Office Bangkok

Component Status Report
Business and Financial Services

Programme Progress Review Mission

April 2006

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1. Introduction of the Business and Financial Services Component

The aim of this component is improve the access of SMEs to business and financial services so that they can become more competitive. Business services are varied and come from many sources. They can be in the form of knowledge, information and advice embedded in business transactions, or stand-alone and frequently fee-based services like accounting, certification or research.

We also include in our definition of services, those services that are provided by business membership organizations such as advocacy, information and sector promotion. Financial services are slightly more specialized but essentially they relate to how loans are packaged and delivered in ways that either increase access, increase the loan value or reduces transaction costs to the enterprise[1].

One further focal area for the component is that of the role of the public sector in the promotion of enterprise. This role is crucial and impacts SMEs at the Programme goal level or SME competitiveness, as well as at the component level where the public sector has a vital role to create a supportive environment for the functioning of the business and financial services market. For example, if the Ministry of Agriculture stops giving away Good Agricultural Practices (GAP) certification for free it will then stimulate the private sector to enter into this market. Or, establishing the correct feed-in tariff for biomass power producers will lead to private investments in biomass energy production, which will then create the right market conditions for eco-efficiency services.

2. Component Management

2.1 Component Target and Strategies

During the first two years of the Programme the main *management targets* of the component were the development of:

- Systems and Procedures
- Personnel
- Projects
- Interventions
- Partnerships with other German TC organizations

2.2 Systems and Procedures

2.2.1 Impact Assessment

Based on the two previously mentioned missions of an external consultant for the Programme, the component adapted its impact assessment system. It included the revision and elaboration of indicators at the goal and component levels. Following this several workshops were held with the staff of both components to explain the system. Outsourced local consultants have been hired to make trial runs of assessing impact from some several initial interventions in the north and south of the country. All interventions of the component have at least one SME competitiveness level indicator and at least one component level indicator plus a built-in methodology of how and when impact will be assessed.

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[1] The component defines financial services as monetary transactions dealing with: savings and investment; credit, guarantees and commitments; financial instruments; risk and insurance; and brokerage and exchange. Providers can be *central* or *peripheral* to the financial service delivery. If central, the provider performs the full financial service. If peripheral, the provider gives third-party support to another provider in the arrangement, facilitation, and/or execution of the financial service. The aim of the Programme is to "shape or reshape" the transactions of financial services to either: to increase their flows to SMEs or to improve their value added for SMEs while ensuring their sustainability for the service provider.

2.2.2 Sector Strategy Papers

The Programme invested a lot of energy into a sector selection process that started with about 60 possible agro-industry sectors. Selection criteria were developed, studies conducted and partners consulted before the Programme produced a shortlist of approximately 14 sub-sectors. In further consultation with the Programme's partners this list was narrowed down to 8. Following this, a series of more detailed sub-sector studies were completed for palm oil, shrimps, tangerine, longan, saa paper and vegetables. Based on these studies and further investigations five strategy papers were prepared. The strategy papers outline:

critical constraints and opportunities for the sectors

a vision of what could become of the sector

what "actionable" areas of interventions of the Programme are likely to yield the greatest impact on the sector's competitiveness

In addition to the commodity sub-sectors the component is in the process of completing strategy papers for the generic services of technological advisory services, financial services and certification and testing services. The critical difference between the commodity sub-sector strategies and the generic service strategy papers is that in the latter the constraints and opportunities are related to both the expansion of the "service sector" (with its necessary "spill overs" into other sectors) as well as to how this service sector can intersect with SMEs in the commodity sectors that are at the core of the Programme.

2.2.2 Definitions

The component has operating definitions for: SMEs (which included small commercial farmers), agro-industry (from UNIDO and FAO)[2], what a sub-sector is, what competitiveness is, what a service market is, what an intervention is and how the term sustainability is applied in the context of the Programme.

2.2.3 Financial Reporting

The component also worked with the Programme management on the elaboration and commissioning of an Auftrags Monitoring System (AMS) financial reporting package that tracks expenditure by the component, project, sector, and intervention levels. This has been operational since September 2005.

2.3 Personnel

2.3.1 Deployment Plan

The component designed an overall staff deployment plan, which centred on the creation of several posts for Sector Managers. The role of the Sector Managers included the conceptualization and updating of sector strategies, the management of projects that fall under their sectors and the design and implementation (together with project and implementation partners) of a cluster of interventions in their sectors.

2.3.2 Recruitment

The component started with two international long term experts, one for business and the other for financial services, but in April and May of 2005, just after the end of the component's tsunami project, recruitment began for more staff. By June most of the component's Sector Managers were under contract. In addition to the six Sector Managers the component has one Deputy Component

[2] FAO: "Agro-industries provide a mean of converting raw agricultural materials into value added products while generating income and employment and contributing to the overall economic development in both developed and developing countries"
UNIDO:"Many problems of poverty, low productivity, inadequate infrastructure and poorly integrated markets faced by developing countries are often exacerbated by an underdeveloped agro-industrial sector. Little attention has usually been paid to the value chain through which agricultural commodities and products reach the final consumers within the country and abroad. This neglect results in enormous potential losses of value added and employment opportunities. While high income countries add $US 180 of value by processing one ton of agricultural products, developing countries generate only $US 40. Moreover, while 98% of agricultural production in high income countries undergoes industrial processing, barely 30% is processed in developing countries."

Manager, an Assistant Sector Manager and one Office Manager and one local long-term expert for financial product development. No further recruitment is foreseen in 2006.

2.3.3 Staff Development

After this recruitment took place and after many of the project counterpart personnel were identified, several staff development activities were conducted for most of the above mentioned staff and their counterparts including: 2 staff members and 2 counterparts trained in service market development in Glasgow in 2005; 5 staff members trained in two separate value chain (sub-sector) courses in Bangkok and in Nepal; 7 staff members trained in GTZ project management in Hua Hin, Thailand, 43 staff and counterparts trained in “Six Thinking Hats” in Thailand and 16 staff and counterparts trained in enterprise competitiveness and market development by the Springfield Centre in Phuket. In July 4 Sector Managers will complete the two-week service market development course in Glasgow. Further courses in GTZ project management are foreseen in 2006 and 2007.

2.4 Projects

2.4.1 Redesign

The staff and management of the component focused on *re-shaping* its portfolio of existing and potential projects to reflect more closely the indicators of the current Offer of GTZ to BMZ. This meant that some projects were dropped; some re-designed and other new ones were started**.** The main projects that were adapted were the Technology Services project of TISTR and the Promotion of Financial Services project with the three specialized financial institutions. Aside from the tsunami-related RESTART project, all projects fall into two broad categories: a) value chain or sub-sector projects such as palm oil or shrimps or b) generic service sector projects such as finance, technology or certification. The following is an executive summary of the status of these projects.

2.4.2 Completed Projects

RESTART (January 2005 through March 2005): This project was designed and implemented by the component in response to the devastation in the south caused by the tsunami. It was targeted at SMEs who had been badly affected either directly or indirectly. This project, although it did not directly contribute to the Programme’s indicators, consumed the first 3 months of management time in 2005 and € 110,000. Altogether 25 local consultants were hired to give technical advice to more than 420 SMEs over a period of 7 weeks just after the tsunami. While the RESTART Project may not have had much effect on Programme indicators it did give GTZ and the Programme a high profile with the Thai Government, the German Embassy and with BMZ. Component managers were able to develop strong personal contacts especially with senior officials in the Ministry of Industry and with the SME Bank.

2.4.3 On-going Projects

Enhancing the Competitiveness of the Palm Oil Value Chain (POVC)

(January 2006 through December 2007)

In Thailand, oil palm is planted in the southern region, particularly in Krabi, Surat Thani and Chumporn. The plantation area for oil palm in 2003 was 1.8 million rai, which yielded 4.9 million tons fresh fruit bunches (FFB) annually, providing livelihoods to 74,560 households. There are approximately 67,000 small-scale palm oil farms and 50–60 large-scale plantations, some of which are owned by crushing mills. There are now 53 crushing mills and 12 palm oil refineries. In 2004, the production of Crude Palm Oil (CPO) was around 700,000 metric tons which was around 14 billion THB in terms of value. The component has a sister project in this sector in the Eco-efficiency Component called E3Agro.

This project focuses on energy conservation particularly with palm oil crushing mills. The purpose of the project in the Business and Financial Services Component is to improve the competitiveness of the oil palm sub-sector by working on improving services targeted particularly to small commercial farmers and crushing mills. Its indicators at the goal level are related to: increased productivity per rai at the plantation and improved oil extraction rates at mills; at the service market level the indicators are related to changes in demand for services like soil and leaf analysis and improving

the capacity of service providers like the Palm Oil Crushers Association to deliver better knowledge and information to their members. The project was approved by the PMC in December 2005.
The Implementation Arrangement will be signed in Surat Thani by the Provincial Governor in May of 2006. Interventions are focusing on productivity and the improvement of the genetic stock of oil palms. The project is jointly implemented with the Bureau of Supporting Industries Development (BSID) and with the Industrial Promotion Centre (IPC 10) of Surat Thani Province in the south.

The Promotion of Northern Agro-industry Clusters (PNAC)
(October 2005 through September 2007)
The project aims to raise the competitiveness of local small and medium enterprises in three agro-industry value chains. The sub-sectors of longan, tangerine and saa or mulberry paper are among the major agricultural and agro industrial products of Northern of Thailand. These sub-sectors provide significant income generation for a large number of the SMEs. Total employment in these three sub-sectors is estimated at 250,000 people.
The purpose of the project is to promote the competitiveness and eco-efficiency of SMEs in the three sub-sectors. The sub-sector or cluster includes enterprises that are input suppliers, enterprises that produce, procure or process raw materials, enterprises that sell the finished products and enterprises that transact business with the sub-sectors**.** Several workshops have been held with the different target groups and with service providers to identify key constraints and formulate “first generation” interventions. Its indicators at the goal level are related to increasing the income yield per rai and stimulating value added through downstream innovations in the longan sector; introducing sustainable agricultural practices in the tangerine sector; and in mulberry paper to increase market access and reduce the impact of paper production on the environment. At the service market level indicators are related to the sustainability of farm management services for longan and tangerines and in mulberry paper on increases in the demand of services supported by the project.
The project was approved by the PMC in December 2005. A Project Steering Committee has been formed and 1 CIM expert is deeply involved in impact monitoring for the project.

The Promotion of the Aquaculture Sector (Marine Shrimp)
(February 2006 through January 2008)
This project is jointly implemented by the two components. The shrimp/aquaculture sector is a major source of employment and income for Thailand. There are more than 500,000 rai of land used for shrimp farming, and it is estimated that there are as many as one million people involved in the shrimp cluster, whose turnover accounted for 1.1 percent of Thailand’s GDP in 2003. Thailand has been the world’s number one exporter of shrimps since 1980s. But its world market share has declined from 20 percent in 1998 down to 15 percent in 2003. Shrimp exports fetched in excess of 100 billion THB in 2000, but the value has decreased to about 60-70 billion THB in 2004. The shrimp sector is characterized by a large number of small holders. In total there are between 20 – 30,000 shrimp farms, with 80 percent being small independent operations. A large number of farmers are now experiencing net losses due to low product prices and rising production costs. The EU is the world’s largest import market for shrimps, with annual import volumes of approximately 600,000 tons, followed by the US with approximately 500,000 tons and Japan with about 280,000 tons.
In the past, Thailand has been the number one shrimp exporter to the US, but in recent years sales have dropped due to the imposition of non-tariff measures. Thailand is also losing its share of the Japanese market, while it has only one percent share of the EU market. The shrimp industry is at a cross-road. It is losing its competitiveness due to its negative image and high production costs. Hence it is vital that Thai producers gain a better understanding of the market structure, trends, consumer preferences and regulations in the above mentioned countries, and then based on this, adapt their production systems accordingly. In particular, it has to differentiate itself in terms of food safety and environment-friendly production while at the same time exploring ways to reduce costs of production. Indicators for the Project at the goal level are related to increased market share of Thai shrimp in the European market place and reductions in production costs while at the service market level indicators are related to the sustainability of the services supported by the project.

This project was approved in January 2006 by the PMC and the Implementation Arrangement is in the process of being finalized. Interventions have already started with a tour of the Department of Fisheries and the several Thai private sector representatives to Bremen in January 2006.

The Promotion of Technological Advisory Services to SMEs (TISTR)
(January 2005 though December 2006)
The purpose of the project is to enhance the competitiveness of SMEs in selected fruit and vegetable sectors through improving the market for technological advisory services. The core indicators to be addressed at the goal level are improved productivity and the introduction of successful innovations.
The project's strategy is to use the selected sectors as "test cases" for developing a commercially viable approach to supplying technological advisory services to SMEs from TISTR. Interventions are selected on the basis of demand from the SMEs who must bear a large portion of the R&D costs associated with the development of the technology. Indicators for this project at the goal level related to firm-level improvements caused by innovations, productivity gains and product development. For service market improvements the indicators are related to the sustainability of TISTR's advisory service as measured in the cost recovery levels of individual interventions and the ability of TISTR to expand the service beyond its current levels.
The Project was formally approved by the Programme Task Force early in 2005, and following the official signing of the Programme Agreement in July 2005 an Implementation Arrangement between GTZ and TISTR was drawn up and signed in October 2005. Project staff has been engaged since late 2004. It is foreseen that this national staff will be complemented by short-term experts from Aachen University in 2006. These foreign experts will assist with the development of specific technologies and in the support for capacity building in the area of contract research.

The Promotion of Financial Services (PFS)
(January 2005 through December 2006)
Under the Programme's overall conceptual framework, the financial services project acts as a key crosscutting advisory and intervention instrument. The project consults, provides advice, liaises and coordinates with the Programme's two components as well as the projects operating under each component.
It is foreseen for the PFS project to be involved in financial service interventions within most of the chosen sub-sectors. The project is designed to a) act as a financial advisory service provider to its three partner banks (and to other potential intervention partners) to prepare them to act as responsive financial service providers to the target enterprises and b) as facilitators for the further development of the financial services marketplace (supply of and demand for new financial products as well as the regulatory environment) which services enterprises within the selected sub-sectors. The project was approved in the Task Force in August 2003 and completed its Implementation Arrangement with the three partner Banks in January 2006. Management efforts have centred on strengthening the project's strategic orientation including updating the project consultant's terms of reference to orient the project to be more in-line with the goals, objectives and aims of the overall programme.
The project's updated strategy on promoting financial services to enhance SMEs' competitiveness in the selected sectors has integrated the PFS project much better into the overall component and programme hierarchy. The project's indicators at the goal level are related to increased productivity and revenue per rai at the farm/plantation and improved revenues at processor enterprises. The project also adheres to the indicators chosen by the other projects in joint interventions. At the service market level, the indicators are related to an increase in supply of *central* and *peripheral* financial service products within the Programme's sub-sectors as well as improving the capacity and sustainability of financial service provider partners to deliver new and innovative financial products to enterprises operating within the sub-sectors.

International Recognition for Thai Agricultural Products based on EurepGAP–Standards (EurepGAP)
(February 2006 through January 2008)
Thailand is preparing for stronger participation in the international market place for agricultural and food products. The potential for increased production exist, but the specific conditions to meet the requirements of market access in terms of standards and certification are subject to improvement and harmonization.
The aim of this sub-project is to increase the competitiveness of Thai farmers, processors and Thai agricultural and food products in international markets by means of processing food up to internationally recognized system of standards, accreditation and certification for selected products. This project is implemented by PTB and the designated international partner organization in the field of agricultural products standards is EurepGAP, an internationally acknowledged organization that supports a system to set product standards together with the necessary accreditation and certification for these products. This sub-project will establish a direct cooperation between The Bureau of Agricultural Commodity and Food Safety (ACFS) and EurepGAP. This sub-project will also open cooperation with the other Thai organizations engaged in the task of improving food safety in Thailand (for example shrimps) based on the traceability of the production from farm to fork, supporting the development of Thai farmers (SME) and involving for this end service providers in the public and also in the private sector.
This sub-project is the first several initiatives in which PTB is cooperating with GTZ in its implementation. It is foreseen that other sub-projects that are in line with the Programme's goals and objectives will follow. Indicators at the goal level for this project are related to increased market access for Thai food products while at the service market level they are related to increased awareness, understanding and trial purchase of the certification service as well as increased capacity of the service providers. Some indicators may also touch on the policy or regulatory environment related to the certification service sector. The project was approved by the PMC in February 2006. First activities, which involve a short mission from EurepGAP Germany, will begin on the 20th of March 2006.

2.4.4 Pipeline Projects

Enhancing the Competitiveness of the Tapioca Value Chain (TVC): This project is in its early stages of development. At the time of this report a competitiveness analysis is being conducted of this sector. It has been selected as a priority sub-sector for the Programme for the following reasons: over 674,007 farmers are growing tapioca roots on 7 million rai, there are 70 starch factories (30-40 companies) with over 8,000 employees, 2,448 chip/pellet factories with over 22,931 employees. This sector is concentrated in the East and Northeast regions where average incomes are well below the average in Thailand. The export value in 2003 was 27,224 million THB. Thailand is a leading grower and processor of tapioca. The sector has a very high potential for modified starch in terms of applications and product substitutes, tapioca starch can also be used for alternative energy (ethanol) and it might also be used to substitute imports used for animal feeds. Potential also exists for conversion of starch into bio-plastics. A sister project in the eco-efficiency component is soon to be approved. This will deal with the use of biomass resulting from the manufacturing process. A similar configuration of personnel in both components is envisaged for this cooperation as with the palm oil sector.

2.5 Interventions

2.5.1 What Are They?

This section of the component status report will *not* elaborate the specific interventions that are being planned and implemented in the individual projects. Details of this will be found under their respective projects and a definition of an intervention is already contained in Section 1 of this report (Programme Status).
Nevertheless a key target of the component during this first year of operations was to structure interventions in a way that they would have maximum impact on the Programme's indicators.

Typically a project will have 3-5 *active* interventions depending on when the project was started and on the complexity and duration of the interventions. For example, participation in a trade fair in Germany which is designed to impact on sales and therefore competitiveness, could be completed in a relatively short time, whereas others that involve strengthening the capacity of a service provider to develop and sell better farm management could take more than one year. The main aim in this first year of operations was to launch a “first generation” of interventions, process the lessons learnt then proceed to a second generation.

2.5.2 How Are They Implemented?

Each intervention is like a small reflection of the Programme, it has a competitiveness goal and a service market development goal. The competitiveness goal is very specific and related to the immediate target group and the service market goal centres around the aim of sustainable access of SMEs to the service being addressed. Each intervention is the product of: a) an analysis that connects the intervention to a real SME need (see Sector Strategy Papers); b) communications with the target group and service providers on the interventions relevance; and c) negotiations to mobilize the human and financial resources to execute the intervention. Often the financial commitment of the component to the intervention is less than 50% of the intervention costs. For each intervention the component has a signed intervention agreement as a tool for solidifying the commitment of all partners to the intervention. All interventions are cleared by component management and, where they exist, by project steering committees.

2.5.3 How Are They Assessed?

All component interventions have their own indicators at the two levels of SME competitiveness and service market sustainability. In addition to this, each intervention has an assessment methodology built into its design. Sometimes this methodology involves before and after surveys of the target group, sometimes ex-post surveys are sufficient. The component prefers to outsource the surveys and impact assessment to academic institutions such as Chiang Mai University and Walailak University of Nakonsithamarat in the south.

2.5.4 Current Status of Interventions

The target for the component is to have completed approximately 40 interventions by the end of this four-year phase. A rough breakdown of the number of interventions per annum is presented in the table below:

Year	2004	2005	2006	2007	2008	Total
Completed Interventions	0	5	14	16	5	40

While the table above outlines annual implementation targets, the table below gives a good overview of where the component stands in relation to these implementation targets. It shows that altogether 37 are in various forms of implementation (9 completed, 13 on-going and 14 in the pipeline). While this number may appear high, it should be kept in mind that not all “planned” interventions will be realized, and that some of the on-going interventions may run for a period of more than 1 year. But, this analysis does indicate that the component is on-track with its implementation targets.

These numbers are indicative of the component’s build-up of implementation capacity, but it is the *quality* of the interventions that is most important. This quality is determined by the intervention’s “relevance” and impact on the SME target group. It is for this reason that before any intervention is approved it is screened for relevance and impact at the component management level. While impact cannot be guaranteed this “filter” mechanism keeps projects focused on justifying, prioritization and sequencing their interventions.

Current Status of Interventions by Project

Project	Completed	On-going	Planned	Total
Restart	1			1
POVC	-	3	2	5
PNAC		3	1	4
Shrimps	1	1	4	6
TISTR	6	2	1	9
PFS	1	4	2	7
Certification	-	-	5	5
Tapioca	-	-	-	-
Total	**9**	**13**	**15**	**37**

2.6 Partnerships with Other German TZ Instruments

In its *technical cooperation transition phase* the Federal Ministry of Economic Cooperation and Development would like to see the most effective deployment and use of all German technical cooperation instruments. The component has integrated a few of these instruments in following way. PTB is executing a project under the Programme in the area of standards and testing; the existing CIM expert at the University of Chiang Mai has been integrated into the Steering Committee of the PNAC project in the North and into the impact assessment of this project; another CIM position has been approved for the Federation of Thai Industries in Chiang Mai in the field of enterprise innovation; the University of Aachen in engaged in the promotion of technological research in the food processing sector with TISTR; and a Senior Expert (SES) is soon to be engaged for the palm oil sector. In addition to this, the ICON INSTITUTE executes the finance project. Current measures have been initiated to engage InWent in the implementation of an incubator variation in the palm oil sector in Surat Thani.

2.7 Resource Allocation

Out of the 6 on-going projects 2 of them are at an advanced stage of implementation. The others started in late 2005 or early 2006. The table below shows an estimated allocation of resources for 2006.

Project	**Estimated Budget 2006 in Euros**
POVC (palm oil)	121,000
PNAC (longan, tangerine and saa)	187,000
Shrimps (marine shrimps)	101,000
TISTR (technological advisory services)	52,000
PFS (finance)	270,000
EurepGAP (certification by PTB)	-
TVC (tapioca)	81,000
Total	**812,000**

3. Project Reports

3.1 Enhancing the Competitiveness of the Palm Oil Value Chain (POVC)

3.1.1 Project Partners
Bureau of Supporting Industries Development (BSID) and the Industrial Promotion Centre 10 (IPC 10)

3.1.2 Duration
October 2005 through September 2007

3.1.3 SME Target Group
Farmers and Crushing Mills in the Palm Oil Value Chain

3.1.4 Aim and Relevance of the Project
The main objective of the project is to improve overall productivity (oil yields) of the upstream industries of the palm oil value chain. This can be achieved by improving the productivity of the plantation and the crushing mills. For the plantation, the main productivity indicator is the fresh fruit bunch (FFB) Yields while, for the crushing mills, it is the oil extraction rate (%OER). The project will improve the productivity of target groups by influencing markets for business services. The main mechanisms will be in the forms of either demands creation or capacity building of service providers or combination of both.
The palm oil value chain is very important to the Thai economy for at least two reasons. Firstly, palm oil is the major edible oil that is produced and consumed domestically. With palm oil, Thailand is self-sufficient in terms of edible oil and fat. Palm oil is also an important raw material for industrial manufacturing. Secondly, for the southern region, palm oil is the second most important crop after rubber and at present is a primary source of income an employment in rural areas. It is anticipated that this will continue in the future. More than 75,000 people are involved in the upstream industries, which are mainly located in the south. Finally, in recent years, the Thai Government has promoted the extensive expansion of the palm oil plantations in order to support its bio diesel initiative.

3.1.5 Key Competitiveness Issues
The government recently initiated the promotion of bio diesel production from palm oil. However, establishing a viable bio-diesel industry is not feasible right now since the current domestic prices of CPO, the main input for bio-diesel production are 12% higher than imports. This is due mainly to two factors – low milling capacity utilization and poor oil yield. Milling capacity utilization is only 50%. The average oil yield rate in Thailand for 2002 was 14.7% while the rates in Malaysia and Indonesia were 20.0% and 19.4%. This is due in turn mainly to two factors – poor quality of FFB being supplied to the mills and lack of crushing process innovation.

3.1.6 Status of Implementation
The implementation arrangement has been approved by TICA and is scheduled to be signed on May 2nd, 2006. The project steering committee has also been formed. The committee is composed of major partners (BSID, IPC10 and GTZ) together with other related agencies such as the provincial agricultural office. Its first meeting was on the 16th of March 2006.

3.1.7 Status of Interventions
Completed Interventions
None

On-going Interventions

Promotion of Embedded Extension Service to Small Plantations

The aim of this intervention is to provide quality training to SME plantation owners paid by the crushing mills. The programme is working with Prince of Songkhla University (PSU) to develop a *farmer friendly* training course. At the initial stage, PSU is acting as a training service provider. Two crushing mills have already agreed to participate in this initial stage. The key success factor of this model is the mutual benefit that both parties gain from this activity.

Farmers should have better knowledge on proper oil palm plantation management and be willing to regularly supply quality FFB to the sponsoring mills. The mills should also gain benefits from regular supply of quality FFB. This, in turn, will help to improve % OER. The intervention agreement with all parties has already been signed. Initial field surveys have been completed. Key learning points for structured learning experiences have already been identified and this *business game* is now being developed. The training programme and printed materials are also being developed. The first pilot training is scheduled for April 21 during the PFK mission.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	500,000	300,000	84,000
%	56%	34%	10%

Soil and Leaf Analysis Service

The aim of this intervention is to promote the usage of a soil and leaf analysis service so that plantation owners can increase their output with less fertilizer. This analysis is currently only available in Malaysia, meaning that few plantation owners have access to it. One of the main crushing mills Vichitbhan, had planned to provide this service for some time, but the project has accelerated this process and designed the intervention to have wider outreach. For example Vichitbhan now also plans to extend this service to the two other provinces where palm oil is grown. This intervention will be a combination of capacity building and demand creation.

For Vichitbhan, the accuracy of the laboratory has to be improved. In addition to the test, fertiliser recommendation capacity also has to be built. In terms of demands, even though the service has been offered to small numbers of farmers for free, the usage of the service is still low. This issue will be addressed by using effective marketing communication programme designed to stimulate demand for this services. The final stage for this intervention is to extend the service to other areas through other crushing mills. The intervention agreement has already been signed. The technical advisor for the intervention has been contracted. Suitable marketing and communication consultants are now being sourced.

Summary of Contributions:

	T-G PEC	Partners (mills)	Target Group
THB	1,000,000	8,000,000	0
%	11%	89%	0%

Building Mill to Farmer Service Relationships

The aim of this intervention is to demonstrate Malaysian palm oil industry best practices to the participants. By comparing the current situation in Thailand, problems and new improvement ideas are likely to be recognised. The tour will focus on the areas of supplier relationship managements, energy efficiency and biomass utilisation. The tour will be organised as a service provided by the Palm Oil Crushers Association (POCA) for its members. By engaging the association, the association will gain the experience it needs to organise similar activities in the future. The intervention agreement has already been signed and the consultant has already been contracted to organise the tour.

Summary of Contributions:

	T-G PEC	Partners (POCA)	Target Group
THB	335,200	800,000	0
%	30%	70%	0%

Planned Interventions

Promoting Improved Seedling Selection and Replanting Practices

The aim of this intervention is to demonstrate the importance of high quality seeds and seedlings together with replanting techniques and young palm management. Univanich a large seedling supplier will organise an open field day to demonstrate the above mentioned issues to attending farmers. The farmers will have an opportunity to see the actual practices in the field. The farmers should have better awareness and understanding in the areas of seed and seedling selection, replanting techniques and young palm management all of which will impact on their productivity.
By arranging this field day, Univanich can also promote the quality of their seeds which will increase the demands for their seeds in the future. In addition, this field day has a potential to be one of the major fairs for the whole Thai palm oil Industry in the future.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	200,000	550,000	0
%	27%	73%	0%

Small Plantation Best Practices, Malaysian Study Tour

The aim of this intervention is to demonstrate oil palm farm management best practices to the participants. By comparing their current situation in Thailand, new improvement ideas will likely crystallise. The tour will focus on the areas of young and mature palm management, nutrient management, harvesting technique and the FFB supply chain. The tour will be sanctioned by the association. But, it will be sponsored or financed by participated mills. The benefit to the mills is better reputation and supplier relationship. This activity can be used as a stepping stone for other supplier relationship management programmes.

Summary of Contributions:

	T-G PEC	Partners (mills)	Target Group
THB	300,000	400,000	100,000
%	38%	50%	12%

3.1.8 Allocation of Resources

Contributions Personnel (Work Months)	**GTZ**	**BSID**		**IPC 10**	
Year	**06 - 07** fixed	**06** fixed	***** estimation	**06** fixed	***** estimation
Management:					
Project Director	4wm			3wm	3wm
Sector Manager	24wm				
Assistant Sector Manger	24wm				
Implementation Personnel:					
Section Officers		6wm	6wm	6wm	6wm
Short Term Experts	6wm				
Support Personnel					
Sub-total	58wm	6wm	6wm	9wm	9wm
Totals	58wm	12wm		18wm	
Percentages	65%	35%			
Contributions In-Kind (Thai Baht)	**GTZ**	**BSID**	**BSID**	**IPC 10**	**IPC 10**
Office accommodation (110 sqm)		100,000	100,000	30,000	30,000
Computers, printer, fax and phone		50,000	50,000	50,000	50,000
Transport		20,000	20,000	20,000	20,000
Electricity and water		60,000	60,000	5,000	5,000
Maintenance		5,000	5,000	5,000	5,000
Photocopying		5,000	5,000	5,000	5,000
Travel and Accommodation of Staff					
Sub-totals (in-kind 1 year) (1)		240,000	240,000	115,000	115,000
Totals (in-kind 2 years) (2)		480,000		230,000	
Percentages	0%	100%			
Contributions In-Cash (Thai Baht)	**GTZ**	**BSID**	**BSID**	**IPC 10**	**IPC 10**
Project Management:					
Project personnel					
Equipment					
Consumables and misc. office costs	100,000	50,000	50,000	100,000	100,000
Travel and Accommodation	600,000	100,000	100,000	100,000	100,000
Overseas training/study tours	600,000				
Local Consultants (incl. travel)	1,500,000			500,000	1,100,000
Interventions:					
Specific Studies (outsourced)	600,000				
Workshops	400,000	100,000	100,000	1,300,000	2,600,000
Other intervention costs	2,000,000				
Sub-total (in-cash) (3)	5,800,000	250,000	250,000	2,000,000	3,900,000
Totals (in-kind and in-cash) split year (1+3)	5,800,000	490,000	490,000	2,115,000	4,015,000
Totals (in-kind and in-cash) 2 years	5,800,000	980,000		6,130,000	
Grand total (in-kind and in-cash)	**5,800,000**	**7,110,000**			
Percentages for in-cash and in-kind contributions	**44 %**	**56 %**			

3.2 Promotion of Northern Agro-Industry Clusters (PNAC)

3.2.1 Partner
Industrial Promotion Centre 1 (IPC 1), Department of Industrial Promotion

3.2.2 Duration
September 2005 through August 2007

3.2.3 SME Target Group
The PNAC's target group includes SMEs operating in the selected sectors, namely longan, tangerine and saa or mulberry paper. Included in the definition of SMEs are commercial farmers, input suppliers and enterprises supporting competitiveness of the sector. The project will concentrate its attention on SMEs in the selected sectors within the eight provinces that come within the influence of the Ministry of Industry's Industrial Promotion Centre 1, namely Chiang Mai, Chiang Rai, Mae Hong Son, Phayao, Nan, Phrae, Lampang and Lamphun.

3.2.4 Main Aim and Relevance of the Project
The project is aiming to enhance the competitiveness of the three important agro industry clusters of Northern Thailand. Those three selected clusters/sectors provide significant income; generate a large number of the SMEs and total employment of 250,000 people. The aim is to create additional value added in the whole sector and thereby secure or expand employment and incomes in the clusters.

Longan: 100,000 SME plantation located in the north of Thailand, 9000 SME traders, collectors and fruit dryers, 5 industrial processors and 30 exporters. An output of about 400,000 tons of fruit, out of which € 60 million is exported.
Tangerines: Employing 70,000 people almost exclusively in the north serving mainly the domestic market for fresh fruit and fruit juice. This output is worth approximately € 54 million.
Mulberry Paper: Is produced by 5,500 SMEs in the north of Thailand. 20,000 families are employed in raw materials collection and a further 1-2,000 in retailing. Annual output is worth € 54 million.

Specifically, the project aims to improve the productivity and business performance of SMEs, including small farmers along the value chain and by introducing innovative products and processes that are environmentally sustainable.

3.2.5 Key Competitiveness Issues
The central issues in each of the three sub-sectors are a follows:

Longan
The oversupply of longan fruit during the peak season is a critical issue.
The fruit quality is not substantially matched to the market requirement ,
The average yield of premium grade longan for export is low.
Many growers are experiencing net losses due to high production cost and low prices for small fruit.
Skilled labour during the harvesting period is in short supply.
The range of products made from longan is still very limited

These issues will be addressed by:
Focusing on new potential markets, for example, developing a competitive position for fresh longan based on product attributes and value added to meet the specific needs and expectations of the target market.
The development of a professional farm management service to achieve premium quality grades, cost reductions and off-season longan production.
Process and product innovations for SMEs backed by researched from Maejo University, Chiang Mai University, TISTR and other research institutes.

Tangerines
Input costs are increasing while output is declining. Extensive use of chemical input damages the ecological balance. Duration peak production times yields are declining over time.
Market share is at risk. There is the threat of competition after the FTA from other orange producers in the region e.g. China and Australia. In addition, the confusing image about high chemical residues on tangerines in the north may have an impact on local consumer demand.
Environmental degradation. High use of agricultural chemicals deteriorates soil, pollutes water and deteriorates the ecological balance in the areas around orchards. The health of tangerine growers as well as residents in certain areas in Fang is becoming a concern

These issues will be addressed by:
Introducing a new financing product more suitable for the needs of the SMEs in the sub-sector through advising and improving the service of the partner financial institution.
Promoting sustainable farming practices among tangerine growers in the sub-sector through improving the input supplier's service and the use of the farm/soil/pest management techniques.
Increasing the demand for tangerines through promoting its processed product such as juice and jam and exploring of regional export market opportunities.

Mulberry Paper
The supply of raw materials (dried bark) is not sustainable, particularly during the peak season. The supply shortage causes uncertainty and high price fluctuations for the raw materials.
The pulp making process is not well designed. The opportunity on improving the energy efficiency is still exists.
Production of mulberry paper creates high amounts of waste water and harms the environment.
Design innovation and product quality of the Thai mulberry paper handicraft are still inferior in international markets.

These issues will be addressed by:
Promoting clean technology through the introduction of eco efficiency, environmentally friendly standards and labels.
Improving the mulberry paper making process: pulping, drying and colouring.
Improving the design and product development capacity of the mulberry paper/products producer.

These interventions will be done in cooperation with the *GTZ/DEQP Mulberry Paper Project.*

3.2.6 Status of Implementation
The PNAC implementation arrangement was approved by the Programme Management Committee on December 7, 2005 and is scheduled to be signed on May 2, 2006. The Project Steering Committee was officially set up on Feb 10, 2006.

3.2.7 Status of Interventions
Completed Interventions
None

On-going Interventions
Farm Consulting and Management Service
The implementation of this intervention is being done in 2 phases:

Phase 1 Consulting Service
This phase is aimed at providing consultancy services to SME farmers with the experts and consultants from Maejo University. The purpose of this advice is to achieve higher yields of longan production including quality improvement and cost reduction by means of being more market oriented. 28 longan farmers have been formed into a cluster. A provincial budget has been approved for IPC1 to implement. The first workshop was held to clarify the objective of the

intervention to the cluster members. A second workshop focusing on the contents of Farm Consulting Service shall be held in April this year.

Phase 2 Farm Management Service
Maejo University will conduct technical services and farm practice services for small and medium growers in different areas such as pruning technique, flowers setting, fertilizer consulting, soil nutrient management etc. A business plan has been prepared according to a GTZ template by the Department of Industrial Promotion. Maejo University has approached the first target group of clients (longan orchards with the area of 60 rai or more). A marketing brochure is being designed to stimulate demand for the service.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	500,000	900,000	0
%	36%	64%	0%

Longan Innovation
This intervention is aimed to explore the commercial viability a number of selected innovations developed either by FTI or the National Innovation Agency. The goal is to stimulate SME investment in these innovations. The intervention agreement was already signed on Jan. 19. Further activities involve connecting with NSTDA to make a survey of the research documents from the research centres and the universities. The action plan of the intervention was drafted in the meeting among the working group composed of FTI, NIA and GTZ on February 8, 2006. This included the cooperation procedures, the allocation of tasks to responsible persons, a time frame and budget. A TOR was prepared by FTI to hire NSTDA for research surveys. A workshop was held on March 15 at the Central Hotel, Chiang Mai to present the selected research of about 30 reports to SMEs.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	150,000	210,000	0
%	42%	58%	0%

Unsecured Loan for Tangerine Grower Enterprises
In association with the PFS Project, this intervention is designed to enable the partner bank (Bank for Agriculture and Agricultural Cooperatives or BAAC) to increase its lending to small tangerine growers through the introduction of a new unsecured, externally monitored loan. BAAC will be able to offer better lending services to their SME clients. The new loan product will first be piloted with the “The Organic Orange Grower Group – Women of Fang” community enterprise to allow them to switch from conventional to organic farming practices. If successful, the service will be sustainable as the partner bank can offer it profitably to other grower enterprises. The transition to organic farming should have a positive impact on the competitiveness of the SMEs (small growers) in the tangerine sector; reduce the use of chemical inputs, improved soil fertility and increase revenues through the production of higher-priced safety/organic tangerines.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	50,000	150,000	50,000
%	20%	60%	20%

Planned Interventions

Improving Input Supplier Advisory Services

This intervention is aimed to induce the improvement of the services of the input suppliers to advise their clients regarding the good tangerine farming practice, proper use of agriculture inputs, soil enriching, pest problem management and use of bio/organic inputs. The intervention is also aimed to extend the input supplier's service to the soil test/diagnosing. It is expected that the improved service of those input suppliers will better serve the growers' need, improving their clients' satisfaction and increase their business. Together with the planned advertising campaign, the other input suppliers will see the difference and try to compete with those input suppliers in providing a better service. The input supplier's competition will result in changes in the input supplier's service and practice - improving their advisory role to growers and the new service of soil test/diagnosing being offered through the input supplier channel.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	300,000	50,000	70,000
%	71%	12%	17%

Mulberry Paper

Several activities took place in coordination with the Thai counterparts (IPC1 and DEQP) in the area of networking and clustering of the mulberry producers, which will be the platform for interventions to be developed. In February 2006, IPC1 in coordination with DEQP and Tonpao municipality arranged B2B handicraft exhibition at the Northern SME centre. The mulberry paper producers completing the PREMA training were invited to show their products at the exhibition. The PREMA booth was also presented at the exhibition.

3.2.8 Allocation of Resources

Contributions Personnel (Work Months)	**GTZ**	**IPC 1**
Management:		
Project Director		6wm
Sector managers	48wm	
Implementation Personnel:		
Section Officers		24wm
Short Term Experts	3wm	
Support Personnel		12wm
Totals	51wm	42wm
Percentages	55%	45%
Contributions In-Kind (Thai Baht)	GTZ	**IPC 1**
Office accommodation (100 sqm)		108,000
One computer, printer, fax and phone		40,000
Transport		80,000
Electricity and water		48,000
Maintenance		6,000
Photocopying		5,000
Travel and Accommodation of IPC 1 Staff (Est.)		100,000
Totals		387,000
Percentages	0%	100%
Contributions In-Cash (Thai Baht)	GTZ	**IPC 1**
Project Management:		
Project Assistant	240,000	
1 computer, fax, etc	150,000	
Consumables and misc. office costs	60,000	
Travel and Accommodation	800,000	
Overseas training/study tours	400,000	63,000
Local Consultants (incl. travel)	600,000	
Interventions:		
Specific Studies (outsourced)	400,000	
Workshops	100,000	600,000
Other intervention costs	1,600,000	600,000
Totals	**4,350,000**	**1,650,000**
Percentages for in-cash and in-kind contributions	**80%**	**20%**

3.3 Promotion of the Aquaculture Sector (Marine Shrimp)

3.3.1 Partners

Department of Fisheries and Private Business Associations

3.3.2 Duration

January 2006 through December 2008

3.3.3 SME Target Group

The target group or beneficiaries for this Project are the SMEs operating in the sector. The scope includes farmers, input suppliers, traders, exporters, and supporting enterprises in the value chain. The target SMEs are located in major shrimp producing provinces such as Chachoengsao, Rayong (CoC Shrimp Quality Club), Surat Thani (Thai Marine Shrimp Farmers' Association), Satul, Songkhla, Trad and Phang-Nga. However, the activities are not limited to SMEs if it is perceived that the outcomes will lead to *trickle down* effects which benefit the SMEs, in particular the shrimp farmers.

3.3.4 Aim and Relevance of the Project

The marine shrimp aquaculture sector is a major source of employment and income generator for Thailand. There are 500,000 rai of land used for shrimp farming, and it is estimated that there are as much as one million people involved in the shrimp cluster, whose turnover accounts for 1.1 percent of Thailand's GDP (2003).

Thailand has been the world's number one exporter of shrimp since 1980s. But its world market share has declined from 20 percent in 1998 down to 15 percent in 2003. Shrimp exports fetched in excess of 100 billion THB in 2000, but the value has decreased to about 60– 70 billion THB (2004). The Thai shrimp farming industry is characterized by the large number of small holders. In total there are between 20- 30,000 shrimp farms, with 80 percent being small independent operations.

The EU is the world's largest import market for shrimp, with annual import volumes of approximately 600,000 tons, followed by the US (500,000 tons) and Japan (280,000 tons) Thai shrimps were banned after problems with antibiotic residues in 2002, and since then it has been stuck with negative food safety and environmental image. Moreover, the EU market is very sophisticated and demanding, in particular stringent food safety standards.

The key objective of this project is to promote the sustainable re-introduction of Thai shrimp to the EU market as a means to create additional opportunities for SMEs in this sub-sector. This will entail monitoring indicators related to Thailand's market share in Europe, improvements in its international image, the introduction of sustainable aquaculture practices, and production cost reductions.

3.3.5 Key Competitiveness Issues

Thailand became a world leader in shrimp production and export due to its low labour costs and the exploitation of the environment. However, with the emergence of the new competitors like China and Vietnam, who have far more virgin land available for shrimp farming and significantly lower labour costs, Thailand has lost its competitive advantage. It is believed that the new competitors have at least 5-10 years window of opportunity to exploit their natural resources and lower labour costs. During this time, the world price for shrimp will continue remaining low and only the efficient producers will survive. Hence, Thailand's shrimp industry needs to urgently develop or even transform itself to create new sources of competitive advantage.
Creating a sustainable competitive advantage would come from a combination of **differentiation, diversification and increased productivity and eco-efficiency.** Thailand should differentiate itself as the high quality shrimp producer by improving the quality of black tiger shrimp brood stock through disease control and research and development on domestication. In addition, it should increase percentage of black tiger shrimp farmed compare to white shrimp and improve the percentage of a bigger shrimp (over 55 pieces per kilogram) in the total output. The product

freshness should be improved by adopting better harvesting techniques and increasing supply chain integration, especially between processor, middleman and shrimp farmer. Demand-driven production, i.e., contract manufacturing should become a wider industry practice. Another opportunity is to create a unique branding strategy for Thai shrimp based on a geographic denomination of origin as some shrimp producers successfully did it in the past (e.g. Bangladesh).
In terms of diversification, the industry should diversify its products, customer segments and export markets. There are a lot of opportunities for value added shrimp products, like butterfly cut, ring presentations, coated shrimp, and product innovation (e.g. ready-to-eat meals). Producing organic and toxic free shrimp is another potentially very lucrative market, already eyed by some Thailand's competitors like Vietnam. Creating direct linkages between major Thai shrimp processors/ exporters and overseas end product users, like retail and fast food chains, is another way to look for new customer segments. Diversification into the emerging markets of the Middle East, Latin America, Central and Eastern Europe, China and South East Asia can be done relatively easy with rather small marketing investments. Developing the domestic market is another promising strategy and is already pursued by several Thai processors.
In terms of eco-efficiency, promotion of food safety, traceability and sustainable, safe and eco-efficient farming practices should be at the heart of the Thai shrimp sector strategy. Since the issues related to environment and social sustainability become ever more critical for the European and North American consumers and importers, Thailand should focus on eco-efficiency of its shrimp industry as a prerequisite for developing and recapturing its market share in these markets. If Thailand does not succeed in becoming more eco-efficient, countries with lower production costs and abundant land at their disposal (resulting in fewer disease problems and better access to healthy brood stock) could easily challenge its position as a leading shrimp producer.

3.3.6 Status of Implementation

As a pre-intervention, a seminar entitled "Competitiveness of the Thai Shrimp Industry" was organized on 14 December 2005, at the Davis Hotel, Bangkok. This activity was a commencement to the joint cooperation activities between the Department of Fisheries (DOF) and GTZ, and the focus was on the following issues: global shrimp market situation with emphasis on the EU market and the demand of services for enterprises. At the seminar, Mr. Marc Nolting (consultant for fisheries and aquatic resource management) presented the shrimp market situation in Europe, followed by the presentation of "Shrimp Roadmap" from DOF and shrimp farming situation in Thailand from representatives of Thai Marine Shrimp Farmers' Association and Rayong Code of Conduct Club. Following on from the seminar, GTZ commissioned Mr. Marc Nolting to conduct a preliminary market study to review and summarize national and international guidelines and standards currently applied to production and processing of marine shrimp, as well as conduct market surveys and identify market opportunities and constraints for Thai shrimp. The study is expected to be completed in March 2006, and a seminar will be held in Thailand to present the findings to the stakeholders in order to prepare for future strategy and positioning of Thai Quality Shrimp.
In January, the Programme Management Committee approved the project. The Implementation Arrangement is now being processed and will be signed shortly.

3.3.7 Status of Interventions

Completed Interventions

Identification of Key Market Trends in European Seafood Consumption

In February 2006, GTZ organized a delegation from Thailand consisting of shrimp processors, shrimp farmers and DOF officials to visit "Fish International 2006" Trade Fair in Bremen, Germany as an orientation trip. The objectives of the trip were to establish business contacts and to enhance the capacity of the Thai shrimp exporters and farmers to obtain useful market information in order to penetrate the EU market. During the trip, the Thai Delegation visited Bremerhaven whereby meetings were held with Logistics Cold Store GmbH and the Bremen Import Inspection Services. As a result of the meeting, Thailand is considering the idea to set-up a distribution centre for Thai products and possibility of concluding a lab testing agreement with the Bremen Port Inspection

Services, which, if concluded, should facilitate easier access for shrimp/seafood imports from Thailand. The meeting also led to a positive report being written about Thai shrimp by Dr. Claus Gehlhaar (Head of the Bremen Import Inspection), which was sent to the Bremen State Minister in charge of health.

In Bremen, GTZ also organized a Business Reception, which was attended by key shrimp importers, such as Ristic AG, Deutscher Seafood Verband, Hamburger Feinfrost GmbH and Deutsche See GmbH. At the event, the DOF presented the Thai Quality Shrimp Program, and the Thai Marine Shrimp Farmers' Association and Thai Frozen Food Association also presented information about shrimp farming and processing in Thailand. Another significant activity of this intervention was the meeting with Dr.Andreas Stamer from Naturland to discuss the possibility of promoting organic shrimp farming in Thailand. As a result of the meeting, Dr.Suraphol Pratuangtum, President of the Thai Marine Shrimp Farmers' Association, has expressed a strong interest to start organic shrimp farming project in Surat Thani province.

A Strategy Workshop was held on 15 February 2006 between DOF, GTZ and the private sector, and the following issues were identified: bringing the importers to Thailand, P.R. on CoC and "Q" Mark, clarify appropriate quality standard for public understanding, develop P.R. strategy for Thai Shrimp, investigate idea of Thai distribution centre in Bremerhaven, developing a small number of organic farms to promote Thailand's image, participating in the Brussels Seafood Expo, organizing a "road show" in the Top Five European Importing Countries (i.e. U.K., France, Germany, Spain, Italy), facilitating a lab testing agreement with Import Inspection Services, Bremerhaven. Out of the above issues, the three identified as the most urgent/important are: participation in the European Seafood Exposition in Brussels, bring importers to Thailand and conducting a road show for the Top Five European Importing Countries. At the end of the Bremen trip, the participants from the private sector were also asked to do an evaluation. In summary, the majority felt that in overall the trip was good or very good, and that it had some positive impact on their businesses. The participants felt that they have achieved objectives in terms of gathering useful market information, being able to evaluating the show for future participation, and establishing sales contacts, whereby it was felt that 50 percent of the sales contacts made in Bremen would lead to sales orders in the future. All the participants expressed strong appreciation of GTZ's involvement, and asked for Programme assistance, in particular with the above issues which were during the Strategy Workshop.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	448,000	--	486,262
%	48 %		52 %

On-going Interventions

Improving the Image of Thai Shrimp in the European Market (Brussels Fair)

A number of Thai shrimp exporters will be participating in the European Seafood Exposition in May 2006. The Thai Embassy in Brussels will be hosting a Business Reception during the Exposition. The Programme will co-operate with the Department of Fisheries to maximize the impacts of the Thai delegation's participation in the Exposition by coordinating the attendance of key importers at the Business Reception. The Programme will in addition coordinate a number of one-on-one business meetings between Thai exporters and their potential clients. Visits to the border inspection posts at Antwerp and Rotterdam ports will also be organized.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	654,230	TBA	TBA
%	TBA	TBA	TBA

Planned Interventions

Promote Sustainable Production

The Programme will work with DoF and shrimp clubs and associations to promote CoC and organic shrimp farming through awareness building and creation of market and financial incentives for compliance.

Increase Productivity

The Programme will work with DoF and selected shrimp farmers to increase productivity and cost savings by exploring the use of alternative energy (e.g. wind or solar) and utilization of innovative farm management techniques such as closed system farming and soil management.

Shortening the Supply Chain

The Programme will work with the Bremen Government and selected shrimp processors in setting up a distribution centre for Thai shrimp/seafood products in Bremerhaven in order to penetrate the market in Germany and Northern Europe.

Farm Management Practice

The Programme will work with DoF, input suppliers, consultants, and selected shrimp associations to provide services concerning production technology, disease prevention, and use of chemicals and drugs e.g. setting up demonstration farms and field training services.

3.3.8 Allocation of Resources

Contributions Personnel (Work Months)	**GTZ**	**DOF/Thai Industry**
Management:		
Project Director	6wm	4wm
Sector Manager	24wm	8wm
Technical Manager	12wm	
Implementation Personnel:		
Govt. Officers (C 4 – C 7)		12wm
Short Term Experts	6wm	
Support Personnel		12wm
Totals	48wm	36wm
Percentages	57%	43%
Contributions In-Kind (Thai Baht)		
Office accommodation		100,000
Computer, fax, phone		50,000
Transport		100,000
Electricity / Water		20,000
Maintenance		20,000
Photocopying		30,000
Totals		320,000
Percentages	0%	100%
Contributions In-Cash (Thai Baht)		
Project Management:		
Computers, fax, phone		
Consumables and office costs		
Travel and accommodation	200,000	400,000
Project personnel		670,000
General studies		
Training / Study tours / Overseas trip	700,000	1,200,000
Interventions:		
Short term experts	800,000	
Workshops		300,000
Specific studies (outsourced)	1,500,000	
Local consultants		
Exhibitions		
Other intervention costs	1,800,000	100,000
Totals	**5,000,000**	**2,990,000**
Percentages for in-cash and in-kind	**63%**	**37 %**

3.4 Enhancing the Competitiveness of SMEs in Selected Fruit and Vegetable Sub-sectors through the Promotion of Technological Advisory Services (TISTR)

3.4.1 Partner
Thailand Institute of Scientific and Technological Research (TISTR), Ministry of Science and Technology

3.4.2 Duration
January 2005 through December 2006

3.4.3 SME Target Groups
The target groups for this Project are SMEs operating in five selected fruit and vegetable sub-sectors – fruit juice, vegetable juice, dehydrated fruits, partially processed fresh fruits and vegetables – throughout the country. In this context, SMEs include commercial farmers, processors, producers and distributors, service suppliers, and enterprises supporting the competitiveness of selected sub-sectors.

3.4.4 Aim and Relevance of the Project
The agricultural sector's share of the total gross domestic product (GDP) is 10%. The value of agricultural export is 883 billion THB representing 20% of total exports. The sector employs 15.8 million persons, 62% of the total labour force. Agricultural production is taking place on 21 million hectare, 41% of the total land area of Thailand. The value at farm gate of fruit and vegetable produced is 42 billion THB. The value of fruit and vegetable exports is 58 billion THB. There are over 135,000 agro-industrial SMEs accounting for 28% of all industrial SMEs.

The Project aims to enhance the competitiveness of SMEs in the selected fruit and vegetable sub-sectors through improving the markets for technological advisory services. The technological advisory services offered to SMEs in the selected sub-sectors are in the forms of research contract, consultation on the telephone and factory visit, and technological information provided on the project website (www.tistr-foodprocess.net) and monthly newsletter, both in Thai and English versions, sent to over 300 SMEs.

3.4.5 Key Competitiveness Issues
Before the start of project implementation, a competitiveness analysis was conducted in February 2005 for each of five selected fruit and vegetable sub-sectors. The questionnaires were mailed to 355 SMEs in the selected fruit and vegetable sub-sectors. Of 355 respondents, 65 returned the questionnaires. From the returned questionnaires, several constrains to the competitiveness of each sub-sectors were identified. These competitiveness constraints fall on the following areas:

Development of Machinery. Most of the machines used in factories of SMEs in the selected fruit and vegetable sub-sectors are outdated and inefficient. In some cases, the production processes are labour intensive; as a result, the quality of products is inconsistent; and the possibilities of products being contaminated is high. These quality and safety problems adversely affect the sales of SMEs in the selected sub-sectors.

Production Technology/Process. Innovative technology plays a significant role in new product development and the extension of shelf life of food products. Competition is growing in the market place to introduce a variety of new products with low prices, long shelf lives, and convenience for consumption. Hence, the introduction of new production technologies and processes will certainly put SMEs in the selected fruit and vegetable sub-sectors in a more competitive position. With the application of novel technologies/processes, the production cost will decrease; the shelf life of product will be extended; and the production capacity will increase. In addition to this the losses which occur during processing will be minimized.

Product Standards. The image of food products heavily relies on better food certification standards like GMP, HACCP. This has affected the business performance of many SMEs in the selected fruit and vegetable sub-sectors because their production systems do not comply with the certification standards. In this case, properly designed production processes and appropriate technologies will play a significant role in boosting the competitiveness of SMEs in the selected sub-sectors.

The above competitiveness issues have been used to form the basis for the design of project interventions.

3.4.6 Status of Implementation

The Implementation Arrangement was signed in October 2005. But even before this there were interim agreements and MOUs to ease project implementation while waiting for the formal exchange of notes between the two Governments. The project is currently engaged in a process to re-evaluate the market for technological advisory services among SMEs. Consultants have been hired to assess this market and the resulting analysis will be used to make plans for how TISTR can move more aggressively into this market for technological advisory services.

3.4.7 Status of Interventions

Completed Interventions

Best Practices in the Food Industry

Kanokwan Curry Paste Co., Ltd., produces various kinds of ready-to-use curry pastes for chicken, beef and pork curry, and spicy soup. It faced a problem of inconsistency of the product quality. After investigating the production plant, the project team offered the company to develop a working manual in compliance with GMP and a quality control management system. It took six months from February to August 2005 to finish the service, including a training organized for the workers, with the total charge of BH 35,310. After exercising the working manual and quality control management system, the company has been granted a GMP certificate; its sales volume has increased 20%; and working time has reduced 18%. This intervention has revealed that a quality management system is highly demanded for the improvement of productivity and business performance.

Summary of Contributions:

	T-G PEC	**Partners**	**Target Group**
			35,310
Time Allocation	7 man-days	3 man-months and 7 man-days	-
%	0%	0%	100%

Development of a Tamarind Extraction Machine

Thai Sun Foods Co., Ltd. in Ratchaburi produces various kinds of ready-to-drink fruit juices, including longan. They would like to add a new product to their existing line, namely tamarind juice. They heard about a tamarind extraction machine developed at TISTR and tried out the use of the tamarind paste in their production line. So far, the product has been test marketed by Thai Sun Foods with positive results. The intervention, which took four months, commencing from March to July 2005, is aimed at adapting the TISTR prototype to commercial production (300-400 litres per hour). The machine, highly demanded by SMEs who are in the fruit juice industry, the curry paste, tamarind sauce and candy production business, can enhance production capacity, tremendously decrease production time, production cost, and human labour, and, most importantly, reduce contamination of micro organisms. The company contributed 175,000 THB for this service.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	-	-	175,000
Time Allocation	6 man-days	2.50 man-months	-
%	0%	0%	100%

Development of a Chinese Cake Stuff Forming Machine

Vorakarn Panich Co., Ltd. is a producer and distributor of Chinese cakes in Sakaew province. The company was experiencing inconsistency in the weight and form of its Chinese cake stuff. It wanted a stuff-forming machine to solve these problems. As requested by the company, it took three months, starting from July to October 2005, for the project team to specially design and assemble such a machine, which cost the company 65,000 THB. As a result of using this machine, the production time has decreased by 35% and the production capacity has enhanced by 30%.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	-	-	65,000
Time Allocation	3 man-days	0.5 man-months	-
%	0%	0%	100%

Development of a Freezing Process for Thai-Chinese Cake and Cube Cake

Akachai Sali Suphan Co., Ltd., is a producer and distributor of a variety of Thai snacks in Suphanburi province. It has encountered a short shelf life of its Chinese cakes stuffed with water chestnuts and cube cakes. This has affected their sales volume. After six months of specifically developing a freezing process from June 2005 to January 2006, which was longer than planned, to preserve Chinese cakes and cube cakes by the project team, the shelf life of Chinese cakes and cube cakes can now be extended from 3 days up to four months. The freezing technology, which can be applied to other similar products, has a great impact on expanding markets to the neighbouring provinces. The company was charged 141,240 THB for the service.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	-	-	141,240
Time Allocation	10 man-days	13.75 man- months and 3 man-days	-
%	0%	0%	100%

Development of a Water Chestnut Cutting Machine

This research contract was linked with the development of Chinese cake and cube cake freezing process. The existing cutting machine made in Taiwan was old and did not operate properly. The owner of Akachai Sali Suphan Co.Ltd. had, therefore, commissioned the project team to redesign and construct a new water chestnut cutting machine under the conditions that it had to have the production capacity of 130 kg./hour; a better quality of materials had to be used; and, most importantly, it had to perform the cutting task more efficiently than the old one. This research contract, from October 2005 to February 2006 cost the company 150,000 THB. This machine had a great impact on increasing productivity in terms of output, the decrease of production cost and time, and the consistency of shape and weight of the product.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	-	-	150,000
Time Allocation	7 man-days	6 man-months	-
%	0%	0%	100%

Development of Grape Juice Formulae

Phuet Thai Fruits Co., Ltd., a grape trader in Chiang Mai, has seen a channel in adding more values to fresh grapes. During the grape season, the prices of fresh grapes fall tremendously due to oversupply in the market. The company owner came to the Project with a sample of home made grape juice from Australia and requested the project team to develop grape juice formulae which were similar to the sample in terms of flavour, pH value, percentage of acidity and sweetness. The development process took four months from November 2005 to February 2006. The service charge for this research contract was TBH 51,360. This intervention created more value added by introducing a new production process for grape juice formulae.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	-	-	51,360
Time Allocation	4 man-days	2 man-months	-
%	0%	0%	100%

On-Going Intervention

Development of Longan Grading and Cleaning Machines

This is a joint intervention undertaken by Promotion of Northern Agro-Industry Clusters and the Project. In November 2005, the project staff members visited a longan grading plant in Lumpoon where the fruits were manually graded and cleaned. After observing the grading and cleaning processes, the project team discussed with the owner of Bangkok Private Co., Ltd., a longan exporter, about designing grading and cleaning machines which would help solve the grading and cleaning problems and increase the competitiveness of longan exporters in productivity and business performance. The exporter immediately decided to have the project team draft proposals for this intervention. The proposals for both machines have been sent to the exporter for consideration and approval. After going through the proposals, the exporter decided to take a longan-grading machine first. Now, the contract is being drafted for both parties to sign. It is expected to take four months to complete this intervention. The service charge for this research contract will be 250,000 THB. For the impact of this intervention, it will be assessed by means of economic value added method and questionnaire administration before and after receiving the service in order to measure the quality of service and customer satisfaction.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB			250,000
%	0%	0%	100%

Food Technology Fair in Germany

Terms of reference for the study tour to Anuga FoodTec 2006 and RWTH Aachen University in Germany, to take place from April3rd to 7th, 2006, has been drafted and submitted to GTZ Eschborn for preparing a contract. RWTH Aachen University, led by Prof. Dr. Jansen, will be a coordinator to organize the study tour for TISTR. This intervention is designed to strengthen and enhance the capacity of TISTR project team in the areas of production technology, production process, conveying, packaging, and distribution. The indicator of this intervention will be four technologies: grading technology, cleaning technology, cutting technology, and processing technology – which have been validated when the surveys in longan and tangerine sectors were carried out in Chiang Mai in November and December 2005, respectively. The respective technologies will have a great impact on the competitiveness of SMEs in the longan and tangerine sectors in terms of productivity, business performance, use of successful innovations, and use of environmentally sustainable production system and process. The costs for round-trip air tickets, inland transportation, 2 night-hotel accommodation, and entrance fees will be absorbed by GTZ. TISTR will pay for their daily subsistence allowances and 18-night hotel accommodation.

Summary of Contributions:

	T-G PEC	**Partners**	**Target Group**
THB	78,250	-	250,000
Time Allocation	0.5 man-month	2.5 man-months	-
%	23.84%	0%	76.16%

Planned Intervention

Development of Ready-to-Drink Mango Juice Formula and Its Production Process

Mae Ngon Fruit Farm Co., Ltd., situated in Chiang Mai, is a company operating a resort in Mae Eye, Chiang Mai province and owns mango and lychee farms. The resort operator has produced fresh fruit juices such as mango and lychee for serving customers in his resort. Now, he is planning to expand his products to European countries and the US. Therefore, he requested the project team to develop the formulae and production processes for pasteurised ready-to-drink mango juice, lychee juice, tangerine juice, and dragon fruit mixed with aloe vera juices. These four fruit juices and their production processes will be developed one juice at a time, starting with mango juice. The proposal for mango juice has already been drafted and submitted to the owner of the company for consideration and approval. The duration of this intervention implementation is planned for four months; and the service charge will be 95,000 THB.

3.4.8 Allocation of Resources

Contributions Personnel (Work Months)	GTZ	TISTR
Management:		
° Project Director		12wm
° Project Coordinator		12wm
° GTZ Coordinator (Aachen University)	3wm	
Implementation Personnel:		
° Short-Term Experts	8wm	
° Project Assistant (Khun Phaovana)	24wm	
° 10 Scientists and Engineers		240wm
° 2 Temporary Staff		48wm
° Driver		24wm
Totals	35wm	336wm
Percentages	9%	91%
Contributions In-Kind (Thai Baht)		
Office accommodation (100 sqm)		480,000
One computer, printer, fax and phone set		80,000
Transport		48,000
Electricity and water		48,000
Lab materials		600,000
Photocopying		12,000
Telephone		48,000
Travel and accommodation of TISTR staff		400,000
Totals		1,716,000
Percentages	0%	100%
Contributions In-Cash (Thai Baht)		
Project Management:		
° 2 computers	90,000	
° Consumables	50,000	
° Travel and accommodation	2,500,000	
° Overseas training/study tours	1,100,000	200,000
Interventions:		
° Specific studies (outsourced)	500,000	
° Workshops		100,000
° Other intervention costs	1,000,000	
Totals	**5,240,000**	**1,916,000**
Percentages for in-cash and in-kind contributions	**73%**	**27%**

3.5 Enhancing the Competitiveness of SMEs in Selected Sectors through the Promotion of Financial Services (PFS)

3.5.1 Partners
SME Bank, Bank for Agriculture and Agricultural Cooperatives, Government Savings Bank

3.5.2 Duration
January 2005 through December 2007

3.5.3 SME Target Group
The PFS Project's "high-level" target group includes small and medium enterprises (SMEs) operating in the Programme's selected agro-industry sub-sectors. The project's definition of SMEs includes input suppliers, small commercial farmers, traders in agro-enterprise value chains, processors, distributors and exporters as well as intermediary enterprises supporting competitiveness of the sub-sector. The term intermediary or service supplier is used to define the group of enterprises or organizations (public or private) that in some way provide some competitiveness enhancing services to SMEs in the selected sub-sectors. The PFS Project also has an "intermediate-level" target group consisting of its partner and intervention financial service providers.
Under the Programme's overall conceptual framework, the PFS Project also acts as a key crosscutting advisory and intervention instrument. The project consults, provides advice, liaises and coordinates with the programme's two core components as well as the sector-based (initially palm oil, shrimp, longan, tangerine, mulberry paper and tapioca) and service-based (at the outset energy, technology, quality infrastructure and eco-efficiency) projects operating under each component. It is and will be involved in financial service interventions within many of the selected sub-sectors as well as across the span of each sub-sector's specific value-chain

3.5.4 Aim and Relevance of the Project
Financial services are defined as monetary transactions dealing with: savings and investment; credit, guarantees and commitments; financial instruments; risk and insurance; and brokerage and exchange. Providers can be *central* or *peripheral* to the financial service delivery. If central, the provider performs the full financial service. If peripheral, the provider gives third-party support to another provider in the arrangement, facilitation, and/or execution of the financial service.

The purpose of the PFS project is to "shape or reshape" the transactions of financial services to either: increase their flows to SMEs or to improve their value added for SMEs while ensuring their sustainability for the service provider.

The PFS Project is designed to act both as (i) a financial advisory service provider to its three partner banks (and other future potential intervention partners) to prepare them to act as responsive financial service providers to the target enterprises and more importantly (ii) as a facilitator for the further development of the financial services market (supply of and demand for new financial products as well as improvement of the legal/regulatory environment) which envelops enterprises operating within the selected sub-sectors. The PFS Project will focus on improving its partners' ability to create new types of financial service products and then demonstrate and market the innovative process to other public and private financial institutions operating in the overall financial services market system so as to scale-up the project's impact. Initial project interventions focuses on partners' internal human resource and organizational development and are grounded in the value chain approach. Through the value chain approach, financial service providers can accurately identify enterprise customer segments and understand underlying transaction structures that can be used as alternative (relative to traditional land collateral) security basis for expanding lending to enterprises. Key performance indicators for the project include additional loan disbursements to SMEs (especially those within the selected sectors) and at the service market level they are related to new product development and the use of these products, capacity building measures aimed at improved ability of the client banks to deliver credit in a more cost effective manner.

3.5.5 Key Competitiveness Issues

The Programme's overall objective is to improve the competitiveness and eco-efficiency of small and medium enterprises operating in the selected agro-industry sub-sectors. Depending upon the programme's impact over its implementation phases, further sub-sectors may be added. The programme's development hypothesis states that by improving the business, financial and eco-efficiency service markets surrounding sub-sectors, enterprise competitiveness at the "high-level" target level will be improved.

Enterprise competitiveness is determined and measured relative to sub-sector averages using four categories of indicators: enterprise productivity, business performance, the introduction of successful innovations and the use of environmentally sustainable production systems and processes.

Key enterprise competitiveness issues are first identified through sub-sector constraint/opportunity analyses and verified by stakeholders working within and around each sub-sector. Competitiveness issues are then crystallised in strategy papers drafted for each sector-based and service-based projects (like the PFS Project) operating under the programme.

In most of the sub-sectors, initial financial service competitiveness issues for the PFS Project to address have been identified. These are currently focused at the "on-farm" node of the sub-sectors' value chains where productivity constraints exist. The financial service competitiveness issues relate to improving the type and supply of credit (short and long-term) to small commercial farmers for the purchase of appropriate inputs (seed/sapling, fertilizer, pesticide, information) and machinery (irrigation, maintenance, harvesting) so as to improve on-farm productivity yields (kilograms of produce per area planted) and ultimately business performance. Working along with other Programme projects, the PFS project will also address innovation and sustainable competitiveness issues. The project has a crosscutting impact on all of the programme's enterprise competitiveness issues.

3.5.6 Status of Implementation

The project was conceptualized in early 2003 and originally approved by the Programme's Task Force (subsequently upgraded to the Programme Management Committee) on 18 August 2003 under the name "Enhancing Support Instrument for SME Financing in Thailand". The project partners are Small and Medium Enterprise Development Bank of Thailand (SME Bank), Bank for Agriculture and Agricultural Cooperatives (BAAC) and Government Savings Bank (GSB).

Subsequent to its original approval in 2003, a lengthy public tendering for the project manager was undertaken. A German consulting company was finally contracted and an international long-term expert commenced work on 22 November 2004. The PFS Project's official duration runs from 1 January 2005 through 31 December 2006. Actual project operations started in April 2005 after the project completed work in the four-month RESTART Project which was created to provide relief to SMEs impacted by the 26 December 2004 tsunami disaster. As of 5 March 2006, the PFS Project has been operating for 11 months with 9 months of time remaining.

After a start-up phase and implementation of its initial interventions, the project's terms of reference were clarified in late 2005 to focus the project more in line with the other projects operating under the TG-PEC umbrella. As a consequence, the project's name was also changed to "Enhancing the Competitiveness of SMEs in Selected Sectors Through the Promotion of Financial Services" or PFS Project for short.

The PFS Project's impact assessment methodology is synchronized and reflective of the programme's overall impact assessment structure where impacts are measured at two levels, each with different degrees of attribution. The first and closest attribution level is the service market where interventions effecting demand and supply issues as well as macro issues are monitored for impact and effectiveness. The second and less attributable level is at the targeted enterprises where indicators are chosen to measure impact on better business performance, improved productivity, ability to innovate and sustainability of operations.

The project's primary impact assessment will be done at the service market level. On the macro side, the project will document that at least one policy, legal or regulatory issue has been formally raised, discussed and is in the process of consideration by the concerned authorities. On the financial product demand side of the service market, the project will employ surveys to gauge higher awareness, understanding, interest, usage and satisfaction rates of the new financial products introduced to the targeted enterprises. The supply of new products will be measured by the number of new financial products developed and launched within partner organizations as well as the number of new financial service providers that are created to service financial institutions themselves to help them improve their ability to service the targeted enterprises. Impact indicators of the project's effectiveness of improving its financial institution partners' abilities to deliver new financial products will measure risk reduction (improve their loan portfolios' credit quality – lower non-performing loans and improve loan recovery rates) and profitability improvement (higher product net interest margins and increased fee revenues). These measures will highlight partner financial institutions' capabilities to sustain their operations and continue to provide financial services to the next generation of enterprises.

At the enterprise level, the project will coordinate with the impact assessment efforts of the programme's components and other projects to measure the programme's overall impact on selected enterprises' competitiveness in the sub-sectors. This approach will be taken as the specific impact attributable to the project's financial service interventions may be difficult to quantify and distinguish when combined with the other projects' sector-based and service-based interventions on the business environment and operations of the selected pools of targeted enterprises in each of the sub-sectors.

3.5.7 Status of Interventions

As presented above, the PFS Project is focusing on improving financial service providers' abilities to expand product offerings and increase lending to target enterprises through a series of interventions aimed at positively influencing the overall financial services market system (i.e. supply, demand and legal/regulatory enabling environment). In order to improve the competitiveness of the programme's selected sub-sectors, interventions have been designed and partly implemented. Indicators for the improved supply of new financial products will focus on the creation and actual degree of use of the products by enterprises. Interventions aimed at capacity building have indicators based on evaluations conducted following the interventions. The project's interventions are detailed below.

Completed Interventions

Credit-related Services Outsourcing Study Tour

The financial services project's study tour to the Swisscontact/IFC/GTZ project in Indonesia (Promoting Enterprise Access to Credit (PEAC) through the creation of credit-related service providing enterprises and consultants) was held from the 13th through the 16th of December 2005. Six senior officials (two from each of the partner banks) and two officials from the Department of Industrial Promotion in the Ministry of Industry participated in the study tour. Also attending the study tour was a group of 10 bank officials from another GTZ SME competitiveness programme operating in the Philippines. The study tour was a capacity building intervention of partner banks to support their understanding of the concept of outsourcing of credit-related services to third-party providers. The study tour also highlighted how the partner banks can use outsourced service providers to assist them with client monitoring as required with the newly developed crop-based loan products. The indicator for the intervention is a demand evaluation of financial service provider participants conducted at the conclusion of the study tour measuring partners' willingness to outsource credit-related service functions to third-party providers.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	200,000	100,000	0
%	67%	33%	0%

On-going Interventions

New Financial Products Development Process Training

From the 13th through the 17th of March 2006, the project will hold a five-day new financial products development process training seminar for approximately 50 officials from all of the partner banks as well as invited professionals from other Thai commercial banks so as to spread the concept of value-chain analysis as a valuable tool for customer segment identification and new financial product development. An international short-term consultant has been hired to develop the training course and present the seminar to participants. The intervention is an introductory capacity building exercise and will be followed by project consulting services to the partner banks to help them build their internal structures to institutionalize an on-going SME and other customer segments' new financial products development process. The indicator for the intervention will be a demand assessment conducted at the end of the training session to measure partners' interest in formalizing new product development at their financial institutions.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	10,000	75,000	0
%	12%	88%	0%

Unsecured Loan for Tangerine Grower Enterprises

In association with the PNAC Project, this is a financial services intervention aimed at providing a new unsecured, but externally monitored, loan product to growers in the tangerine sector. It has been initiated at BAAC. The loan product is focused on improving on-farm productivity and growers' business performance. The initial pilot test loan is designed to allow tangerine growers to finance the purchase of the inputs (fertilizer and pesticides) required to switch from conventional to organic farming practices. The loan is also structured to enhance enterprise creation and professional management of growers' combined tangerine orchards while recognizing individual growers' inability to mortgage/pledge any additional collateral to support their combined borrowing. BAAC's loan committee has approved the loan product and recommended it to their Project Management Team (PMT) which handles pilot test cases of new products. BAAC has suggested that they use existing EU funds of Baht 100 million to fund the new loan product disbursements. After the pilot test, the loan will be offered to other tangerine growers. Indicators for the intervention at the service market level are the number, total amount, profitability, and non-performing loans (NPLs) – relative to the entire bank's portfolio of NPLs – of credits booked using the new loan product. Also, the project will collect examples of partners' and other financial institutions using the new loan product concept in different segments of their loan portfolios. The indicators at the target SME level are increased revenues and improved tangerine yields after the 3-year organic farming transition period at a select number of enterprises stemming from the provision of additional finance under the new loan product.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	50,000	150,000	50,000
%	20%	60%	20%

Syndicated Lender and Borrower Loan Product – Financial Advisory Service

The partner banks have proposed providing syndicated working capital finance to shrimp growers and processors using the security of forward contracts (contract farming – purchase orders) as the basis for their lending decision. The initiative was started through the partner banks' own project known as the "Three State Banks Cooperating to Provide Financial Support to the Grassroots Economy Project". The banks' separate project envisions creating a syndicated loan fund to disburse and manage loans given to a syndicate of enterprises operating within government-promoted clusters/value chains at the provincial level. The PFS Project is acting as a financial advisory service provider to their project. The targeted enterprises are in a separate geographical area than our current shrimp sub-sector focus but are still of interest to the programme. The indicator for the intervention at the service market level will be demand creation or the partner banks employment of third-party (not related to the PFS Project) financial service providers to facilitate the launch of their new syndicated loan product.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	10,000	50,000	0
%	17%	83%	0%

Oil Palm Tree Leasing Product

There is a need for financing the replanting of old oil palm farms. The project is working with BAAC to develop a leasing product. The bank would lease individual oil palm trees to growers who need to replant due to the maturity and decline yields of their existing old-growth trees (more than 25 years old). The competitiveness issue is improving productivity and business performance for oil palm growers. The service market solution will be the partner bank's innovative leasing of trees. The leasing structure will minimizes the cash payment requirements of oil palm farmers who experience reduced revenues during replanting transition periods (about 3 years from planting). At present, there is a need to finance the replanting of one-third of the existing 2 million rai of planted oil palm. The project's newly hired local long-term expert has been assigned to develop the tree leasing concept through to its implementation. Indicators for the intervention at the service market level are number, total amount, profitability, and NPLs – relative to the entire bank's portfolio of NPLs – of credits booked using the new leasing product. Also, the project will collect examples of partners' and other financial institutions using the new product concept in different segments of their loan portfolios. The indicator at the target SME level are increased revenues and improved fresh fruit bunch yields after the 4-year initial growing period at a select number of enterprises stemming from the provision of additional finance under the new loan product.

Summary of Contributions:

	T-G PEC	Partners	Target Group
THB	50,000	150,000	0
%	25%	75%	0%

Planned Interventions

Thai Secured Transaction Law Conference

Working with the Thai Bankers' Association (TBA), the project is investigating hosting an international conference to promote the adoption of a Thai secured transaction law and persuade Thai parliamentarians as to its critical need. A secured transaction formalizes financial institutions' collateral rankings and claims against enterprises' short-term assets, notably accounts receivable and inventories. A Thai secured transaction law would have wide ranging enabling environment effects on the overall financial services market system and vastly expand working capital finance provision by financial service providers.

Small-Scale Biomass/Biogas Power Plant Project Finance Product

The Programme's eco-efficiency services project (E3Agro) has been working with private palm oil crushing mills as well as the Palm Oil Crushing Mills Association on energy efficiency improvements across the sub-sector to address enterprise productivity and business performance opportunities. As a result of its policy-based enabling environment intervention, it is anticipated that the Thai government will soon approve a 3.8 THB per kilowatt-hour tariff rate structure for small power producers who supply electricity to the national electricity grid. Once this investment-friendly tariff is in place, there will be a need among palm oil crushing mills to finance investments in power generation equipment up to the 10-megawatt level. The PFS Project will work with its partners to develop a new financial product to meet this long-term enterprise investment need. Going forward, a similar electricity generation project finance product should also be applicable for the tapioca sub-sector. Furthermore, there may be an opportunity to finance ethanol production from tapioca.

3.5.8 Allocation of Resources

The PFS Project is a joint undertaking by German Technical Assistance (GTZ) and the initial three partner banks. Contributions are made in the form of personnel (experts, professionals, officers), in-kind (office space, equipment, utilities) or in the form of cash. It has been agreed that for total costs a rough breakdown of ⅔ GTZ and ⅓ SME Bank, BAAC, GSB combined should be the norm. This calculation is not done on each budget item as some costs are easier carried by one partner than by the other. Rather, it is the budget totals that are in the above-mentioned proportions.

The project is employing one international long-term expert and one local long-term expert for 11 months during its first phase of operation. The international expert is responsible for overall project management and the provision of financial technical expertise during project interventions. The local long-term expert is responsible for assigned financial product development interventions and general assistance to the project manager. For overall project support, the project employs a secretary and a driver.

A Project Management Committee (PMC) made up of senior executive from the partner banks and GTZ guides project implementation. The chart below highlights the contributions for each partner as officially agreed under the PFS Project Implementation Arrangement, which was signed on 9 February 2006.

Contributions Personnel (Work Months)	**GTZ**	**SME Bank**	**BAAC**	**GSB**
Management				
Project Directors		5wm	5wm	5wm
Result Managers		10wm	10wm	10wm
Implementation Personnel				
Officers		12wm	12wm	12wm
Short and Long-Term Experts	22wm			
Support Personnel				
Totals	22wm	27wm	27wm	27wm
Percentages	22%	26%	26%	26%
		78%		
Contributions In-Kind (Thai Baht)	**GTZ**	**SME Bank**	**BAAC**	**GSB**
Office accommodation (50 sqm)		456,000	600,000	500,000
Computer, printer, fax, phone, furniture		347,000	100,000	300,000
Transport			1,000,000	
Electricity and water		67,200	100,000	70,000
Maintenance			10,000	
Photocopying		108,000	80,000	100,000
Travel and accommodation of SME Bank, BAAC and GSB staff (est.)		300,000		300,000
Totals		1,278,200	1,890,000	1,270,000
Percentages	0%	29%	42%	29%
		100%		
Contributions In-Cash (Thai Baht)	**GTZ**	**SME Bank**	**BAAC**	**GSB**
Project Management:				
Project Secretary	550,000			
Project Driver	300,000			
Computer, fax, furniture, etc	500,000			
Consumables and misc. office costs	1,500,000			
Travel and accommodation	1,200,000	350,000		(available)
Overseas training/study tours				
Local Consultants (incl. travel)				
Interventions:				
Specific studies (outsourced)				
Workshops / training		700,000	700,000	700,000
Other intervention costs	10,000,000			
Totals	**14,050,000**	**2,328,200**	**2,590,000**	**1,970,000**
Percentages for in-kind and in-cash contributions	**67%**	**11%**	**12%**	**10%**
		33%		

3.6 Enhancing the Competitiveness of the Food Certification and Standards Assurance

3.6.1 Partner
In the initial phase the partner is Thailand Institute of Scientific and Technological Research (TISTR) and the Bureau of Agricultural Commodity and Food and Safety

3.6.2 Duration
February 2006 through January 2008

3.6.3 SME Target Group
The main SME target group consists of producers, domestic suppliers and exporters of fresh food products. A secondary target group is the certification suppliers or certifying bodies.

3.6.4 Aim and Relevance of the Project
The purpose of the project is to increase the competitiveness of the Thai fresh food sector by introducing internationally recognised food safety standards. The greater use of these standards will open up new markets and add value to the current products.

3.6.5 Key Competitiveness Issues
This service sector is relatively underdeveloped for two principle reasons: the demand for the service is "embryonic" and expensive and therefore restricted to a few exporters and secondly past government interventions in this sector have been oriented giving this service away for free rather than stimulating the entry of more private service providers.

3.6.6 Status of Implementation
The project was approved by the PMC on the 14th of February, 2006. Initial activities are planned for March with the mission of personnel from EurepGAP to conduct a pre-feasibility on if and how higher standards can most effectively be introduced.

3.6.7 Status of Interventions
The project is in its first months of implementation, but even at this stage there are several raw intervention ideas that are being explored. The following is a summary of those intervention ideas.

Completed Interventions
None

On-going Interventions
None

Planned Interventions
Pre-feasibility on the Application of EurepGAP Standard to Thailand
This intervention is aimed at determining whether EurepGAP standards can be integrated with the currently promoted Thai "Q" label of quality in the food sector. A 10 day mission from EurepGAP, Germany is being conducted in March with senior technicians to review the current standards and the procedures for assessing compliance as a way of determining whether harmonization is possible. If this is so, then recommendations will be made on next steps.

Capacity Building of Certifying Bodies
On the assumption that harmonization of standards is possible a subsequent intervention would be aimed at improving the capacity of certifying bodies. This would take the form of seminars and workshops on the details of the standards and their enforcement. This intervention would also include a study tour to German certifying bodies in the field of food safety. The key indicator of this

intervention would be related to the expansion of new and relevant sales of certifying bodies in Thailand.

Pilot Testing the System
Once the system is developed a few items would be selected for pilot testing to insure that it is practical before expanding this as a general system for all food products.

Demand Creation for the Certifying Bodies
Again assuming that the pilot testing has gone well the next phase of the project would be aimed at stimulating the demand for the service from the consumers (food suppliers and exporters). This would be done using standard marketing techniques directed to creating awareness of the commercial relevance of adopting higher standards and eventually directing consumers to certifying bodies that would be able to deliver the service.

Recommendation on Appropriate Legal and Regulatory Changes
At this stage of the development of the market for this certification service changes would be required to assure that the appropriate accreditation body is empowered with adequate authorities.

3.6.8 Allocation of Resources

Contributions Personnel (Work Months)	**PTB**	**GTZ**	**TISTR**	**ACFS**
Management			1wm	9wm
Implementation personnel:				
International experts (including traveling & accommodation costs)	3wm			
Overseas training (including traveling & accommodation costs)	2wm			
Totals	5wm		1wm	9 wm
Percentages	33%		7%	60%
			67%	
Contributions In-Kind (Thai Baht)	**PTB**	**GTZ**	**TISTR**	**ACFS**
Office accommodation		35,000	20,000	115,000
Transportation		20,000	15,000	85,000
Computer, printer, fax, phone, furniture		20,000	15,000	70,000
Photocopies, electricity, maintenance		7,000	7,000	35,000
Totals		82,000	57,000	305,000
Percentage			16%	84%
			100%	

Contributions In-Cash (Thai Baht)	**PTB**	**GTZ**	**TISTR**	**ACFS**
Project management:				
Project staff & office costs	700,000			
Traveling costs:				
Traveling cost & accommodation	100,000	38,000		
Interventions:				
Local consultants/specific studies	150,000			
Workshop/ internal training			100,000	300,000
Totals	**950,000**	**38,000**	**100,000**	**300,000**
Percentage for in-kind and in-cash contributions	**68%**	**3%**	**7%**	**22%**
		32%		