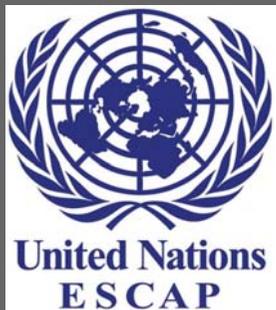


TRADE FACILITATION AND MICROFINANCE FOR POVERTY REDUCTION IN THE GMS: THE CASE STUDY OF THAILAND

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Motivation



- Trade facilitation has an increasing role in the current world trading system as a major trade obstacle (2-15% according to OECD, 2001)
- The Asian Development Bank (ADB)'s GMS program includes two important initiatives for transport and trade facilitation, namely, Economic Corridors and the Cross Border Transportation Agreement (CBTA).
- However, the benefit of such initiative on poverty reduction and income distribution is still debatable.
- The United Nations (2003) shows that trade facilitation brings about income distribution and poverty reduction via three channels, namely, economic growth, international trade and higher government revenue.
- Using the CGE model, Menon and Warr (2006) and Stone, Strutt and Hertel (2010) show that the reduction of land transport costs from the GMS's road improvement projects results in poverty reduction, especially from a rise in factor earnings.

Motivation



- However, Cheewatrakoolpong (2009) finds that local communities, especially the poor, have limited benefits from the economic corridors and CBTA of the ADB's GMS.
- Stone, Strutt and Hertel (2010) also support the existence of negative impacts, which cannot be addressed in the CGE model, on the poor from trafficking, traffic accidents, environmental outcomes and income disparities.
- Inappropriate microfinance system to support microenterprises and the poor in local communities might be another explanation why these groups of people do not attain benefits from the GMS's trade facilitation improvement projects.

Motivation



- Cheewatrakoolpong et al.(2011) surveys microfinance products available in the formal financial institutions in Thailand and finds that:
 - Most of the products serve for the short-run objectives such as working capitals and consumption.
 - There are a limited number of products aims at long-run objectives such as business investment .
 - None of them has a particular target at border communities.

Research Questions



- Do trade facilitation measures benefit the poor and microenterprises in local communities, especially the border ones?
- What is the role of microfinance to support the utilization of the trade facilitation initiatives?

Scope of Study

- ❑ Mukdahan province (local communities neighboring the Route R9 and the second Thai-Lao Friendship Bridge)
- ❑ NakhonPhanom province (local communities neighboring the Route R12 and the third Thai-Lao Friendship Bridge)



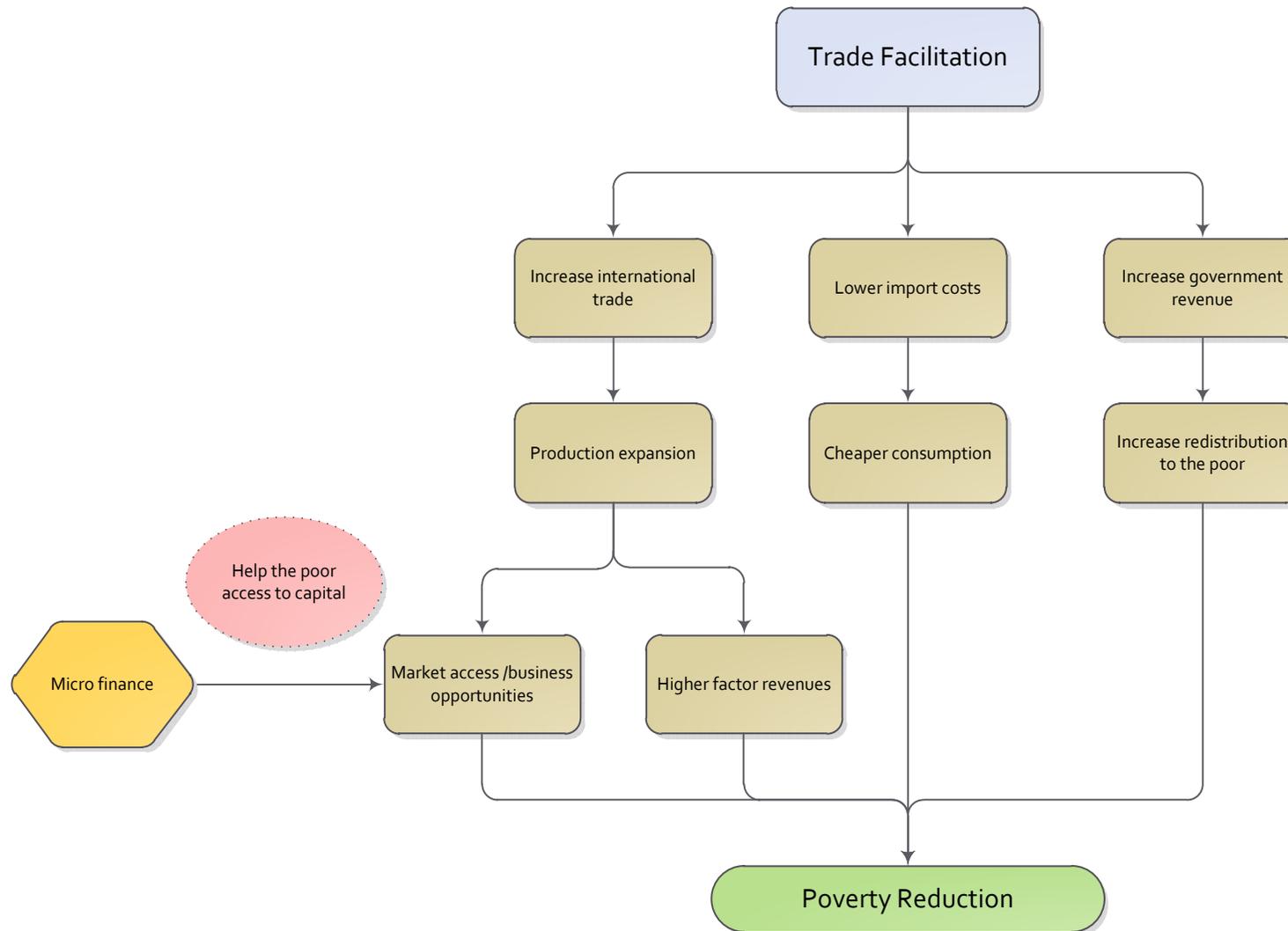
Scope of Study

East-West Economic Corridor

The EWEC intends to connect the Pacific Ocean with the Indian Ocean via the Asian Highway network at route AH16 from the Port of Da Nang and the city of Hue in Vietnam via Route number 9 and Savannakhet in Lao PDR and through Thailand's Mukdahan, Kalasin, KhonKaen, Petchabun, Phitsanulok and Tak Provinces to Myanmar's Gulf of Martaban in Moulmein with a distance of approximately 1,600 kilometres.



Conceptual framework



Methodology



- We conduct in-depth interviews with relevant stakeholders composed of
 - Private sector: the poor, microenterprises, self-help groups, provincial chambers of commerce
 - Public sector: border checkpoints' officers, the office of commercial affairs, and the community development provincials, provincial developers
 - Microfinance institutions: the government saving banks, the bank for agriculture and agricultural cooperatives, village funds and saving funds
- We use stakeholder analysis by identifying
 - The needs and interest of each stakeholder
 - The importance of each stakeholder
 - The influence of each stakeholder
- We design microfinance products to support TF for poverty reduction using Brand (1998) and Cheewatrakoolpong et.al. (2011).

Trade facilitation in Mukdahan

- ❑ Mukdahan province is the important province of Thailand in the East-West Economic Corridor (EWEC) project under the GMS program.
- ❑ the Second Thai-Lao Friendship Bridge between Mukdahan province and Savannakhet province was built and completed in 2006.
- ❑ The establishment of the bridge reduces the transit time tremendously and sharply promotes a number of transit trucks from approximately 17,000-18,000 trucks per year during 2002-2005 to 24,063 trucks and 42,226 trucks in 2006 and 2007 respectively.
- ❑ Custom procedures in Mukdahan implement paperless and use x-ray for random product checking.
- ❑ It will have a single stop service and a common control area (CCA) in the future to reduce the duplication in custom procedures between the borders of Thailand and Lao PDR.

Trade facilitation in Nakhon Phanom



- NakornPanom province is a part of the Asian Highway Network on the AH15 line which connects Thailand via Route 8 or Route 12 in Lao PDR to Vinh province in Vietnam.
- The Third Thai-Lao Friendship Bridge connecting NakhonPhanom province in Thailand and Khammouan province in Lao PDR was built and officially opened on November 11, 2011.
- As for custom procedures, the paperless system is implemented here without an x-ray machine.

Microfinance system



- The development of microfinance system in Thailand has initiated in 2001 from a launch of million baht village funds.
- The Bank of Thailand implemented the financial system development plan for the period of 2004-2009.
- The involved microfinance institutions according to the master plan are composed of the Government Saving Bank (GSB) and the Bank for agriculture and agricultural cooperatives (BAAC), village funds, saving groups and other informal financial institutions.
- The Economist Intelligence Unit (2011) assigns ratings to microfinance markets in 55 developing countries and reveals Thailand in the rank of 50.

Microfinance system



- The sources of problems come from:
 - microfinance activities are concentrated in the government banks which have several missions other than microfinance.
 - The development of semi-formal or informal microfinance institutions is inconsistent and depends on the government's policies.
 - There are no formal financial institutions with microfinance services as their main goal.

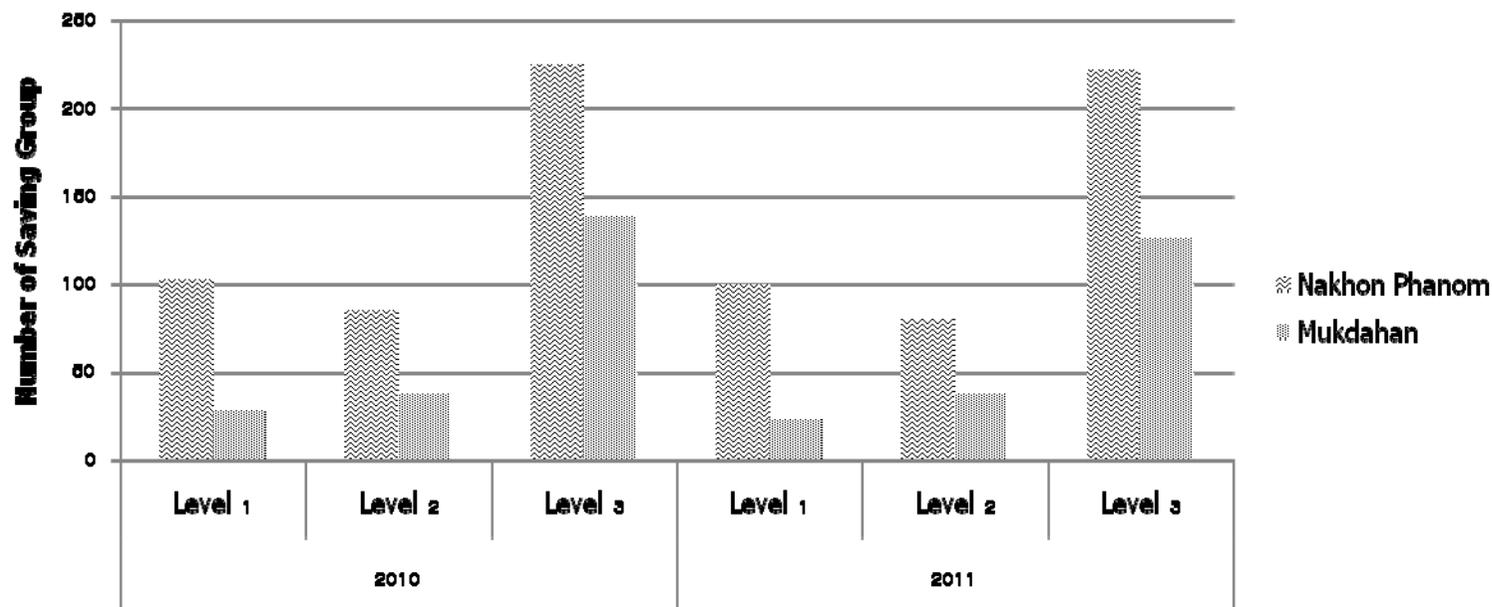
Microfinance system in the Northeastern region



- Most of the saving groups in this region are weaker than the groups in other regions of Thailand.
- About 35% of poor people in the Northeastern have no financial access to both formal and semi-formal financial institution. Also, 69% of poor people with no financial access rely on shark loans.

Microfinance system in the Northeastern region

- Most of the saving groups in the two provinces are relatively weak as classified in Class 3.



Source: Community Development Department

Microfinance system in the Northeastern region

- The saving groups in the provinces concentrate more on saving activities and have limited capacity for lending activities.

Mukdahan

	total group	given credit group	value of credit
Village Fund	20	9	9,831,700
Poverty Alleviation Fund	14	6	1,712,560
Saving Group	10	4	2,260,500
Occupational Group	11	1	141,000
Other	37	2	509,353

Source: Cheewatrakoolpong et al. (2011)

Microfinance system in the Northeastern region

- The saving groups in the provinces concentrate more on saving activities and have limited capacity for lending activities.

Nakhon Phanom

	Total group	Given credit group	Value of credit
Village Fund	21	7	6,224,500
Poverty Alleviation Fund	13	4	823,108
Saving Group	19	2	911,300
Occupational Group	8	1	57,600

Source: Cheewatrakoolpong et al. (2011)

Survey Results



□ **Impact of trade facilitation measures on the poor**

□ Job creation and job diversion

■ *Agricultural and agricultural processing sector*

- Exporting opportunities: organic, rice, tapioca, rubber and fresh fruits
- Contract farming

■ *Service sector*

- tourism related services
- Logistics services
- retails and wholesales services
- educational services
- Health care services

Survey Results



□ **Impact of trade facilitation measures on the poor**

□ Job creation and job diversion

- *Local products such as organic rice, silk, fermented mud cloth, indigo dye cloth, cattle breeds in Amphor Nong Sung and wicker baskets.*

□ *Labor migration*

□ *Foreign expatriation*

□ *Social impacts*

- *Gambling*
- *Drug trafficking*
- *Diseases*
- *Prostitution*
- *Loss of residential and work places*

Survey Results



□ **Financial access of the poor and microfinance system: Supply side**

- The GSB experienced high non performing loans in microfinance project due to weak social linkages among borrowers in the same group.
- the GSB branches tend to limit the micro credits under the People Bank Project to previous customers with decent saving histor yand changes the conditions of loans from group lending to the requirement of 2 guarantors.
- The interview with the GSB in NakhonPhanom reveals that the lending to vendors in the markets are accounted for only 20% of the total loans under the People Bank Project.

Survey Results



□ **Financial access of the poor and microfinance system: Supply side**

- The GSB's the rural development project which provides loans for saving groups and village funds is unsuccessful, i.e. high NPL and lack of participation from strong groups.
- The loans from the BAAC are limited to farmers with the proprietary right of land. As a result, poor farmers and agricultural employee might not be able to access the loans provided by the BAAC.
- The saving groups in the provinces are relatively weak or have no intention to give loans or depend on external finance.
- many members of the village groups use loans for consumption such as buying cars instead.

Survey Results



□ **Financial access of the poor and microfinance system:**

demand side

- Microenterprises face difficulties of obtaining loans from financial institutions due to a lack of required collaterals or guarantors, the complication of required documents, a lack of commercial registration, and a mismatch between loan amount and maturities that financial institutions grant and those that microenterprises need.
- The poor local workers, vendors, OTOP groups and farmers without land face even more problems concerning finance access as it is difficult for them to find collaterals or guarantors.

Survey Results



Financial access of the poor and microfinance system:

Conclusion

“Financial access is regarded as one of the main obstacles for the poor and microenterprises to fully obtain benefits from trade facilitation measures as they have no capitals to expand their business or set up new businesses.”

Stakeholder Analysis: Mukdahan

Stakeholders	INFLUENCE Power to facilitate or impede^a	IMPORTANCE Actual Priority given to stakeholder needs^b	INTEREST Actual Commitment to change^c
the office of community development provincials and provincial developers	High	High	High
Other provincial government agencies	High	Low	Low
The Member of Parliament	Low	Low	Medium
Microfinance institutions	High	Low	Low
The Provincial chamber of commerce	High	High	High
Microenterprises	Medium	High	High
Local communities	Low	High	High

Stakeholder Analysis: Mukdahan

	High influence	Low influence
High importance	The office of community development provincials and provincial developers, the provincial chamber of commerce, microenterprises	Local communities
Low importance	Other provincial government agents, microfinance institutions,	The Member of Parliament

Stakeholder Analysis: Nakhon Phanom

Stakeholders	INFLUENCE Power to facilitate or impede ^a	IMPORTANCE Actual Priority given to stakeholder needs ^b	INTEREST Actual Commitment to change ^c
The office of community development provincials and provincial developers	High	High	High
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Microfinance institutions	High	Low	Low
The Provincial chamber of commerce	High	Low	Medium
Microenterprises	Medium	High	High
Local communities	Low	High	High

Stakeholder Analysis: Nakhon Phanom

	High influence	Low influence
High importance	The office of community development provincials and provincial developers, The Member of Parliament, microenterprises	Local communities
Low importance	Other provincial government agents, the provincial chamber of commerce, microfinance institutions,	-

Stakeholder Analysis: Conclusion



- There are no financial institutions, both formal and informal, that can sufficiently meet financial need of the poor and local communities to promote the utilization of trade facilitation measures for their occupation, investment and welfare.
- Apart from the offices of provincial development and provincial developers, other provincial government agents do not get involved with the initiatives that promote the poor and microenterprises to use trade facilitation measures for poverty reduction.
- The involvement of provincial chambers of commerce and other large and medium enterprises are important to help microenterprise involve in value chains or businesses that benefit from trade facilitation measure.

Stakeholder Analysis: Conclusion



- The provinces with the strong and powerful people's representatives can benefit from their role as a bridge between the central and provincial governments and the communities.
- Local communities and microenterprises are important stakeholders but have relatively lower influence. The government agents and other related parties need to consult them more in order to have effective policy formulation and implementation regarding the usage of trade facilitation measures for poverty reduction.

Development of microfinance products



- ❑ **The problems regarding financial access of the poor and microenterprises**
- ❑ Due to high non-performing loans of micro credits using group lending, microfinance institutions decide to reduce the amount of loans given to group lending and require collaterals or guarantors instead.
- ❑ Given that the GSB and the BAAC require collaterals or guarantors as one of the conditions to grant loans, it is difficult for both the poor and microenterprises to obtain credits from the institutions.
- ❑ Many of the poor people and microenterprises feel that the process to obtain credits and the required documents are complicated.
- ❑ The formal microfinance institutions lack of personnel directly responsible for microfinance activities.

Development of microfinance products



- ❑ **The problems regarding financial access of the poor and microenterprises**
- ❑ The saving groups in the region are weak due to the social structure of the Northeastern region in which most working-age people leave their hometown to work in other urban areas. Therefore, the social bondages are not as strong.
- ❑ The poor or microenterprises that receive loans, either from village funds or formal microfinance institutions, experience too little amount of loans comparing with their demands.
- ❑ Microfinance institutions fail to verify whether the loans are used for the intended purpose.
- ❑ There are no specialized financial institutions for microfinance services in Thailand.

Development of microfinance products



□ **Suggestions for the improvement and development in microfinance products and services**

□ *Short-term suggestions: Products*

- Group-lending conditions
- Required documents
- The save-first-borrow-later condition
- Leasing for farming or occupational equipments
- Progressive loan and flexible repayment periods for the long-term project

Development of microfinance products



- **Suggestions for the improvement and development in microfinance products and services**
 - *Short-term suggestions: Process and Strategies*
 - An increase in the officers directly responsible for microfinance services
 - A set up of specific microfinance units within financial institutions
 - Cooperation with community groups for microfinance services

Development of microfinance products



□ **Suggestions for the improvement and development in microfinance products and services**

□ *Long-term suggestions*

- The development of strong saving groups or community groups within the provinces
- The establishment of integrated credit rating for saving groups and community groups
- The establishment of the specialized microfinance institutions
- Coordination with the offices of provincial development, chambers of commerce and academies to promote other skills and knowledge needed for poverty reduction

Conclusion



- There are many opportunities for the poor and microenterprises from trade facilitation measures:
 - Agricultural products that can be exported to Vietnam and Southern China
 - Services accompanied with trade facilitation measures such as tourism, logistics, health care services, educational services, vehicle repairs and retails and wholesales of particular products
 - Local products which have potential to be exported.
- There are many obstacles for the poor and microenterprises to grab such opportunities due to inability to access financing and lack of relevant skills and knowledge.

Conclusion



- ❑ Microfinance institutions in the provinces do not focus on micro credit activities.
- ❑ Some important stakeholders such as provincial government agents apart from the offices of provincial developments and some chambers of commerce lack interest in the promotion of the poor and microenterprises' involvement in trade facilitation measures for poverty reduction.
- ❑ The study offers short-term and long-term suggestions to help the poor and microenterprises assess financing more easily.
- ❑ It is also important to point out that financial access alone cannot help the poor and microenterprises to use trade facilitation measures for poverty reduction. They need other skills and knowledge to accomplish that goal.

Thank you

Q&A Session