

I C A — S C C

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THE ROLE OF THE BANK FOR AGRICULTURE  
AND AGRICULTURAL CO-OPERATIVES

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INTRODUCTION

The Bank for Agriculture and Agricultural Co-operatives was established in September 1966, under the Bank for Agriculture and Agricultural Co-operatives Act B.E. 2509 (1966), to replace the former Bank for Co-operatives. The primary objective of this new Bank is to provide a constantly expanding agricultural credit service. The merging of the Bank for Co-operatives with the Bank for Agriculture and Agricultural Co-operatives was completed within 40 days. Then, the latter has been functioning since November 1966, carrying out the lending operations through agricultural co-operatives, and directly to individual farmers who are not members of agricultural co-operatives.

The authorized capital of the Bank is one billion Baht, of which Baht 382.6 million has already been paid up by the Ministry of Finance, and Baht 6.7 million by co-operatives. (Baht 20 = US\$ 1.)

Its Board of Directors is appointed by the Council of Ministers, consisting of the Under-Secretary of Finance as Chairman, the Under-Secretary of Agriculture as Vice-Chairman, and competent representatives from the agencies directly concerned with agricultural finance and the promotion of agricultural production.

The Bank has been making a remarkably all round progress and completed its second full-year operation with the end of 1968. Its highlights of operations in 1968, compared with the previous year, are summarized as follows:

		<u>1967</u>	<u>1968</u>	<u>Increase</u>	<u>Per cent Increase</u>
1. Capital funds	<i>Baht in millions</i>	304.4	447.9	143.5	47
2. Total assets	<i>Baht in millions</i>	473.7	746.0	272.3	57
3. Number of branches at the provincial level		15	25	10	
4. Number of field offices		43	106	63	
5. Number of Amphoes (districts) served by branches		95	194	99	
6. Number of farmers registered as branch clients		45,278	121,749	76,471	169

It is prime responsibility of each branch to investigate and select those applicants who are bona fide farmers and properly qualified, to be registered as branch clients. Farmers who have been so registered are eligible to obtain loans whenever needed to meet their requirements for current farm operations as well as for further expansion of their farm activities. At present, all 35 branches have about 154,000 farmer-clients.

As one means of making their services more readily accessible, the Bank branches have set up field offices in the remote districts. The functions of such office, among other things, include investigation and selection of farmer-applicants as branch clients, assistance to clients in preparing farm production plans, loan application investigation, co-operation with field personnel of the Agricultural Extension Department in advising clients on improved farming practices, and credit education among clientele. As for the districts which are to a little distance, credit supervisors are dispatched from the branch offices to work in the locations.

It should be noted that the increase in the number of officers and employees in 1968, as shown on page 2 of this paper, was mainly due to the increase of staff at various branches by 399 persons in order to provide adequate service to the rapidly increasing number of clients. At the principal office, the number of officers and employees increased by merely 33 persons as deemed necessary for the expanded activities.

#### Loan Operations of Branches

The types of loans needed mostly by small farmers in general are the short-term and medium-term loans, which are an essential factor in commercial farming. Short-term credit is normally used for current farm operating expenses and is for a period of six months to one year. Medium-term credit is needed for capital items and is repayable in instalments within three years.

During 1968, twenty-five operating branches extended loans directly to farmers to an aggregate amount of Baht 380.4 million, out of which 51 per cent or Baht 194.5 million constituted short-term loans, and 49 per cent or Baht 185.9 million medium-term loans. This indicated an increase of 214 per cent or Baht 259.1 million over the amount of loans made directly to farmers in 1967, which was Baht 121.3 million in total.

As of December 31, 1968, total loans outstanding to individual farmers amounted to Baht 373.3 million.

Unfortunately, in 1967 and 1968 agriculture in Thailand suffered a decline in production, especially the production of rice, maize, and cotton, owing to drought and insects. Nevertheless, clients' repayment records on their short- and medium-term loans for the past two years were very satisfactory for the fact that the percentage of matured principal collected to maturities for each year was in the neighborhood of 94.

Security requirements are commensurate with the risk features of the loans:

1. Short-term loans for main crop production in the areas (rice, maize, cotton, tapioca, etc.) not exceeding Baht 5,000 may be made on the group joint liability.

The method of handling such loans on a group basis, in which borrowers pledge their several and joint guarantees on their small seasonal loans, avoids the necessity of individual real estate mortgages and reduces the cost of making the loans.

2. Short-term loans for other purposes or medium-term loans not exceeding Baht 5,000 may be made on the security of two clients standing surety.
3. Short-term loans for main crop production or for other purposes, or medium-term loans, over Baht 5,000, shall be secured on the mortgage of unencumbered immovable property, the estimated market value of which is not less than twice the amount of the loans.

#### LOAN OPERATIONS FOR AGRICULTURAL CO-OPERATIVES

The Bank is aware that the Ministry of National Development has continually considered the possibility of improving agricultural co-operatives for the past two years but has not yet implemented such policy. Meanwhile the Bank has nevertheless made more flesh advances to agricultural co-operatives, particularly small village credit co-operatives and production credit co-operatives. In 1967, the Bank granted loans to agricultural co-operatives to a total of Baht 125.1 million, an increase of 60 per cent or Baht 47 million over the amount of Baht 78.1 million extended in 1966. In 1968, the Bank extended Baht 135.3 million to them, an increase of 73 per cent or Baht 57.2 million over the amount granted in 1966. These funds would enable agricultural co-operatives to extend, in turn, loans to their members to adequately meet the requirement in their agricultural activities and also help expand co-operatives' membership to some extent.

During 1968, even though crop production was damaged by drought, agricultural co-operatives in general, however, made a record repayment of loans to the Bank as compared to previous years -- Baht 129.1 million or 44 per cent of the outstanding balance at the end of the year, an increase of 10 per cent or Baht 11.2 million over that in 1967.

At the end of 1968, total loans outstanding to 9,436 agricultural co-operatives amounted to Baht 289.0 million.

#### INCREASING THE SUPPLY OF FUNDS FOR AGRICULTURAL CREDIT

It is apparent from the experience in various developing countries where capital is very limited and risks in agricultural financing very high that the government is a major source of capital for agricultural credit. Thailand is not an exception.

As has been stated earlier, the authorized share capital of the Bank is Baht 1,000,000,000. According to a provision of the law on the establishment of the Bank, the Ministry of Finance shall invest in the Bank's share capital from time to time as may be prescribed by the Council of Ministers. By the end of 1968, the shares paid-up by the Ministry of Finance amounted to Baht 382.6 million, representing a Government source of loan funds provided from the annual Budget appropriations.

Although the Bank is largely dependent on the Government investment in its share capital as furnished by the annual Budget appropriations, nevertheless, efforts have been made to acquire funds from other sources as a supplement to the permanent capital. It might be of interest to discuss these measures to some extent.

(1) Our particular concern is with the responsibility of the Bank in mobilizing savings whenever possible to provide part of the loan funds. Savings and time deposits are accepted by the Bank. At the end of May 1969, total deposits stood at Baht 108.5 million, the majority of which was in time deposits. This indicated an increase of 228 per cent or Baht 75.4 million over the amount of deposits as of October 31, 1966, when the Bank took over the services of its predecessor. However, the volume of deposits is still very small, forming only 15 per cent of the working capital. While some of such deposits come from farmers, a substantial part is received also from city men.

It is generally known that the volume of savings in agriculture is very low, much lower than in other sectors. Because rural incomes are so low, the most important requirement is to increase agricultural production and income so that additional savings in agriculture are in fact possible. It is highly probable therefore that improved credit, agricultural extension, education, and other development measures must be antecedent to any significant increase in rural savings. But it takes time to accomplish such goal. Hence, in the meantime we should rely more and more on the transfer of outside funds into agricultural credit.

(2) During each year, the Bank's branches investigate farmer-applicants and register new clients at the beginning of the year in order to expand the needed agricultural credit facilities to farmers. During the early rainy season of each year, farmer-clients usually apply for loans to meet their requirement in farming. However, the Bank will not receive the payment of additional shares from the annual Budget until some time in late October, which comes after the rainy season. Therefore, it is necessary for BAC to acquire the co-operation of commercial banks in respect of inter-bank deposits at a reasonable rate of interest to enable BAC to advance loans to farmers and agricultural co-operatives as needed during the rainy season until additional capital from the annual Budget is received. During 1968, BAC had obtained deposits from some commercial banks, from time to time since May, to an aggregate amount of Baht 175 million and advanced all these to farmers and agricultural co-operatives. Repayments of these deposits were gradually made to the respective commercial banks until the balances were cleared by the end of the same year. Surely, the same process will be repeated annually.

Co-operation of the commercial banks in this matter greatly supports the agricultural credit operations of the country. It is the utilization of commercial banks' funds on short-term basis, channelled through BAC which provides close services to farmers, to finance the farm business promptly.

(3) During the current year, besides resorting to deposits from commercial banks, BAC is also accepting deposits from the Government Savings Bank within a limit of Baht 100 million. This has been approved by the Ministry of Finance with the Bank of Thailand's support. These deposits are to be repaid by BAC out of the sums received from its borrowers within the coming March.

(4) Since 1968, the Bank of Thailand is giving assistance to BAC on rediscounting promissory notes arising from agricultural production and having a maturity not exceeding 12 months, within a credit line of Baht 80 million at a rediscount rate of 7 per cent per annum. The credit line will be greatly augmented during 1969. The Central Bank's assistance in this regard considerably facilitates the operation of BAC for further agricultural credit expansion.

In Thailand, as in many of the developing countries with limited capital, the demand for agricultural credit far exceeds the supply. Needless to say, one of our greatest needs is for additional loan funds. Since its inception, BAC has been attempting, to the best of its ability, to tap all available sources for funds, which, added to collections on existing loans, have been injected into the credit stream for agricultural production. Studies are presently being made to acquire addition funds in the type of long-term borrowing.

#### CO-ORDINATION AMONG CREDIT AND EXTENSION SERVICES

In carrying out a supervised credit program involving loans plus technical guidance, a common problem to many developing countries is the difficulties of co-ordination among credit and extension services. In this connexion, the Bank has been moving along the following lines:

(1) With the co-operation of the Agricultural Extension Department, extension training has been included as a part of the normal training programs for the Bank's credit supervisors. This enables the credit supervisors to be equipped with the technical problems involved in extension as well.

(2) The available extension services are inadequately manned, attributable to financial limitations. Consequently, the Bank is presently recruiting and training many graduates from higher agricultural vocational schools. They will become junior credit supervisors to serve as liaison officers in bringing knowledge regarding improved farming practices from the extension agencies to the Bank's clients.

(3) In order to achieve co-ordination, the credit supervisors are required to extend their hands to the extension agencies rather than wait for the latter to make a move.

(4) The co-ordinated results of the meetings between the Agricultural Extension Department and the Bank are projected down to the lowest level.

#### PRESENT PLANS FOR FUTURE DEVELOPMENT

The immediate goals of the agricultural credit program of BAC are as follows:

(1) By 1971 credit operations of BAC will be further expanded with the setting up of around 55 branches to finance farm enterprises in various provinces with significant agricultural production. These branches are expected to serve approximately 10 per cent of the farm households by the end of that year.

(2) Respecting the agricultural co-operatives, practically all loans made by BAC have so far been confined to village credit co-operatives and production credit co-operatives. Most of the other agricultural co-operatives rely principally on the Co-operative Promotion Fund, administered by the Ministry of National Development; up to now, only 32 of them have had access to the Bank's resources. During this year, the Bank will begin expanding its lending activities to give financial assistance, on a selection basis, to land improvement co-operatives, marketing co-operatives and multi-service co-operatives which operate on sound business practices.

(3) The Ministry of National Development has just commenced implementing a program of mergers of small-sized village credit co-operatives. The co-operatives formed by such mergers would operate on the same pattern as the fair-sized production credit co-operatives, which are of recent development with a reasonable amount of success. The implementation of this amalgamation plan will, it is expected, result in those larger co-operatives having sufficient volume of business with improved management and economic viability. Therefore, the Bank will give every due support and financial assistance to them.

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C.S.