



Micro-Finance Linkage Project, Thailand

Ex-post evaluation 2009 - Brief Report

Published by:

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Prepared on behalf of:

Federal Ministry for Economic Cooperation and Development

Produced by:

AFG Consultants International GmbH

This report was produced by independent external experts.
It reflects only their opinion and assessment.

Eschborn, March 2010

Tabular overview

The evaluation mission

Evaluation period	March 2009 – March 2010
Evaluating consulting firm	AFC Consultants International GmbH, Bonn, Germany
Evaluation team	Rolf Speit, Maitree Wasuntiwongse

The development measure

Title according to the offer	Micro-Finance Linkage Project ¹
Number	1989.2147.0 and 1997.2125.9
Overall term broken down by phases	Phase 1: 01.01.1992 – 31.12.1993 Phase 2: 01.01.1994 – 28.02.1998 Phase 3: 01.03.1998 – 28.02.2001 Phase 4: 01.03.2001 – 28.02.2004
Total costs	Overall costs 31.8 million EUR: contribution by GTZ 3.2 million EUR, contribution by BAAC 28.6 million EUR
Overall objective as per the offer, for ongoing development measures also the objective for the current phase	Phases 3 and 4: The rural financial system for smallholder farmers and micro and small businesses has improved. Phase 2: Contribute to the generation of additional income-opportunities in rural areas, especially in the off-farm sector by matching the target groups' credit demand. Phase 1: An overall objective was not formulated.
Lead executing agency	Bank for Agriculture and Agricultural Cooperatives (BAAC)
Implementing organisations (in the partner country)	Bank for Agriculture and Agricultural Cooperatives (BAAC); Community Development Department (CDD) of the Thai Ministry of the Interior until 1996.
Other participating development organisations	None
Target groups as per the offer	Phase 1 & 2: Members of informal savings and credit groups as well as members of Production Credit

¹ Please note that the title according to the offer was „Linking self-help groups to banking services“ (GTZ: 1993). However, in all English documents the project presents itself as “Micro-finance linkage project”.

	<p>Groups (PCG).</p> <p>Phase 2 (1996 – 1998): Joint Liability Groups (JLG) of the BAAC as well as members of informal savings and credit groups.</p> <p>Phases 3 and 4: Joint Liability Groups (JLG) of the BAAC.</p>
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The rating

<p>Overall rating</p> <p><i>On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)</i></p>	<p>2 (good rating, no significant defects)</p>
<p>Individual rating</p>	<p>Relevance: 1; Effectiveness: 3; Impact: 2; Efficiency: 1; Sustainability: 2</p>

Executive summary

The object of this independent ex-post evaluation is the Micro-Finance Linkage Project, Thailand. The evaluation was carried out by Rolf Speit (International Consultant) and Dr. Maitree Wasuntiwongse (National Consultant) on behalf of AFC Consultants International during March 2009 and March 2010. The field mission in Thailand took place from the 1st to the 21st of November 2009.

Over the past decades, Thailand experienced massive growth. The Asian Crisis in 1997 cast a shadow over the miracle, but shortly after its outbreak, the economy got back on a robust growth path. Agriculture was lagging behind the performance of the overall economy. The primary sector's share of the overall GDP shrank from 36% in the early sixties to 13.0% in 1992 to 8.7% in 2007. Shrinking farm sizes, stagnant productivity and fluctuating prices for agricultural commodities pressurized smallholders to find alternative sources of income. By the mid 1990s, proceeds from off-farm activities had developed into a significant source of income for rural households. Income inequality had become one of Thailand's major development problems. In the 1990s poverty in rural areas was far higher than in urban areas. Although overall poverty rates were shrinking in the new millennium, the gap is maintained until today. Poverty alleviation and rural development became a top political issue from 2001 onwards, when business tycoon Thaksin won the national elections. His populist campaign included demands for a debt moratorium for debts farming households owed to the Bank for Agriculture and Agricultural Cooperatives (BAAC).

The BAAC was established in 1966 as a government owned agricultural development bank, providing agricultural credit to farm households and agricultural cooperatives. In the past two decades, it reached out to between five and six million households in rural areas. Though there are other players in rural finance such as agricultural cooperatives, credit unions, the Village Revolving Funds and informal money lenders, BAAC holds a dominant position. Indebtedness to the informal money lenders had been high in the nineteen nineties and many households suffered from extremely high interest rates charged by them. The limited delivery of appropriate savings services to the rural population by the formal banking system had been one of the reasons of their dependency on the money lenders.

The “**Micro-Finance Linkage Project**” in Thailand passed through four phases. It started in January 1992 and ended in February 2004. Out of the overall costs of 31.8 million EUR, GTZ contributed 3.2 million EUR and BAAC the remaining 28.6 million EUR. The BAAC was the lead executing agency of the project. With the exception of the first phase and parts of the

second phase, when the Community Development Department (CDD) of the Thai Ministry of Interior also acted as implementing agency, the project cooperated exclusively with the bank.

The project derives its name from the initial **concept** of the project, which sought to link rural self-help groups promoted by the CDD with the formal financial sector. The project *outcome* was defined as: *Members of informal self-help groups have sustainable access to the formal banking system and use loans for the funding of income-generating activities.* However, the approach failed due to institutional competition between the CDD and the BAAC, the difficulties of capacitating the self-help groups into financial intermediaries and the fact that many members of the self-help groups had already been BAAC clients. The redesigned concept started to become implemented from 1995 onwards. The project was geared towards expanding the range of financial services offered by BAAC for the rural population in a sustainable manner. The *outcome* for the last two phases was defined as: *The capacities of BAAC for the provision of adjusted and sustainable financial services for the rural population are strengthened.* The expected indirect results included the generation of additional employment and income opportunities for smallholder farmers and business owners in rural areas, a reduction of the indebtedness of the rural population with informal lenders and higher household incomes.

Operationally, the project acted in 5 fields of intervention: (1) increased savings mobilization, (2) a more customer friendly service delivery, (3) an enhanced access of farming households to off-farm micro-credit, (4) improvements in the operational efficiency of BAAC branches and (5) the promotion of an appropriate regulatory framework for BAAC. The project operated nationwide through the bank's head office in Bangkok.

The **technical implementation** in the field of **savings mobilization** consisted in the design, testing and dissemination of the *Om Sap Thawi Choke* (OSTC; *save and get a chance*) savings product. OSTC was targeting the poorer sections of the rural population. One of the features of the product was a lottery conducted twice a year in the provinces. Every depositor who managed to have a minimum deposit for at least 3 months was eligible. By the end of the project there had been 2.26 million OSTC accounts all over Thailand. Inspired by the initiative of the project, the bank developed a savings product with similar features later on without support of the project.

The intervention towards **customer friendly service delivery** included support to the design and implementation of trainings for the promotion of a service culture within the bank. Their focus was on the behaviour and competence of the BAAC's officers. Between early 1998 and

the end of 2000 over 11,300 staff members from all branches took part in the courses. The second aspect with regard to this intervention related to testing and spreading the use of mobile banks. The idea was to reduce the clients' transaction costs by offering close-by branch services.

The promotion of **off-farm lending** started in 1998 with a pilot phase in order to gather experience in the provision of micro-loans to the non-farming rural population. Between 2002 and 2004, the bank replicated the technology in 26 additional branches. The number of micro credit clients amounted to 2,678 in pilot and replication areas.

The design and implementation of a Branch-Management Information System (B-MIS) was at the heart of the **organizational development of branches**. The idea was to provide branch managers with a tool that delivers all relevant information on costs and income of their branches in a timely fashion. The design, training, testing and adjustment work on this intervention commenced in 1998 and went until April 2003, when all branches had incorporated the system and when it was connected to the central computer system of BAAC.

With regard to the **regulatory framework**, the BAAC Act of 1966 restricted its lending operations to agriculture. Considering the growing importance of off-farm business activities in rural areas, the project targeted an amendment of the act that would allow the bank to supply credit products for this potential market. Furthermore, through studies, participation in workshops, articles in the Thai press and other communication channels, the project engaged in promoting up-to-date rural finance practices and policies.

Benchmarking the technical implementation with guidelines developed by the Committee of Donor Agencies for Small Enterprise Development and the Donors' Working Group on Financial Sector Development effective from 1995 onwards (Donor Committee, 1995), the conclusion is that the project performed according to good practices in all aspects².

Concerning **capacity development**, the conclusion is that the project enhanced the capacity of the bank on organizational level to develop and successfully market savings products geared towards poorer income groups, it turned the organization into a more customer-friendly bank, and enhanced the capacities of the branches to monitor their performance. It also supported the bank's management to respond to demands from governments in a way promoting the sustainability of the rural financial system. Notwithstanding capacity

² The *Good Practice Guidelines for Funders of Microfinance* by the Consultative Group to Assist the Poor (CGAP, 2006) were developed after the project had ended and are therefore not taken as benchmark for this Ex-Post evaluation.

development on individual level (training of credit officers and other staff of the bank), the capacity of the entire organization to mainstream micro credit effectively and according to international good practices into its overall operations remains limited. In a similar vein, the bank as an organization did not display the capacity of adjusting the B-MIS to changing demands.

From the point of view of the rural population, the **relevance** of the project was high as it was responding to their needs for savings opportunities in the formal financial sector and for support to the development of off-farm activities through loans. The products were designed in a fashion that took care of the characteristics of lower income groups. Indirectly, the concept also promoted the role of females in the rural economy. The project's objectives and interventions were also in line with all major elements of the financial sector concept guiding the German development cooperation in this field and were conducive with the three Thai national development plans that spanned the project's lifetime. The same holds true for the Thai Financial Sector Master Plan. The rating of **relevance** is therefore **very good (level 1)**.

Regarding **effectiveness**, the project has experienced successes especially in the fields of savings mobilization, improvements in client satisfaction and a more professional management of branches. Due to difficulties in implanting the micro-finance technology for non-farm activities in an organization shaped by agricultural lending, this intervention performed below expectation. Diverging opinions between the Ministry of Finance (MoF) and the bank on the degree to which the latter should become involved in off-farm lending led to late amendments of the BAAC Act, which constituted another factor in limiting the spreading of micro-finance to new target groups. Principally due to the weaknesses in the field of micro-finance, the overall rating of **effectiveness** does not exceed the **satisfactory** mark (**level 3**).

The OSTC savings product as well as lending for off-farm business ventures generated positive **impact** on the target group. These include the promotion of a savings culture, balancing the flow between expenditures and income, enabling savers to take better care of their social obligations and consumption needs as well as to enhancing their productive and income generating capacity. With regard to savings, outreach was large during the project's life-span and got even wider later on. While, during the project, outreach of micro-lending to off-farm activities was limited to an insignificant share of the rural population, it improved later on. According to the available information, it is especially women who, directly or indirectly, took advantage of the services. There are indications that the rural population today depends less on informal money lenders, a process to which the project contributed. However, outreach in off-farm lending is still significantly lower than the amended BAAC Act would

allow and there are also a few other factors limiting **impact** (e.g. limited employment generation). The rating of impact is therefore **good (level 2)**.

The assessment of the **efficiency** is positive. The project's mode of delivery served its mission adequately, the massive investment in trainings and workshops was justified for a large organization and relationships between Thai and German partners were excellent. The output/cost ratio is favourable and there are probably only few GTZ projects where the German contribution triggered an investment of the national partner nine times higher. The rating of **efficiency** is **very good (level 1)**.

Concerning **sustainability**, the picture emerged clearly that most of the services, products, behavioural changes and results from the project live on. The savings products have met an increasing number of customers and enhanced their share in overall deposit mobilization. Service quality remained high, the B-MIS is still being used and the policy environment developed favourably in the direction promoted by BAAC with the support of the project. Limitations relate to micro-lending for farmers and information management. The institutional obstacles against a full-fledged adoption of the micro-credit technology have remained until today. The B-MIS has not been adjusted to either overcome inherent shortcomings or to respond to new demands. The bank itself has enhanced its efficiency and profitability. The project has also worked towards the fulfilment of the four dimensions of sustainability. The assessment on **sustainability** is **good (level 2)**.

With relevance and efficiency achieving a score of “very good”, impact and sustainability a score of “good”, and effectiveness a “satisfactory” mark, the **overall rating** of the project is **good (level 2)**.

The first 4 **recommendations** are directed at BAAC, while the final 5 are directed at GTZ:

- The **BAAC** is mandated to advise the MoF on the design of a concept for the establishment of Community Banks. The latter will serve the lowest income groups of the rural population. It is suggested that the Community Banks apply the micro-credit technology as introduced by the project, and that BAAC trains the community bankers in a way assuring their professionalism.
- The bank needs to follow the micro-credit technology more rigidly, if it wants to grow in off-farm lending and maintain its competitiveness in the wake of Bank of Thailand's intentions to spur a higher involvement of other financial institutions in this field. The distinction between off-farm and farm activities should be along the farming cycle and not along population groups (farmer or non-farmer).

- It is recommended for the bank to develop a fully integrated information management system. Due to the faster business cycles in off-farm lending timely availability of data is to gain more importance, if BAAC grows in this field. If possible, the advantages of the B-MIS introduced during the project should be incorporated.
- Though the bank is still successful in savings mobilization, bank officers reported increasing competition in this field. In order to maintain its position, it is recommended to promote a participatory workshop with bank officers for exploring innovative ways of savings mobilization.
- Following a strong interest on part of BAAC, **GTZ is recommended** to examine options for a continued cooperation. These could be, for instance, the posting of an integrated expert through the Centre for International Migration, the posting of an expert through GTZ's consulting arm GTZ International Services and cooperation with the Alliance for Financial Inclusion (AFI), based in Bangkok.
- With a few reservations, the Micro-Finance Linkage Project turned out to be an overall success and BAAC highly recognizes GTZ's contributions. Taking GTZ's continued presence in micro-finance through AFI into account, it is therefore recommended that GTZ engages more actively in promoting its success.
- One of the lessons learned is that the posting of an advisor for a long time (in this case more than 9 years) can build trust which is, especially in a sensitive area such as finance, a crucial ingredient for good performance. It is therefore recommended that GTZ makes exceptions from its rotation of staff principle, especially in cases where good project performance is visible and the national partners hold the GTZ advisor in high esteem.
- This project demonstrated that it is possible to assist a large public bank successfully in its efforts towards enhanced outreach to poorer groups of society, improved operational efficiency and financial sustainability. It defies common scepticism against public finance organizations. It is therefore recommended that GTZ gives new emphasis to providing support to public banks in order to broaden and deepen their service delivery. The project with BAAC also demonstrated that a "life-motive" for change is a prerequisite for reform.
- It is recommended that GTZ places more emphasis on the reporting of the social performance of microfinance programmes as an ongoing organizational task. This would also require an agreement on the question, which results are considered directly attributable outcomes and which would be considered indirect impact. Reporting of social

performance also needs to be appropriately taken care of during the planning phase of new programmes including the gathering of baseline data.

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