

BAAC's long term solution (The Nation, Bangkok, 24 May 91)

What can be done about long term investment? In view of the major stumbling blocks – land tenure, infrastructure, technical support and market confidence – it is clear that increasing the amount of long term lending cannot be done overnight by the BAAC unilaterally. The fundamental problem lies in identifying activities which will be viable for inexperienced small-holders and which the bank can be reasonably certain will be carried out correctly. It would be irresponsible to lower significantly the bank's standards regarding either loan security or the financial and technical viability of projects. Can anything be done by the BAAC in the short or medium term?

The obvious answer is to work more closely with the technical agencies of the Ministry of Agriculture and Cooperatives, and with reliable private companies. Take the government sector first.

Government agencies

Several years ago this reporter observed a very nice demonstration of the effectiveness of chemical fertilizer in improving paddy yields. The demonstration was made by an active, capable "subject matter specialist" from the Department of Agricultural Extension. She had farmers harvest small plots which had been cultivated under controlled conditions with varying amounts of fertilizer, and weighed the grain. Then on a white board she set out a clear financial analysis of the benefits of using fertilizer. But where would the farmers get the funds for the fertilizer? Why, from the private moneylenders, at a cost of 5 percent per month. There was no mention of the fact that any of the farmers watching the demonstration could have qualified for BAAC loans at 1 percent per month.

Since then there have been improvements. First with funds from the International Fund for Agricultural Development (IFAD) and more recently with funds and other support from the European Community, the DoAE and BAAC have worked together to provide linked credit and extension services in an increasing number of villages in the Northeast.

Almost any project can be made to work if it gets enough support. This project worked: yields improved, incomes increased and loan repayments were good. But the more interesting point about it

is that it turned from being a small scale operation covering 28 villages in seven provinces in 1984 into a region-wide programme which now covers 36 districts, about 15 percent of the Northeast. Administrators and field officers from both organisations have attended common training courses and workshops in order to get to know each others' goals and constraints, strengths and weaknesses. The EC input ended, but the agencies plan to continue and expand the operation, making it a normal feature of their respective annual work plans.

Even so, the test which lies ahead will surely be tougher than the tests which have been passed already. The programme is at present concerned only with seasonal production and short term loans, mainly for paddy. Plans are afoot to extend the concept to cover also enterprises which need long term investment. This will certainly be more demanding because fewer farmers are familiar with the technology involved, simple though it may be.

To take one example, mulching—surrounding young tree seedlings with straw or other inert material to retain soil moisture—can significantly increase the chances of the seedlings' survival through the long dry season in the Northeast, but it is not an activity that farmers adopt without instruction and encouragement. That means organising training courses and providing for special follow-up visits to the farm. Without this kind of planning and support the chances of success plummet.

Consequently cooperation to promote new enterprises requiring long-term loans has tended to be restricted to the framework of special projects. Again, there are good examples where cooperation has worked well. In Loei the BAAC initiated a fruit tree planting project which has attracted 2,000 farmers, partly because of the active involvement of the local DoAE staff.

There are other examples involving other agencies. In another EC-funded project the BAAC and the Office of the Rubber Replanting Aid Fund (ORRAF) are, after some initial hiccups, working together effectively, even enthusiastically, to raise the technical standards of new rubber small-holder plantations in Rayong and Chantaburi. The project requires regular visits to each farmer's plot for six years. The results are visible to the casual observer on the ground as well as in the technical reports.

In the same project the BAAC has worked with the Royal Forestry Department to find a way around the land documentation problem. We are still a good way from where the fat lady sings, but there are reasonable grounds for hoping there will be a workable solution soon. Such a solution could also be applied to other areas with similar problems.

Elsewhere the bank has benefited from good support from the Livestock Development Department for its dairy projects, and from the Department of Fisheries for many fresh-water fisheries projects.

Though none of these projects is perfect, they do provide a glimmer of hope. But only a glimmer. After learning the technical lessons, the key point to remember about them is that they are no more and no less than what their names imply: projects. A project is something special, outside the routine of the agencies concerned. And compared to the global picture of Thailand's agriculture they are tiny, miniscule oases in a vast desert.

In an ideal world of rejuvenated technical service departments, efficient irrigation systems, complete documentation of the degraded forest areas and dynamic cooperatives there would be no need for special efforts by the bank to drum up demand for long term loans or to create special packages of assistance in order to waive the normal security and other regulations. But that ideal is a long way off for most farmers. Meanwhile there is still a good case for special projects, provided they are commercially oriented, and provided they serve as models for spontaneous adoption on a larger scale.

So the question which should be engaging the minds of the BAAC, DoAE and the other technical agencies is whether and how the lessons and experiences from the projects can be generalised so that communication and cooperation become normal features of the process of developing their annual and five-year corporate plans. There is perhaps some movement in that direction. But as noted earlier we are a long way from where droves of small-holders are beating on the BAAC's doors demanding loans for innovative enterprises which their local extension officers have helped them design.

The private sector

Closer cooperation between the BAAC and the technical services will be meaningless without close understanding of and cooperation with the private

sector. Ironically, attitudes towards the private sector have divided BAAC from many government agencies in the past, but hopefully not in future. The BAAC has long recognised that awareness of and access to markets are crucial to any plans for farm small-holder development. Consequently it has entered into many agreements to provide credit to its farmer-clients in coordination with private companies.

The nature of these arrangements has varied widely. The BAAC plays a matchmaking role, and does not get involved directly in trading. The attraction from the companies' point of view is that the BAAC provides a channel for contacting and organising groups of clients who may be interested in the proposed project. The companies may in turn provide any or all of a number of services, including initial technical training, farm inputs, on-farm extension and marketing services with or without a guaranteed minimum price. The BAAC may ask the company to set up a bank guarantee against the achievement of agreed performance standards. Payments are often made by the company to BAAC savings accounts opened for each farmer.

Projects with private companies have worked with varying degrees of success. There have been instances of distrust and something close to trickery on both sides. Farmers can sell their produce to outside traders to avoid the company's grading requirement or to avoid having their debt service costs recovered by the bank. Companies can fail to keep to their promises of providing training or inputs, they can let technical standards slip or they can make unreasonable conditions in setting standards for grading the produce. But farmers can benefit substantially where the arrangement works well. Two examples:

The Jun Mai Thai company has worked with the BAAC on sericulture projects in Phetchabun and Chaiyaphum. It is a tight system, with the company providing an initial month-long residential training course, young worms and on-farm technical support, and buying the cocoons directly from the farmers. Since the system is based on bivoltine worms quite different from those traditionally raised in the Northeast, Jun Mai Thai faces little competition either in input supplies or at the marketing stage. The technology appears to be sound.

The farmers raise and harvest mulberry to feed the worms, and invest in a rearing house which has to

meet strict standards of cleanliness. Their income levels depend largely on their skill in taking care of the worms, and on the amount of mulberry they can make available.

Promoting cashew on a contract farming basis has similarly provided valuable lessons for the BAAC. The arrangement with the Mah Boon Khrong Cashew Company is like that with Jun Mai Thai, with the company providing inputs (seedlings of their own cashew variety, and fertilizer) and on-farm technical support, and undertaking to buy the product with a fixed minimum price.

The main strength of the cashew project lies in its success in promoting a new investment crop among large numbers of small-scale farmers. About 15,000 farmers and 100,000 rai are involved. Regrettably good cashew varieties produced under the government's own research programme have not been promoted nearly so well.

In practice, controlling production and marketing has been more difficult than in the case of the Jun Mai Thai project. The level of skill required of the farmers was lower than in the case of sericulture, so less stress was put on training and technical support. There was a programme of monthly on-farm extension visits, but no residential training course. The cashew project was implemented on a much larger scale, perhaps too large for the extension staff to cope effectively. With production in the open instead of in enclosed rearing houses, the trees have suffered from disease. And cashew is a relatively easy product to market, so the company has faced competition from private traders. For all these reasons, success has been less uniform than in the sericulture project.

These are two examples which in different ways have achieved important successes. There have been others, involving both large companies like Charoen Phokapand and Adam International, and smaller local companies who want to work with only handfuls of farmers.

In the long run the BAAC is anxious to withdraw as much as possible from these kinds of interventions and focus on purely banking functions. A potentially important initiative by the BAAC towards this goal has been to encourage the farmers to organise themselves into groups in order to plan and process their production, and deal with private companies more effectively. The bank has overseen the creation

of farmer clubs (*chom roms*) of up to 50 or 60 members which seek outside technical assistance, help each other with quality control and make marketing deals with buyers. There are no examples yet of *chom roms* starting processing enterprises, but there is no reason why they should not do so. Cashew growers for example would stand to gain substantially by hand-shelling their own nuts and selling the kernels.

Again though, the *chom roms* and the successful examples of cooperation with the private sector while valuable for the farmers and the bank are still on a comparatively small scale. Setting up the *chom roms* takes substantial inputs of BAAC staff time, for the benefit of only 50 or 60 farmers. Contracts with private companies are usually small; the Mah Boon Khrong cashew project is exceptionally large. More commonly only 100 or 200 farmers are involved.

So it is as yet a small contribution to the total picture. Overall, Thailand still suffers from weak links between farmer-producers and the main marketing companies, resulting in inconsistent grading standards, uncertain supplies and difficulty in responding to the changing demands of markets for high-value, high-quality farm products. And depressing incentives and demand for investment.

What BAAC can do alone

For BAAC, the resolution of the long-term lending problem will certainly depend on working closely with other agencies. At the same time, the bank could take some actions unilaterally. The administration of long-term loans would bear investigation. At present application procedures are more complicated than for short term loans, particularly if the amount requested is greater than the limit of the branch manager's authority. In that case the application has to be approved at the head office, a procedure which can take anything from two weeks to three months. There are clients, nobody knows how many, who want to apply for long term loans but give up when confronted by the procedures involved, or when they have not received an answer in time to plant before the dry season starts.

Variations in the long-term lending performance of different branches with no obvious environmental differences also suggest that some managers put more emphasis than others on long term lending. The branches which are less active in this respect

could learn from the more active ones, with incentives built into the annual branch evaluation system designed to encourage them all.

If there are to be special projects, more could be done to ensure they are implemented efficiently. The bank needs access to a cadre of properly trained project managers, equipped with modern project management tools, a commercial outlook, and a concern for development issues like environmental conservation and the participation of disadvantaged groups in the rural areas. One possibility would be to create a projects administration division, composed of project management specialists, to complement the work of the existing projects development division.

Creating such a division would establish project management as a legitimate career path, whereas now it is not: managing a project is often regarded as a distraction from normal duties and the normal line of promotion, and there is little stability among the staff assigned to oversee the projects. Alternatively the bank could contract the project management function out to private consulting companies, linking payments to performance incentives. If there are no suitable companies the BAAC could oversee the creation of one which is.

What would be the effect of a credit guarantee fund? More will have to be known about how such a fund would work, and whether there is a danger that introducing it would chip away at the integrity and competitiveness of the banking system, as happened when a similar concept was applied in the Philippines. A guarantee fund may not be a bad thing, but the constraints on long term lending are deeply-seated in the current institutional weaknesses which affect the Thai countryside, inside and outside the BAAC, and the creation of a guarantee fund will not by itself solve those problems.