ARIES

Assistance to
Resource Institutions
for Enterprise Support

A REVIEW OF THE FREEDOM FROM HUNGER FOUNDATION APPLIED NUTRITION CREDIT PROGRAM THAILAND

Sponsored by the
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Contract DAN-1090-C-00-5124-00

Directed by
Robert R. Nathan Associates, Inc.

October 30, 1987

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In Collaboration With • Appropriate Technology International • Control Data Corporation • Harvard Institute for International Development

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Submitted to:
USAID/FVA/PVC
FREEDOM FROM HUNGER FOUNDATION

By:
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The ARIES project is designed to strengthen the capabilities of support organizations in developing countries to implement small-scale and micro-enterprise development programs. ARIES builds on the work of the Agency for International Development's former Program for Investment in the Small Capital Enterprise Sector (PISCES) and Small Business Capacity Development projects. It works with intermediary support organizations that provide services to small and micro-businesses and industries, such as private voluntary organizations (PVOs), banks, chambers of commerce, management training centers, business people's organizations, and other developing country government and non-governmental organizations (NGOs).

The contract for this five-year project has been awarded to Robert R. Nathan Associates, Inc. (RRNA) with subcontractors Harvard Institute for International Development (HIID), Control Data Corporation (CDC) and Appropriate Technology International (ATI).

ARIES is core funded by the Bureau for Science and Technology's Office of Rural and Institutional Development (S&T/RD) and the Bureau for Food for Peace and Voluntary Assistance's Office of Private and Voluntary Cooperation (FVA/PVC). Mission funded technical assistance represents $3.8 million, or almost three-fifths of the five-year budget of $6.8 million.

The ARIES project has three major components -- research, training, and technical assistance -- designed to cross-fertilize each other. The applied research component focuses on economic, social, and organizational issues surrounding intermediary support organizations to inform AID missions and host country actions in this subsector. The training component includes design, testing, conduct and follow-up of training programs in such areas as finance, management and evaluation for PVO and NGO personnel. The technical assistance component provides short-term technical assistance to AID missions and intermediary organizations to assist small and micro-enterprise development.

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I. INTRODUCTION

This study of the credit component of the The Freedom From Hunger Foundation (FFH) Applied Nutrition Program (ANP) took place between July 18 and July 24, 1987. The evaluators visited the villages of BanKheutam, BanMehuatie, and BanPhrao in Ngao District, BanTongun village in Chaehom District, and the villages of NongWandag, BanWangyao, and BanPongka in Sobprab District. Conversations were held with the Village Development Committees and the FFH staff interviewed 53 loan recipients in these villages, who were selected because they came from poor or malnourished families. Groups of borrowers were interviewed in several villages.

Interviews with the Village Development Committees and with individual borrowers complemented conversations with ministry workers in Ngao, Chaehom, and Sobprab districts. They described how their ministries were implementing the Applied Nutrition Program in their districts. The Provincial Health Officer and Dr. Jumroon, the previous director of the FFH, were also interviewed. Meetings were held with the manager of the Lampang branch of the Bank for Agriculture and Agricultural Cooperatives, Mr. Prasong Ontraful, and the Head Loan Officer of the Lampang branch of Bangkok Bank to explore their interest in funding the ANP revolving loan fund.

Jeffrey Ashe of Jeffrey Ashe and Associates and Kathleen Stack of The Freedom From Hunger Foundation directed the evaluation. The FFH staff based in Lampang and staff from the Korat program helped carry out the study. The entire local FFH professional staff interviewed fund borrowers. Staff were also present at the meetings with the officials of the various ministries coordinating with the project.

The evaluation was structured as a learning experience for FFH staff. The staff actively participated in the design of the research and attended all the interviews. The staff and evaluators discussed what was learned each day and together thought through the implications for the future of the loan fund. The evaluators briefed the staff on the preliminary findings of the investigation at the end of the stay in Lampang.

II. THE REVOLVING LOAN FUND OF THE APPLIED NUTRITION PROGRAM

Achievements of the Fund

The fund has reached 81 villages. The Applied Nutrition Program revolving loan fund in Ngao and Sobprab districts is significant for several reasons. First, 81 villages are involved in the fund in the two districts. Additional villages are being assisted in Chaehom District with funding from the Rotary Club of Kae Lang Kakorn and the Peace Corps. This is a large-scale effort that reached 3,672 borrowers in the Lampang region in 1986. These borrowers represent approximately one third of the families in these two districts (total population of 66,000).

Enthusiasm for the loan fund has grown. Villagers are generally enthusiastic about the loan fund, which shows that it is serving an important need. Eighty-five percent of the 53 villagers interviewed requested another ANP loan. Seventy-seven percent had received more than one ANP loan; nearly 20 percent had received four or more loans. Requests for credit are generally processed quickly. Thirty-three percent of those interviewed said they had to wait less than one month for a loan, and another 56 percent had to wait between one and three months. Only 12 percent had to wait four months or more.

The Village Development Committees have been strengthened. Managing the loan fund has strengthened the Village Development Committees. The FFH staff have trained the committees in bookkeeping and the management of the loan fund, with FFH (and increasingly the ministry district staff) providing continuing monitoring and assistance. Committees select borrowers, track the loans, and are responsible for loan repayment. Most of the staff agree that a strong VDC is better able to carry out the nutrition and health components of the program.

The loan fund is being institutionalized. The process of institutionalizing the ANP, including the revolving loan fund, is well underway. Although the FFH staff still works directly with many of these communities, this role is increasingly being absorbed by ministry personnel at the district level, with a planned phase-out of FFH activities in these two districts within three years.

Positive Impact on Nutrition

The purpose of the revolving loan fund is to improve the nutritional status of children under five years of age and of pregnant and lactating women. It is likely that these loans have had a positive (although probably small) influence on nutrition. (A much more detailed study would be required to determine how great an influence it has had.) What is clear is that new types of products directly relevant to nutrition have been introduced, including vegetables, soybeans, ducks, and pond fish culture. Loans for slow sand filters and latrines have improved sanitation.

What is produced with these loans is consumed in large part at home; many borrowers share what they produce with their neighbors. Therefore, the impact on improving the household diet is likely to be greater than if the products were produced strictly for the market, with part of the income used to buy food. Some of the crops are also sold -- vegetables in 39 percent of the households, soybeans in 69 percent, ducks and duck eggs in 43 percent and honey in 60 percent.

Table 1. Utilization of Production from ANP Loans

	Home consumption	Share with neighbors	Sold some	Sold all	Number of loans
Garden seeds	100	75	39	0	44
Soy beans	100	42	65	4	26
Ducks	93	39	43	0	28
Bees	49	20	60	0	5

Further evidence of the relevancy of these loans for nutrition is that villagers, on their own initiative, have expanded their production of vegetables and soybeans beyond the amount provided by the loan, demonstrating that they felt these crops are important. Since much of this production is either consumed at home or shared with neighbors, this means that more food is available to improve the household diet.

Among the 38 families responding to this question, the number of packages of vegetable seeds planted increased from 170 to 520, an increase of 206 percent. Of these 38 families, 24 increased their production of vegetables, 13 were no longer producing vegetables, and one was producing less. Similarly, the number of kilos of soybeans planted increased from 217 to 333 for the 27 families who answered this question, a 53 percent jump.

Of these families, 12 increased their production, 12 are no longer producing soybeans, and 3 are producing less.

[In contrast, the number of ducks owned by the household decreased from 229 to 54 among the 27 families receiving duck production loans, a decline of 76 percent. These borrowers were not sufficiently interested in ducks to replace the ones that were lost or died of disease. Only one family now had more ducks than when they received the loan, two had the same number, nine had fewer, and 16 had none.]

Finally, there is some evidence that the prices of soybeans, vegetables and duck eggs declined in some villages, making these items easier to purchase for local consumers. Carrots, which sell for 10 baht a kilo in the market, can be purchased for 2 to 3 baht in the village. Duck eggs cost 1.5 baht in the market; they can be purchased for 1.2 baht in the village, and soybeans that cost 10 baht in the market cost 8 baht in the village.

<u>Limitations of the Revolving Loan Fund Methodology</u>

Although what has been achieved in terms of outreach, institutionalization, and nutrition is important, the structure of the loan fund severely limits the potential impact and future sustainability of the venture.

<u>The loan size is too small</u>. One major problem is that loans are far too small to have a significant impact on production and probably therefore on nutrition. While current loans for vegetables, ducks, and soybeans average 50 baht ($1.92 at the July 1987 exchange rate of 26 bahts to the US$), close to half of the borrowers requested 500 to 5,000 baht loans (10 to 100 times the current amount). The rest requested even larger loans.

A strong argument can be made that with increased income, expenditures for food, medical care, and housing will increase. It can also be argued that families that are experiencing improvement in their economic status will be more likely to incorporate other changes in their lives. Improved nutrition for children, and sanitation and health practices may be areas where these families choose to make changes.

The enormous unmet demand for credit, especially among the poorer in these communities, limits their capability to produce more, earn more, and live better. While the better off in the villages have access to various sources of credit, the consensus reached from speaking to the VDCs, the borrowers, and bank officials is that the poor are largely cut off from these credit sources. Ironically even the ANP loan funds are directed to the better off more often than to the poor in some communities. While the poorest get a handful of vegetable seeds, the better off receive loans for ducks and soybeans, and to set up fishponds.

Showing the potential demand for credit, when asked if they ever received a loan from a source other than the ANP, 39 percent said yes, and 61 percent said no. Of the 53 borrowers interviewed, one had received a loan from a friend, two from moneylenders, six from the village savings fund, three from the government, nine from the Bank for Agriculture and Agricultural Cooperatives, one from the Farmers bank, and one from the Hill Tribe Development Center. (Some received loans from more than one source.)

The current loan fund is barely meeting the demand for credit among the poor and malnourished borrowers interviewed for this study, as can be seen from the size of the loans requested. (Loan requests from better-off members of the community would doubtless be even larger.)

Size of loan requested	Number	Percent
less than 1,000 baht ($38)	10	16
1,000 to 5,000 baht ($38 to $192)	19	31
5,000 to 10,000 baht ($192 to $385)	13	21
10,000 to 15,000 baht ($385 to $577)	13	21
more than 15,000 baht ($577 or more)	6	10

Two thirds of the potential borrowers said they could repay these loans in one year or less. The other third said they could repay the loans in two or more years.

Loans are not targeted to villagers' interests. Another major limitation of the loan fund methodology is that loans are not targeted to what villagers are really interested in. FFH makes loans for what it considers will have the greatest nutritional impact. The underlying assumption is that the best way to improve nutrition is for the household to produce for its own consumption.

A complementary way of dealing with malnutrition is producing more to sell. The types of economic activities financed would be those that could find a place in the market. These are the kind of activities that the borrowers wanted financed:

Product	Number	Percent
Pigs	16	32
Animal raising	7	14
Soybeans	5	10
Rice	4	8
Orchards	3	6
Maize	3	6
Cows	3	6

Water tank	2	4
Mechanics shop	1	2
Weaving	1	2
Sugar cane	1	2
Peanuts	1	2
Tobacco	1	2
Trading	1	2
Water buffalo	1	2

Virtually all the loans requested, then, are for agricultural production. At least some of this production would be consumed in the household, so the direct impact on nutrition may be similar to the loans that the program currently grants. The impact on household consumption might even be greater since the scale of production would be so much larger. There would be the additional advantage, of course, of generating considerably more income, which should result in an additional impact on nutrition from the additional food that was purchased from that income.

It is important to note that only 10 percent of the loans requested were for soybeans. It is also significant that no loan requests were for ducks, vegetable gardens, or fish ponds.

Plans for the loans requested are generally considered by the staff who carried out the interviews as feasible. Fifty-five percent of the loan requests are seen as very feasible, 43 percent as somewhat doubtful, and only 2 percent as impractical. There is a high level of interest in these loans. The perception of staff is that 66 percent are very interested in receiving these loans, another 28 percent have some interest, and only 6 percent have little interest.

The enthusiasm of these borrowers, who were selected to be interviewed because they were among the poorest in their communities, is in sharp contrast to the perception of the leadership of the Village Development Committees who feel that the poor are unwilling to risk taking out a loan. In the words of one VDC leader:

> The poorest are not qualified, they don't have enough collateral, their projects are not feasible and they don't like to take risks.

The types of loans requested mirror the ways these poorer farm families earn a living. Most are involved in farming and animal raising with some minor involvement in artisan production. Lacking adequate land to cultivate, three quarters of these poorest families also depend on wage labor to some degree for their income. The need to depend on wage labor is what most clearly distinguishes them from their better-off neighbors.

Activity	Number of families	Order 1st	2nd	3rd	4th+	Done by Fam.	Man	Wife
Farming	50	38	11	1	0	41	4	5
Raising animals	35	4	27	4	0	17	10	8
Daily wages	41	7	9	13	12	nd	nd	nd
Small store	1			1				1
Repairs	1	1				1		
Making something	9	2	0	5	2	2	6	1
Others	6	------------------------------nd------------------------------						

<u>Dependence on in-kind loans limits the flexibility of the loan fund</u>. Another important limitation of the loan fund is the requirement that all loans be provided in kind. Exclusive

dependence on in-kind loans limits the flexibility of the fund. Villagers have good reasons for requesting cash loans. These quotes are from the interviews with the village development committees.

Q. Are cash or in kind loans better?

A. Loans for seed should be in kind, loans for animals should be in cash because people want to choose.

A. If loans are in kind you get better quality seed. With an in-kind loan you avoid the temptation to waste your money. Also it's more convenient to get in-kind loans when you live far away. Cash loans are better because you can select the animal you want.

There was a consistent pattern throughout these interviews that if loans are to be provided for animals the borrowers should choose. If loans are for seeds then in-kind loans are acceptable.

<u>The structure of the Village Development Committee perpetuates the class and economic structure within the community</u>. A persistent and worrisome problem detected in the interviews is that the structure of the Village Development Committee perpetuates the class and economic structure within the community. Little in the program encourages the empowerment and prosperity of the poorer villagers. The VDC, made up generally of the more successful within these communities, often does not consider the poorer of the community as capable improving their economic position. Those who choose who receives these loans are, of course, the leaders of the village.

A credit system that empowers the poor is vital for changing their social and economic status. Once these villagers start to see the possibilities of change in their own lives they will be more likely to adopt changes in nutrition, health, and sanitation. An alternative, group-based credit system that emphasizes appropriate sized loans to the poorer in the community will be described in the final section of this paper.

Issues Affecting the Sustainability of the Loan Fund

The sustainability of the loan fund is severely constrained because the cost for the delivery of credit is too high in relation to the amount lent and repayment on loans is poor. A third factor is that the way the fund is currently structured does not provide a source of income to cover FFH operational costs.

The Cost of the Delivery of Services

FFH staff in Lampang made a detailed analysis of the costs of managing the revolving loan fund in these 81 villages. The costs for the six-month period from January to June 1987 were 316,388 baht. Estimated costs for all of 1987, then, would be twice that, or 632,776 baht, $24,338. Considering that the current fund amount for all 81 villages is approximately 183,700 baht (3,674 borrowers borrowing an average of 50 baht each), the cost per baht lent is a very expensive 3.44. (Loan funds that cover their costs should aim for a training, loan delivery, and loan recovery cost of 20 percent or less of the amount lent.)

Looked at from the perspective of the number of borrowers, however (3,674 in 1986), the cost per borrower reached is a quite reasonable 172 baht. If the average loan size were 1,000 baht instead of 50, the cost per baht lent would drop to .17. The problem, then, is the size of the loans, not the ratio of field workers to borrowers.

Poor Repayment of Loans

A more serious problem for the sustainability of the loan fund over time is the low rate of loan repayment. Of the loan portfolio of 393,057 baht only 49 percent has been repaid. The FFH Lampang staff prepared the following table.

Activity	Loaned	Repaid	Percent
Ducks	131,928	41,093	31
Soybeans	60,312	26,884	45
Bee keeping	81,800	121,500	149
Vegetable seeds	32,143	0	0
Chickens	15,900	0	0
Fish raising	57,975	0	0
Vaccine	5,000	0	0
Slow sand filters	8,000	2,650	

When asked why loan repayment was so poor, the VDC's most common comment was that it simply wasn't worth tracking and pursuing loans that were so small. In the words of one VDC:

Q. Can the VDCs manage a larger loan fund?

A. Yes. The very small loans are too hard to administer. It's not worth going after a very small loan. You really need 2,000 baht to do something with. Anyway what are our incentives to collect loans?

Since loans are usually repaid in kind there are a number of problems. Ducks returned were not of the same quality as those provided. It was impossible to collect a spoonful of vegetable seeds. There was no attempt at repayment on loans for fingerlings. The owner was expected to restock local streams and rice paddies with the fish from the pond.

An option that was explored with several of the VDCs was simply to sell the vegetable seeds, ducks, soybeans, and other inputs the FFH program was providing. Since the amount loaned was so small, most of the borrowers could pay cash. Loans could be provided for the poorest borrowers.

This option has several advantages:

- The loan fund would not be depleted by borrowers who refused to repay their loans.
- Funds would be available immediately to purchase new inputs.
- The VDCs would not have to track large numbers of tiny loans.

Adopting this option would free the VDCs to supervise the larger loans that the borrowers suggested they needed.

The current structuring of the loan fund provides no income to FFH to cover operational costs. Since there is no income to FFH derived from granting loans in these villages, all FFH operational costs must be subsidized. A plan for an economically self-sufficient loan fund is presented in the last section of this report.

III. ALTERNATIVES FOR THE RESTRUCTURING OF THE LOAN FUND

The loan fund, then, is faced with a number of problems that make restructuring the RLF an urgent priority. To review briefly:

- Loans are far too small to have an appreciable impact on the borrowers. Loans currently average under $2; they should be at least $38 (1,000 baht).
- Loans are targeted to what FFH considers to be important, not to what the borrowers consider important. Only 10 percent of the loan requests are for products that FFH currently provides loans for.
- Dependence on in-kind loans limits the flexibility of the loan fund; borrowers want cash to choose the animals they want to buy, to pay for laborers, and to get a better price locally for what FFH provides.
- The structure of the Village Development Committees perpetuates the class and economic structure within the community; there is little that encourages the empowerment and prosperity of the poorer villagers.
- The cost of the delivery of credit is excessive, more than 3 bahts of administrative costs per baht of credit extended.
- Repayment on these loans is poor; only 49 percent of the amount of the loans extended since 1982 has been repaid.
- The current structuring of the loan fund provides no income to FFH to cover operational costs.

On the positive side, FFH can be justly satisfied with the large number of villages it is currently reaching (81), and the large number of borrowers (3,674 in 1986). Other significant achievements have been the creation of a VDC structure that largely administers these funds; the high degree of acceptance of the credit provided; the apparent positive (although likely small) impact these very small loans have had on nutrition in these communities; and the institutionalization of the entire Applied Nutrition Program, including the loan fund. The strengths of the current revolving loan fund methodology can be built on, and a restructured "Income-Generating Revolving Loan Fund" can overcome many of the limitations of the existing system.

The objectives of the "Income-Generating" fund should be to:

- Provide a modest source of credit for the poorest of the "motivated poor" in these villages who would not otherwise have access to institutional credit. Loans would start at under $40 and the maximum loan would probably be under $100. The "motivated poor" are those in the community whose ability to expand economically is limited by lack of access to resources.

- Extend this credit through self selected groups of four to six borrowers from the same economic strata in the village. Members will mutually co-sign each other's loans to provide a guarantee to insure good loan repayment. These credit guarantee or "solidarity groups" also serve to empower the poor because borrowers tend to not only guarantee each other's loans, but, over time, encourage and support each other.

- Structure the loan fund to encourage close to 100 percent repayment on loans and to provide a stream of income to cover FFH local administrative costs.

Preliminary conversations were held with the Lampang manager of the Bank for Agriculture and Agricultural Cooperatives which works actively throughout the province. BAAC district workers are already working with the better-off villagers in many of the communities where FFH is actively working. The BAAC, however, does not consider the priority clients that FFH wants to reach as creditworthy. They consider loans to this population to be too risky, especially given the limited time their district workers have to work in these communities.

The BAAC manager in Lampang is willing to discuss the following option. If FFH and the ministry staff are willing to do the grassroots organizing and training of the groups and the VDCs, and if in addition FFH will place on deposit a guarantee fund equivalent to 120 percent of the loans made to the poorest borrowers, the bank would be willing to use their resources to fund these loans. (From the bank's perspective, the 120 percent guarantee would assume that the entire fund plus the potential interest earned on these loans would be lost.)

As the borrowers showed they were reliable, the same guarantee fund could be leveraged perhaps two or three times. With no further investment, the FFH guarantee could fund a loan pool two or three times as large.

There would be several advantages to this relationship:

- FFH funds for the guarantee fund could be placed in a U.S. bank, protecting the guarantee fund from erosion through inflation.
- A powerful local bank would use its resources to finance the poor, perhaps learning that the poor are a reliable market.
- A mechanism for institutionalization would be built in, with the BAAC workers doing some of the outreach work. Also, reliable groups with a proven track record could graduate to the normal credit lines of the bank, freeing up the guaranteed funds for more needy borrowers.

The structuring and administration of the proposed fund is presented in the next section. The report concludes with a sketch of five-year projections for the proposed loan fund showing how the fund, when it was fully developed, would invest some $300,000 to the poorest in 100 villages. This infusion of capital would have a very significant impact on the income, productivity, and receptivity to change of these villagers, helping to produce the kind of changes that FFH is attempting to promote.

IV. THE IMPLEMENTATION OF THE INCOME-GENERATING REVOLVING LOAN FUND

To insure high loan repayment and efficiency, the income-generating revolving loan fund is structured to include incentives and to build in the process of institutionalization at each stage in the process. As can be noted in the organizational chart for the fund below, FFH Davis will supervise and train the local FFH staff. The FFH local staff, Bank for Agriculture and Agricultural Cooperatives, and Ministry community development staff will monitor, supervise, and train the Village Development Committees. The VDCs will supervise and monitor the credit guarantee groups and the groups will monitor each other's loans.

The stakes are high for poor performance. If loans are not repaid members of the defaulting group will not be eligible for new loans. If the performance of the loan fund is not satisfactory, the community will be denied an increase in the amount of the revolving loan fund assigned to the community, or in extreme cases the loan fund will be withdrawn. To receive an increase in the loan fund assigned to the community, loan repayment must be at least 97 percent, and 70 percent of the borrowers should be those who would normally be ineligible for BAAC loans.

The process of institutionalization proceeds on three dimensions. The Village Development Committees are strengthened to manage a greatly expanded revolving loan fund. The individual borrowers, most of whom are not eligible for BAAC loans because they are too poor or who are otherwise seen as too risky, graduate with their groups into the normal lines of credit of the Bank within two to three years. Throughout the expansion process, the FFH staff works closely with the BAAC district workers and Ministry community development workers so that they are able to take over the functions of training, supervision, and monitoring.

INCOME-GENERATING REVOLVING LOAN FUND STRUCTURE

Institution	Function
FFH Davis	• Program development/evaluation • Guarantee fund
FFH staff	• Supervision/training of local
Bank for Agriculture and Agricultural Cooperatives	• Funding of revolving loan fund • Extension work with groups • Acceptance of graduates from fund
FFH Thailand	• Coordination with BAAC • Training/coordination with ministry staff • Training of VDC, community • Monitoring of funds at VDC level
Ministries	• Training and supervision of VDC • Assume functions of FFH with time
Village Development Committee	• Orientation of groups • Monitoring of loans to groups • Follow up with group repayment problems
Credit groups	• Monitoring loans to individuals • Follow up with individual loan repayment problems

The implementation of the income generating revolving loan fund in each village could follow seven steps.

1. Train the Village Development Committee in the management of the income generating revolving loan fund. Responsibility: FFH, BAAC, Ministry community development staff.

Villages would be selected that had concerned leadership and who were highly interested not only in the revolving loan fund, but the other program components. There is little doubt there will be farmers interested in receiving loans in any community, so a feasibility study at the level of individual farmers will probably not be required.

Training would involve a general orientation session, if possible with one or two other VDCs who were entering the program. The training would begin with a dialogue with the VDCs on their experience with the FFH revolving loan fund in their villages to extract the "lessons learned" and what they felt this implied for the new loan fund. VDC directors would have a chance to develop their ideas on who should be selected for the fund, actions to take in case of loan repayment problems, and how the VDC will track the loans. BAAC district workers will explain the loan granting process and follow-up process.

2. Meet with the village to explain the fund.
Responsibility: VDC, FFH, Ministry staff

The VDC would call a community meeting and explain the income-generating loan fund to the village. They would stress the difference from the current fund, namely that borrowers could select what they wanted loans for, that loans would be both cash and in kind, that the size of the loans would be much larger (but no more than 1,000 baht the first time), and that loans would be issued through credit guarantee groups. The relationship with the BAAC would also be described.

The FFH and Ministry staff would be available to answer questions and to clarify points.

3. Train initial credit groups. Responsibility: VDC, FFH and Ministry staff

In the weeks after the village meeting the credit guarantee groups would be formed. The VDC would review the composition of the proposed groups. Are the members responsible? Are at least 70 percent the kind of borrowers that the BAAC would see as too risky to loan to?

4. Credit groups decide on the use and amount of the loans. Responsibility: VDC, group presidents and group members, FFH, Ministry staff, and BAAC

Members of the groups decide on the use of the loan, taking into consideration the guidelines provided by the BAAC on the types of production that are likely to find a market and the types and costs of inputs. The secretary of the VDC notes the names of the borrowers and the amount and use of the loans by group on the forms provided by the BAAC, and the loan requests are reviewed once again by the VDC.

Once the "package" of loans is ready they are reviewed in the village during a meeting in the village with the BAAC, FFH, and Ministry staff. Loans are approved by the BAAC.

5. Distribution of the loans. Responsibility: VDC, group presidents, BAAC, FFH

During a community meeting the borrowers state how they are going to use their loan and then pick up their checks. All transactions are supervised and recorded by the VDC and FFH. At this meeting the conditions of the loan and the repayment schedule are explained again.

6. Ongoing meetings. Responsibility: VDC, FFH, ministry staff

Each two weeks a meeting is held where borrowers describe how they used the loans. At these meetings the groups make their installment payments and late payment problems are discussed and the VDC takes the appropriate actions.

Talks on nutrition, health care, and sanitation will also be given at these meetings. The ministry nutrition staff can use the meetings to schedule ongoing work with the community.

7. Review of revolving loan fund performance.
   Responsibility: VDC, BAAC, Ministry staff, FFH

At the end of the year (or sooner) the performance of the revolving loan fund is reviewed. If repayment is 97 percent and if at least 70 percent of the families reached would not normally be eligible for BAAC loans, the size of the revolving fund for the community will be augmented. The size of the fund depends on the size of the village and the demand for credit, but it may be possible to increase the fund from 25,000 baht the first year, to 50,000 the second year, to 75,000 baht the third year.

A goal for the fund would be that by the third year all of the eligible borrowers who were interested would have had at least one loan, and the average loan size of the repeat borrowers would have doubled or tripled. By the third year the first borrowers should be ready to "graduate" to the normal lines of credit of the BAAC freeing up some of the loan fund to serve new borrowers in the community.

If performance of the revolving fund for the community was not satisfactory, corrective actions would be taken. One possibility would be withdrawing the FFH guarantee for the village and thereby closing down the fund for that community.

Incentives for Good Repayment

It is worth reviewing the mechanisms built into the system to encourage good repayment.

1. Training for the Village Development Committees, the community, and the credit groups

2. Adequate follow-up:
   - Presentations of plans for the utilization of loans to the VDC with all present
   - Follow-up visits to check utilization of loans
   - Meetings of borrowers every two weeks

3. Credit to individuals is extended through credit guarantee groups of four or five members
   - The presidents of the groups are directly responsible to the VDC
   - If one can't pay in the group the others must pay
   - No one in the groups receives a new loan until all members have canceled their loan
   - Fines are levied for late payment
   - Unreliable members are let go at the end of each loan

4. Credit to individuals is extended in increasing amounts based on their performance in paying the previous loan and demonstrated need.

5. Repayment is in installments. At least 50 percent of the loan must be canceled before the harvest in biweekly installments. This demonstrates the borrower's responsibility and capacity for repayment early in the loan so corrective actions can be taken.

6. The village receives increasing loan funds based on performance.

7. The VDC does not handle cash. Loan repayments are made directly to the BAAC and loans are disbursed directly to the borrowers.

8. Careful records are kept of transactions by the VDC, the BAAC, and The Freedom From Hunger Foundation.

V. INCOME-GENERATING REVOLVING LOAN FUND PROJECTIONS

The income-generating revolving loan fund is projected over five years; over that period:

- The income-generating revolving loan fund will be set up initially in 25 villages of the 81 villages currently being assisted in Ngao and Sobprab districts. Villages chosen in 1988 will be those with strong leadership and a high degree of interest in the fund. The leadership of these initial villages will have an important role in expanding the fund to other villages in the area.

  In 1989 and 1990 the fund will expand to 50 more villages. Although most of these will be among the 81 villages currently assisted, some will be new villages that heard of the project and want to join. In the fourth year another 25 villages will be added, for a total of 100 villages.

- The loan fund per village will increase from an average of 25,000 baht the first year to 50,000 baht the second year and 75,000 baht the third year. These projections are conservative and assume that in the first year five groups of five borrowers receive loans averaging 1,000 baht. At least 70 percent of the borrowers would not qualify for other credit sources. These small loans test the cohesiveness of these groups and the quality of the projects. In subsequent years more borrowers will be added and the average loan size will increase. It is expected that after two or three years of participation in this special fund the groups will "graduate" to the normal lines of group based credit from the Bank for Agriculture and Agricultural

Cooperatives. As groups graduate, the funds will be available to new groups of villagers.

The loan level in a village will be increased when repayment on previous loans reaches 97 percent, and if at least 70 percent of the borrowers would not normally qualify for BAAC loans. Expectations for the performance of this fund are much higher than the short-term BAAC credit lines which average 23.7 percent in arrears. This will help convince the BAAC that these borrowers will be reliable clients of the bank in the future.

A staff of three, working in coordination with the BAAC and ministry community development workers, should be adequate to promote and supervise the fund in the initial 25 villages in Ngao and Sobprab Districts. The FFH field staff would also have their other duties to perform. In the second year much of the burden of supervision and follow-up in the initial 25 villages would be taken over by ministry and BAAC district staff. Meanwhile the FFH staff would start the fund in another 25 villages with ministry and BAAC help.

After the start-up period the number of FFH staff could be reduced, but some FFH presence would be needed to monitor the loan fund and to intervene when loan repayment became an issue in specific villages. This ongoing presence would be required to protect the integrity of the FFH guarantee fund.

A rough estimate of operational costs is 600,000 baht for the initial three FFH staff working on the fund. This estimate is based on current FFH operational costs for the revolving loan fund of 638,000 baht per annum.

As the loan fund expands, the FFH direct cost per baht of credit extended will decrease from .98 in the first year to .32 in the second year, to .09 in the fifth year. This amount will decrease even further in the sixth year when FFH activities are limited to monitoring and crisis intervention.

Borrowers will be charged 18 percent per annum on their loans. This is somewhat higher than the 13.5 percent currently charged on agricultural loans in Thailand. The additional 4.5 percent will provide an incentive to borrowers to graduate to the normal BAAC credit lines and will cover some of the costs of the FFH staff. The rest of the operational costs could be covered from the interest received by FFH on the guarantee fund (estimated for the purposes of these projections at 6 percent of the loan portfolio.) The fund will operate at a loss for the first three years, almost break even by the fourth year, and generate a surplus in the fifth year.

INCOME-GENERATING
REVOLVING LOAN FUND
Ngao and Sobprab Districts

Year	1988	1989	1990	1991	1992
Number of villages	25	50	75	100	100

Loan fund (000s baht) (left column indicates year the village entered the fund)

1988	625	1250	1875	1875	1875
1989		625	1250	1875	1875
1990			625	1250	1875
1991				625	1250
Total	625	1875	3750	5625	6875
Revolving loan fund staff	3	3	3	3	3
Operational costs for FFH (000s baht)	600	600	600	600	600
FFH costs per baht lent	.96	.32	.16	.11	.09

Income to project assuming 10.5 percent interest per annum to FFH (4.5 percent from borrowers and 6 percent from interest on FFH guarantee fund: 000s baht)

	66	197	394	591	722
Surplus (deficit)	(534)	(403)	(206)	(9)	122