,835 branches, including 26 branches overseas, compared with 19 branches of foreign banks which collectively hold less than 5 percent of deposits, outstanding credits and total assets of all commercial banks.

Commercial banks obtain funds by accepting demand, savings and time deposits and through borrowing. At the end of 1986, total deposits (non-government) of the commercial banks amounted to B603 billion (\$22.9 billion), 6 percent in demand, 26 percent in savings, and 68 percent in time deposits. Balances in demand deposits (current accounts) do not receive interest. Deposits at commercial banks equal 76 percent of total nongovernment deposits in the entire financial system, giving the commercial banks unchallenged control over the financial system, particularly credit markets.

Commercial banks are the primary providers of credit to the private sector, providing over 80 percent of private sector credit. Lending by the banks is mainly in the form of overdraft facilities, but in most cases these are renewed for a period of several years. The Bank of Thailand requires a ceiling of B50 million (\$1,943,257) on overdraft lines of credit to any one customer. Lending over the prescribed amount must be in other forms, namely term loans and discounts of promissory notes (receivables). At the end of 1986, the total credit extended by the commercial banks to the private sector

amounted to B501 billion (\$19 billion), an increase of 4 percent over 1985. During the same period, commercial bank deposits increased by 13 percent causing a sharp increase in liquidity of the banking system and a drop in the rates of interest.

The Bank of Thailand requires commercial banks to lend 20 percent of their total deposits outside of the metropolitan Bangkok area. Of this 14 percent must be agricultural credit, defined as loans to farmers and small-scale industries. The remaining 6 percent of the 20 is required to be credit to agroindustries. If a bank fails to meet these targets, it must deposit the shortfall with the Bank for Agriculture and Agricultural Cooperatives (BAAC) at a 5 percent annual rate of interest.

At the end of 1986, commercial bank credit was distributed as follows:

Wholesale and Retail Trade	23.2%
Manufacturing	22.7%
Foreign Trade	15.0%
Personal Consumption	8.8%
Agriculture	7.2%
Financial and Banking	6.0%
Services	5.2%
Others	11.9%

Commercial banks in Thailand are traditionally rather conservative in their lending practices. They usually lend against collateral and not against cash-flow, and often require collateral in

excess of 200 percent. Because business activity is concentrated in the Bangkok metropolitan area, the vast majority of commercial bank lending occurs within the capital city. For these two reasons, rural businesses find it difficult to obtain sufficient credit and other financial services. This is particularly true for new businesses in rural areas. In addition, because the majority of commercial banks in Thailand are inexperienced in dealing with smaller businesses, banks tend either to discourage small business lending, or to demand large amounts of collateral. This unavailability of credit and excessive collateral requirement in rural areas has been one of the bottlenecks that constrains economic growth outside of Bangkok. Finally, the preference of commercial banks for overdraft lending exacerbates the difficulties of small businesses hoping to obtain credit for initial capitalization or for expansion.

#### Non-Bank Financial Institutions

The Thai financial system also includes many non-bank financial institutions which provide specific financial services. Most important of these institutions are the finance companies, the Industrial Finance Corporation of Thailand (IFCT), and the Bank for Agriculture and Agricultural Cooperatives (BAAC).

There are 100 finance companies which borrow funds from the public through issuance of promissory notes. Finance companies may not accept deposits. The rate of interest offered on promissory notes is, by regulation, higher than commercial bank deposit rates. The ceiling for the lending rate for finance companies is set at a

higher level than that of commercial banks, and most are granted permission to undertake a "securities business" and provide investment advisory services. At the end of 1986 the total assets of finance companies amounted to B137 billion (\$5.2 billion), mainly in the form of loans and advances to the private sector (67%), and government bonds and treasury bills (12%).

The Industrial Finance Corporation of Thailand (IFCT) replaced the Industrial Bank of Thailand in 1959. Although set up by special legislation, IFCT is owned by the private sector, principally by Thai commercial banks. It specializes in financing fixed assets through the extension of medium- and long-term loans to industry. IFCT does not mobilize funds in the domestic market. Its principal sources of funds at present are long-term borrowing mainly from the Asian Development Bank, Bank of Thailand, World Bank and other official international institutions. All foreign loans are guaranteed by the government. IFCT's total assets at the end of 1986 were B17.9 billion (\$696 million), of which 59 percent were lent to businesses.

Non-bank financial institutions, with the exception of traditional moneylenders, have been relatively inactive in lending to small rural enterprises. One exception to this general rule is the Small Industries Credit Guarantee Fund (SIGF) established in 1985 and managed by IFCT. This existing fund is supported by contributions of banks and the Thai Government and is targeted at industries with less than \$400,000 in net fixed assets. Equity of the fund is held by IFCT, commercial banks, and the Ministry of Finance. The principal objective of the SIGF is to provide financial

and technical assistance to small industrial enterprises at relatively low interest rates. SIGF screens and approves loans while Krung Thai Bank undertakes lending operations and assumes a portion of the credit risk.

Currently JFCT is plagued with problems like those of development finance institutions in other developing countries. The government is constrained in its ability to provide funds because it is trying to reduce its budget deficit; at the same time, international financial institutions are increasingly reluctant to lend to development finance institutions because of their poor financial performance and adverse impact on the development of local credit markets.

Also relevant is the Bank for Agriculture and Agricultural Cooperatives, established in 1966 to provide credit to farmers and cooperatives. The Bank is owned by the Ministry of Finance. Nearly 40 percent of BAAC's sources of funds are provided by commercial banks, 16 percent by the Bank of Thailand, 12 percent through foreign borrowing and 11 percent through deposits. As noted above, commercial banks are required to lend 20 percent of all deposits to rural areas, including 14 percent to farmers and small enterprises. At the end of 1986, total assets of BAAC were B30 billion.

#### B. Interest Rate Structure, Cost of Money and Liquidity

Interest rates are determined by free market forces and are substantially influenced by rates in the international market such as the London and Singapore Interbank Offer Rates. The Bank of Thailand



rates and putting pressure on the commercial banks' profitability. Central bank officials, however, believe that this is a temporary phenomenon, and that as the economy recovers in the latter part of 1987 through 1988, the situation will be corrected. Recent economic indicators support this belief.

Despite high liquidity, there remains a persistent lack of commercial credit available to smaller borrowers in rural areas. In many cases, small businesses are forced to obtain credit at high interest rates from traditional moneylenders, or must try to work through government-sponsored credit programs despite the difficulties often encountered in these programs.

### III. THE LOAN AGREEMENT BETWEEN THAI DANU BANK AND PRE

The Thai Danu Revolving Fund loan project was one of the first two Revolving Fund projects in Asia. It was designed at the same time as the Far East Bank and Trust Company project in the Philippines, and was preceded by another A.I.D. loan to a commercial bank in Thailand intended for on-lending to small- and medium-scale enterprises (SMSEs). In explaining the reason for selecting Thailand as a country for this early and special attention, PRE officers pointed out that Thailand has been the growth leader among ASEAN countries recently, and is a very favorable climate for PRE investments. Once established, private enterprise programs in Thailand tend to be very successful and to serve as models for programs elsewhere.

Both the original project design and the intermediate financial institution (IFI) chosen to implement the project changed early on during design of the project. The initial project design was for a second loan to a Thai commercial bank that had worked with PRE in the prior small business credit project. The new project was to add the stipulation that sub-borrowers be outside of the Bangkok area. Officers of that bank felt, however, that lending to rural SMSEs would cause excessive risk and administrative costs and therefore would not accept the restrictions. PRE then selected Thai Danu Bank as a potential IFI because of three important factors: (1) the size of the PRE loan relative to Thai Danu Bank's portfolio made it a significant activity for the bank; (2) Thai Danu Bank had adopted a plan to develop branches outside of the Bangkok area, and the PRE

guarantee provided an added incentive for its marketing efforts in rural areas; and (3) the bank was considered a very well managed commercial bank, and therefore its participation in the project promised a high chance of success.

A review of the liquidity situations both nationally and within Thai Danu Bank indicated that an infusion of funds through a direct loan was unnecessary. From the bank's point of view, a guarantee was more attractive than a direct loan from PRE because a guarantee facility does not introduce additional funds during a period of high liquidity, and compared to direct loans, substantially reduces foreign exchange risks to the bank.

The USAID Mission, which did not have prior experience with Thai Danu Bank, initially was wary of involvement with such a small bank. In Thai banking circles, however, Thai Danu Bank was regarded as a sound institution, more conservative in its lending practices than most banks in the country, but willing to be flexible and innovative in its approach to SMSE lending.

PRE officials involved in early stages of the project stated that there was a high degree of participation by senior bank officers in discussions about project design. Senior management was aware of the development objectives of the project and of the new lending practices that it would entail. At the national level there were no regulatory or institutional constraints that threatened the operation of the project. There was no central bank involvement, for example, because of the virtual elimination of foreign exchange

transactions. The project therefore seemed to fit the bank's objectives very well.

#### The Thai Danu Bank Guarantee Facility

The objectives of the Thai Danu Bank project were (1) to determine the effectiveness of the guarantee mechanism as a means to mobilize and direct savings to developmentally desirable ends, and (2) to serve as a demonstration to Thai commercial banks of the viability of providing term credit to rural borrowers with limited fixed assets.

The A.I.D. Bureau for Private Enterprise provided a \$2.35 million indirect loan to Thai Danu Bank (the Local Lending Bank) to be used as a guarantee fund to cover 50 percent of the principal value of qualifying term loans to small- and medium-scale businesses. The other 50 percent of credit risk on project loans was borne by the bank. Thus, in the event that there is a loan default in Thai Danu Bank's guaranteed portfolio, Thai Danu can shed 50 percent of the principal loss to A.I.D./PRE. This 50/50 arrangement gives the bank enough risk so that it takes great care in the loans it makes, while giving it an incentive to lend to the target group of businesses.

The \$2.35 million loan was deposited in a collateral account in the Rainier Bank, (called the Depository or Issuing Bank) on behalf of Thai Danu. This collateral account is blocked so that Thai Danu Bank cannot get direct access to the PRE loan. The collateral account pays interest to A.I.D. equal to about 2 percent above the U.S. Treasury Bill rate.

Thai Danu Bank makes direct loans to businesses that meet the terms of the project agreement, lending from the bank's general pool of funds. To guarantee qualifying subloans, Thai Danu assembles the qualifying loans onto one list, and submits a Certificate of Estimated Standby Utilization to PRE. This certificate estimates the guarantee coverage needed over the upcoming six month period and provides a warranty that the bank has met the conditions in the project agreement. Thai Danu Bank, the Local Lending Bank, must also submit to A.I.D. and the Rainier Bank a Local Lending Bank Standby Certificate, which is a request for the Rainier Bank to issue a Standby L/C and lists the subloans to be covered by the L/C. Provided all conditions are met, Rainier Bank then issues Standby L/Cs drawn on the collateral account. The Standby L/C, once issued, is the guarantee for all qualifying loans on the Standby Certificate.

The Loan Agreement provides for disbursements of L/Cs in \$500,000 amounts, and so Certificates of Estimated Standby Utilization must also be a minimum of this amount. Because the Standby L/Cs cover only 50 percent of the principal of qualifying subloans, Thai Danu Bank must make \$1 million worth of SMSE loans to apply for a \$500,000 L/C. When the guarantee facility is fully utilized, PRE's \$2.35 million in guarantee funds stimulates \$4.7 million in SMSE loans by Thai Danu.

Thai Danu Bank pays two fees for using the guarantee facility, both payable in U.S. dollars:

- A 1.25 percent annual Guarantee Fee payable to A.I.D. on the average daily amount under guarantee coverage;

A .15 percent annual Issuing Fee to Rainier Bank on the outstanding amount of Standby L/Cs issued.

In addition, there are minor fees charged to Thai Danu Bank for alteration of Standby L/Cs and for payment of claims against the L/Cs.

Thai Danu Bank may make a claim for payment under a Standby L/C only when principal or interest payments of one or more subloans are at least ninety days past due. When making a claim, Thai Danu Bank must certify that it has pursued reasonable and diligent collection activities against the defaulting sub-borrower. All money collected from the defaulting business is applied to the claim against the Standby L/C. Then Thai Danu must submit to Rainier Bank a certification of default for each defaulting subloan.

Once a claim is made, Rainier Bank pays the amount due (50 percent of the outstanding principal) from the guarantee account to Thai Danu Bank. Thai Danu has no obligation to repay the collateral account unless it is able to recover from the sub-borrower. Fifty percent of recoveries are payable to A.I.D. The sub-borrower has no direct obligation to repay A.I.D.

At the beginning of the project Thai Danu officers brought several loan requests to PRE's attention to see if the bank properly understood PRE's loan criteria. According to PRE officials, the language of the agreement was kept broad in order to ensure flexibility in the project, and this meant that in some cases it was difficult to determine whether a client was suitable or not. All questions about the project agreement were answered without

difficulties. For example, Thai Danu Bank requested PRE's advice on the acceptability of financing of a day care facility, and later on financing a hospital. The former was allowed because it was considered a small business, and the latter was not.

The Project Agreement with A.I.D. was signed by Thai Danu Bank in December 1985. The following five disbursements were made:

	<u>Amount</u>	<u>Date</u>
	\$500,000	4 February 1986
	\$500,000	7 May 1986
	\$500,000	21 January 1987
	\$500,000	22 May 1987
	<u>\$350,000</u>	17 June 1987
Total	\$2,350,000	

The June 1987 disbursement brought the guarantee facility to full utilization. The Availability Period for using the facility was extended from 31 May 1987 to 31 August 1987 in order to give the bank more time to utilize the facility fully.

#### The Thai Danu Bank Investment Development Package (IDP)

Because Thai Danu Bank's traditional customers are large industries in the Bangkok area, prior to the project the bank's staff had little experience with SMSE lending. In order to enhance the bank's ability to lend to SMSEs, the Revolving Fund Project included a \$50,000 training grant. The grant, referred to as the Investment Development Package (IDP), had the following objectives:

- (1) To provide training to improve staff capacity in dealing with smaller-scale rural enterprises (SSEs);
- (2) To defray costs of training bank staff to implement the project;
- (3) To send staff to examine SSE lending practices in other Asian countries.

The effective starting date of the grant was August 30, 1985 and the expiration date was scheduled for September 30, 1986. As of July 31, 1987 the grant had been fully utilized.

Following is a breakdown of expenditures:

1. External Training	\$13,312.80
2. In-House Training	\$21,441.86
3. Manuals	- 0 -
4. <u>Audio/Visual Equipment</u>	<u>\$15,245.35</u>
TOTAL:	\$50,000.00

Activities under the grant began in March 1986 and ended in July 1987. The following activities occurred:

<u>ACTIVITY</u>	<u>LOCATION</u>	<u>PARTICIPANTS</u>
I. EXTERNAL TRAINING		
1. Productivity Improvement Study Visit	Japan, Korea Taiwan	2 branch managers
2. Productivity Improvement & Quality Control Centers Study Visit	Japan, Korea Taiwan	1 branch manager manager
3. Advanced Credit Seminar	Philippine	Manager, Credit Analysis & Info. Division
4. Corporate Lending Strategy Program	Bangkok	Unit Head, Head Office Credit
5. Study Visit on Technology & Productivity Improvement for Agro-Industrial Enterprises	Australia	2nd Vice Pres. 1 branch mgr.
6. Financing ASEAN Agriculture in the 1990s	Malaysia	2nd Vice.Pres., Credit

## II. IN-HOUSE TRAINING

1. Effective Credit Operations for Lending Officers	Headquarters Thai Danu Bank	34 lending officers
2. Effective Credit Marketing and Management	Bangkok	37 executives and managers
3. Effective Credit Policy	Nakorn Rachasima	14 executives
4. Strategy on Managing a Successful Business	Chiang Mai	130 Thai Danu executives, businessmen, branch mgrs., credit officers
5. Strategy on Managing a Successful Business	Songkhla	170 participants as above
6. Effective Credit Marketing & Management for Supervisors	Headquarters Thai Danu Bank	45 senior credit officers
7. Effective Credit Marketing & Management for Credit Officers	Headquarters Thai Danu Bank	42 credit officers
8. Intensive English Course	Headquarters Thai Danu Bank	20 executives & credit officers

In addition to the above activities, audio/visual equipment was purchased for a total of \$15,245.

Production of credit manuals as planned in the original agreement was not necessary, and this was deleted from the work plan. The effects of this training package are discussed below in Section V.

#### IV. IFI ORGANIZATION AND OPERATIONS

Thai Danu Bank is a 100 percent privately owned commercial bank that has operated in Thailand for thirty-eight years. It is ranked eleventh out of sixteen local banks in Thailand with total assets of B9,468,120,141 (\$368,266,050), and net worth of B623,558,570 (\$24,253,542) as of June 30, 1987. Thai Danu Bank has a reputation for conservative management, and has a relatively stable funding base, good deposit and loan growth (21 and 17 percent, respectively) with adequate loan loss reserves (.5 percent) and relatively low loan losses (.17 percent). Thai Danu Bank's profits for fiscal year 1987 grew 12 percent over the previous year reaching \$938,699 and provide a 3.9 percent return on equity. The bank has twenty-eight branches as of October 1987, and will increase these to thirty-one by the end of 1988.

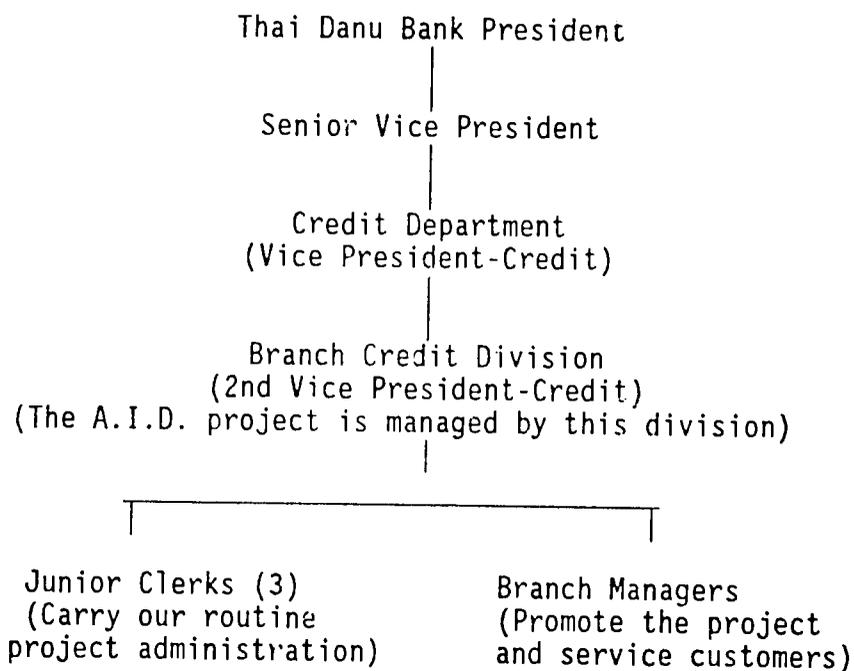
The bank's liquidity was high in 1986, and even higher in 1987. From June 1986 to June 1987 deposit growth was 34 percent higher than loan growth, and Pakorn Thavisin, Thai Danu's president, said that in the third quarter of 1987 deposit growth was 50 percent higher than credit growth.

#### Project Management

The project is managed by the Branch Credit Division of the Credit Department. No special organizational arrangements were made for administration of the project because the bank felt that it was not necessary. Day to day oversight of program loans is the responsibility of Mrs. Ninlavan, 2nd Vice President - Credit. Mrs. Ninlavan is the second highest ranking officer in the credit department, and is a

seasoned banker with over eighteen years of experience. Most daily operations of the project, including preparation of credit analyses and loan monitoring, are carried out by three Junior Clerks. The following chart displays Thai Danu's organizational structure for purposes of administering the Revolving Fund project:

Management Structure for the A.I.D. Guarantee Project



This organizational arrangement - integrating the guaranteed SMSE loan portfolio into the credit department - was felt by bank officials to be very efficient compared to the alternative of setting up a separate division for guarantee project loans. Only two or three Junior Clerks spend full time on the project. The 2nd Vice President who manages the project also has credit responsibilities outside the project, and reviews and administers guaranteed loans in the same manner that she handles non-guaranteed loans. The Senior Vice

President and President of the bank, although keenly interested in the performance of guarantee project borrowers, are involved only when specific decisions are required.

Almost all guaranteed loans originated at the branch level. The usual lending procedure starts when a business owner or manager asks a branch manager for a loan. In the case of most of the Guarantee Facility project loans, the bank advertised the Facility widely by word of mouth. Once the potential client approaches a branch, the branch manager helps the customer prepare a business plan, which can be detailed projected financial statements or just short written assessments of a business idea, a client's character and collateral. The branch manager sends the business proposal along with necessary application documents to the Junior Clerks in the Credit Department. The clerks check the proposal for completeness and in some cases verify statements by examining the customer's bank account records, bill receipts, and invoices. The proposal and application then go to the 2nd Vice President-Credit for review. She is responsible for writing an appraisal of the application. Appraisals include reference to the quality and amount of collateral, an assessment of client character, in some cases a detailed analysis of projected financial performance, but in all cases some gross and net income figures.

Applications and appraisals are then sent to the Senior Vice President and President for approval. In practice, the recommendations of the 2nd Vice President carry great weight with the Senior Vice President and President. The typical time from loan

application to approval is one week for small loans. Average time from approval to disbursement is two weeks.

This application and approval process is almost identical to Thai Danu Bank's usual credit process. The only major differences are the loan criteria stipulated in the project agreement, and the greater attention that Thai Danu gives to borrowers under the project. More attention is given to this group of borrowers both because of their greater risk and because of the experimental nature of the program.

Branches have the authority to approve loans less than B100,000 (\$3,887), and the 2nd Vice President has authority to approve amounts up to B200,000 (\$7,773).

After approval, guarantee project loans are administered just like other Thai Danu Bank loans, although all guaranteed loans are under the direct supervision of the 2nd Vice President - Credit. Thai Danu Bank prides itself on offering more attention to customers than the bigger Thai banks can, and even more advice and follow up than usual is provided to guarantee project accounts.

Thai Danu Bank offers both business and technical advice to its clients. When the guarantee project started, the bank called its agricultural credit expert, Mr. Kamhang, out of retirement to assist credit officers in working with new agribusiness clients under the guarantee facility. This expert has been very helpful to agribusinesses under the guarantee program in formulating business plans and in providing technical advice. Mr. Kamhang also assisted bank credit officers in evaluating agro-industrial projects.

The Agricultural Credit Centre is located in the credit department, and appears to have been effective because this arrangement integrated the agricultural specialist directly into routine credit operations. Day to day involvement in credit operations ensured that loan officers could promptly respond to the technical problems encountered by agribusinesses, and could easily refer their own questions to a technical expert.

Thai Danu Bank had no industrial credit officer comparable to its agricultural credit expert involved with the guarantee project. It also appeared that feasibility analyses for small industrial projects were less thorough than those for agribusiness ventures under the guarantee facility. However, when senior management was asked whether they felt that there was a need for an industrial expert to help appraise and advise small industrial clients, they replied that Thai Danu Bank has substantial experience with industrial clients and therefore they did not feel a weakness in industrial lending activities.

Of Thai Danu Bank's 28 branches, eleven are outside Bangkok. Thai Danu Bank has been aggressively expanding its branch network outside of Bangkok in part to comply with Government of Thailand rural lending requirements, and in part to develop a new client base among smaller companies with good growth prospects.

The guarantee project fit very well with Thai Danu Bank's rural expansion program. In effect, the guarantee lowered the risk of lending to small businesses, which in turn encouraged Thai Danu to lend at slightly lower interest rates outside of Bangkok. This has given an incentive to the bank's branch expansion program, and has made the bank

more aggressive in the SMSE market, particularly in rural areas where commercial banks find it difficult to compete with government-sponsored lenders.

#### Collateral and Interest Rates

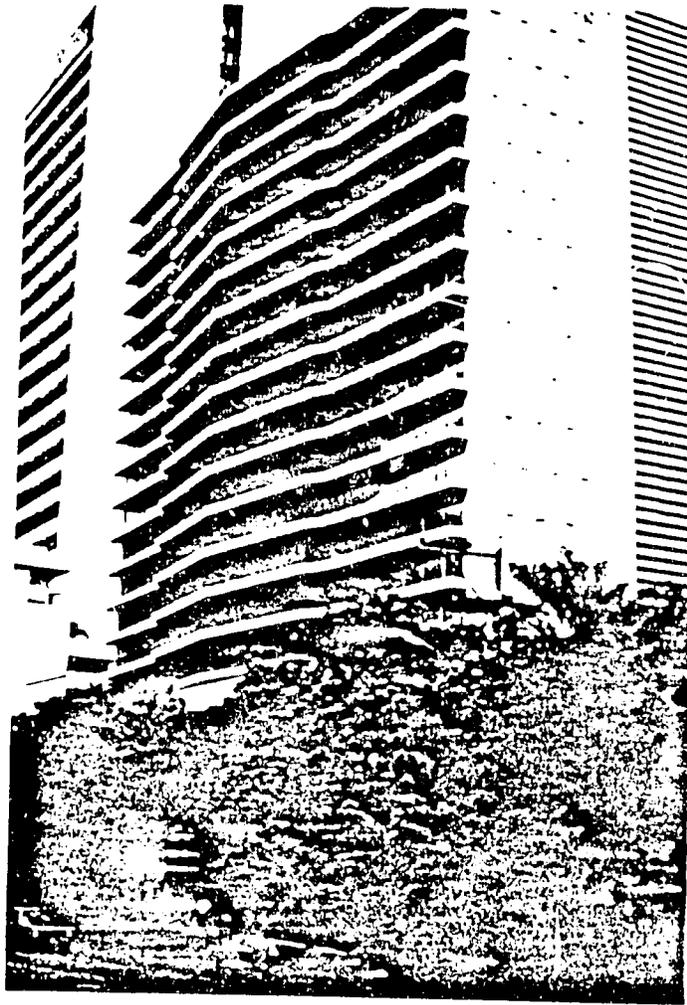
Interest rates for loans are determined by a committee of senior credit officers. The committee follows the same interest rate guidelines for guaranteed as for non-guaranteed loans, with the exception that guaranteed loans are offered at about 1 to 2 percent less than unguaranteed loans to the same customer.

Interest rates charged for loans under the guarantee project ranged from 12 to 15 percent, with the majority in the 12 to 13 percent range. The rates charged by Thai Danu were in all cases approximately at the level of prevailing market rates offered by competitors. Because of higher costs of funds, Thai Danu Bank usually charges slightly higher interest rates than its larger competitors, such as Bank of Bangkok, Siam Commercial Bank, Krang Thai Bank, and the Bank for Agriculture and Cooperatives. Thai Danu Bank must compete with these larger banks by providing customers with better-than-average services such as fast loan processing and personalized business and technical advice. One of the main benefits of the guarantee project to Thai Danu Bank was that because part of the SMSE credit risk was covered by the guarantee fund, bank officers felt they could reduce their usual risk premium. As mentioned above, this allowed the bank to lower its interest rates to SMSEs so that the bank became more competitive in the SMSE market.

Thai Danu Bank usually lends no more than 50 percent of the value of collateral pledged by a customer. Another way to view this is that a ratio of collateral to loan of 200 to 300 percent is the norm in Thailand. Because of the guarantee facility, Thai Danu Bank officers adopted a flexible collateral policy for customers with guarantees so that they often required only a 100 to 200 percent collateral rate, i.e., they would lend between 50 and 100 percent of pledged collateral.

For the twenty-two sample cases examined in depth as part of this study, collateral ranged from a low of 40 percent of the loan to a high of 666 percent, with an average value of 234 percent of the loan. A large group of sub-borrowers in the sample were in the 110 to 150 percent range, a collateral to loan ratio that would not have been considered acceptable to Thai Danu Bank for unguaranteed loans.

Overall, Thai Danu Bank appears to have been more flexible in setting collateral requirements for loans under the guarantee project. In cases where a borrower's collateral met traditional guidelines Thai Danu Bank generally required the standard collateral rate. For loans where collateral value was not up to the usual standard but the credit risk seemed acceptable, Thai Danu Bank accepted less than the usual requirement.



Thai Danu Bank's  
Headquarters in Bangkok

## V. LOAN DISBURSEMENT AND IMPACT ON SUB-BORROWERS

As of September 1, 1987 seventy-six (76) loans had been made under the facility. The average loan (including overdraft facilities) under the guarantee program was \$63,690. The largest loan was \$386,997 to Boonserm Dye House Company; the smallest was \$967 to Mr. Anan Guardmanee. There have been no defaults under the project.

In order to gain additional insights concerning the operations and impact of the Thai Danu Bank project, visits were made to a stratified random sample of sub-borrowers. The sample was stratified in terms of industry, size, credit experience, location and loan performance. The twenty two borrowers visited represented 29 percent of the active Thai Danu guarantee accounts, and are generally representative of the range and composition of the guarantee portfolio as a whole.

Interviews with each of these sub-borrowers were guided by a standard questionnaire that team members used to record responses and to ensure consistency in the data obtained. During each visit to a sub-borrower, a tour was made of the facilities, including the capital, land and equipment purchased with Thai Danu loan proceeds. These sub-borrower visits are summarized in the Borrower Profiles presented in Chapter VII below.

The loans under the Thai Danu Bank guarantee facility resulted in significant increases in production and employment outside of metropolitan Bangkok. Over seventy percent of all the loans were to businesses that directly produce or process goods, while only 30 percent were to service industries. Two areas in which production increases resulting from the loans were particularly large were in

agricultural produce (such as chicken, pork, fresh-water fish, and oranges, and in traditional Thai handicrafts).

The recipients of the Thai Danu/PRE loans were all small businesses by local standards. They ranged from extremely small rural farms with practically no assets to several modern manufacturing and retail companies with over \$350,000 in net assets.

All of the 22 businesses visited (except for one whose loan had just been approved) had used the loans for productive purposes, in most cases to expand current production facilities with new land and equipment. In addition, all of the businesses visited seemed prosperous and well managed. Approximately one-third of the businesses visited were new starts; according to bank credit officers, this is a fair representation of the portfolio as a whole.

The study team noted that in all cases where loans had been provided to agricultural producers, loan proceeds had been invested in observable capital, equipment and stock. One example is the Vipa Fresh Water Fish Farm in Nakorn Pathom. In this case, the loan proceeds were used to buy land on which the business operator is currently producing almost 3,000 pounds of fish each day. In cases where the loans were intended for purchase of capital equipment, the study team observed that equipment had been purchased and was either in operation or was being prepared to be put into service.

Estimated total employment generated up to the project's half-way point was approximately 325 full time and 255 part time jobs. Because loans under the project are medium-term (five years) and are for the acquisition of fixed assets and land in most cases, most of these jobs

will continue after the loans are paid back. This indicates that the average investment per job created under the project is approximately \$10,000. If we look at the amount lent from the Revolving Fund per job created, a reasonable estimate is approximately \$5,200 per job created. The actual cost to A.I.D. for each job created is far less than this, because it is expected that almost all loans will be paid back at the end of the project.

The amended project agreement stated that qualified sub-borrowers must have the following four characteristics: (1) be a national of Thailand; (2) that in the case of companies, be 100 percent privately owned; (3) have their principal place of business in Thailand but outside Bangkok, Thon Buri, Samut Prakan and Nonthaburi provinces; and (4) own a total of no more than the local currency equivalent of \$400,000 in net fixed assets, excluding land.

Review by the MSI study team suggests that the criteria set out in the project agreement were scrupulously adhered to. All of the twenty-two sub-borrowers investigated in detail in the evaluation sample were Thai owned businesses, and all were 100 percent privately owned. There were no loans made to businesses in the Bangkok metropolitan area: Bangkok, Thon Buri, Samut Prakan and Nonthaburi provinces.

An adjusted estimate of the rural/urban breakdown of the guaranteed loan portfolio based on a sample of 21 cases is that approximately 55 to 60 percent of the guaranteed loans are in rural areas.

Estimate of Actual Proportion of Rural and Urban Loans  
Based on Sample of 21 Loans

	\$ AMOUNT	NUMBER	PERCENT OF TOTAL \$ AMOUNT
RURAL	\$1,021,444.	12 (57%)	54%
URBAN	\$865,589.	9 (43%)	46%
TOTAL	\$1,887,033.	21 (100%)	100%

The largest sub-borrower under the facility, Chiangmai Thaireera Company, had net fixed assets excluding land of \$382,025. The smallest sub-borrower, Mr. & Mrs. Klinsuntia, had no assets. The average for all sub-borrowers as of June 1987 was \$96,750. All sub-borrowers had less than \$400,000 in net fixed assets, excluding land.

Among the twenty-one cases, approximately one-quarter of the businesses used the loan to acquire new technologies. The equipment and techniques acquired in all cases were appropriate technologies, involving a cost-effective mix of local and imported techniques and equipment. The following six case studies included in Chapter VII are excellent examples of transfers of technology as a result of the Thai Danu Bank loans: Fresh Meat Processing Company; Mr. Tongchai Kongkalai; Mr. Vichai Thanalongkorn; Mr. Yongyudh Parinyawat; Mr. Teerasak Maeteeaugkalakul; and Mr. Pitichai Daenpuhrthum. American equipment or livestock was purchased in the following five sample cases: Fresh Meat Processing Company; Mr. Yongyudh Parinyawat; Mr. Vimol Rongvitayatiwat; Mr. Pitichai Daenpuhrthum; and Mr. Tongchai Ngo.

Although no specific target was set in the project agreement with respect to participation by women, it is noteworthy that women were involved as managers, owners, or both in fifteen of the twenty-one

sample cases. In almost all of these fifteen businesses women held positions of substantial importance, either as financial manager or production manager of the business. Examples are:

The loan to Yongyudh Parinyawat is booked in the husband's name but Mrs. Yongyudh is the production manager of the sausage factory, while her husband handles finances and marketing.

The loan to the Sombat Sukklinhoum family is booked in the husband's name, but his wife manages fish production and shares marketing responsibilities with him. The husband manages the coconut marketing business.

Mr. and Mrs. Tongchai Ngo share responsibilities equally in their egg and pig raising business, despite the fact that the loan is booked in the husband's name.

The Northern Siam Seedlac Company is a firm in which responsibilities are divided between mother and son. The mother is responsible for purchasing, and the son is in charge of marketing.

The manager and part owner of Chiang Mai Banyen Company is a young woman; her mother also owns a substantial share, and was the founder of the business.

Jaifah Chiang Mai Lacquerware is owned and operated by women.



Boonyaluk Aksornsri and her Mother,  
Owners of Chiang Mai Banyen Company

## VI. INSTITUTIONAL IMPACT

### A. Impact on Thai Danu Bank

#### 1. Thai Danu Bank Attitudes Toward the Guarantee Project

Pakorn Thavisin, Thai Danu's President, reported that at the beginning of the project they were hesitant to start lending to SMSEs, the target group of borrowers. Bank staff felt that they lacked the expertise and experience with SMSEs, particularly agricultural businesses, that would be necessary to appraise business risk and profit potential properly.

Mr. Pakorn and Mr. Paiboon, the Bank's Senior Vice President, reported that after reaching the mid-point in the project they felt that they had gained significant experience in handling SMSE lending and felt more confident about this target group of clients.

With few reservations, senior Thai Danu Bank officers were enthusiastic about their involvement with the PRE guarantee project. They told us that the project gave them four main benefits. First, the program allowed the bank to lend more aggressively to SMSEs and agricultural businesses during a period when the bank wanted to expand its SMSE portfolio.

Second, the project allowed Thai Danu Bank branch managers and credit officers to lend to customers who would not otherwise have been eligible for loans. The MSI study team was told repeatedly that some of the loans were experimental and that the credit officers felt that they were learning about SMSE lending from their loans to customers with good business prospects but limited collateral. This was true in the case of several new starts such as the loans to Fresh Meat Company

(meat packing), Tongchai Kongkalai (chicken and fish farming), and Piroj Klinsuntia (vegetable farming).

Third, Thai Danu Bank senior officers view participation in the guarantee project as good public relations: it shows that the bank is innovative and concerned with the country's development. Finally, the project channeled business to branches during a time when the bank was anxious to expand its branch operations. In addition, during this period of excess liquidity, the guarantee mechanism allowed the bank to lend in rural areas without further increasing liquidity.

Because Thai Danu Bank is a relatively small bank (the 11 of 16 domestic commercial banks), senior management gave close personal attention to implementation of the project. Although the loan portfolio guaranteed by the facility represented at maximum only 2.3 percent of the bank's total outstanding loans in 1987, senior officers considered the project portfolio to be significant to the bank. It should also be noted that because the guarantee only covered 50 percent of the loan principal, the bank took great care to make sound loans.

The timing and fit of the facility were apparently excellent. The project dovetailed with normal operations of the bank, and provided a strong underpinning for its new branch expansion strategy. From a national economic perspective, use of a guarantee rather than a direct loan was an appropriate mechanism in the high liquidity situation that existed at the time.

The bank's President and Vice President pointed out that guarantee mechanisms strengthened local credit markets by stimulating demand for deposits. They added that the guarantee facility reduces

lending to SMSE borrowers, and so increases the margin on lending available to the bank. Because no new funds are introduced, however, the bank must lend from its existing pool of funds. This stimulus to demand for savings is a small but important contribution to healthy financial markets in the host country. In addition, bank officers claimed that they felt the need to be more prudent when lending their own depositors' money than when lending funds sourced from outside the country.

Senior officers of the bank stated that they would continue to lend to SMSE borrowers after the end of the PRE project. The bank had identified numerous clients with excellent business potential who would later receive unguaranteed credits, and the bank's staff now has significant experience in working with smaller enterprises. During the PRE guarantee project, Thai Danu Bank has expanded its rural branch network, and will continue to use these branches to lend to clients outside of Bangkok.

When senior officers of the bank were asked if, given their experience, they would change the project in any way, they said they would like to be allowed to relend repaid loans to new borrowers. They pointed out that the time spent in designing and negotiating the agreement was almost as long as the period during which the facility was at full utilization.

Finally, bank personnel indicated that the paperwork burden involved with the project was more than they had expected, particularly their dealings with Rainier Bank regarding the certifications necessary for issuance of L/Cs.

Thai Danu Bank officers said that frequent visits to the bank and sub-borrowers for monitoring, evaluation and audit purposes from A.I.D. and other U.S. government officials caused some difficulties. Most sub-borrowers viewed these visits as prestigious and felt that they showed the bank's interest in them. The bank, however, found the administrative burden of these visits somewhat onerous and a few clients mentioned that the visits and additional information that they had to provide to the bank was over-involvement of the bank in their private business matters.

## 2. Transition to Cash Flow Based Lending

New or expanding businesses with excellent prospects are often unable to find sufficient credit because of the highly conservative banking practices that prevail in Thailand. When collateral of up to 300 percent is required for a loan, many businesses find themselves unable to expand because they cannot obtain commercial credit. One assumption underlying the Thai Danu Bank guarantee project is that reducing the risk of lending to smaller businesses, particularly new starts, allows credit officers to give more weight to cash flow and operating income potential and less to collateral in their credit appraisals.

Based on a review of twenty-one credit appraisals carried out on Thai Danu Bank guaranteed loan applications, somewhat more emphasis was put on business performance projections for guarantee project appraisals than for regular appraisals. Collateral requirements were reduced significantly in a number of cases and special analyses of

projected business performance were more extensively used in credit deliberations. Eight of twenty-one appraisals contained detailed income statements or projections, while nineteen of twenty-one contained an estimate of gross sales revenues, and eighteen projected net operating income.

### 3. Analysis of the Investment Development Package

As noted above, this study of the Thai Danu project included a review of the bank's use of the grant portion of the project, the Investment Development Package. The following conclusions are drawn from this review.

The full \$50,000 was used during the grant period. A time extension for the training package was requested by Thai Danu Bank and agreed to by A.I.D./PRE. Training was complete well before the end of the guarantee facility.

In-house training programs were integrated into the Personnel Department's routine training programs, and generally used the Personnel Department's standard methods. Integration into routine training programs had the advantage of providing continuity with the department's previous efforts and standards. According to discussions with personnel officers and participants in in-house programs, however, during the period of the grant no special curriculum focused on small- and medium-scale enterprises was added, and no significant changes in existing curricula were made to emphasize SME credit marketing, analysis, and management. Thai Danu Bank's in-house credit training programs, however, did have SME credit sections even before the A.I.D.

training program.

According to the Personnel Department staff only two of the external training programs financed by the grant had sections that dealt specifically with small-scale enterprise credit issues: the Advanced Credit Seminar conducted by the Bankers Association of the Philippines and the Asia Banking Council, and the Corporate Lending Strategy Program run by the CitiBank Asia-Pacific Training Center. Neither of these programs focused primarily on SMEs.

Bank officials say that lending to SMEs is not basically different from lending to larger businesses, and that the training grant was used primarily for general staff development. It was apparent to the study team that the training grant also created visibility for the guarantee project, and greatly increased the receptivity of bank officials to the project.

#### B. Impact on Government of Thailand and USAID/Thailand

The Government of Thailand was not directly involved in the PRE guarantee project. Design and execution of the project was entirely the responsibility of Thai Danu Bank and PRE.

The government currently finds the guarantee mechanism a useful tool for SME development, as evidenced by the IFCT guarantee facilities now in operation. USAID/Thailand's buy-in to the IFCT program through the Small Industries Guarantee Fund is further indication of the perceived usefulness of this mechanism.

The procedures associated with the operation of the SIGF, because they are complicated and expensive, have inhibited the use of the fund

by smaller rural businesses. To make the SIGF more accessible to small businesses, USAID/Thailand has recently started an \$8.3 million project to open a second window of the Fund particularly oriented toward the needs of small- and medium-scale businesses. The Mission's design of this follow-on project was strongly influenced by the success and structure of the Thai Danu Bank guarantee project. As stated by Mission Director Dr. John Eriksson: the Thai Danu project was "one of the models we looked at in designing the Rural Industries and Employment Project."

The mechanism used in the follow-on project to the Thai Danu Bank guarantee project is a loan guarantee facility managed by the Industrial Finance Corporation of Thailand (IFCT) as a second window to the its existing Small Industry Credit Guarantee Fund (SIGF). The project will provide a loan to guarantee 50 percent of loans of \$38,000 or less to industries with less than \$200,000 in net fixed assets and located outside of the greater Bangkok area.

The USAID/IFCT Small Industries Guarantee Facility will accomplish two objectives that were not part of the Thai Danu Bank project. These are (1) open participation by Thai commercial banks, and (2) a substantial reduction in collateral requirements for the targeted small- and medium-scale industries. In part, the SIGF project was a response to numerous requests from Thai commercial banks that they be allowed to participate in an A.I.D. guarantee facility. In the SIGF project the Mission insisted on a reduction of collateral demanded by participating banks.

As mentioned above, the Thai Danu experience heavily influenced

the final design of USAID/Thailand's project with IFCT in other ways as well. This follow on project was originally conceived as a direct loan rather than a guarantee. Because of the high liquidity situation in Thai financial markets and the successful example of how the guarantee mechanism leveraged \$2.35 million into \$4.7 million in loans to smaller businesses, the Mission adopted the guarantee mechanism in its final design. A close relationship between the USAID Mission and the Bureau for Private Enterprise, together with the direct involvement of Mission staff in the PRE/Thai Danu project, helped transfer the guarantee model into a tool that could be adopted by the Mission, which now considers this model to be a very appropriate SME finance mechanism when liquidity is high.

While not a direct result of the PRE/Thai Danu project, private enterprise development is now one of the three main strategies that has been adopted by the Thailand Mission. In addition to the SIGF, a major research project for FY 1988 (presently at the Project Identification Document stage) has a primary objective of establishing linkages between research institutions and the private sector through a market-driven research approach. Also in its initial stages is a project to examine the development policy problems associated with the privatization process in Thailand. The Thai Danu facility was, in the words of a Mission official, "the leading edge" of USAID/Thailand's involvement with the private sector.

The PRE guarantee to Thai Danu Bank was of major interest and importance to USAID/Thailand in its private sector programming. The impact on Mission programming was due in part to the relatively unique

structure of PRE in Southeast Asia.

The current USAID/Thailand Private Enterprise Officer was previously the only regional representative of PRE in the world who was based in the field. His office was located in USAID/Thailand. The presence of a former PRE officer in the Thailand Mission, and the experience gained through PRE's previous commercial bank project contributed greatly to the successful design of the Thai Danu guarantee project, as well as other private enterprise projects undertaken subsequently by the Thailand Mission.

Currently the Bureau for Private Enterprise provides a Personal Services Contractor (PSC) on a cost sharing basis as part of the Mission staff in Bangkok. This individual is responsible for all Revolving Fund investments.

## VII. BORROWER PROFILES

The following pages provide brief descriptions of the twenty-one sub-borrowers visited. They are intended to capture something of the flavor of the individuals involved, and their unique business situations. Statistical information on these enterprises is presented in tabular form in Appendix 1.

Mr. Vimol Rongvitayatiwat  
Chicken Farm  
Chachaeongsao  
Loan: \$22,892  
Overdraft: \$22,892

Mr. Vimol, who holds a BA in marketing from a Thai university, had been the manager of a rice mill. He is one of four brothers in a business-oriented family. Each of the brothers had been assisted by their family and bank loans to establish rice mills in the area.

Mr. Vimol was new to the chicken business, but aware of the fact that the area of Chachaeongsao was the traditional source of at least 20 percent of the egg consumption of Bangkok. He learned of the Thai Danu Bank loan program through a friend and former classmate who was employed at the bank's branch in the area. He and his family had maintained accounts with Thai Danu for a number of years.

Mr. Vimol saw a video on chicken farming produced by Charoen Phokapan Co., Ltd., (CP) a major feed company; CP subsequently provided advice and assistance through its extension agents to Mr. Vimol in developing his business plan.

Mr. Vimol applied for and received financing from Thai Danu in mid-1986 for the construction of hen houses, development of the land

and pumping facilities. The loan was administered in tranches as the facilities were constructed. According to Mr. Vimol, his own (and his family's) investments into the business have equaled the amounts of the Thai Danu loans.

At the time of the study Mr. Vimol had four hen houses producing a total of 900 eggs per day and two buildings devoted to the raising of pullets as replacement stock. The original stock purchased was an American hybrid which had been developed through the cross-breeding of three varieties of chickens, leading to a species which produced the brown-shelled eggs desired in Bangkok markets.

Because of the linkage with his rice mill only one half mile away, Mr. Vimol is able to keep feed prices low. In addition, he has constructed fish ponds as part of the facilities; the ponds will eventually integrate recycling of chicken waste to feed the fish, which in turn will be processed into high quality chicken feed. His long range plans include the possible installation of egg drying operations and export marketing through a relative in the egg export business.

Mr. Vimol indicated that he approached Thai Danu, rather than his previous bank, Siam Commercial, because of the more favorable terms of the loan program. His loans are collateralized by land and buildings at between 99 and 120 per cent of value. This is substantially less than required in normal Thai banking practice.

Thai Danu regards Mr. Vimol as a capable and ambitious borrower who uses local technical extension services to the fullest extent. Despite some problems with price fluctuations in the market, he has had no difficulties in repaying the loan. The facilities are visited

regularly by bank personnel. Mr. Vimol appears to be highly appreciative of these visits and indicated that he may apply for additional credit in the future.

Sales of the enterprise have increased from B688,800 (\$26,770) in August 1986 to B1,200,000 (\$46,638) as of March 1987. The farm produces 900 eggs per day, which have a production cost of about B .80 (\$.03) per egg and current wholesale price of B1.10 (\$.04) per egg. Chickens are kept in production for around 52 weeks and then sold in the wholesale market, bringing additional income to the operation.

Mr. Tongchai Ngo  
Pig Farm  
Chonburi  
Loan: \$49,607.26

Mr. Tongchai, whose family has many businesses in the Chonburi area, assisted his father for several years in the family's chicken and pig raising enterprise. Upon hearing of the availability of a new breed of pig which produced more meat per kilo than local varieties, he opened discussions with the local supplier of this new breed. The breeder, who was a customer of Thai Danu Bank, suggested to Tongchai that he contact Thai Danu to obtain a loan to purchase more of the new breeding stock. Although his family had previously received financing from the Thai Farmers Bank for construction of buildings and for their chicken raising operations, Mr. Tongchai was attracted to the terms and timeliness of the Thai Danu program.

With substantial assets in land and buildings available, and a past record of successful chicken and pig raising, Mr. Tongchai had no trouble in providing enough collateral in support of his loan application. The loan was quickly approved and its disbursement was tied to the purchase of individual breeding pigs.

Tongchai was aware of the competition from both small and large pig growing operations in the Chonburi area and expected the improved quality of his stock to help the family increase its share of the market. His younger brother was hired to run the pig raising portion of the family enterprise, and was given training from a veterinarian with a private practice in the area.

production facilities, in addition to a small mill and mechanical repair garage. An attractive family house is part of the complex.

The pig raising facilities are well-maintained, with breeding schedules and other records kept in plastic envelopes at each stall. The introduction of the new breed was taking place at a rapid pace, with eight to ten new sows nursing nine to eleven piglets each, and at least twelve somnolent females waiting to have their litters. Four massive male breed hogs appeared to be relaxing in the relative luxury afforded them for a job well done.

Although hoof and mouth and other porcine diseases are a threat to the enterprise, veterinary services are readily available in the area, and the family's careful maintenance of the farm reduces the risks of these endemic diseases.

Given a substantial prior history of chicken and pig production in the area (the family has a retail outlet for some of its egg production) the marketing arrangements were already in place at the time of the loan. Although the wholesale price of pigs fluctuates somewhat, the price at the time of our visit was B27 (\$1.05) per kilogram, compared to an estimated production cost of B18 (\$0.7) per kilogram. The pigs are marketed when they reach 100 kilograms of weight, and the facility produces approximately 200 pigs per month for the market.

With the improved pig production well underway, Mr. Tongchai is in the initial phases of starting a dairy farm, and will almost certainly be approaching Thai Danu for future assistance in financing.

Chiang Mai Intanond Tour Company, Ltd.  
Hotel  
Chiang Mai  
Loan: Baht 7 Million

Rachan Veeraphan, Managing Director of Intanond Tour Company is a little uneasy. Heavy rains have delayed progress in construction of his 67 room hotel which is due to open within two months, and has been fully booked as of its opening. The Thai Danu loan officer and the construction contractor are both on the scene to inspect the work and decide if the next tranche of the loan can be paid.

Rachan, age 36, received his MA in political science from an American university. He is president of the Chiang Mai Tourism Business Association, Vice President of the Chiang Mai Chamber of Commerce, and has been elected to a position in local government. His hotel venture is a further step in his tourism business, begun eight years ago. His wife also has 10 years of experience managing the Chiang Mai branch of World Travel Service which is located in one of local first class hotels. Rachan says this competition is friendly. As is usually the case in Thailand, management of the ongoing tourism businesses is in the hands of family members.

Although Rachan borrowed from the Bangkok Bank initially to start his tourism business, he became a customer of Thai Danu as soon as they established a branch in Chiang Mai, feeling that he would receive better service from a smaller bank. He learned from a seminar conducted by Thai Danu of the existence of the PRE-supported loan program. While his major reason for joining the program was his already existing relationship with Thai Danu Bank, he also found the

interest rate available at the time more attractive at about .75 percent less than the competition.

Based on land and buildings valued at approximately B17 million, Rachan borrowed B7 million (\$272,056) initially intending to construct a "guest house" style hotel for the low budget tourism trade. In the course of construction, however, further market studies found a vacuum in tourism facilities in Chiang Mai between second class hotels and low cost guest houses. The original concept was revised to include air conditioning and carpets in the rooms, a large meeting room, and four of the rooms designed to accommodate low-budget mini van tour groups. Rachan presents a strong case that the redesigned facilities will promote year-round rather than seasonal occupancy by providing lower cost accommodations and meeting rooms for seminars. Off-season rates will be tied to government allowances.

In order to complete the hotel as redesigned, Rachan has applied for an additional B3 million (\$116,595) loan which was submitted to the Thai Danu Bank head office for approval.

Tourism is a booming industry in Chiang Mai, with all classes of hotels fully booked for the upcoming season beginning in October/November. When completed the hotel will have 67 rooms, a restaurant, a meeting room and small swimming pool. An estimated 100 employees will be hired locally. Rachan's cash flow projections, which were examined by the Thai Danu Bank Chiang Mai Branch, indicate that the loan could be paid off within six years at an occupancy rate of only 50 percent. This rate is substantially below the consistent industry average of 70 percent occupancy in Chiang Mai hotels and guest

houses.

Although somewhat concerned about construction delays, and anxious to hear of Thai Danu Bank's response to his latest applications for additional financing, Mr. Rachan is confident of the future success of his latest venture. His previous track record in business would seem to justify this confidence.

Mr. Sanya Som Dulyawad  
Ceramics Manufacturing  
Chiang Mai  
B300,000 Overdraft

Mr. Sanya, 28, is a graduate of the University of Thailand where he majored in the study of ceramics. He opened his manufacturing business, Koontee Ceramics, two years ago, at the same time he began teaching ceramics at the Chiang Mai Technical Institute. His wife, Suprani, manages the business. Her degree from Chiang Mai University in chemistry technically complements that of her husband.

The couple started their business with their own money, specializing originally in high quality hand painted vases fired in wood burning kilns. Although having achieved recognition for quality workmanship, they found that the greatest demand in the industry was for other types of ceramic products. As the business grew, the couple invested in a new gas-fired kiln, both to insure more accurate firing and to reduce the management and cost burden of assuring a continuing supply of fuel wood. Having made that investment, however, they found themselves strapped for cash necessary to insure the supply of clay essential to their operation.

Sanya's mother was willing to use her land in Bangkok as collateral for the couple's working capital loan. At the same time, they learned of the Thai Danu program from one of its other participants, a handicrafts retailer in Chiang Mai, who introduced them to the Thai Danu branch manager. Even though the collateral was of very high value, the branch reviewed the company's invoices and orders to verify its income statements.

Nestled in a cool wooded glade on the outskirts of Chiang Mai, the production facility occupies four "rai" (about two acres) of land belonging to Suprani's cousin. Thousands of tiny figurines in various stages of completion are piled on shelves and on the floor of the painting shed. As evidence, perhaps, of the original activities of the business, an artist meticulously paints an intricate dragon design on a large vase as other workers add the finishing touches to small animal figurines and arrange the shipment of an order of ashtrays featuring a sleeping water buffalo in the center.

Their labor force has grown from three people to 20, half of whom are women who work both on shaping and painting of the daily production of approximately 100 smaller pieces. Employees are paid on the basis of pieces per day, with painters earning almost twice the rate of clay workers.

According to Suprani, sales have risen from approximately B40,000 (\$1,555) per month last year to B50,000 (\$1,943) presently, despite intense competition in the ceramics industry in Thailand. There are many more ceramists than there were when they started the business says Suprani, but they are staying ahead because of their technical expertise and reputation. Price competition in the industry is especially intense, necessitating numerous experiments in the development of new product lines. Suprani herself is producing a ceramic floor tile that she is installing in a small showroom which she hopes to open by the beginning of tourist season in November 1987.

At present virtually all of the production is based on orders from retailers in both Chiang Mai and Bangkok. Although many of the

figurines were obviously designed for Western tastes, Suprani was unaware whether any of their products had been exported by their retail customers. She lamented the fact that there were few orders for their original high quality product but was delighted to show her latest creation of figurines of hill tribe musicians.

Both Suprani and Thai Danu Bank officials indicated that the company was having no problem making payments on its overdraft facility and expressed complete confidence that the company's technical and quality control strengths would assure it a firm position in this highly competitive industry.

Kriangkrai Lert-Thumnong-Thum  
Food Processing  
Chiang Mai  
B500,000 Overdraft

Mr. Kriangkrai welcomes us into his living room cum office. Sitting on the floor are his pre-teenage son and two friends playing a video game. A sweet-sour scent permeates the surroundings.

Kriangkrai, 48 years old and with education only through grade four, enthusiastically explains the history of his business. He holds secret family recipes for pickling and fruit drying that were passed down to him through his father.

Mr. Kriangkrai says he has been in business for at least 15 years. The first three or four years his was a small household activity, but as word of high quality product spread throughout the province he expanded to meet the increasing demand. His gradual expansions were financed in large part through a local revolving credit group until about four years ago when he registered officially as an industry. This registration was necessary in part so that he could apply for larger scale financing, which he obtained through Bangkok Bank. As security for this loan--he still has an overdraft facility of B2 million (\$77,730) with the bank--he signed over two pieces of land he owned in the Chiang Mai area.

One of Kriangkrai's customers told him about the Thai Danu Bank program and, after he became familiar with it, he decided to release the smaller of his parcels of land from the Bangkok Bank loan and use it as collateral for a loan from Thai Danu.

Mr. Kriangkrai's processing plant is mainly devoted to the

salting and pickling of garlic, and in sweetening and drying of an apricot-like fruit called "tau". Although he processes ten varieties of fruits including green mangoes into various forms for the local market, garlic and tau account for 80 percent of his sales. Approximately 70 percent of his sales are wholesale to retail outlets in Chiang Mai although he has customers coming in from all around the province.

Mr. Kriangkrai uses his Thai Danu overdraft mostly for the purchase of his seasonal raw products. These purchases in large quantities at various times of the year enable him to maintain production on a year-round basis. He has also found that an increasing portion of his cash flow must be used to purchase plastic bottles and other more modern forms of packaging materials.

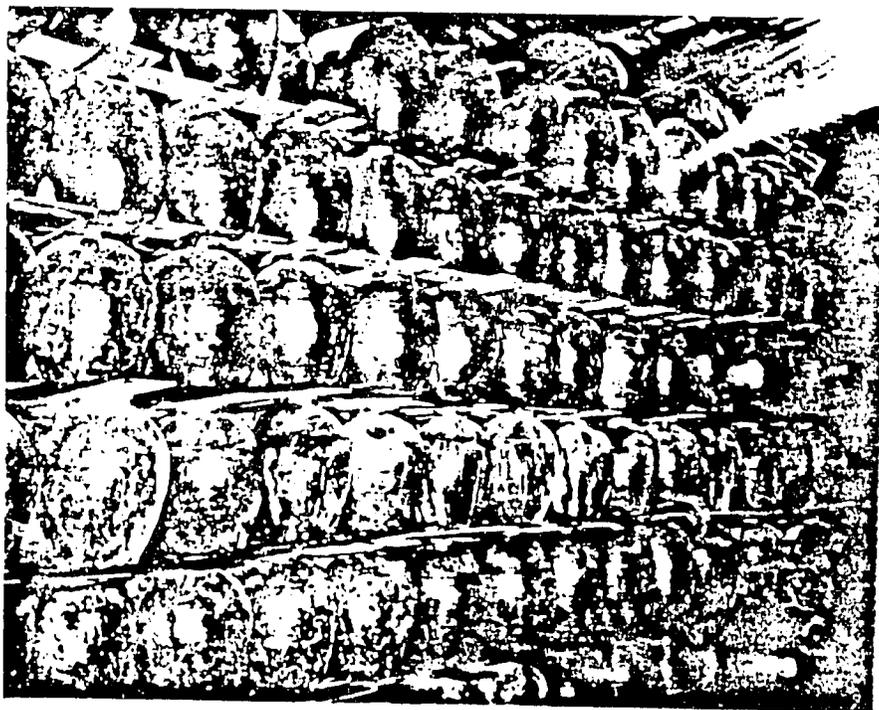
Mr. Kriangkrai's plant contains row upon row of an estimated 20,000 sealed clay pots, where garlic is being salted and pickled and tau is being soaked in a secret syrup which he mixes with his wife. He has between fifteen and twenty-five employees, depending on the season. More than half of these are women engaged in cleaning and slicing the raw fruits which go into the processing jars.

Mr. Kriangkrai knows of five competitors in this industry around Chiang Mai, but says he has been told that his business has the highest turnover of plastic bottles. He thinks he is the largest processor of the popular pickled garlic, and his sweetened dried tau has proven very popular in the Chiang Mai market.

Mr. Kriangkrai doesn't know if any of his products have been exported by his customers, although he has been approached by some of

them suggesting export. He has begun to package his tau in colorful cellophane covered boxes with his pink orchid emblem. He has so far refused to produce export quantities without receiving a deposit from potential exporters.

Mr. Kriangkrai is proud of the fact that his business has been able to support his family very well and that he is providing his two girls and a boy with the best education available. Despite his success in business, however, he says he is not encouraging his offspring to work with him. As is the case with businessmen anywhere Kriangkrai finds it relatively easy to keep up with his loan obligations but considers taxes the biggest disincentive to further expansion.



Clay pots used to pickle garlic  
and cure "tau."

Northern Siam Seedlac Co.  
Chemical Processing  
Lampang  
\$76,306.75 Overdraft

Located in Lampang, in north central Thailand, Northern Siam Seedlac is engaged in the large-scale, modern processing of "ki-krang," a natural resin base for paint. This process involves a unique combination of nature and machinery that has a long history in Thailand's rural areas.

The raw material for seedlac is made by a tiny insect, the "krang", that lives among the thin branches of the "monkey pod" tree. The insect feeds on the sap of the tree and deposits its waste in the form of a sticky black residue around the outside of the twig. These deposits are harvested by peasants in rural areas as far as 300 kilometers from Lampang and sold through middlemen to processing plants. At the plant the twigs are put through a grinder which separates the insect product from the twig. The residue then goes through washing cylinders where it is further broken down and then dried in the sun. The result of the process is a chunky brown crystalline powder that is used as a resin base for lacquer paint.

Northern Siam Seedlac is one of about eight processing factories in Thailand, five of which are located in the Lampang area. According to its owners, it is the second largest plant in Thailand, with a production capacity of between 10 and 12 million kilograms per year. The production cycle is seasonal over a seven month period starting after the monsoons in October.

Northern Siam Seedlac is a family business, reaching its present

state after more than 40 years as a growing cottage industry. The factory itself has only been open for one year. Management responsibilities are divided between the mother, Somchit Satchachai, 69, who is responsible for raw materials purchases, and the son Chaisi, 44, who handles sales. Processing operations are supervised by a salaried factory manager. Sales are almost exclusively to Japan with the product being shipped to Bangkok for export. The company has an export quota of 10,000 bags (approximately 800,000 kilograms) per year. As of September 1987, the company was holding approximately 2,400 bags from the previous year's production. This inventory, valued at between 5.4 and 7.7 million Baht (\$209,872 to \$299,262), was not marketed because of low prices at the end of the previous production cycle.

The factory itself was idle, but construction of a small paint factory was underway. This facility will reprocess the waste water from the main factory into powder which can be used as a paint base.

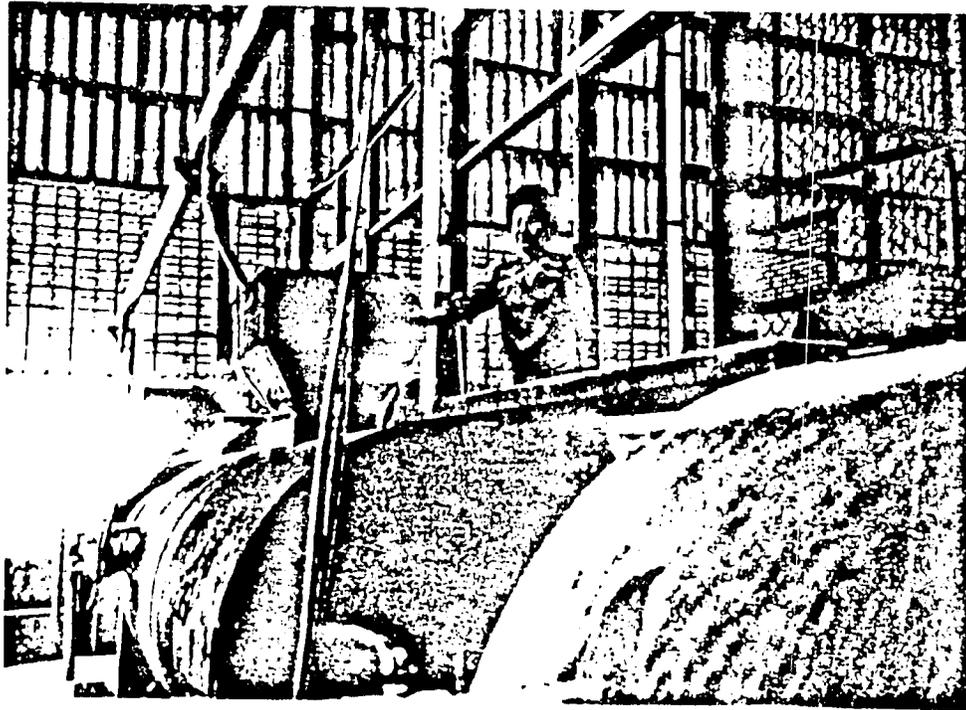
According to long time residents of the area, "krang" production has decreased significantly within the last decade. This decrease is due in large part to extensive harvesting of the monkey pod tree for use in the handicrafts industry. Its relatively soft light-weight wood is used for carving of antique reproductions which are a major tourism and export item.

Northern Siam Seedlac is engaged in technical activities aimed at insuring a continuing supply of their raw material. These involve genetic selection of high producing insects and experimenting with other tree species. Results from the latter have not been encouraging.

The construction of the factory was financed by a B5 million loan

from the Industrial Finance Corporation of Thailand and B7 million of the family's resources. Land and building was used as security for the overdraft facility from Thai Danu which was issued in the name of the son, Chaisi, and cosigned by his sister and brother-in-law, both medical doctors. According to the loan officer of the Thai Danu branch in Lampang (the oldest branch outside of Bangkok) the overdraft facility was used frequently, particularly during the period of production, for purchase of raw materials.

When in full production the factory employs up to 70 people; approximately half of them are women. Mrs. Somchit indicated that most purchases of raw materials were from five large middlemen who supplied all of the factories in the area. Some small-scale suppliers in the immediate surrounding area came directly to the factory to sell the raw product. A factory association meets at the beginning of every season to agree on a fixed raw materials price. While reluctant to estimate the number of rural people engaged in harvesting and sales to the middlemen, company personnel indicated that a few thousand people are involved.



Mrs. Somchit with seedlac  
processing machine

Lumpang White Clay Co., Ltd.  
Extraction/Processing  
Lumpang  
\$23,319 Loan

Even at the lunch hour mixing machines are pumping away. Two employees turn a wheel that tightens the screws on a large press; this squeezes water from the circular molds holding wet clay. The young man and woman turning the screw wheel appear to be engaged in a rhythmic and graceful pas a deux.

Mr. Pradhit Kailchote-Chuang kul, 37, owner and manager of the business, has a degree from Chiang Mai Technical college. He has been engaged in the processing of clay from a deposit 30 kilometers away from his plant for almost 6 years. Pradhit is in charge of production; his wife, Luompoin, 7 months pregnant with the couple's second child, takes care of financial management.

Mr. Pradhit is a handyman. Before he invested in his present business he was a minibus driver. Parts of the original equipment in his processing plant were made from old truck differentials and gears. One of his dump trucks is being repaired on the site and another 5 ton flatbed that he built from a used truck chassis is being loaded with 45 kilogram plates of clean, pressed clay.

His business has developed rapidly, even though he has 3 competing plants in the area. Market demand for this somewhat rare variety of clay is very high, and Pradhit has highly coveted digging rights to the Lumpang deposit. He ships a substantial portion of his production all the way to Bangkok where it is used in the production of ceramics both for handicrafts and for industrial uses.

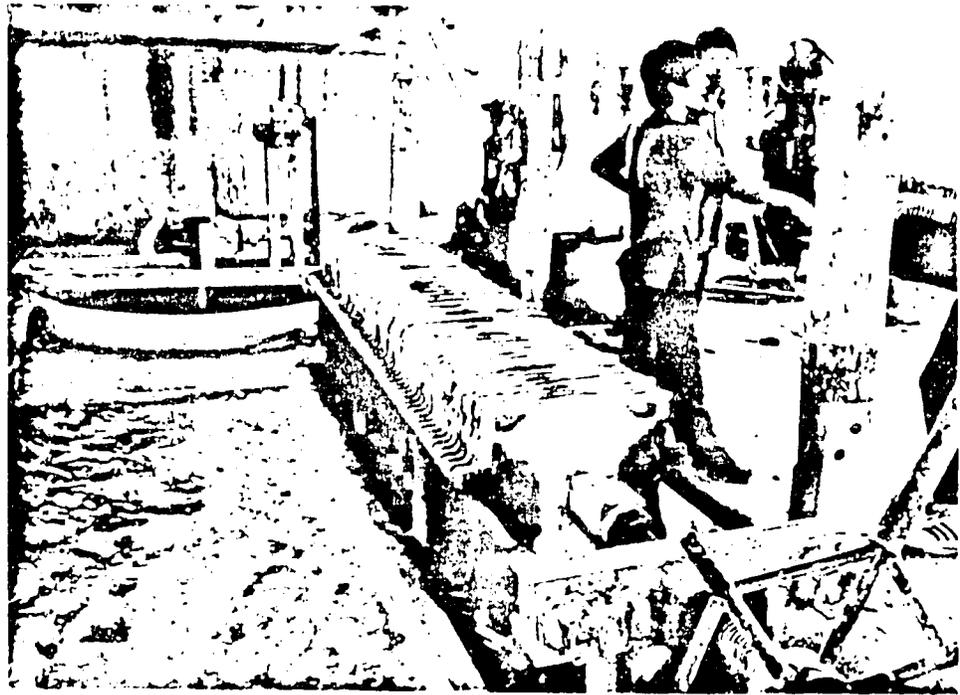
Mr. Pradhit has invested all of his profits back into the company. After starting with a B100,000 (\$3,887) loan from Bangkok Bank and B1 million (\$38,865) of his own funds he quickly reached a production sales level of around B200,000 (\$7,773) per month and an average gross profit of B408,000 (\$15,857) per year.

He read about the Thai Danu loan program in the paper. Having bought the land on which his plant was located, after renting for 4 years, he offered the land as collateral and, only two months ago, received a B600,000 (\$23,319) loan from Thai Danu. The loan appraisal process even included testing of the quality of his clay deposit by the Thai Government Department of Mines and Minerals. Already having begun expansion before he received the loan, he lost no time in acquiring equipment and constructing a second set of mixing cisterns and canals. The new equipment was in place and needed only the connection of electrical lines to be put into operation.

The new expansion will double the company's output. Pradhit says the expansion will require adding approximately 10 more employees to his present work-force of 23; he currently employs 5 women. He expects his profits to grow at least 50 percent and is already plowing them back into the construction of an office building. He says he has promised his employees, who constructed their own living quarters near the plant, that he would eventually construct better quarters.

Mr. Pradhit says his recent investments have left him short of working capital, because construction costs were higher than anticipated. Since his only problem before receiving the loan was his inability to satisfy demand, he anticipates an immediate increase in

cash flow when the new plant begins operation in a few days. With one month's grace period remaining before he has to begin payments on his loan, he foresees no difficulty in fulfilling his obligations to Thai Danu Bank.



1. Clay mixing and pressing equipment



2. Processed clay in Storage

Mr. Praphan Suksupthaworn  
Retail Market Stall  
Chiang Mai  
\$15,396.46 Loan

Praphan, 31, started his fish salting and preserving business at the age of 19 in his family home. The fish are caught locally only during a two month period after the monsoon season. Praphan started this cottage industry with his own money and quickly found that the demand for his pungent fish paste, considered a rare delicacy in Thailand, was much higher than he had anticipated. Soon his whole family was involved in production and this formed the basis for his expansion into several other businesses.

Confident of a continuing market for his basic product, and an assured supply from his family, he decided to move to Chiang Mai with his family and open a retail facility.

He found a prime corner location in Chiang Mai's largest market building and set up a food store. His long term rights to the location were based on an agreement between himself and the owner of the market building. His business growth was satisfactory, but when the season for fish paste production came around he was short of cash, and he had to secure an overdraft facility from the Bangkok Commercial Bank to supply his production.

Praphan's businesses grew steadily for the next five years after this initial working capital crisis. He had his wife and his mother employed and his daughters were getting to the age where they were also able to help, keeping his stall open from early morning to late at night.

When another corner stall became available, a stall with modern floor-to-ceiling glass cases, Praphan decided to expand and, at the same time, move into higher value and higher return products. He needed a loan to secure the second stall on a long term basis. He had found the overdraft arrangement bothersome because of its variable interest rate, and went to Thai Danu Bank where he received a sympathetic reception.

His steady growth in business made him a good customer in Thai Danu Bank's eyes but he had only his long term lease arrangement to offer as collateral. In normal Thai fashion, this agreement was not in writing. Thai Danu Bank obtained a written commitment from the market owner and, with this long term lease agreement as collateral, loaned Praphan the funds necessary to expand his business.

The loan enabled him to double his retail business. He was able to obtain a used refrigerator and offer butter, sausages, ice cream and other products previously not available in this market area. His permanent work-force doubled to 8 persons, half of whom are women. During the fish salting and processing season, for about 3 months, his mother hires an additional 8 workers, and supervises the original business while Praphan manages the retail enterprises.

Praphan has never experienced difficulties in paying the loan, but he finds that his overhead costs, particularly for electricity, are more than he had expected. Sales are somewhat irregular, peaking during the winter marriage season. His sales of refrigerated products are a major source of income, so he would like to have a larger freezer to take better advantage of his market. He will probably invest in a

larger fridge after the next fish processing season. Praphan feels he is a major innovator in the Chiang Mai central market and knows that he must keep ahead of his potential competitors.



One of Mr. Praphan's two stores in Chiang Mai's largest market

Chiang Mai Banyen Co., Ltd.  
Retail and Export  
Chiang Mai  
Loan \$75,987 Overdraft \$53,191

Pretty, pert and vivacious Ms. Boonyaluk Aksornsri, 27, with a Bachelor's degree from the University of Thailand, is the manager of the Chiang Mai Banyen Company complex crammed into a compound in downtown Chiang Mai.

Boonyaluk shows us through a seemingly endless maze of traditional Thai buildings which, if they are not crammed with row upon row of wood-carved antique reproductions awaiting finishing by the company's crew of sanders and painters, contain scattered samples of antique carvings saved from temples and other buildings around the country.

Most of her conversation, however, deals with her mother. Two rooms of the museum area of their complex, is devoted to her mother. Her progress from vegetable seller to major landholder and handicraft retailer is memorialized in photos, artifacts and the ancient bicycle with its baskets that she used for food deliveries when she started in business 25 years ago.

Boonyaluk helped her mother in food and clothing sales for many years, and began running the company herself at the age of 22. Business has been booming, and their products have been gaining national exposure through trade fairs. It is among a limited number of Thai companies that participated in a major trade fair in Frankfurt, Germany. More recently, Boonyaluk informs us, they received a visit from the gift department of Bloomingdales department store, and were

asked to provide products for a special promotion of Thai products. They received orders for about 100 different categories of pieces. They have also been featured in the Harrods department store in London.

The company borrowed previously from the Union Bank of Thailand and Bangkok Bank but recently consolidated their borrowing through Thai Danu Bank. Although the holdings in land and buildings accumulated through time by the mother were substantial, Thai Danu Bank carefully checked income statements and tax receipts against invoices, and required a formal marketing plan from the company. When asked why she chose Thai Danu, Boonyaluk says with a big grin, "I love them."

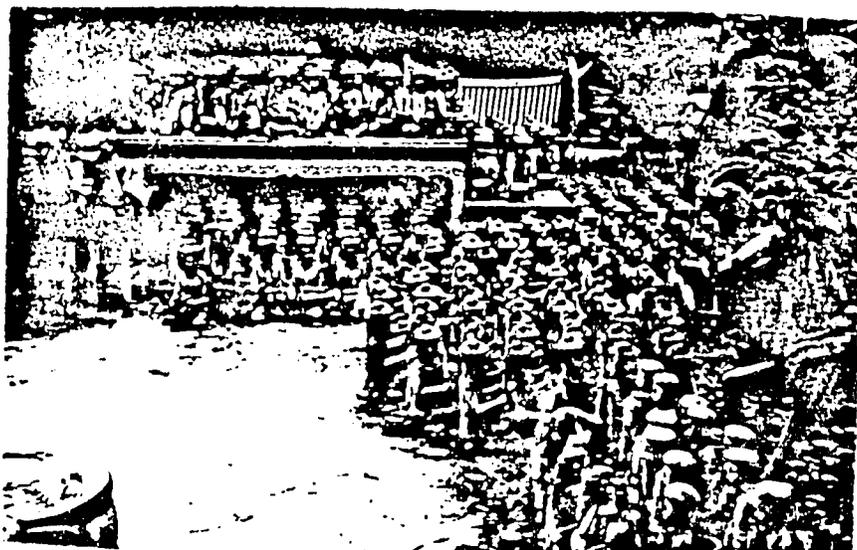
Thirty percent of the company's loans have been used for buildings and the remainder to provide working capital and reserves of stocks.

The company buys wood and gives it to village workers throughout the area. At any one time, Boonyaluk says, they may have up to 250 people working full time on woodcarving, their primary activity. As one would expect in this company, over 50 percent of the employees are women. At this point in August production is at a peak level, with shipments worth 3 million baht (\$116,595) due to go out during each of the upcoming three months before Christmas. Production problems are significant, says Boonyaluk, because many of their village workers are also farmers whose main interest is in planting their crops during the monsoon season.

Sales have risen rapidly for Chiang Mai Banyen. From 3.5 million baht (\$136,028) 3 years ago to 8 million (\$310,921) last year. Boonyaluk says that she expects no less than 12 million (\$466,382)

through this year because of all the orders she has been receiving. Although they are firmly entrenched in the antique reproduction market, they face strong competition from other countries in the region in other product lines, including furniture.

Although Boonyaluk foresees no difficulties in meeting their credit obligations, she says that obtaining working capital on the basis of letters of credit from buyers is a slow process, and having sufficient working capital reserves is crucial in assuring timely delivery within the expiry date limitations of each order. Her family's relationship with Thai Danu Bank has been very good, however, as shown by the fact that the bank president took time to talk to Bloomingdales' officials during his recent trip to the U.S. as part of a Thai delegation.



**Wooden Statues Before Being Painted**

Jaifah Chiang Mai Lacquerware  
Handicraft Production and Sales  
Chiang Mai  
Loan: \$68,359 Overdraft: \$18,997

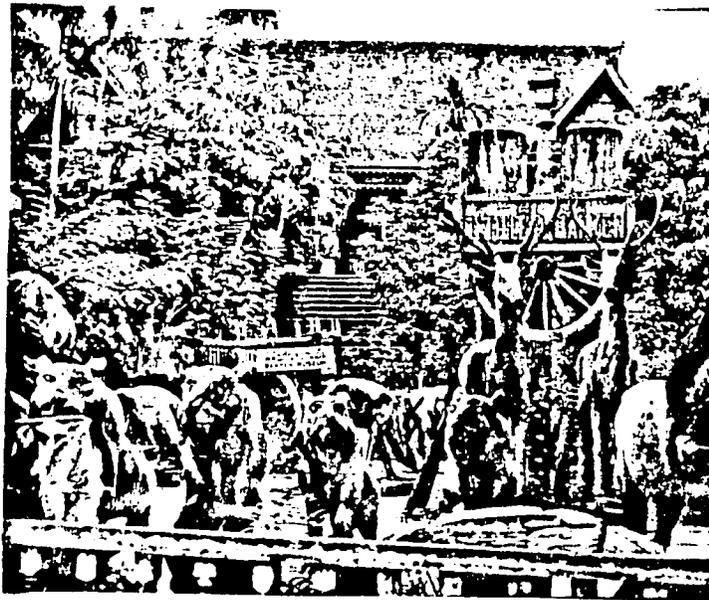
Boonyaiuk has a younger sister Jaifah, 23, a graduate of Chiang Mai University. Jaifah has her own shops, newer than her sister's, but faithfully constructed in traditional Thai style. Three attractive airy buildings fill a beautifully landscaped compound on the corner of a major intersection just adjacent to the Chiang Mai International Airport. Jaifah is not as exuberant as her older sister, and is more hesitant in speaking English. She does, however, like her sister, exude an air of confidence.

Jaifah learned business from her mother, whose business acumen one takes for granted at this point. Jaifah has not been in business as long as her sister, but is proud of her accomplishments. Her mother, silently smiling in the background shows her own pride in her younger daughter.

It is not as active today in Jaifah's shop as it was in her sister's. She has just finished production of a major order from France, she explains, and shows us into a second-story room where we see row upon row of carved-wood monkey figures, lacquered in gleaming white with black faces. Jaifah exports about 80 percent of her production. She says business has been good, growing from less than 2 million baht (\$77,730) last year to 3 million (\$116,595) this year. She has a permanent work force of between 15 and 20; this increases when orders come in. Her permanent staff is about 70 percent female, says Jaifah.

She obtained a loan from Thai Danu Bank using land and buildings as collateral. The land was yet another of her mother's shrewd investments ten years ago. The loan financed the construction of one of the buildings. She has also used almost 90 percent of the overdraft facility pointing out that orders such as the one awaiting shipment to France, required substantial cash outlays before the customer finally makes payment. Like her sister also, Jaifah occasionally faces difficulties when filling orders because of conflicts between farming and carving obligations among their network of village workers.

As we are leaving, Jaifah's mother, Banyen, motions us to follow her. Behind what looks like a shabby wooden fence overgrown with climbing vines is yet another complex of sheds containing row upon row of wood carvings. Walking through this shady expanse Banyen points out the drying areas where finished carvings rest on wire mesh above slowly burning beds of charcoal. Banyen points out storage sheds stacked high with antique furniture. She explains that she wants her family to move into reproductions of this furniture, but they are not yet sure of the market. Then, grinning impishly, she shows us to the last two buildings, whose wood-framed doors and windows are being sanded. Opening a door, she shows us a clean and gleaming room. This, she says, will be her shop, due to open in a month when the tourist season begins. Her daughters may know the ins and outs of modern financing, but she knows the business.



Jaifah Lacquerware's various products

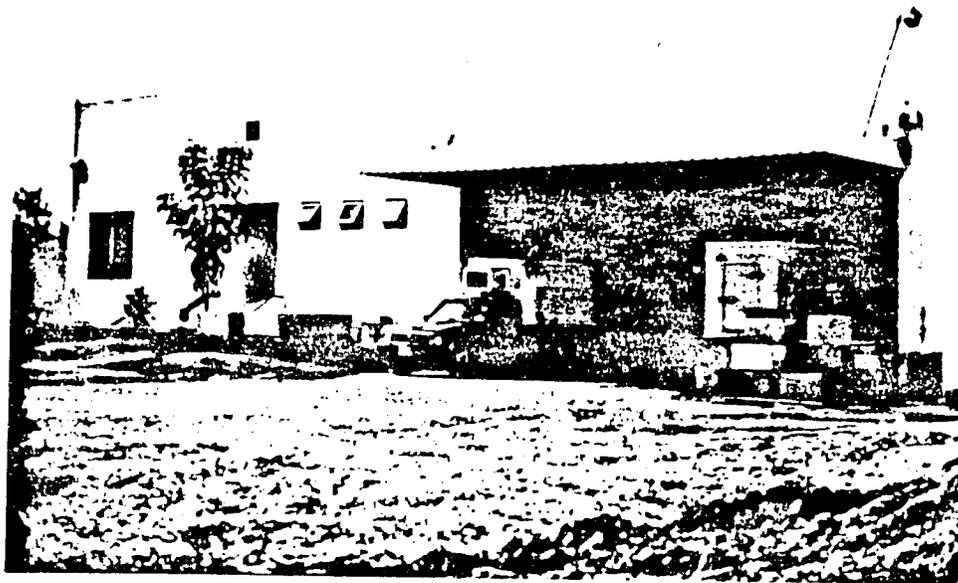
Fresh Meat Processing Company, Ltd.  
Meat Packing  
Nakorn Pathom  
Loan: \$113,981.76 OD: \$113,981.76

Until Fresh Meat Processing Company (FMC) began operating virtually all fresh pork in Thailand was processed by traditional butchers. In 1985 three employees of Thailand's largest agricultural conglomerate, Charoen Phokapan Company, decided to set up a modern and hygienic pork packing factory, with hopes of exporting vacuum packed meat to nearby Hong Kong, Singapore, and Japan. The three partners formed a limited company, put up B500,000 (\$19,546.) each, and raised another B3.5 million (\$136,826.) from limited partners. They hired a professor of food science at a local university as a technical consultant, and drew up plans for the 16 ton per day processing facility. The company had as limited partners the owners of the Pathom Farm Company, a 20,000 head pig farm located 25 kilometers from FMC. Thailand has had major problems exporting pork in the past because of endemic hoof and mouth disease: the Pathom Farm has been certified free of hoof and mouth disease by the Thailand Department of Livestock Development and thus offers an excellent source of high quality hybrid stock pork for FMC.

Thai Danu Bank supplied an additional \$113,981.76 as a loan and \$113,981.76 as an overdraft to complete the FMC start up financing package. The Thai Danu Bank loan was made against collateral worth about 100 percent of the loan; this is one of the largest loan to collateral ratios offered by Thai Danu Bank under the A.I.D. guarantee facility.

FMC constructed the plant according to their consultant's design, using chilling facilities and hygienic cutting and handling equipment throughout the process. The plant is extremely clean looking, with all of the workers wearing white uniforms and high rubber boots. The plant's equipment includes a band saw, a scale and epoxy-sealed floors from the U.S., a German chilling machine, but almost all other equipment was fabricated locally using designs from the USDA Food Safety and Quality Service, Agriculture Handbook #570 as a guide.

The FMC plant currently produces about eight metric tons per day, which is about one half of capacity. It employs about 30 employees, four of whom are women. The main difficulty that they face is erratic supplies from the government slaughterhouse which often does not deliver on time, and according to reports, is corrupt and uncooperative in meeting FMC's quality standards. FMC has orders from Hong Kong and Singapore, and wants to set up its own slaughtering facilities to get around its slaughter supply problems and meet these orders. FMC management have asked Thai Danu Bank for additional funds to cover the new investment needed for the slaughterhouse project, but thus far Thai Danu Bank has been reluctant to extend more money to this pioneer business.



FMC's facilities, and staff

Sombat Sukklinhoum  
Fish Processing and Coconut Trading  
Nakorn Rachasima  
Loan \$46,189.38 OD \$3,849.11

Mr. Sombat and his wife run two businesses on their three acre plot of land in the small northeastern city of Nakorn Rachasima. They buy small pacific mackerel in Bangkok, boil them in traditional woven baskets and then sell them in the northeast, where these preserved fish are prized for their flavor and iodine content. Their second business is buying coconuts in the south of Thailand where coconuts are produced and selling them in the northeast.

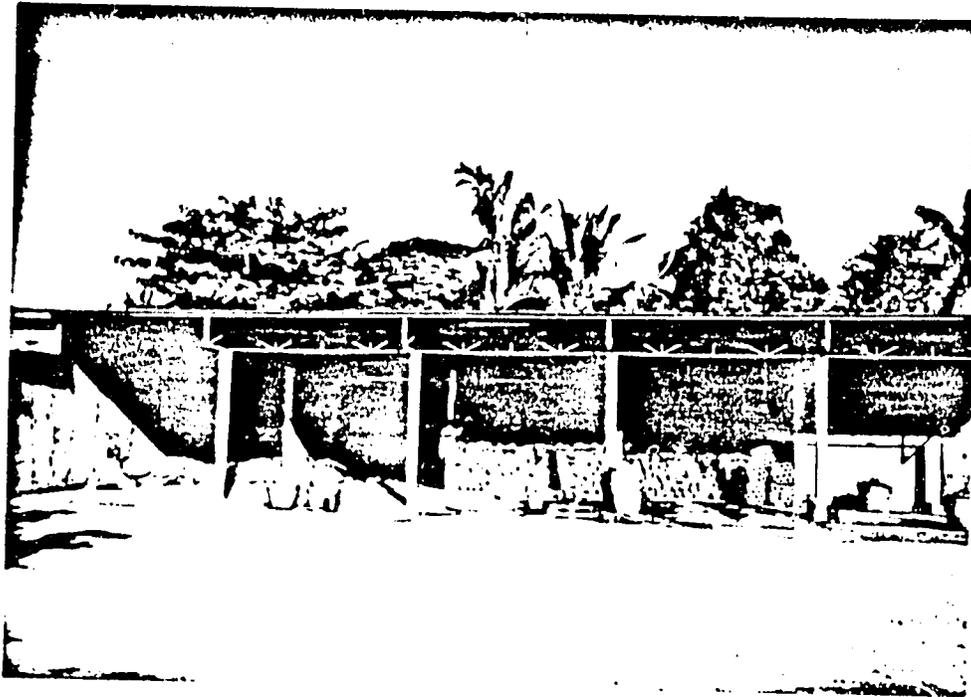
The fish preserving operation is a traditional one using a brick oven, a large iron kettle and palm leaf baskets. Altogether they process about 12 metric tons of fish a month which they sell to regional wholesale distributors and local retailers. They also distribute about 150,000 coconuts each month through wholesalers.

The couple have been in the fish processing business for over nine years, and have traded coconuts for over four. Before this they ran an auto repair garage.

They run their operations on a spacious parcel of land near the center of the city. Recently the owner of the land told them that he had to sell the parcel, and would sell to someone else if Mr. Sombat could not come up with the money. Mr. Sombat approached the Thai Danu Bank because he had heard about the favorable terms available under the "A.I.D. Program." Mr. Sombat was granted a \$46,198 loan to purchase the land; this was against collateral valued at 200 percent of the loan. Thai Danu Bank also gave them a \$3,849 overdraft account that

they use to buy fish and coconuts. Although Mr. and Mrs. Sombat had checking and savings accounts with other banks, this was their first loan from a commercial bank.

Mrs. Sombat, who looks after the fish operations, feels that now that they have the security of owning their own land they can make plans to expand their businesses. They would like to build a dormitory for their workers and to purchase a coconut plantation in the future. This seems to the Thai Danu Bank branch manager to be a reasonable expectation given that their operations net between \$1500 and \$2000 per month.



**The Coconut Storage Shed**



Preserving Fish by boiling it in baskets

Mrs. Jintana & Mr. Vichai Thanalongkorn  
Tangerine Farm  
Pathumtani  
OD \$197,455.74

Mr. Vichai owns and manages a very profitable underwear factory just outside of Bangkok. Several years ago Mr. Vichai's father bought a 20 acre tangerine grove with a house on the property 60 kilometers from Bangkok. After several years of profitable operation of the father's farm Mr. Vichai also bought a 72 acre farm six kilometers from his father's. A manager and a technical assistant with years of experience in orange farming directed the planting of 12,000 tangerine trees. Before the new farm began commercial production, however, Mr. Vichai had a stroke, and neglected the farm for the year in which he was recovering.

When Mr. Vichai finally began visiting the farm again it needed considerable repair and renovation, as it had become overgrown with grass, canals had filled, and some trees had died. Mr. Vichai had done business with Thai Danu Bank before and approached the local branch manager for an overdraft account to bring the groves back into production. Mr. Kamhang, Thai Danu's agriculture specialist, looked at the farm, an investment proposal was drawn up, and Mr. Vichai was given an overdraft account for \$192,455.74. This account was to be used to pay the B36,000 (\$1,399) monthly wage bill and to buy necessary fertilizers, fungicides, pesticides and equipment such as weeders and portable pump sets.

The farm now appears tidy and well organized, with trees planted in straight rows. The trees look healthy and laden with fruit. There

is some sign of the perennial pest, the lead miner, but the manager has been applying chemicals to check its spread. Mr. Vichai's manager says that his expenses and revenues are currently about equal, but most of the trees have not yet matured and only yielded 10 kilograms of tangerines per tree last year. This year they expect production to reach 25 kilograms per tree, with peak production of 50-70 kilograms per tree to be reached two years from now.



**Mr. Vichai's new orange grove**

Mr. Theerasak Maeteeaugkalakul  
Rice Flour Mill  
Nakorn Rachasima  
Loan \$39,093. OD \$7,818.61

The Maeteeaugkalakul family operate a rice mill in the provincial capital Nakorn Rachasima. Theirs was the first mechanized mill in the northeast and it has established such a large clientele that the family cannot keep up with demand now, even though several smaller mills have been set up in town in the last few years. They currently produce rice flour used as the main ingredient in locally-popular Chinese sweets. They also produce sticky rice and Cacorise, a baby food made from brown rice flour.

The plant is cramped and dark, with stocks and machines filling every available foot of space. Workers have to jump over piles of rice and empty bags to get anywhere past the entry threshold of the factory. All of the equipment is at least a decade old, and much of it several decades old.

With demand for their products at a sustained high level relative to their capacity they began looking for ways to both increase capacity and to meet the rising local competition. They contracted a Thai engineer as a consultant to design several machines for a larger plant. At the same time they gave their plans for the building and capital requirements to Thai Danu Bank and requested a B1.5 million (\$39,093) loan for construction of the new facility, and an overdraft account of B200,000 (\$7,818) for working capital. The loan and overdraft amount was granted; the total amount was 80-85 percent of the value of the land and building which they offered as collateral; this is much less

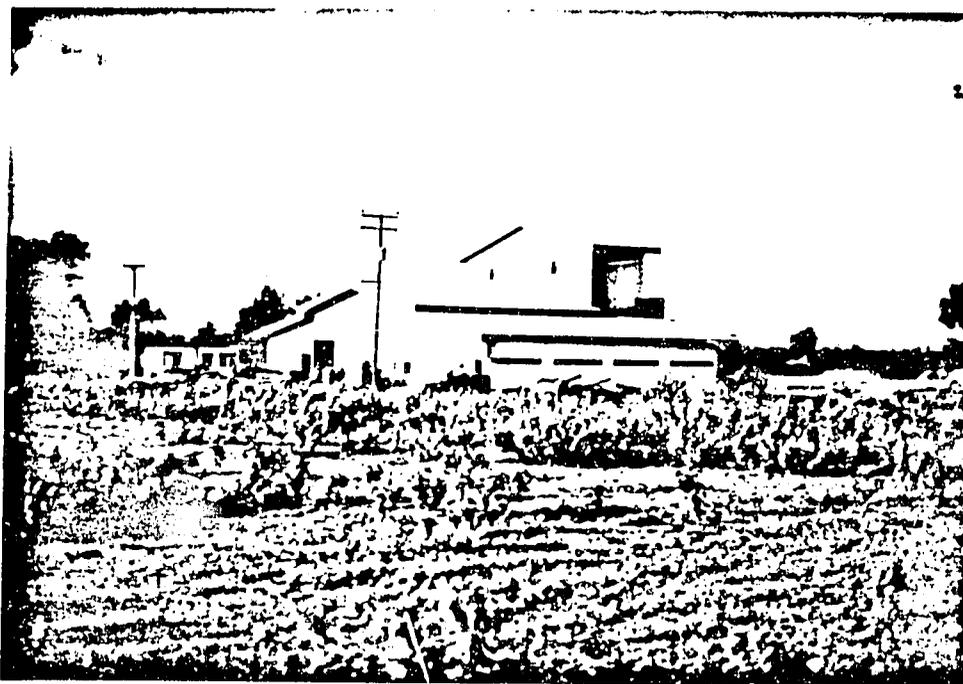
collateral than Thai Danu Bank is usually willing to accept.

At around this time the consultant, who had become very friendly with the family, also offered to design the entire new rice mill and to include in it the design for a liquid rice flour process. Liquid rice flour is used as an ingredient in sweets; this liquid flour process would be the first in the northeast, and promised the family an opportunity to meet the growing competition from other small mills. The family went ahead with construction of these plans, which were substantially larger than the original plans approved by Thai Danu Bank.

After the shell of the building was complete and most of the major equipment was purchased, money ran out. To complete the new plant the family asked for a B3.5 million (\$136,825) loan from the Industrial Finance Corporation of Thailand (IFCT), which was granted. The family is proceeding with construction, has retired its loan with Thai Danu Bank, and so far has the building nearly complete and is beginning to assemble and install the equipment. As seems common in small-and medium-scale industries in Thailand, the family is having most of the necessary equipment fabricated on site according to their own specifications. Very little ready made or imported equipment will be used in order to reduce capital costs and to ensure that the family controls the production processes.

Mr. Teerasak says that they are still waiting for disbursement of the loan from IFCT and will complete construction as soon as they start getting the money. They currently produce three metric tons of rice flour per day in their old plant and hope to retire the old plant and

produce about 20 tons a day in the new one, when it comes on line this winter. Until the new loan becomes available they will continue construction using their current monthly profit from the old plant of B55,000 (\$2,150).



The new mill prior to equipment installation

Mr. Tongchai Kongkalai  
Chicken and Fish Farm  
Nakorn Nayok  
Loan \$ 117,279. OD \$ 19,547

After working with Charoen Phokapan Company (CP), Thailand's largest agricultural conglomerate, for over half a decade Mr. Tongchai quit his job to set up his own farm. With a B.S. in agriculture and several years of experience as the local CP Regional Manager Mr. Tongchai had a clear idea of how to establish a business that operated both more efficiently and produced higher quality chickens than the surrounding chicken farms.

Mr. Tongchai had done business with Thai Danu Bank but had never borrowed money before. He submitted a business plan to construct ponds and chicken houses on land he had already bought, and asked for a B3.5 million (\$136,826) loan. Thai Danu gave the plan to their agricultural credit expert for review and subsequently offered Mr. Tongchai B3 million (\$117,279). Mr. Tongchai accepted the loan, agreed to put up an additional B500,000 (\$19,432) himself for land development, and was granted an additional B500,000 (\$19,432) overdraft line with the bank.

The farm is a model of imaginative design. There are six ponds of about 4.5 acres each in size. Built on hardwood stilts over each pond is a chicken house, each one large enough to comfortably house 15,000 chickens. The houses are built from locally available timber beams, palm thatch walls and roofs, and bamboo slat floors covered with a wire mesh. The thatched roof and closeness to the water help keep the chickens cool during Thailand's steamy summers. The bamboo floor has plenty of space between the slats to allow chicken droppings and

spilled food to fall directly to the hungry yellow catfish and tilapia which live in the pond below. The hen houses seem surprisingly fresh and clean; this is perhaps one reason why Mr. Tongchai's hens look plump and strong, and have a mortality rate of only 3.6 per 100 -- 1/3 of the rate common on neighboring farms. The chicks that Mr. Tongchai buys from CP are kept warm by ovens that burn scrap wood chips obtained locally for free; this is another of Mr. Tongchai's cost saving arrangements. Another advantage of Mr. Tongchai's farm design is that it maximizes output on his 33 acres; other local farms construct hen houses on land adjacent to their fish ponds.

Mr. Tongchai's farm has completed 1 1/2 years of operation, and things haven't gone quite as smoothly as was expected. Mr. Tongchai planned to produce six crops of 15,000 chickens per house each year, for a total output of 540,000 birds yearly. During the first year, however, only five crops could be produced because of a shortage of chicks. Fortunately the large agricultural company that sells chicks to Mr. Tongchai has assured him that he will be able to get all that he wants next year.

Because chicken production was slightly lower than expected, fish production has also been slower. Shortage of working capital has also forced Mr. Tongchai to economize by cutting back on fish feed, and so the 500,000 catfish and tilapia in each of the six tanks have not grown as rapidly as expected. In addition, installation of electricity lines and other start up costs have made it difficult for Mr. Tongchai to keep up with his loan payments. Despite the fact that Thai Danu Bank's agricultural credit expert feels that Mr. Tongchai's financial picture

will brighten by January of 1988, the Thai Danu credit department has refused to make additional loans and has urged Mr. Tongchai to use some of his father's resources to help him through this difficult start up phase. Thai Danu Bank has, however, renewed the B500,000 (\$19,432) overdraft facility, and this has allowed him to stay current with his loan payments.

Gross profit for the first year of operation was B2,320,000 (\$90,696); this is before deduction of interest and utilities, but after feed, chemicals, and labor expenses. Gross profits are reasonably expected to be B4,200,000 (\$164,190) by the end of the second year. Given Mr. Tongchai's knowledge of the industry, his economically designed facilities and efficient operations, and his substantial second year gross profits Thai Danu officers are confident that they have founded a successful farm.



1. The inside of a chicken house, with thatched roof and wire and bamboo floors



2. Thatch and palm leaf chicken houses built on stilts over a newly dug pond

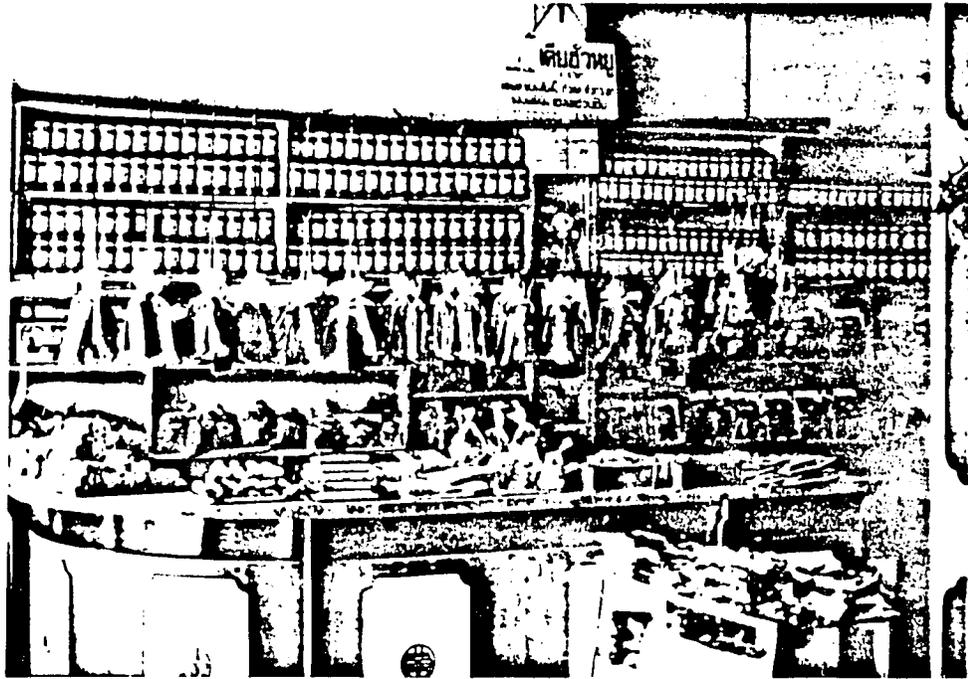
Mr. Yongyudh Parinyawat  
Sausage Factory  
Nakorn Rachasima  
Loan \$15,396.46

Mr. and Mrs. Parinyawat operate a retail shop that is tidy, well organized, and stocked full of sausages hanging from the ceiling and heaped on trays atop display cases. Behind the shop is a 1200 square foot factory where workers sort meat, mix prepared meat with herbs and spices, fill casings to make sausages, and dry and smoke various sausage preparations. The equipment in the factory includes an eclectic mix of a West German meat grinder, an American Hobart saw and an American made oven, a Japanese video camera to monitor employees, and huge cast iron woks and palm leaf baskets to cook and dry the meat. Although Mrs. Parinyawat actually manages production in the factory, her husband takes pride in selecting equipment and techniques from Europe, and when we paid our visit she told us that Mr. Parinyawat was in Europe selecting equipment for their new plant. It is worth noting that the Parinyawat factory, although they produce traditional Chinese styles of sausages, uses casings from West Germany because they are easier to work with and more hygienic than locally available casings. The Parinyawats also breed German Shepherd dogs for local sale.

The couple used to bank with the Siam Commercial Bank, but were approached by the local Thai Denu Bank branch manager to see if they needed a loan. The Parinyawat's sausage factory had a very good reputation in the region and could not keep up with current levels of demand. To meet this strong demand Mr. Parinyawat had wanted to modernize and expand production for some time; when the branch manager

came to see him, Mr. Parinyawat requested a large loan, but Thai Danu Bank refused. Mr. Parinyawat subsequently visited the branch again and led the Thai Danu Bank staff on a tour of their old factory. Thai Danu Bank drew up an expansion plan that would be carried out in several phases, and a loan agreement for \$15,196.46 to purchase the land needed for expansion. Collateral pledged was land worth \$23,450, or just over 150 percent of the loan value. Arrangements for funds to construct the new factory and to purchase equipment would be worked out later.

The Parinyawat factory buys 2000 kilograms of pork per day worth about \$3,284, and Mrs. Parinyawat estimates that they earn a profit of about \$1,314 per day after labor costs but before paying utilities and interest expenses. Given the Parinyawat's robust earnings and excellent regional reputation Thai Danu Bank account officers are confident that future loans will be made to the Parinyawats so that they can build their new factory as planned.



Parinyawat Sausage Store

Mr. Piroj and Mrs. Somporn Klinsuntia  
Vegetable Farm  
Nakorn Rachasima  
Loan \$1,519.76

Mr. and Mrs. Klinsuntia received Thai Danu Bank's second smallest loan under the A.I.D. Guarantee Program. This \$1,519.76 loan illustrates the tremendous potential and limitations of small-scale agricultural lending.

Mr. Klinsuntia works as a government janitor at the local elementary school. His annual salary is \$1,681. He and his family, including several children and parents, live in a cramped rural style wooden house on the outskirts of the provincial capital Nakorn Rachasima.

When the local Thai Danu Bank branch manager visited the elementary school on a campaign to raise deposits, Mr. Klinsuntia approached him and asked for a small loan to rent 1.6 acres of land directly adjacent to his house. Mr. and Mrs. Klinsuntia were ambitious, wanted extra income, and had experience growing vegetables on a tiny home garden, but did not have the working capital necessary to pay the rent on the land.

The branch manager had made several loans under the A.I.D. program and saw this as an opportunity to "experiment by making such a small agricultural loan." A \$1,519 loan was provided for the Klinsuntia's to lease the land and buy supplies. As collateral the Klinsuntias pledged his father's land worth about \$4,264, or about 280 percent of the loan.

The Klinsuntias currently produce about 18,000 kilograms of

vegetables on their rented 1.6 acre plot each year. Most of this is a type of broccoli that is used in local soups. They sell both to wholesalers and local retailers, grossing about \$3,500 per year, and estimate that their net profits are almost \$2,000 per year, i.e., more than Mr. Klinsuntia's government salary. Mrs. Klinsuntia does much of the cultivation planning, actual cultivation, and selling of produce. They also employ three to four women on a part time basis to help weed and harvest, and they get additional help from family members on a part time basis.

When we first spoke with the credit staff of Thai Danu Bank we were told that agricultural production loans to small farmers tend to require excessive monitoring and are very risky. According to the Nakorn Rachasima branch manager this holds true for the loan to the Klinsuntia family. Despite the fact that they get substantial profit from their small farming operations, they are unpredictable in making payments and the manager must make frequent visits to keep them current.

Mr. Pitichai Daenpuhrttthum  
Biscuit Factory  
Samutsakorn  
Overdraft \$117,279.12

Mr. Pitichai and his wife ran a small, dark and cramped biscuit making factory on the edge of a large town. With a 40 year old gas fired oven they produce sweet biscuits and cookies that are sold in rural areas. After seven years of operating this factory they had accumulated savings deposits in Thai Danu Bank of \$390,930; their business was doing very well, and they were unable to keep up with demand for their products.

They hired a Malaysian consultant to design a new plant so that they could drastically expand production. Because they had a large amount of cash available for construction of the new plant Thai Danu Bank agreed to provide them with an overdraft facility for \$117,279.12 to meet their working capital needs during this period of expansion. They pledged collateral, land and a building, valued at \$261,923 or about 223 percent of the total overdraft facility.

Construction is proceeding as planned: the shell of the building is complete and the main ovens are in place. As in several previous cases examined on our trip to Thailand, capital was judiciously selected so that most equipment was purchased locally and assembled on-site. Only the metal chain-link conveyor belt (France), the mixing machine (Federal Republic of Germany), the gas valves (Italy), and the cloth conveyor belt (Japan) were imported. As part of the expansion program Mr. Pitichai will hire about 100 new employees, 80 percent of whom will be women.

The old factory produces about two metric tons of biscuits and cookies per day; when the new factory is complete it is expected to produce 10 tons a day working at 60 percent of its capacity. The owner estimates gross sales currently at \$938,233 per year, and says that net profits are about 15 percent of gross sales, or \$140,735 a year.

Given the high value of collateral pledged and the optimistic prospects for future income, Thai Danu Bank officers claim that they probably would have lent to Mr. Pitichai regardless of the A.I.D. Program.



**The new factory, built with proceeds  
of the guaranteed loan.**

Mrs. Vipa Leungnaramitchai  
Fresh Water Fish Farm  
Nakorn Pathom  
Loan \$113,981.76

Mr. Manit Leungnaramitchai, Mrs. Vipa's husband, has been farming fresh water fish for over 20 years. Before the A.I.D. Guarantee Project loan he operated a total of 80 acres with 73 ponds on it, producing 7,000 metric tons of catfish, tilapia, and serpent head fish per day. The 80 acres are rented from a member of the royal family; although the lease is only one year long, custom has it that he can stay for the indefinite future. Mr. Manit also owns several other businesses, including a supermarket, a fish mill, and a fleet of 10 deep sea fishing boats that operate off the coast of Thailand.

Mr. Manit receives the latest technical advice on fish farming from his brother who is a veterinarian, from Dr. Chen, who is a fisheries consultant from Taiwan, and from the agricultural conglomerate Charoen Phokapan Company, which supplies him with feed and antibiotics. Mr. Manit has a feed mill on his property that mixes cereal wastes, waste fish, and commercial fish food, and so he keeps feed costs substantially lower than other local farms.

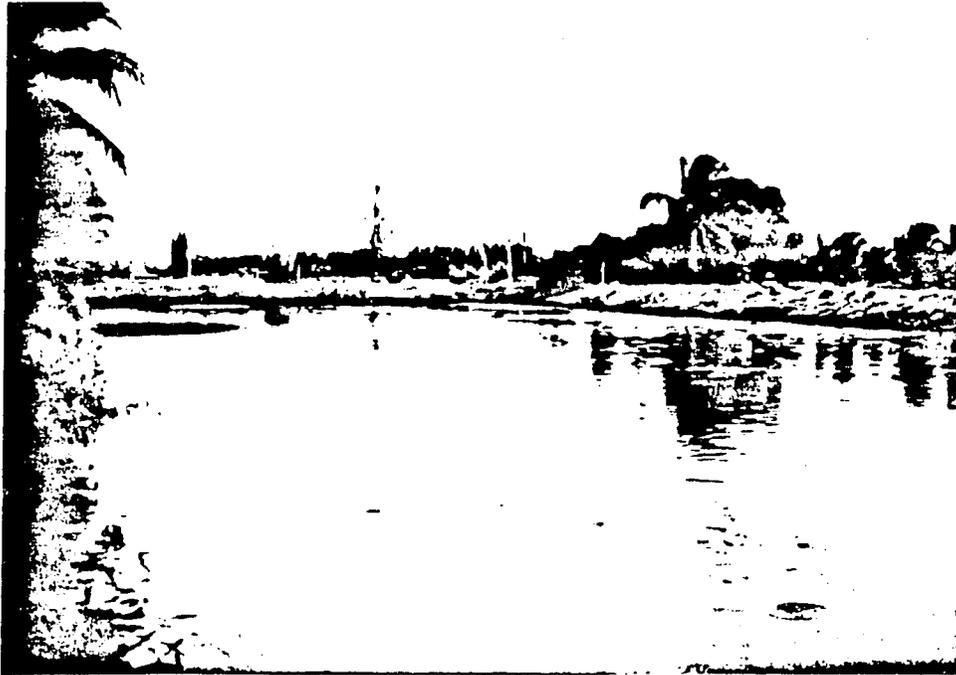
Mr. Manit has been a Thai Danu Bank customer for 10 years, and is well known to the bank. His wife, who actively manages several of the couple's properties, applied for and was given a loan under the A.I.D. guarantee facility of \$113,981.76. The proceeds were used to purchase 16 acres of new land on which Mr. Manit has built 28 ponds, all of which are currently producing fish. As a result of this new investment Mr. Manit projects production increases of between two and three metric

tons per day, and the addition of 20 workers. The new land, financed by the Thai Danu Bank loan, looks tidy and already has a small fish feed mill constructed on it. A concrete water course channels water from a nearby river into the ponds, assuring that they can be refilled after each crop is harvested.

Altogether Mr. Manit has sales of fresh water fish from his 101 ponds of \$2,111,024 per year, and he estimates profits of about \$639,210 before interest expenses and taxes.



Harvesting Freshwater Catfish



A newly dug pond built on land purchased with funds from a guaranteed loan.



Weighing and packing catfish to be sent to market.

Mr. Bunchoub Jearphunpong  
Hotel  
Nakorn Rachasima  
Loan \$31,274.43

Mr. Bunchoub owns and operates several prosperous small businesses in the area of the provincial capital, Nakorn Rachasima. He runs a construction company that works primarily with government water works and road construction programs, he also has a crop wholesale company, and his most prosperous venture to date is his wholesale liquor business. His businesses are located in a small town 49 kilometers from Nakorn Rachasima.

There used to be four small hotels in Mr. Bunchoub's town, but the owners of two hotels died and their heirs have not kept the hotels running, while two others burned down within the last few years. With no hotels in town, businessmen, farmers and government officials visiting this agricultural center had to drive to Nakorn Rachasima to find a hotel. Mr. Bunchoub had been considering getting into the hotel business for years and decided that this was the right moment. He approached the local branch of the Thai Danu Bank with a proposal to convert one of his warehouses near the town's main street into a 30 room hotel. Thai Danu Bank reviewed the proposal and concluded that a loan should be given, citing as reasons the borrower's substantial property, ample net income from other businesses, and local monopoly in the hotel business for the next few years at least.

Thai Danu Bank gave Mr. Bunchoub a loan for \$31,274.43 against collateral of the same value. Mr. Bunchoub used the loan plus \$40,000. of his own money to renovate the warehouse into a hotel with

24 non air conditioned (non-a/c) and 3 a/c rooms. The hotel appears to have been constructed with economy in mind; fixtures are simple and basic.

Mr. Bunchoub estimates that his average occupancy rate is 75 percent and yearly gross revenues are \$14,063. His estimated yearly revenues seem to be on the conservative side if his occupancy estimate is correct. Nevertheless, Mr. Bunchoub says that his hotel is making a good profit, and that he is seriously considering building another one with 100 rooms in the same town. Mr. Bunchoub claims that he has had no difficulty servicing the loan with income from his new hotel.

Shinawatra Thai Silk Company, Ltd.  
Silk and Handicrafts Manufacturing and Retailing  
Pattaya  
Loan \$195,313.

Mrs. Yowvares Shinawatra's family has been producing handicrafts and silk garments in the city of Chiang Mai for two generations. Mrs. Yowvares has worked with her family's businesses since she was a child. After studying dress and garment design in England and France she and her husband opened a small retail department store in the popular seaside resort of Pattaya, south of Bangkok. The couple leased a large building, a bankrupt roller skating rink, along the highway into Pattaya and converted it into a retail showroom, with departments for wood carvings, handicrafts, jewelry, silk garments, and silk materials. About one-third of the store is air-conditioned.

The Shinawatras sell a wide variety of Thai handicrafts, but they specialize in high fashion women's silk garments, such as blouses, shirts, jackets, and in bedding materials such as cushion covers and bed spreads. They contract with tour operators to have tours brought to their shop; the complex has now become a popular spot for tourists to shop. Most of their sales are made to foreign tourists. Shinawatra Company's gross sales for the year ended June 1987 were \$978,281 and gross profits were \$207,031.

Recently Mrs. Yowvares decided that she could attract more customers and make Shinawatra Thai Silk Company stand out among the competition if she brought handicraft artists and silk weavers into the store so that tourists could actually watch the artisans at work. To do this she needed both more space and more working capital. She

approached Thai Danu Bank with her expansion proposal.

Thai Danu Bank reviewed the plan and reconstructed the company's income statement based on the past year's bills and invoices. Thai Danu Bank concluded that the company has a substantial share of the lucrative tourist handicrafts market in the area, a sound business plan, good quality collateral, and promising income prospects. Thai Danu Bank approved a \$195,313 loan for expansion; collateral pledged was worth about 76 percent of the loan, unusually low even under the A.I.D. Guarantee Program.

As of the date of the evaluation visit the loan had just begun to be disbursed and no major investments had been made yet.

APPENDIX I

GENERAL STATISTICS		
Number of active accounts (Sept. 1, 1987)		76
Largest loan	\$386,997.	
Smallest loan	\$967.	
Average loan	\$63,690.	
Largest borrower (net fixed assets)	\$382,025.	
Smallest borrower	- 0 -	
Average size of borrower	\$96.750.	
Defaults	none	

Portfolio Classification by Economic Activity

(In US dollars)

(Portfolio includes 66 sub-borrowers with available information)

<u>Economic Activity</u>	<u>Number</u>	<u>\$ Value</u>	<u>% of Value</u>
Agricultural Production	17	692,437	18
Agricultural Processing	14	995,825	26
Wholesale/Retail	14	527,629	14
Service	9	500,360	13
Handicrafts	8	849,910	22
Mining	3	169,216	4
<u>Real Estate Development</u>	<u>1</u>	<u>57,230</u>	<u>2</u>
Total	66	3,792,607	99

Sub-Loan No.	Subproject Name	Total Assets After Financing	Repayment		Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
			Principal repaid	Balance Outstanding				
1.	Fresh Meat Processing Co., Ltd.	\$379,937.21	\$18,995.76	\$94,984.80 \$113,981.76		NIL	30 Employees (ND +)	Provide good quality products (pork in sealed plastic bags) in terms of freshness, cleanliness and cheapness to the domestic consumers, and provide employment opportunity.
2.	Mr. Piroj/ Mrs. Somporn	See Note	\$260.37	\$1,259.39	record	NIL	6 Employees (ND +)	Generate extra income to raise standard of living.
3.	Mrs. Vida Leung-naramitchai	\$392,427.24	\$74,468.08	\$39,513.68	customers	NIL	20 Employees	Provide employment opportunity to the people and moving workforce and increase the supply of fresh water fish for domestic consumption.
4.	Chiangmai Banren, Co., Ltd.	\$509,118.54	\$10,543.88 \$53,191.96	\$65,443.76	are	\$398,976.17	125 Employees (Included + 50 Employees)	Promote and preserve the art of Thai handicraft and its skilled workers.
5.	Jaisah Chiangmai Lacquerware	\$169,832.83	\$14,817.65	\$53,571.43 \$18,995.76	good	\$2,279.64	30 Employees (ND +)	Provide employment opportunity for local labor and promote the homemade products.
6.	Mr. Tonochai Kongkalis	\$208,966.57	\$15,177.57 NIL	\$66,770.27 \$37,993.70		NIL	18 Employees	Provide employment opportunity and generate income for the local people and increase supply of chicken meat for consumption.
7.	Mr. Tongchai Hoo	\$100,133.18	NIL	\$49,607.26	all	NIL	15 Employees (Include + 10 Employees)	Increase supply of meat (pork) for domestic consumption.
8.	Mrs. Jintana/ Mr. Vichai Thanaiengkorn	\$288,683.60	NIL	\$192,455.76	are	NIL	50 Employees (Include + 5 Employees)	Develop labor-intensive orange farm and increase the supply of oranges for domestic consumption.
9.	Mr. Yongyudh Parinyawat	\$284,113.55	\$2,805.17	\$12,591.29		\$1,537.65	36 Employees	Provide employment opportunity and income for local people.
10.	Mr. Praohan Saksuothaworn	\$40,848.73	\$4,325.07	\$11,071.37	Credit	NIL	4 Employees (Include + 1 Employee)	Enhance family income and provide various kinds of cooking ingredients for the consumers.
11.	Mr. Sombat Sunkklinhoum	\$125,481.14	\$7,012.65 NIL	\$39,176.53 \$3,349.11	record	NIL	14 Employees (Include + 1 Employee)	Provide employment opportunity for local people.
12.	Mr. Vinol Foundavitavitwat	\$134,279.89	\$2,116.78 NIL	\$20,725.24 \$22,692.03	all	NIL	9 Employees (ND +)	Generate family income and increase supply of chicken meat for the consumers.
13.	Northern Siam Seedlac Co., Ltd.	\$743,790.64	NIL	\$76,306.75		\$361,533.77	+58 Employees (Include + 1 Employee)	Develop labor-intensive, export-oriented industry, generate income for the local people.
14.	Mr. Panchob Jearatunponn	\$75,352.72	\$3,999.30	\$27,365.13		NIL	+5 Employees	Provide low-cost boarding for the local people.
15.	Mr. Theerasak Maeteerudsalakul	\$176,446.44	NIL	\$78,166.45	Credit record	NIL	+20 Employees	Provide the consumer at a steady and cheap price variety of powder to be used for cooking.
16.	Mr. Pitichai Daenbunrthum	\$369,340.11	NIL	\$117,279.12		NIL	+40 Employees	Make available supply of staple food and at a very low price for local consumption.
17.	Mr. Sanva/ Mrs. Supanee Sornthanasakul			\$11,609.91		NIL	17 Employees (ND +)	Produce ceramic ware-generate employment.

18.	Lusogan White Clay		\$27,215.18	NIL	10 Employees (NG +)	Processing clay for local ceramic production.
19.	Chianonai Intanond Tour Co., Ltds.	\$242,572.00	\$154,798.76	NIL	100 Employees (NG +)	Start up a low cost hotel; generate employment.
20.	Mr. Arsanotras Lert- Thuanong-Itho	\$42,280.00	\$17,349.85	NIL	10 Employees	Processing fresh fruit/vegetables; employment.
21.	Shinawatra Ina: Silk Company, Ltd.	\$160,000.00	\$192,766.85	NIL	10 Employees (NG +)	

BASIC PROFILES OF SUB-BORROWERS VISITED

## APPENDIX III

Article from Sept. 2, 1987 Bangkok Post on the Continuing Dialogue in Thailand concerning rural credit policy

# Banks asked to boost credit in rural areas

Bangkok Post Sept 2, 1987  
 ● Performance unsatisfactory

THE Bank of Thailand has asked commercial banks to extend more credit in rural areas as their lending performance in the first half of this year had not been satisfactory.

A senior central bank source told *Business Post* the Bank Supervision and Examination Department deputy director Kietisak Meecharoen recently asked all commercial banks to a meeting to review lending performance under a new rule during the first half of this year.

The new regulation states that commercial banks must extend 20% of their deposits as rural credits outside Bangkok and five adjacent provinces.

Of this 14% must be agricultural credit extended directly to farmers. Agricultural credit is defined as farm loans and loans to small industries.

The remaining 6% can be loans to agro-industries.

The source said during the first half of the year all banks had satisfactorily complied with the lending requirement to agro-industries.

But agricultural credit and loans to small industries has been running short of the 14% target.

## TARGET

The department had asked all banks to expedite rural credit lending so as to meet the 20% target during the second half of the year, the source said.

Under the rule if a bank fails to meet the target it must deposit the shortfall with the Bank for Agriculture and Agricultural Cooperatives.

The source said some commercial banks complained at the meeting that they might not be able to meet the 20% requirement because they do not have enough provincial branches.

"We told them if you have a small number of branches it means you also have smaller deposits. This means the amount of rural credit required to be extended will also be smaller."

"We told them we will stick to the present rule," he said, adding that if any bank could not meet the target it only had to deposit the balance with the BAAC.

The Bank of Thailand wanted banks to extend more rural credit now as there is excess liquidity in the banking system.

Asked about Bangkok Bank President Chatri Sophonpanich's comment that he did not believe the BAAC could receive deposits from banks in cases where there had been a shortfall in the lending requirement because BAAC also had an excess liquidity problem, he said the central bank had not yet decided what it would do in such a situation.

## Banks gain time for rural loans

THAI Bankers' Association president Chatri Sophonpanich said the Bank of Thailand has agreed to allow commercial banks to roll over their rural credit shortfalls to other years.

Mr Chatri, also president of Bangkok Bank, said it was difficult for commercial banks to meet the target in lending 20% of their capital fund in rural credit within the first year that the rule was implemented.

He said this explanation was acceptable to the central bank, which agreed to allow commercial

banks to roll over the shortfalls to other years.

However, each bank must submit its plans to extend more rural credit during the second half of this year to the central bank for consideration, and a roll over relaxation will be given if the commercial bank shows in its plans that it tried its best to meet the target.

For Bangkok Bank itself, Mr Chatri said it wanted to lend more rural credit, even possibly higher than the required target, as earnings from this kind of credit is higher than other kinds.

APPENDIX IV ALL SUB-BORROWERS (JUNE 30, 1987)

Sub-Loan No.	Subproject Name	New/Existing	Location	Business Activity	Loan Amount	Loan Purpose	Term	Grace	Interest	Total Assets Before Financing
1.	Fresh Meat Processing Co., Ltd.	New	Nakorn Pathom/Rural	Meat Processing (Pork)	LN \$113,981.76 OD \$113,981.76	Building of Slaughter House & Working Capital	Sept. 5,90 Sept. 5,90	1 year NIL	12.25 12.25	\$189,969.60
	A.P. Graphic Center Co., Ltd.	Existing	Chiengmai/Urban	Printing/Advertising Business	LN \$24,696.05	Purchase of equipment	March 5,89	NIL	12.75	\$99,330.81
2.	Mr. Piroj/ Mrs. Somporn Klinsuntie	Existing	Nakorn Rachasima/Rural	Cultivation	LN \$1,519.76	Burying Seeds & Fertilizer	Sept. 5,89	NIL	12.75	NIL
	Mrs. Banyen/ Miss Boonyalak Aksornsi	Existing	Chiengmai/Urban	Mfg. of Furniture, Antique, Carving, etc.	LN \$75,987.84 OD \$37,793.72	Repair of Warehouses & Working Capital	Sept. 5,90 March 5,89	NIL NIL	12.00 12.00	\$119,091.22
	Mr. Hong Lung/ Mr. Tiencnai Tuiraprechanan	Existing	Pathumtani/Rural	Orange Farm (Domestic - Consumption)	OD \$56,990.58	Invest in new farm	March 5,90	NIL	12.25	\$227,953.53
6.	Mrs. Vida Leung-naramitchai	Existing	Nakorn Pathom/Rural	Fish Farm (Fresh water fish)	LN \$113,981.76	Farm Expansion	Sept. 5,88	NIL	12.00	\$255,176.58
7.	Chiengmai Banzen Co., Ltd.	Existing	Chiengmai/Urban	Mfg. of Carving, etc.	LN \$75,987.84 OD \$53,171.27	Repair & Expansion of Showroom	March 5,88 March 5,88	NIL NIL	12.00 12.00	\$115,036.47
8.	Jaijan Chiengmai Lacquerware	New	Chiengmai/Urban	Mfg. of Silverware, Lacquerware	LN \$68,389.05 OD \$18,796.36	Construction of Building & Working Capital	March 5,90 Sept. 5,89	6 months NIL	12.00 12.00	\$62,689.97
9.	Siri Hotel Partnership	New	Nakorn Rachasima/Urban	Hotel Business	LN \$56,790.83 OD \$56,790.88	Purchase of Land	Sept. 5,89 Sept. 5,89	NIL NIL	12.00 12.00	\$157,370.82

Mr Theerasak Maeteuangkalakul udan riceflour mill  
 LN \$1,000,000 = \$ 46,875.  
 OD 2,000,000

Sub-Loan No.	Subproject Name	New/Existing	Location	Type of Business	Loan Amount	Loan Purpose	Tenor	Grace	Interest	Total Assets Before Financing
10.	Mr. Vachira/ Mrs. Somporn Tanetkao	Existing	Nakorn Rachasima/ Rural	Trading Farm Products - Rice, Maize & etc.	OD \$15,197.57	Working Capital	March 5,90	NIL	12.25	\$9,411.89
11.	Mr. Tongchai Kongkalai	New	Nakorn Nayok/ Rural	Chicken Farm & Fresh Water - Fish Farm	LN \$75,987.84 OD \$37,993.92	Construction of pennouces & Working Capital	March 5,90 March 5,90	4 months NIL	12.25 12.25	\$36,443.76
12.	Changsilp Pert. Ltd.	Existing	Nakorn Rachasima/ Urban	Dealer of construction - materials	OD \$32,717.48	Working Capital	Sept. 5,87	NIL	12.75	\$196,478.84
13.	Mr. Bunlur/Mrs. Sanaechan Sophasing	New	Chachoengsao/ Rural	Fresh Water - Fish Farm & Farming	LN \$11,547.34	Buying young - fish & Seeds	Sept. 5,88	NIL	12.75	\$2,617.40
14.	Chiengmai Thaiteera Co., Ltd.	Existing	Chiengmai/Rural	Mining - Tin, Wolfram & etc.	LN \$38,491.15 OD \$76,982.29	Additional Invest- ment & working - Capital	March 5,90 Sept. 5,90	2 months NIL	12.75 12.75	\$382,026.63
15.	Mr. Tongchai Ngo	Existing	Chonburi/Urban	Chicken & Pig Farm	LN \$49,007.26 1.2 mil $\phi$	Buying Breeding Pigs	Sept. 5,90	1 year	12.00	\$80,831.41
16.	Mrs. Anchanee Thaitherun	Existing	Songkla/Rural	Fishery	LN \$11,547.34	Modernizing Fishing Trawler	Sept. 5,89	NIL	12.50	\$59,402.42
17.	Mrs. Jintapa/ Mr. Vichai Thanalongkorn	Existing	Pathumtani/Rural	Orange Farm (Domestic - Consumption)	OD \$192,455.74	Improvement of farm	March 5,90	NIL	12.00	\$146,266.36
18.	Eameng Karn- Kasert Part. Ltd.	Existing	Nakorn Rachasima/ Rural	Trading Farm Products - Maize, Tapioca & etc.	OD \$26,943.80	Working Capital	March 5,90	NIL	12.25	\$39,936.57
19.	Mr. Tongchai Kongkalai	Existing	Nakorn Nayok/ Rural	Chicken Farm	OD \$19,245.57	Working Capital	March 5,87	NIL	12.75	\$36,443.76
20.	Mr. Anon Guardanee	New	Chiengmai/Urban	Trading Farm Products - Fruits	LN \$3,849.11	Stock Commodities	Sept. 5,89	NIL	12.75	\$5,003.85
21.	Mr. Panntho Suwannachaton	New	Chiengmai/Rural	Wholesaler of optical appliances	LN \$5,773.67	Stock Inventories	Sept. 5,89	NIL	12.75	\$11,547.34

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Sub-Loan No.	Subproject Name	New/Existing	Location	Type of Business	Loan Amount	Loan Purpose	Tenor	Grace	Interest	Total Assets Before Financing
22.	Mr. Visit Panichwattananon	Existing	Chachaeongsao/Urban	Garage	OD \$9,622.79	Working Capital	March 5,90	NIL	12.75	\$19,399.54
23.	Mr. Yongyudh Parinyawat	Existing	Nakorn Rachasima/Urban	Producer of Local food e.g. sausage	LN \$15,396.46	Expansion of Building & Working Capital	Sept. 5,90	NIL	12.25	\$192,455.73
24.	Mr. Praphan Suksupthaworn	New	Chiengmai/Rural	Grocery	LN \$15,396.46	Rental Fee	Sept. 5,89	NIL	12.75	\$32,717.47
25.	Mr. Somdat Sunkkinnoum	New	Nakorn Rachasima/Urban	Boiled Indo-Pacific Mackerel & Trading Coconut	LN \$46,189.38 OD \$3,349.11	Purchase of Land & Working - Capital	Sept. 5,90 March 5,88	NIL NIL	12.25 12.25	\$51,963.05
26.	Roung Se Fai Koraj Part. Ltd.	Existing	Nakorn Rachasima/Urban	Ricemill	OD \$23,094.09	Working Capital	Sept. 5,90	NIL	12.75	\$76,982.29
27.	Mr. Virol Roungvitavativat	New	Chachaeongsao/Rural	Chicken Farm	LN \$22,892.02 OD \$22,892.03	Construction of henhouses & Working Capital	Sept. 5,29 Sept. 5,90	6 months NIL	12.50 12.50	\$76,306.75
28.	Chiengmai Thaiteera Co., Ltd.	Existing	Chiengmai/Rural	Mining - Tin, Wolfram, & etc.	LN \$30,522.70	Additional Capital	Sept. 5,90	2 months	12.75	\$382,024.63
29.	Mr. Saeam/Mrs. Nueng Kumpholkung	Existing	Nakorn Rachasima/Urban	Ricemill, Pig - Farm & Land - Development	LN \$7,630.68 OD \$11,446.01	Additional Investment & Working - Capital	Sept. 5,88 Sept. 5,87	NIL NIL	12.50 12.50	\$11,446.01
30.	Mr. Youn/Mrs. Thip Hunn	New	Nakorn Rachasima/Urban	Livestock	LN \$7,630.67 OD \$3,215.34	Purchase of Land & Working - Capital	Sept. 5,88 Sept. 5,87	6 months NIL	12.75 12.75	\$3,815.34
31.	Mr. Preecha Sirirojanakul	Existing	Nakorn Rachasima/Rural	Trading Firm Products - Maize, Tapioca & etc.	OD \$15,261.35	Working Capital	Sept. 5,87	NIL	12.50	\$10,682.95
32.	Tavorn Rubber Industry (1982) Co., Ltd.	New	Songkla/Rural	Producer & Exporter of Latex (Para Rubber)	LN \$114,460.13 OD \$38,153.38	Construction of - Factory & Working Capital	March 5,90 Sept. 5,90	6 months NIL	12.50 12.50	\$57,230.10

No.	Name	New/Existing	Location	Type of Business	Loan Amount	Loan Purpose	Tenor	Grace	Interest	Total Assets Before Financing
33.	K.V. International Development Co., Ltd.	new	Pathumtani/Rural	Land & Housing Development	OD 157,230.07	Working Capital	March 5,90	NIL	12.25	1149,830.65
34.	Mr. Prasert Jaiklaew	Existing	Pathumtani/Rural	Security-guard business	OD 11,907.67	Working Capital	Sept. 5,90	NIL	13.00	11,907.67
35.	Northern Siam Seedlac Co., Ltd.	new	Lumpang/Urban	Producer & Exporter of Seedlac	OD 176,306.75	Working Capital	Sept. 5,88	NIL	12.25	1362,457.08
36.	Mr. Vorathart/ Ms. Boonleing Naneesuvan	Existing	Nakorn Rachasima/ Rural	Chicken Farm	OD 1151.92	Working Capital	March 5,90	NIL	13.00	18,393.74
37.	Mr. Vorathart/ Ms. Boonleing Naneesuvan	Existing	Nakorn Rachasima/ Rural	Chicken Farm	OD 12,159.92	Working Capital	Sept. 5,90	NIL	13.00	18,393.74
38.	Mrs. Chen Polpongret	new	Nakorn Rachasima/ Urban	Fish Farm & Gardening	LN 13,909.30	Constructing Fish Pond, Buying Flower Seeds & Insecticide	March 5,89	NIL	13.00	17,818.61
39.	Mr. Bunchood Jeerphunpong	new	Nakorn Rachasima/ Rural	Hotel Business	LN 131,274.43	Construction of Hotel	Sept. 5,91	NIL	12.50	126,707.36
40.	Mr. Boonyong/ Mrs. Nongluk Yawanonad	new	Chiangmai/Urban	Small Restaurant	LN 13,909.30	Interior Decoration	Sept. 5,88	NIL	12.75	181,166.93
41.	Mr. Pongsarn/ Mrs. Saajit Lirirattanasapol	new	Nakorn Rachasima/ Urban	Selling Construction - Materials, Auto-Spare-Part & etc.	LN 197,732.60	Rental Fee	Sept. 5,91	NIL	12.50	1175,918.69
42.	Mr. Sa-la Chienklang	Existing	Pathumtani/Rural	Grocery Store	OD 13,909.30	Working Capital	March 5,91	NIL	13.00	116,223.61
43.	Mr. Somruai Wongarew/ Miss Duangkae Rattapai	Existing	Nakorn Rachasima/ Urban	Kindergarten	OD 12,345.53	Working Capital	March 5,90	NIL	13.00	14,691.16
44.	Pol.Sgt.Maj. Vichai/ Mrs. Porraanee Vanwong	new	Songkha/Rural	Gas Station	LN 158,639.56 OD 119,546.52	Construction of Gas Station & Working - Capital	March 5,89	NIL	15.00	167,310.39

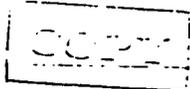
Loan No.	Name	New/Existing	Location	Type of Business	Loan Amount	Loan Purpose	Tenor	Grace	Interest	Total Assets Before Financing
45.	Mr. Charan/Mrs. Suko Khumchang	Existing	Chiangmai/Urban	Grocery Store	LN 19,773.26	Rental Fee	Sept. 5,91	NIL	12.75	\$14,659.89
46.	Mr. Theerasak Maeteaungkalakul	Existing	Nakorn Rachasima/Urban	Flour Mill	OD 17,818.61	Working Capital	Sept. 5,91	NIL	13.00	\$143,217.36
47.	Mr. Pitichai Daenpurntthum	new	Samutsakorn/Rural	Biscuit Factory	OD 117,279.12	Working Capital	Sept. 5,88	NIL	12.00	186,688.82
48.	Rong Se Fai Koraj Ltd.,Part.	Existing	Nakorn Rachasima/Urban	Rice Mill	OD 115,637.22	Working Capital	March 5,90	NIL	13.00	176,982.29
49.	Eamheng Karnkasert Ltd.,Part.	Existing	Nakorn Rachasima/Rural	Trading Farm Products - Maize, Tapioca, etc.	LN 127,365.13	Purchase of Building for office	March 5,91	NIL	13.00	139,934.57
50.	Mr. Vecnira/Mrs. Samporn Thanetkae	Existing	Nakorn Rachasima/Rural	Trading Farm Products - Rice, Maize, etc.	OD 12,736.51	Working Capital	March 5,91	NIL	13.00	19,411.84
51.	Chiangmai Ganven Co.,Ltd.	Existing	Chiangmai/Urban	Mfg. of Carving, etc.	LN 117,379.12 OD 1273,651.29	Construction of Warehouse & Working Capital	Sept. 5,91	3 months	12.25 12.25	1115,036.47
52.	Chiangmai Intanond Tour Co.,Ltd.	new	Chiangmai/Urban	Guest house	LN 117,279.12 LN 156,250.00	Construction of Guest house	Sept. 5,91	6 months	12.50	1242,572.32
53.	Siri Hotel Ltd.,Part.	new	Nakorn Rachasima/Urban	Dormitory	LN 139,093.04	Expansion of Building & Interior Decoration	Sept. 5,90	NIL	13.00	1157,370.82
54.	Jaifah Chiangmai Lacquerware	Existing	Chiangmai/Urban	Mfg. Silverware, Lacquerware & etc.	OD 119,546.52	Working Capital	Sept. 5,90	NIL	12.25	162,689.97
55.	Mr. Mong Tong/Mr. Thienchai Tulyaprechayan	Existing	Pachumani/Rural	Orange Farm	OD 119,546.52	Working Capital	March 5,91	NIL	12.75	1227,963.53
56.	Mr. Yongyudh Parinyawat	Existing	Nakorn Rachasima/Urban	Producer of Local Food e.g. Sausage	OD 17,218.61	Working Capital	March 5,91	NIL	13.00	1192,455.73

Note: 1. Some sub-borrowers appear twice or more in the Standby Letters of Credit due to many disbursements.  
 2. New = New Business ; Existing = Expansion  
 3. Sub-borrower No.3 has no valuable assets before financing.

# 59, 65, 67, 60  
 Are also included in the sample.

100%

Sub-Loan No.	Subproject Name	Total Assets After Financing	Repayment		Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
			Principal repaid	Balance Outstanding				
1.	Fresh Meat Processing Co., Ltd.	\$379,939.21	\$18,996.96	\$94,984.80 \$113,981.76		NIL	30 Employees (NO +)	Provide good quality products (pork in sealed plastic bags) in terms of freshness, cleanliness and cheapness to the domestic consumers, and provide employment opportunity.
2.	A.P. Graphic Center Co., Ltd.	\$110,728.98	\$24,696.05	NIL	Credit	NIL	10 Employees (NO +)	Provide new technology in printing for the local customers.
3.	Mr. Piroj/ Mrs. Soamporn Klinsuntia	See Note	\$260.37	\$1,259.39	record	NIL	6 Employees (NO +)	Generate extra income to raise standard of living.
4.	Mrs. Banyen/ Miss Boonyaiak Aksorn Sri	\$165,843.47	\$15,658.43 NIL	\$60,329.41 \$37,993.92	of	\$132,978.72	125 Employees (NO +)	Provide labor-intensive, export oriented industry and generate income for the local people.
5.	Mr. Hong Tung/ Mr. Tienchai Tulyaprechanan	\$322,948.33	NIL	\$56,990.88	all	NIL	30 Employees (Included + 2 Employees)	Provide employment opportunity to the local people and seasonal employment to the moving workforce.
6.	Mrs. Vipa Leung- naramitchai	\$392,427.24	\$74,168.08	\$39,513.68	customers	NIL	20 Employees	Provide employment opportunity to the people and moving workforce and increase the supply of fresh water fish for domestic consumption.
7.	Chiangmai Banyen Co., Ltd.	\$509,118.54	\$10,543.88	\$65,443.96 \$53,191.49	are	\$398,936.17	125 Employees (Included + 50 Employees)	Promote and preserve the art of Thai handicraft and its skilled workers.
8.	Jaifah Chiangmai Lacquerware	\$169,832.83	\$14,817.63	\$53,571.43 \$18,996.96	good	\$2,279.64	30 Employees (NO +)	Provide employment opportunity for local labor and promote the homemade products.
9.	Siri Hotel Partnership	\$226,443.77	\$19,469.01	\$37,521.87 \$56,990.9		\$759.88	10 Employees (NO +)	Provide employment opportunity for local people.



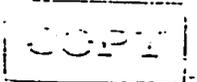
Serial No.	Subproject Name	Total Assets After Financing	Repayment		Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
			Principal repaid	Balance Outstanding				
10.	Mr. Vachira/ Mrs. Sumporn Tanakhae	193,085.11	NIL	115,197.57		NIL	14 Employees (Included + 4 Employees)	Generate immediate income for the local farmers and act as a wholesaler of farm products.
11.	Mr. Tongchai Kongkhalai	1208,966.57	115,197.57 NIL	160,790.27 137,993.9		NIL	18 Employees	Provide employment opportunity and generate income for the local people and increase supply of chicken meat for consumption.
12.	Changsilp Part. Ltd.	1199,186.13	132,717.68	NIL	Credit	NIL	15 Employees (NO +)	Provide employment opportunity and construction materials which contribute to the development of urban and rural area.
13.	Mr. Bunlur/Mrs. Sanaechan Saprasing	120,541.38	1802.72	110,744.62	record	NIL	3 Employees (NO +)	Generate family income.
14.	Chienamai Thaiteera Co., Ltd.	1569,908.81	14,934.17 NIL	133,556.98 176,982.29	of	NA	73 Employees	Provide labor-intensive, export-oriented mining industry and generate income for the local workers.
15.	Mr. Tongchai Hyo	1100,133.18	NIL	149,607.26	all	NIL	15 Employees (Included + 10 Employees)	Increase supply of meat (pork) for domestic consumption.
16.	Mrs. Anchanae Thairerun	192,378.75	13,274.23	18,273.11	customers	NIL	15 Employees (NO +)	Provide employment opportunity to the people and increase the quantity of seafood for consumption.
17.	Mrs. Jintana/ Mr. Wichai Tanalongkorn	1288,683.60	NIL	1192,455.74	are	NIL	50 Employees (Included + 5 Employees)	Develop labor-intensive orange farm and increase the supply of oranges for domestic consumption.
18.	Eameng Karn- Kasert Part. Ltd.	1127,020.79	NIL	126,943.80	good	NIL	9 Employees	Stock agricultural products during peak season and at the same time provide immediate income to the farmers.
19.	Mr. Tongchai Kongkhalai	1208,966.57	119,245.57	NIL		NIL	18 Employees	Provide employment opportunity and generate income for the local people and increase supply of chicken meat for consumption.
20.	Mr. Anon Guardanee	129,060.8	1897.25	12,951.86		NIL	7 Employees	Provide income for the farmers and act as a wholesaler of fruits and vegetables.
21.	Mr. Pornthep Suvannacharon	131,120.09	11,443.73	14,359.94		NIL	4 Employees (NO +)	Generate family income and selling optical appliances

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Sub-Loan No.	Subproject Name	Total Assets After Financing	Repayment Principal repaid	Balance Outstanding	Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
22.	Mr. Visit Panichwattananon	\$79,195.53	NIL	\$9,622.79		NIL	2 Employees (NO +)	Increase family income.
23.	Mr. Yongruth Parinyavat	\$284,118.55	\$2,805.17	\$12,591.29		\$1,539.65	36 Employees	Provide employment opportunity and income for local people.
24.	Mr. Praphan Suksupthavorn	\$40,848.73	\$4,325.07	\$11,071.39	Credit	NIL	4 Employees (Included + 1 Employees)	Enhance family income and provide various kinds of cooking ingredients for the consumers.
25.	Mr. Sombat Sunakkinnou	\$125,481.14	\$7,012.85 NIL	\$39,176.53 \$3,849.11	record	NIL	16 Employees (Included + 1 Employees)	Provide employment opportunity for local people.
26.	Roung Se Fai Kuraj Part. Ltd.	\$106,524.25	NIL	\$23,094.69	of	NIL	18 Employees (NO +)	Provide immediate income for the farmers, purchase and stock excess rice during peak season.
27.	Mr. Vimol Roungvitaratiwat	\$134,299.89	\$2,116.78 NIL	\$20,725.24 \$22,652.03	all	NIL	8 Employees (NO +)	Generate family income and increase supply of chicken meat for the consumers.
28.	Chiangmai Thaiterra Co., Ltd.	\$569,908.81	\$383.08	\$30,139.62	customers	NA	73 Employees	Provide labor-intensive, export-oriented mining industry and generate income for the local workers.
29.	Mr. Saesang/Mrs. Nueng Kumpoikung	\$77,069.82	NIL NIL	\$7,630.68 \$11,446.01	are	NIL	8 Employees	Generate income for the family and provide employment opportunity for the others.
30.	Mr. Youn/Mrs. Trip Hunn	\$19,515.45	\$3,547.31 NIL	\$4,083.26 \$3,815.34	good	NIL	0 Employees (NO +)	Increase family income and supply of beef for consumption.
31.	Mr. Preecha Siritrojankul	\$194,582.22	NIL	\$15,261.35		NIL	12 Employees (Included + 7 Employees)	Provide immediate income for the farmers - wholesalers of farm products.
32.	Tavorn Rubber Industry (1982) Co., Ltd.	\$418,174.28	\$15,261.35 NIL	\$99,198.78 \$38,153.28		\$1,097,294.5	27 Employees (Included + 7 Employees)	Planting and processing of local para rubber into latex for export, provide income to the local people and at the same time generate income for the country.

Subproject Name	Total Assets After Financing	Repayment Principal repaid	Balance Outstanding	Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
33. K.V. International Development Co., Ltd.	1238,685.29	NIL	157,230.06		NIL	7 Employees (NO +)	Develop land and houses for low & middle income people - help raise their standard of living and generate employment for the local workers.
34. Mr. Prasert Jaiklaev	16,486.08	NIL	21,907.67		NIL	57 Employees (NO +)	Protect properties of various business firms, provide employment opportunity especially for the veterans.
				Credit record			
35. Northern Siam Seediac Co., Ltd.	1743,990.84	NIL	176,306.75		1381,533.77	+58 Employees (Included + 1 Employees)	Develop labor-intensive, export-oriented industry, generate income for the local people.
36. Mr. Vorathart/ Ms. Boonleing Maneesuvan	118,776.23	NIL	1151.92		NIL	6 Employees (NO +)	Generate family income and raise their standards of living.
				of			
37. Mr. Vorathart/ Ms. Boonleing Maneesuvan	118,776.23	NIL	12,198.92		NIL	6 Employees (NO +)	Generate family income and raise their standards of living.
38. Mrs. Chan Polpongpat	18,586.62	11,129.41	12,779.39	all customers	NIL	+3 Employees	Generate family income.
39. Mr. Bunchoub Jearphubong	175,352.92	13,909.10	127,365.13		NIL	+5 Employees	Provide low-cost boarding for the local people.
40. Mr. Boonyong/ Mrs. Nongluk Yavapanong	1111,464	1444,14	13,465.16	are good	NIL	+ 4 Employees	Provide good quality food at a low price.
41. Mr. Pongsarn/ Mrs. Somjit Siriractanapol	1293,197.81	17,120.92	190,611.68		NIL	+ 5 Employees	Offer the supply of auto-spares parts, construction materials at the convenient place to the local people.
42. Mr. Sa-la Chienkiang	132,178.46	NIL	13,909.30		NIL	+ 3 Employees	Generate family income.
43. Mr. Somroui Wongarom/ Miss Duangkhae Rattapad	See Note	NIL	12,345.58		NIL	+ 6 Employees	Provide basic learning skill necessary for the children.
44. Pol.Sgt.Maj. Vichai/ Mrs. Porranee Vanvong	1179,589.52	13,928.54	154,711.02		NIL	+10 Employees	Promote the long distance travelling thus increase the volume of trade between provinces.

Subproject Name	Total Assets After Financing	Repayment Principal repaid	Balance Outstanding	Credit Record	Foreign Exchange	Development Impact Employment	Economic & Social Effect
45. Mr. Charan/Mrs. Suko Khuechano	\$22,576.23	\$2,387.33	\$7,358.93		NIL	+ 4 Employees	Supply the important cooking ingredients to the local consumers.
46. Mr. Theerasak Maeteaungkalakul	\$176,446.44	NIL	\$78,186.08	Credit record	NIL	+20 Employees	Provide the consumer at a steady and cheap price variety of powder to be used for cooking.
47. Mr. Pitichai Daenpurnttitum	\$360,340.11	NIL	\$117,279.12		NIL	+40 Employees	Make available supply of staple food and at a very low price for local consumption.
48. Rong Se Fai Koraj Ltd., Part.	\$106,524.25	NIL	\$15,637.22		NIL	18 Employees (NO +)	Provide immediate income for the farmers, purchase and stock excess rice during peak season.
49. Eemeng Karnasert Ltd., Part.	\$127,020.79	\$3,909.31	\$23,455.82	or	NIL	8 Employees	Stock agricultural products during peak season and at the same time provide immediate income to the farmers.
50. Mr. Vachira/ Mrs. Suporn Thanatrae	\$93,085.11	NIL	\$2,736.51		NIL	14 Employees (Included + 4 Employees)	Generate immediate income for the local farmers and act as wholesaler of farm products.
51. Chiangmai Banyen Co., Ltd.	\$509,118.54	NIL	\$117,279.12 \$273,651.29		\$398,936.17	125 Employees (Included + 50 Employees)	Promote and preserve the art of Thai handicraft and its skilled workers.
52. Chiangmai Intanond Tour Co., Ltd.	See Note	NIL	\$117,279.12	all customers	NIL	+34 Employees	Provide employment opportunity for local people and boarding for local and foreign tourists.
53. Sira Hotel Ltd., Part.	\$226,443.77	\$3,138.84	\$35,794.20		\$759.88	10 Employees (NO +)	Provide employment opportunity for local people and boarding for the travellers.
54. Jaifah Chiangmai Lacquerware	\$169,832.93	NIL	\$19,546.52		NIL	30 Employees (NO +)	Provide employment opportunity for local labor and promote the homemade products.
55. Mr. Hong Tong/ Mr. Thienchai Tulysaprecharan	\$322,948.52	NIL	\$19,546.52	are good	NIL	30 Employees (Included + 2 Employees)	Provide employment opportunity to the local people and seasonal employment to the moving workforce.
56. Mr. Tongruan Parinravat	\$284,118.55	NIL	\$7,518.61		NIL	36 Employees	Provide employment opportunity and income for local people.



Note: 1. Some sub-borrowers appear twice or more in the Standby Letters of Credit due to many disbursements.  
 2. + = New or additional employees

APPENDIX 5  
DATA COLLECTION GUIDE

I. MACROECONOMIC CONDITIONS: IMF, IBRD, BIS, ETC. DOCUMENTS

1. What has been the rate of change in inflation since the financing?  
\_\_\_\_\_
2. What is the forecast for inflation? \_\_\_\_\_  
\_\_\_\_\_
3. What is the level and percent of employment? What is the forecast?  
\_\_\_\_\_
4. What has been the rate of change in employment since financing? \_\_\_\_\_  
\_\_\_\_\_
5. What has been the level and rate of change in GNP/GDP since financing?  
What is the forecast? \_\_\_\_\_  
\_\_\_\_\_
6. What is the breakdown of employment and GDP by sector? \_\_\_\_\_  
\_\_\_\_\_
7. What is the population growth rate? What is the age composition of  
the population? What is the rural/urban breakdown? Any major changes  
occurring? \_\_\_\_\_  
\_\_\_\_\_
8. What has been the changes in the currency conversion rate since  
financing? Is there a black market exchange rate? \_\_\_\_\_  
\_\_\_\_\_
9. What are the foreign exchange constraints on the economy? \_\_\_\_\_  
\_\_\_\_\_
10. What are the government policies regarding:
  - a. The private sector
  - b. Interest rates
  - c. Business financing
  - d. Collateralization of loans to SMSE

## II. INTERVIEWS WITH CENTRAL BANK AND GOVERNMENT OFFICIALS

1. Please describe the structure of financial markets, credit availability, and subsidies. \_\_\_\_\_  
\_\_\_\_\_
2. What are the major trends in government policy toward the country's financial markets? \_\_\_\_\_  
\_\_\_\_\_
3. Please tell me what you can about the current discussion on interest rate policy. Are interest rates subsidized in any way? What is the prevailing interest rate? \_\_\_\_\_  
\_\_\_\_\_
4. What regulations are there on financial markets? What particular regulations relate to SMSE credit? What regulations concern collateral requirements? Is there ongoing discussion on financial market reform? \_\_\_\_\_  
\_\_\_\_\_
5. What are the trends on privatization of banking institutions? \_\_\_\_\_  
\_\_\_\_\_
6. What are the major institutional changes that are currently happening in your country's financial markets? \_\_\_\_\_  
\_\_\_\_\_
7. What do you think of this project? \_\_\_\_\_  
\_\_\_\_\_
8. Has this project led, or will it lead to changes in provision of credit? \_\_\_\_\_  
\_\_\_\_\_
9. Has this project affected access to credit for small businesses? \_\_\_\_\_  
\_\_\_\_\_
10. Is there a government policy to improve access to credit for small business? How does the PRE project fit in? \_\_\_\_\_  
\_\_\_\_\_
11. Are there other successful small business lending programs here? \_\_\_\_\_  
\_\_\_\_\_

### III. INTERVIEWS WITH PRE STAFF

1. Why was this particular project selected? Was it particularly suited to local economic conditions? How did it fit into PRE programming at that time?
2. Why was this project undertaken?
3. In terms of financial and management capacities, how strong would you say that the project IFI is?
4. In what ways was the local IFI involved in project design?
5. In what ways have A.I.D. Mission staff assisted you in the design or implementation of this project?
6. In what ways does the PRE project credit delivery system differ from other credit systems in this country?
7. Have the loan policies of this IFI changed at all during the PRE project period?
8. Have there been any important management changes at the IFI during the period from \_\_\_\_\_ to \_\_\_\_\_?
9. (SHOW OBJECTIVES LIST) Of this list, which were the six primary objectives in carrying out this project?
10. Would you say that this PRE project has had any significant impacts on the local economy or credit system? What impacts?
11. Do you feel that investigations preceding the project were adequate? What would have helped?
12. Did you or others in the agency carry out a policy constraints analysis before you made the investment decision?
13. Will the project continue after termination of PRE assistance? How?
14. If you see that the PRE project is not going to meet project objectives, what action can you take?
15. Could you give me any examples of Mission projects that were stimulated by PRE activity?
16. What control do you have over the implementation of this project once you have disbursed the loan?
17. Please tell me about instances when innovative approaches have been taken to solving difficulties caused by government regulations, or changing circumstances.

IV. INTERVIEWS WITH A.I.D. MISSION STAFF

1. How does this project relate to the mission portfolio? Why was this particular project undertaken? \_\_\_\_\_  
\_\_\_\_\_
2. Does the Mission consider the project successful? Unsuccessful? If so, why? \_\_\_\_\_  
\_\_\_\_\_
3. Is the government interested in the project? \_\_\_\_\_  
\_\_\_\_\_
4. (SHOW OBJECTIVES LIST) What do you see as being the six most important objectives of this project? \_\_\_\_\_  
\_\_\_\_\_
5. What have you learned from the project and how would you change it?  
\_\_\_\_\_
6. How much backup and assistance has the Mission provided to this project? Any assistance to other PRE projects? \_\_\_\_\_  
\_\_\_\_\_
8. Has this project in any way influenced other activities in the Mission? \_\_\_\_\_  
\_\_\_\_\_
9. Has this project stimulated any further Revolving Fund projects in country? \_\_\_\_\_  
\_\_\_\_\_
10. Have other host country institutions replicated the programming approach taken by the A.I.D. supported IFI? \_\_\_\_\_  
\_\_\_\_\_
11. Has the Mission initiated any new private sector projects? \_\_\_\_\_  
\_\_\_\_\_
12. Is there ongoing discussion on increased private sector involvement in development programming? \_\_\_\_\_  
\_\_\_\_\_
13. What is the general relationship between PRE/Washington and the A.I.D. Mission here? \_\_\_\_\_  
\_\_\_\_\_



18. Did the Bureau for Private Enterprise carry out a structural analysis of the banking sector before you made the investment decision? What were the results? \_\_\_\_\_
- \_\_\_\_\_

Investment Proposal

1. Types of businesses to be financed? \_\_\_\_\_
2. Basic loan criteria for subborrowers:  
    Maximum size \_\_\_\_\_ Minimum size \_\_\_\_\_  
    Maximum maturity \_\_\_\_\_ Minimum maturity \_\_\_\_\_  
    Interest rate \_\_\_\_\_ Collateral \_\_\_\_\_  
    Minimum equity participation \_\_\_\_\_
3. Methods to acquire subprojects.
4. Financial: (review financial statements filed in support of PRE/I loan)
5. Grant component of PRE assistance:

## VI. IFI DOCUMENTS

1. Name of Project Organization \_\_\_\_\_
2. Address \_\_\_\_\_
3. Country \_\_\_\_\_
4. Principal Officer \_\_\_\_\_
5. Purpose of IFI \_\_\_\_\_
6. Costs associated with admin. of A.I.D. project \_\_\_\_\_
7. List of subborrowers \_\_\_\_\_

NOTE: If possible, get the following: A profit and loss statement for the PRE funded project, a P&L for the IFI as a whole, and other financial statements for the past 3 to 5 years. If a formal P&L is not available then:

1. Financial information on the IFI as of (date)
  - a. Total loan portfolio Amount \_\_\_\_\_
  - b. No. of loans \_\_\_\_\_
  - c. Average size loan \_\_\_\_\_
  - d. Revenues (Fiscal year ended):  
Total \_\_\_\_\_  
USAID Loan funds \_\_\_\_\_
  - e. Net Profit:  
Total \_\_\_\_\_  
USAID Loan funds \_\_\_\_\_
2. Ratio Analysis
  - a. Profitability (for each fiscal period)  
Net Profit Margin:  $\text{Net Profit} / \text{Total Revenues}$   
Asset Turnover:  $\text{Total Revenues} / \text{Total Assets}$   
Asset Leverage:  $\text{Total Assets} / \text{Total Equity}$   
Return on Equity:  $\text{Net Profit} / \text{Total Equity}$   
Interest Income on Loans:  $\text{Loan interest income} / \text{Average loan portfolio}$
  - b. Solvency (for each fiscal period)  
Financial Leverage:  $\text{Total Debt} / \text{Total Equity}$   
Liquidity:  $\text{Cash and Cash Equivalents} / \text{Short term indebtedness}$
  - c. Loan Quality:  $\text{Overdue outstanding loans} / \text{Gross value of loan portfolio}$
  - d. Efficiency:  $\text{Principal collected during period} / \text{Principal due during period.}$   
 $\text{Amount of payments made during period} / \text{Amount of payment due during period.}$

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Financial Reports

1. Were funds used as required by the loan documents? Does file contain documentation of the use of funds?
2. Were training grant funds used as proposed?
3. Loan information: As Reported As Projected Difference Reason  
Number of Loans \_\_\_\_\_  
Amount of Loans \_\_\_\_\_  
Collections \_\_\_\_\_  
Delinquencies \_\_\_\_\_  
Other \_\_\_\_\_

USAID Funded Portfolio

1. Loans disbursed as of \_\_\_\_\_ (date)  
Amount \_\_\_\_\_  
No. \_\_\_\_\_  
Location: \_\_\_\_\_ Urban \_\_\_\_\_ Rural
2. Disbursed loans that are current in payment  
Amount \_\_\_\_\_  
No. \_\_\_\_\_
3. Disbursed loans that are delinquent  
Up to 30 days: Amount \_\_\_\_\_ No. \_\_\_\_\_  
31-60 days: Amount \_\_\_\_\_ No. \_\_\_\_\_  
61-90 days: Amount \_\_\_\_\_ No. \_\_\_\_\_  
Over 90 days: Amount \_\_\_\_\_ No. \_\_\_\_\_
4. Disbursed loans that have had moratoriums on payment and/or been rescheduled: \_\_\_\_\_ Amount \_\_\_\_\_ No. \_\_\_\_\_
5. Disbursed loans that are under foreclosure and other liquidation action: \_\_\_\_\_ Amount \_\_\_\_\_ No. \_\_\_\_\_
6. Pending loan applications  
Amount \_\_\_\_\_ No. \_\_\_\_\_
7. Remarks \_\_\_\_\_

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Subborrower Matrix  
Borrower/Loan Number

Rural/Urban  
Size  
Sector  
Export/Import  
Assets  
Employment  
Gender  
Sales  
New Old  
Current

Subborrower Matrix  
Borrower/Loan Number

Rural/Urban  
Size  
Sector  
Export/Import  
Assets  
Employment  
Gender  
Sales  
New Old  
Current

VII.

INITIAL IFI STAFF INTERVIEWS

Interviews with division chiefs and others responsible for the operation of the USAID funded program will be required.

1. How does the A.I.D. project fit in with the rest of the institution? (do you have an organization chart?)
2. Which department or individual is responsible for management of the USAID funded program?
3. Is this a sole duty or does the department/individual also have other responsibilities?
4. Does this department/individual have authority to hire, dismiss, set salaries, etc.?
5. Which department or individual is responsible for credit analysis and approval of loan requests?
6. Which department or individual is responsible for loan servicing and customer relations?
7. Which department is responsible for loan collection and funds accounting?
8. Which department is responsible for loan accounting and recording?

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VII. INTERVIEWS WITH IFI LINE STAFF

Financial Policies

NOTE: These questions should be asked of the individual responsible for management of the A.I.D. funded program.

1. Who establishes policy for the IFI?
2. Does the IFI have discretion to set interest rates on loans?
3. How is the interest rate determined?
4. What are the basic loan criteria?

Maximum size \_\_\_\_\_ Minimum size \_\_\_\_\_

Maximum maturity \_\_\_\_\_ Minimum maturity \_\_\_\_\_

Maximum grace period \_\_\_\_\_

Processing fee \_\_\_\_\_ Administrative fee \_\_\_\_\_

Repayment method: Monthly \_\_\_ Qtrly \_\_\_  
Principal plus interest \_\_\_\_\_

Equal Amortization \_\_\_ Other \_\_\_\_\_

Collateral amount as percent of loan \_\_\_\_\_

Types of collateral required \_\_\_\_\_

Eligible businesses: New \_\_\_ Industrial \_\_\_  
Agriculture \_\_\_\_\_

Retail \_\_\_ Wholesale \_\_\_ Service \_\_\_\_\_

Agri-business \_\_\_ Other \_\_\_\_\_

5. Equity requirements (as percent of total assets)

6. Ownership/management of business:  
Must owners also be active in management?  
Are there educational or age requirements?  
Must borrowers maintain accounting records?

7. Are interest penalties charged on delinquent loans?

What? \_\_\_\_\_

8. Are prepayment penalties charged for payment prior to maturity?

What? \_\_\_\_\_

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Credit Policies: Loan Division Supervisor

1. Are credit policies for USAID funded subprojects different than other loans of the institution? (NOTE: Evaluator to probe for criteria such as lower interest rate, lower collateral requirements, longer maturities, staggered repayment schedules, etc.) Why?
2. Obtain and review copies of application forms for loans
  - a. Promissory note
  - b. Collateral documentation (simply characterize)
3. Please explain your policy with respect to collateral.
4. Review project appraisal process:
  - a. Is there a review to determine whether stated loan purpose agrees with lending objectives?
  - b. What is the source of baseline data for loan appraisal?
  - c. Application acquisition and acceptance procedure
  - d. Application processing
    - Financial analysis
    - Technical (production) analysis
    - Market analysis
    - Management evaluation
  - e. What is the time from application acceptance to application approval?
5. What is the composition of the credit committee?
6. What is the time from application approval to first disbursement?  
From first disbursement to final disbursement?

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Loan Servicing, Collection Policies, and Profitability

1. What are the legal requirements in this country for loan collection, foreclosure, and liquidation of collateral?
2. Are field visits made to borrowers?  
Specify period \_\_\_\_\_  
Only when delinquent \_\_\_\_\_ Other \_\_\_\_\_  
  
What happens at these field visits?
3. What technical oversight is there once loans are disbursed?
4. What resources exist for technical oversight? Is there a special technical unit? How much staff time is allocated to technical oversight?
5. Who has the responsibility for loss mitigation from defaulted loans?
6. Are safeguards established for collection of loan repayments?
7. What is the procedure for collection of delinquent loans?
8. How does the bank determine profitability of each loan?
  - cost of funds
  - risk premium
  - administration
  - allowance for bad debt
  - profit margin

How does this compare to the bank's other activities?

9. Please describe the branch network of this bank.

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## IX. INTERVIEW WITH MANAGEMENT OF THE IFI

0. Please describe your bank's lending facilities available to SMSE's.
1. Why did you choose to obtain a loan through A.I.D.?  
Was your institution involved in the design of this PRE project?
2. Is this program profitable for the bank? If not, why not.  
Would you do it again?
3. Do you believe the USAID funded project is meeting its initial goals?  
Why or why not?
4. Have there been any new mechanisms developed to finance SMSE's  
recently? What?
5. Have loans been made available to special groups such as women-owned  
enterprises or rural businesses?
6. Has the operation of the project funded by USAID substantially  
changed from the initial expectations? In what ways?
7. Has the operation of the project resulted in any change to the way the  
entire organization is operating? In what ways?
8. What impediments do you see in making this project more successful?
9. What changes, if any, would you like to make in the project to enable  
you to meet its goals? How would such changes operate? How would  
those changes enable the project to meet its goals?
10. Have funding levels for activities targeted in the A.I.D./IFI  
agreement increased?
11. Have the PRE funds used in this project been complemented by any  
other source, such as another bilateral aid program or your  
government?
12. Has any other financial institution in the country begun to fund  
similar subprojects since you started this project? Are they, in  
your opinion, successful? Are you able to meet the competition from  
these institutions?
13. Have you made any administrative or policy changes in the project  
since it started?
14. What innovative approaches have you taken in this project to adapt to  
problems caused by government regulations and changing economic  
conditions?
15. How is credit usually provided to PRE project borrowers?  
Please describe the lending program for small businesses.
16. Would this group of borrowers have obtained loans if loans from the  
PRE-assisted project had not been available?
17. What is the range of credit delivery mechanisms offered by your bank?
18. In what ways does the PRE project differ from your usual credit

operations?

19. Has there been any significant change in your institution's capacity to identify suitable loans in the SMSE sector since the start of this project?
20. Has there been any significant change in your institution's capacity to process and monitor viable loans since the project started?
21. Has there been any significant change in your institution's ability to recover loans in the SMSE sector?
22. Will you continue this type of lending after termination of PRE assistance?
23. How many staff members are involved in the PRE project? What levels of personnel?
24. Do you feel your loan officers are adequately qualified to administer SMSE loans? Could training help them?

#### Personnel

1. Staff size of PRE supported project.
2. Skill level of PRE project staff.
3. Skill level of general staff loan officers.

## X. SUBBORROWER INTERVIEWS

Collection and analysis of quantitative data on subprojects are labor intensive and time consuming activities. The time available to the evaluation team will dictate the extent to which such activity will occur. In general, an evaluator can interview 3 to 4 small and micro scale firms, or 2 to 3 medium scale firms in one day. Since many firms do not have telephones, it will be difficult to make prior appointments and visits will have to be made without knowing if the owner or manager will be present. The number to be evaluated will be determined by the time available to the evaluation team. To insure reasonable representation, consideration would be given in the selection process to the following:

- Loan Size: Both large loans and small loans
- Industry: To the extent possible, the firms selected should be representative of the industries financed.
- Location: To the extent possible, both urban and rural firms.
- Loan Type: Loans for working capital, for equipment, and for permanent assets (as applicable).
- Maturity: Short term, medium term and long term loans.
- Loan Status: Both current and past due accounts.
- Credit History: New and old borrowers from this bank.
- Asset Value of Business: Large and small.

### GENERAL INFORMATION

Through interviews with the sub-borrowers, obtain the following information:

- description of business, what production processes it uses, new technologies.
- background information on the owner(s)/manager(s), such as experience, education, etc.
- credit experience: has it been good or bad, from whom, why this IFI was chosen? Who else could you borrow from? Have they invested their own money in this business?
- what other features of the program were attractive?

Before loan

At present

Production:

Units Produced

Annual Sales

Assets:

Total Assets

What kind of recent purchases have you made?

Personnel:

Number of Employees

Payroll

How many are women?

- if this is a new business, what was the owner doing before this?
- has the owner invested in other businesses? Has his/her family been in business?
- does the owner have any other loans? from what sources?
- what were the loan proceeds used for?
- who are your competitors? are they larger or smaller than you? has competition increased since obtaining the loan?
- who are your customers? are they local, regional, national, international (%'s)? how do you market your product(s)?
- in general, how do you feel your firm is doing?
- what are the biggest problems your company faces?
- are you having difficulty repaying the loan?
- how has their loan helped you?
- do you have any other comments?

X. INTERVIEWS WITH OTHER INSTITUTIONS INVOLVED IN INNOVATIVE SMSE LENDING

Note: Conduct an unstructured interview with representatives of other institutions involved in innovative SMSE loan programs.