

MANAGEMENT RESPONSE ON THE PROJECT PERFORMANCE AUDIT REPORT (PPAR) ON THE RURAL ENTERPRISE CREDIT PROJECT IN THAILAND (LOAN 1540-THA)

On 2 November 2004, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

“The 13 October 2004 OED memo on the report requested Management’s response. We have reviewed the report and found its findings consistent with the project completion and associated technical assistance completion reports. We appreciate that OED consulted with ADB departments and held detailed discussions in preparing its report. Specifically, MKRD was given the opportunity to review and comment on the draft report.

Management and staff support the key lessons and follow-up actions, as well as key issues for the future, identified in the PPAR and will take them into account for similar interventions in the future. The most important lessons are the need for higher loan-loss provisioning for non-performing loans and safeguards against unanticipated financial crises (para. 66 of the report). In this context, the TA (2953-THA) accompanying the loan project recognized these weaknesses at the outset and assisted the Bank for Agriculture and Agricultural Cooperatives (BAAC) in developing and introducing appropriate risk management policies and procedures to mitigate against non-performing loans and market risk and to undertake financial reforms to bring its operations closer to international standards. Very short but critical assistance was provided, including training of staff to strengthen BAAC’s capacity to undertake lending for rural enterprises. This assistance was timely and BAAC was prepared when the crisis occurred. These are reflected in the findings of the PPAR (para. 49).

Quick response of Management and staff to changes in the Project’s lending criteria mitigated the negative impact of the crisis on BAAC’s financial position while meeting the urgent requirements of the subborrowers for shorter-term loans to keep afloat. Because of this the number of enterprises that benefited from the loan exceeded the appraisal estimate (65,000 subprojects vs. 54,000 subprojects). As well, because of the timely implementation of the debt moratorium program (DMP) and close supervision thereafter, on-time repayment reached 85% or pre-crisis level which insulated BAAC from another financial crisis. Overall, because of the risk-management training provided to BAAC under the TA and BAAC’s “impressively alert and innovative (ways) in adjusting its sources and uses of funds” (Appendix 9, para. 6 of the report), BAAC successfully took action against liquidity and credit risks that arose during the crisis. Notwithstanding this success, it remains a truism, which the PAR emphasizes under Key Issues for the Future, that “long term investment projects are inevitable for their comprehensive rural development approach” (Appendix 9, para. 6 of the report). The key issues and lessons learned are very relevant and will be taken into account in the design of new initiatives in the sector.”