

## Ex-Ante Evaluation

### 1. Name of the Project

Country: Kingdom of Thailand (Thailand)

Project: Project for promoting financial inclusion of low-income population in Thailand  
(Based on the Facility for Accelerating Financial Inclusion in Asia (FAIA))

Loan Agreement: September 27, 2022

### 2. Background and Necessity of the Project

#### **(1) Current State and Issues of the Low-Income Groups (such as farmers, micro business owners, and individuals) in Thailand**

In 2020, 200,000 people fell into poverty due to the economic stagnation caused by the novel coronavirus (COVID-19), and the poverty rate increased to 6.4% from the previous year's (2019) figure of 6.2% (National Economic and Social Development Council, 2021). According to a survey on the impact of COVID-19 on household finances (2021) carried out by the World Bank (WB), over 70% of household incomes had decreased since March 2020, and 80% of these were people from low-income groups in rural areas. There is a large economic disparity between Bangkok metropolitan area, and the rural areas, with the poverty rate exceeding 12% in the north, north-east and the south, in contrast to a rate of below 2% in Bangkok, and particularly since 2016 regional disparities have been increasing (National Economic and Social Development Council, 2021). Moreover, economic disparities and incomes in the agricultural sector are getting worse, with approximately half of farmers experiencing declines in income of over 50%. While the household income of these low-income groups is declining, on top of their fixed costs such as living expenses, education expenses and household expenses, variable costs like fertilizer costs have risen sharply due to the situation in Ukraine, as they are dependent on imports for around 90% of their fertilizers, so household finances in the agricultural sector are under great strain. There is also a large economic disparity between the agricultural sector and other sectors, with the average monthly income of the agricultural sector being 6,000 baht, which is less than half of the 14,000 baht average from all the other sectors (Bank of Thailand, the central bank, 2019). Small and micro businesses have also been hit hard by the impact of COVID-19. The Export-Import Bank of Thailand has pointed out that approximately 33% of small and micro businesses are in danger of going out of business, and most of them are receiving government subsidies. The central bank has also noted that small and micro businesses have limited access to financing, and around 60% of them are unable to get loans from financial institutions.

The Thai government implemented a package of COVID-19 countermeasures from March 2020 to May 2021, centered on cash disbursements and tax exemptions for low-income groups (including farmers) and highly concessional loans for small and micro businesses,

and JICA also supported the Thai government's COVID-19 policies with an ODA loan. However, more measures will be ending from 2022 onwards, and it's predicted that there won't be sufficient support for low-income groups (WB, 2021). In addition, the Thai government recognized that farmers' income level being lower than other sectors is an issue in its Long-term Plan (2017-2036), and is aiming to increase farmers' incomes through increases in productivity in the agricultural sector.

MTC is a non-bank with over 60% of its customer base being in low-income groups, and around 65% being residents of low-income rural areas in the north, north-east and south of Thailand. As mentioned above, access to finance is becoming an increasing necessity for low-income groups. Through limiting recipients of loans to low-income people, and targeting loan products to farmers, micro business owners, and individuals, those people particularly susceptible to the economic stagnation caused by COVID-19 and to the price rises caused by the crisis in Ukraine, this project will help improve access to finances, reduce economic disparities<sup>1</sup> and contribute to sustainable economic growth, and it is also in line with the country's policy priorities.

## **(2) Japan and JICA's Policy and Operations for Low-Income Groups (Including Farmers, Micro Business Owners, and Individuals) in Thailand and in Relation to Major Foreign Policies (especially on the Free and Open Indo-Pacific (FOIP) strategy)**

In regards to financial inclusion in the ASEAN region that covers Thailand, the Initiative on Overseas Loan and Investment for ASEAN was launched in the Prime Minister's statement at the Japan-ASEAN Summit Meeting in November 2019, and this commits to "doubling JICA's loans and investment in the future, with the aim of mobilizing funds, including those from the private sector, for the areas of quality infrastructure, financial access, empowering women, and facilitating green investment focused on the ASEAN region." In relation to major foreign policies, this project contributes to the pursuit of economic prosperity in the Free and Open Indo-Pacific strategy, from the viewpoint of improving access to finance.

"Sustainable economic development and responding to a maturing society" are listed as priority areas in Japan's Country Assistance Policy for the Kingdom of Thailand (February 2020), and this endeavors to support the socially vulnerable and correcting disparities as society matures.

In addition, up to now JICA has supported small-scale farmers in rural areas through the Agricultural Credit for Rural Development Project, an ODA loan to the Bank for Agriculture and Agricultural Cooperatives (BAAC).

### **3. Project Description**

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<sup>1</sup> Although the main objective is to reduce income disparities between sectors, MTC has a relatively high loan balance to rural residents, and it's hoped that secondarily the income disparity between regions will also be reduced.

**(1) Project Objective**

The objective of this project is to help promote financial access for farmers, micro business owners, and individuals in low-income groups, by providing assistance on a long-term loan to MTC, thereby contributing to reducing economic disparities<sup>2</sup> and sustainable economic growth in Thailand.

**(2) Project Site/Target Area**

The whole country of Thailand

**(3) Beneficiaries of this Project**

Farmers, micro business owners, and individuals with a monthly household income of 17,100 Thai baht or less

**(4) Project Component**

Through a long-term loan to MTC, this will promote the lending of four loan products among MTC's loans to low-income groups, with loans for agricultural machinery, land-collateral loans, loans for micro business owners, and loans for individuals.

**(5) Funding plan**

22.7 billion yen

**(6) Implementation Structure**

- 1) Borrower: Muangthai Capital Public Company Limited
- 2) Executing Agency: Muangthai Capital Public Company Limited

**(7) Environmental and Social Consideration / Cross-Sectoral Issues / Gender Category**

- 1) Environmental and Social Consideration

- ① Category: C

- ② Reason for Categorization: Based on the JICA Guidelines for Environmental and Social Considerations (January 2022), this project's undesirable impact on the environment and society is judged to be minimal.

- ③ Others: None in particular

- 2) Cross-Sectoral Issues: None in particular

- 3) Gender Category:

- GI (Gender mainstreaming needs investigation and analysis item)

- <Reasons for Categorization> Although gender mainstreaming needs were investigated and confirmed, the project stopped short of including any specific initiatives that would contribute to gender equality and women's empowerment. In addition, we plan to apply as a 2X eligible project based on MTC's ratio of female management<sup>3</sup>.

<b>4. Project's Effects</b>
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<sup>2</sup> As mentioned above, this includes reducing the income disparities between sectors, as well as the income disparities between regions.

<sup>3</sup> As 3 of the 7 MTC executives are women (42%), it meets the qualification criteria (30%) of the 2X Challenge for the financial sector.

**(7) Quantitative Effects**

Indicators	Baseline (March 2022)	Target (March 2026) [4 years after the execution of the first loan]
(Reference) Loan balance (by segment) (100 million THB <sup>4</sup> )	Agriculture sector 137.5 Micro business owners 56.5 Individuals 109.4	Agriculture sector 285.1 Micro business owners 117.2 Individuals 226.8
Loan balance (By segment. Including, low-income groups) (100 million THB)	Agriculture sector 66.5 Micro business owners 17.5 Individuals 84.0	Agriculture sector 137.9 Micro business owners 36.2 Individuals 174.2
(Reference) Number of loan agreements (By segment)	Agriculture sector 219,248 Micro business owners 223,857 Individuals 1,515,805	Agriculture sector 454,633 Micro business owners 464,190 Individuals 3,143,173
Number of loan agreements (By segment. Including, low-income groups.)	Agriculture sector 125,095 Micro business owners 75,025 Individuals 1,197,703	Agriculture sector 259,397 Micro business owners 155,572 Individuals 2,483,557
Percentage of loan balance to low-income groups among MTC's total loan balance	53%	55%
Total amount of loans executed by the borrower funded by this loan (By segment) (100 million THB)	Agriculture sector 0 Micro business owners 0 Individuals 0	Agriculture sector 10.6 Micro business owners 2.8 Individuals 13.4
Number of loan agreements for executed loans funded by this loan (By segment)	Agriculture sector 0 Micro business owners 0 Individuals 0	Agriculture sector 19,906 Micro business owners 11,938 Individuals 190,583

**(2) Qualitative Effects**


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<sup>4</sup> THB stands for the Thai Baht

Improvements in financial access for farmers, micro business owners, and individuals in the low-income group

### **(3) Internal Rate of Return**

Since this is a bank loan project, the Economic Internal Rate of Return (EIRR) and the Financial Internal Rate of Return (FIRR) are not calculated.

## **5. Prerequisites and External Factors**

None in particular.

## **6. Lessons Learned from Past Projects**

We learned from the results of the ex-post evaluation<sup>5</sup> of the Agricultural Sector Strengthening Project II in Paraguay that it was important that the loan conditions of the intermediary financial institution were set at an appropriate level to ensure that the loans were given to the initially intended beneficiaries (target group). In this project, through investigation, it is confirmed that MTC took into account aspects like collateral, repayment history, and income to set appropriate loan conditions for low-income farmers, micro business owners, and individuals.

## **7. Evaluation Results**

This project is in compliance with Thailand's development issues and policies, as well as Japan and JICA's cooperative policies and analyses. It will contribute to sustainable economic growth and reducing economic disparities by improving financial access for farmers, micro business owners, and individuals in the low-income group, and it is also expected that it will contribute to the achievement of SDGs Goal 1 (No Poverty), Goal 10 (Reduced Inequalities) and Goal 17 (Partnerships for the Goals). This, therefore, suggests that it is highly relevant to support the implementation of the project.

## **8. Plan for Future Evaluation**

### **(8) Indicators to be Used**

As shown in Section 4.

### **(9) Timing**

Ex-Post Evaluation is scheduled for 2026.

End

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<sup>5</sup> Ex-post evaluation of a FY 2011 ODA loan.