

No quick fix to rural debts

Will the new government help Phim Homklang? A farmer in Non Sung district, Korat, Phim borrowed 120,000 baht from the Bank for Agriculture and Agricultural Cooperatives (BAAC) five years ago so that her son could start a car repair business. The income from her 15 rai of paddy land was not enough for her family's needs, even when supplemented by income from another 10 rai of paddy land that she rented.

The car repair business soon failed and her son left to work for his former employer. Phim and her local credit officer renegotiated her loan, extending the repayment period and taking account of income that she receives from her four daughters who are working in Bangkok.

The first instalment under the new agreement is due in March. With rice prices as low as they are now, Phim wants to delay the sale of her paddy by borrowing under BAAC's paddy pledging scheme, allowing her to receive cash according to the 'target' paddy price. She will use the cash to repay her long-term loan instalment. If the market price for paddy

fails to reach the target, BAAC will sell her paddy and the government will compensate the bank for its loss.

Phim's case is not unusual. Calculated by value, repayments for about half of BAAC's loans were delayed or rescheduled last year. Even when repayments were made on time, farmers typically used cash from several sources to meet their commitments to BAAC. Many supplement their incomes by working as wage labourers. Children in Bangkok send remittances, as in Phim's case. And as a last resort they take loans from local moneylenders. These loans are often for only a few days, for which the farmers pay 3-5 percent to the moneylenders as interest. They can then renew their BAAC loans, repay the moneylenders and finance their next round of production and living expenses.

Some BAAC officers say privately that while a few years ago only a small minority of clients resorted to these measures, in the last year the figure rose to 60-70 percent in most BAAC branches. It would be difficult to confirm this claim. But whatever the true figure, there is a widespread view that there is no longer a close relationship between BAAC's loans and the farm or non-farm production that they are meant to support.



There are several reasons why this 'de-coupling' occurred. During the 1980s and 1990s BAAC was required to support a number of government initiatives that were beset with technical problems resulting in numerous repayment difficulties. Cashew trees would not fruit, cows proved to be infertile and local extension officers were unable to properly supervise the ambitious 'farm rehabilitation' programme.

A former government's insistence on lowering BAAC's interest charges for small loans might have led officers to quietly encourage their clients to borrow more. And farmers believed their supplementary incomes from what turned out to be the 'bubble economy' were secure, and they were not adequately warned against using loans to buy consumer items like televisions and

refrigerators. The average size of loans per client farmer increased by 130 percent from 1990 to 1999.

Santhi Piyapongkul, the manager of BAAC's Phu Wiang branch in Khon Kaen, became concerned about the direction of rural debt soon after the onset of Thailand's economic crisis in 1997. "People who believe that the debt problem can be solved by money alone are mistaken," he says. "With that approach, farmers will soon be in debt again."

Instead he encouraged his team of credit officers to strengthen their relationship with their farmer clients by spending more time with them in their villages and listening to their needs and ideas. Gradually they were able to identify the farmers who had genuine problems and not only reschedule their repayment commitments but, more important, produce realistic plans to improve their production and incomes. Santhi says 70 percent of the 'problem' farmers were able to draft feasible plans for new enterprises, often based on a community approach to production and processing rather than an individual approach. He claims to have eliminated the need for Phu Wiang farmers to borrow from moneylenders in order to finance their BAAC loans.

Pittayapol Nattaradol, the President of BAAC since October 1997, endorses the approach that the Phu Wiang team has taken and has adopted it as a BAAC policy. "We have made a lot of progress with restructuring farmers' debts," he says. "But the rehabilitation aspect of the programme is essential for a sustainable solution to the problem. And farmers must learn the discipline of saving in order to be ready to repay their loans on time. While we understand the farmers' difficulties and we believe we know how to tackle them, there is no 'quick fix' and all of us involved will have to be patient."

But a 'quick fix' is exactly what Thailand's farmers believe they have been promised. Among a small sample in Khon Kaen and Nakhon Ratchasima provinces, all understood that the incoming government will offer a blanket three-year moratorium on repayments of capital together with a full government subsidy for interest charges. None of these farmers understood that there would be any screening process or conditions attached to their good fortune. All responded with varying degrees of cynicism or protest to the idea that perhaps not everyone would be included, or that those who are included will in some way pay a price.

Thailand's farmers have real debt problems that, if left unchecked, will damage both the farmers and the bank that serves them. Creative solutions are needed from the communities concerned, based on the real production potential of the modern rural economy. Facilitating a sustainable rehabilitation process is a serious test for BAAC at all levels of its organisation, particularly if farmers become alienated when their high expectations are dashed. The bank's new political masters will be in a position to either help or hinder, and which course they will choose remains to be seen.

"In fact the rehabilitation of the production system is our real goal," says Prapat Panyachatraksa, one of the architects of the new government's rural policy. "We know that the BAAC system is the most reliable channel available for government funds to reach the rural areas. The repayment moratorium is necessary to give farmers a breathing space, but it is only part of our policy. It will be coordinated with the village funds that we will set up as another way to strengthen the rural economy."

An important unanswered question is whether all BAAC clients will automatically be included in the programme. Phim's loan is more than twice as large as the BAAC average so she could be excluded from a programme aimed at 'small farmers.' Ironically it is the small farmers who tend to repay their loans most reliably so screening based on loan size might send assistance to those who need it least.

"Politicians like to talk," says Phim. "Perhaps they will help me, but I will find a way to pay the bank anyway." BAAC had better hope all its clients are thinking like Phim.