

Thailand

SMEs in the national economy

There were 2.9 million SMEs (firms with less than 200 employees) in Thailand in 2010, constituting 99.6% of all enterprises and employed 78% of the labour force including agriculture. The economy of Thailand was hit by two major events during the period under study: political instability and the financial crisis originating in the West. In *Studies on SME and Entrepreneurship: Thailand. Key Issues and Policies (2011)*, the OECD found that less than half of the 2.9 million SMEs can access formal finance. This problem was compounded in Thailand by systemic volatility in financial markets. The Asian financial crisis and the recent global financial crisis have made it difficult for Thai banks to accept risky loans, not least because they were often burdened with extremely high non-performing loan rates. The lesson learned from the Asian crisis in 1997 was that adequate capital alone cannot encourage bank lending. Banks will only lend when they are comfortable with the level of credit risk.

Table 30.1. **Distribution of firms in Thailand, 2010**

By firm size

Enterprise size (employees)	Number	%
All enterprises	2 922 307	100.0
SMEs (up to 200)	2 913 167	99.6
Small enterprises (up to 50)	2 894 780	99.0
Medium Enterprises (50-200)	18 387	0.6
Large (200+)	9 140	0.3

Note: Data include the manufacturing, services, wholesale and retail industries. Non-employer firms are included.

Source: Thai Office of SME Promotion.

StatLink  <http://dx.doi.org/10.1787/888933014992>

SME lending

Most banks do not use the national definition for an SME. Instead, they use the size of loan or sales turnover as proxies, and definitions vary across banks. Total business loans decreased between 2007 and 2011, but SME loans increased gradually throughout the period 2007-12, so that the share of SME loans increased from 28.1% (2007) to 37.6% (2012). Bank lending to businesses in general languished at two-thirds of the 1990s levels. SME loans continued to grow both during the crisis and at the recovery period, slowing down in 2011 (3.1% year-on-year increase) and picking up again in 2012, recording a significant increase

of 19.1%. SME short-term loans decreased in 2011 so that their share in total SME loans also declined from 58% (2010) to 47% (2011). The trend was reverted in 2012, with short-term SME loans increasing by 26.3%, accounting for 48.1% of the total SME lending portfolio.

The ratio of SME non-performing loans in the total SME loan portfolio was at a high of 7.9% in 2007 and has followed a declining trend up to 2012, when it reached a low at 3.3%, having decreased since 2011 when 3.6% of SME loans were non-performing. Total non-performing loans followed a similar pattern, declining from 9.6% in 2007 to 3.1% in 2011, further declining in 2012 to 2.7% of the total business loan portfolio.

SME loans authorised vs. requested

The ratio of loans authorised vs. requested rose from 71.54% (2007) to 73.1% (2010), indicating that banks were continuing to provide credit although the terms were tightening.

Credit conditions

Interest rates for SMEs continued to climb over the period 2007-11 since Thailand did not engage in monetary easing. In 2012, interest rate charged on SME loans declined by 106 basis points year-on-year. Interest rate spreads between small and large enterprises increased from 1.2% (2007) to 2.7% (2011). The trend was reversed in 2012, with the interest rate spread between SMEs and large enterprises standing at 1.5% in 2012 (43% decrease). More importantly, the value of collateral required increased to more than five times the value of SME loans in 2011 due to extreme risk aversion on the part of banks. However, this was not entirely unreasonable given the historic high rate of non-performing SME loans. The value of collateral required increased further by 13.7% in 2012, on a year-to-year basis.

Equity financing

Scarce supplies of venture capital stifled the business momentum of innovative firms. The venture capital and private equity industry is small in Thailand and has focused on mergers and acquisitions and restructurings, rather than start-up and mezzanine finance. The Market for Alternative Investments was established in 1999. It provides a simpler and lower cost alternative to smaller firms than the Stock Exchange of Thailand (SET). As such, MAI provides an exit point for venture capital investors and facilitates capital raising by firms from institutional and sophisticated investors. As of 2010, the MAI had 62 companies listed; and the market capitalisation of MAI listings was THB 43 billion. In 2009, there were only 11 members of the Thai Venture Capital Association. In addition, the weak Thai legal system and the underdeveloped capital market made exits difficult (Scheela and Jittrapanum, 2008).

Government policy response

Thailand established a five-year Portfolio Guarantee Scheme for SMEs in February 2008. All local commercial banks signed a Memorandum of Understanding to participate. It was expected that this would assure participating banks an acceptable level of risk. This supplemented the activities of the state-owned banks such as the Small Business Credit Guarantee Corporation (SBCGC). SBCGC was renamed into Thai Credit Guarantee Corporation (TCG).

The TCG provides credit guarantees to viable small businesses which do not have sufficient collateral. The TCG provides a letter of guarantee for approved applications to the financial institutions after the SME has paid the guarantee fee. In 2009, it had a THB 30 billion

loan guarantee facility. In 2007, 2 866 SMEs were accepted for credit guarantees. The total number of loans guaranteed was an average of 7 800. This is a relatively small number compared to the total number of SMEs, pointing to an unexploited potential to ease SMEs' access to credit. In 2011 the TCG had THB 89 billion in outstanding loan guarantees.

Box 30.1. Definition of SMEs used in Thailand's SME and entrepreneurship finance Scoreboard

Country definition

On 11 September 2002, the Ministry of Industry introduced the definition of Thai small and medium-sized enterprises (SME). This definition is based on the number of employees and fixed capital. An enterprise is categorised as an SME if it has less than 200 employees and fixed capital less than THB 200 million, excluding land and properties. SMEs in Thailand are classified in three sectors: production, service, and trading.

Definition of SMEs according to the Thai Ministry of Industry

Type	Small		Medium	
	Employees	Capital (THB million)	Employees	Capital (THB million)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100
Retail	Not more than 15	Not more than 30	16-30	31-60

The SME definition used by financial institutions

The official definition for SMEs is not used by financial institutions in Thailand. In fact, each financial institution in Thailand is permitted to use their own definition of SMEs, which typically follows criteria such as sales less than THB 400-500 million and/or credit line less than THB 200 million. Therefore, data presented in Thailand's profile does not reflect the above national definition.

Table 30.2. **Scoreboard for Thailand, 2007-12**

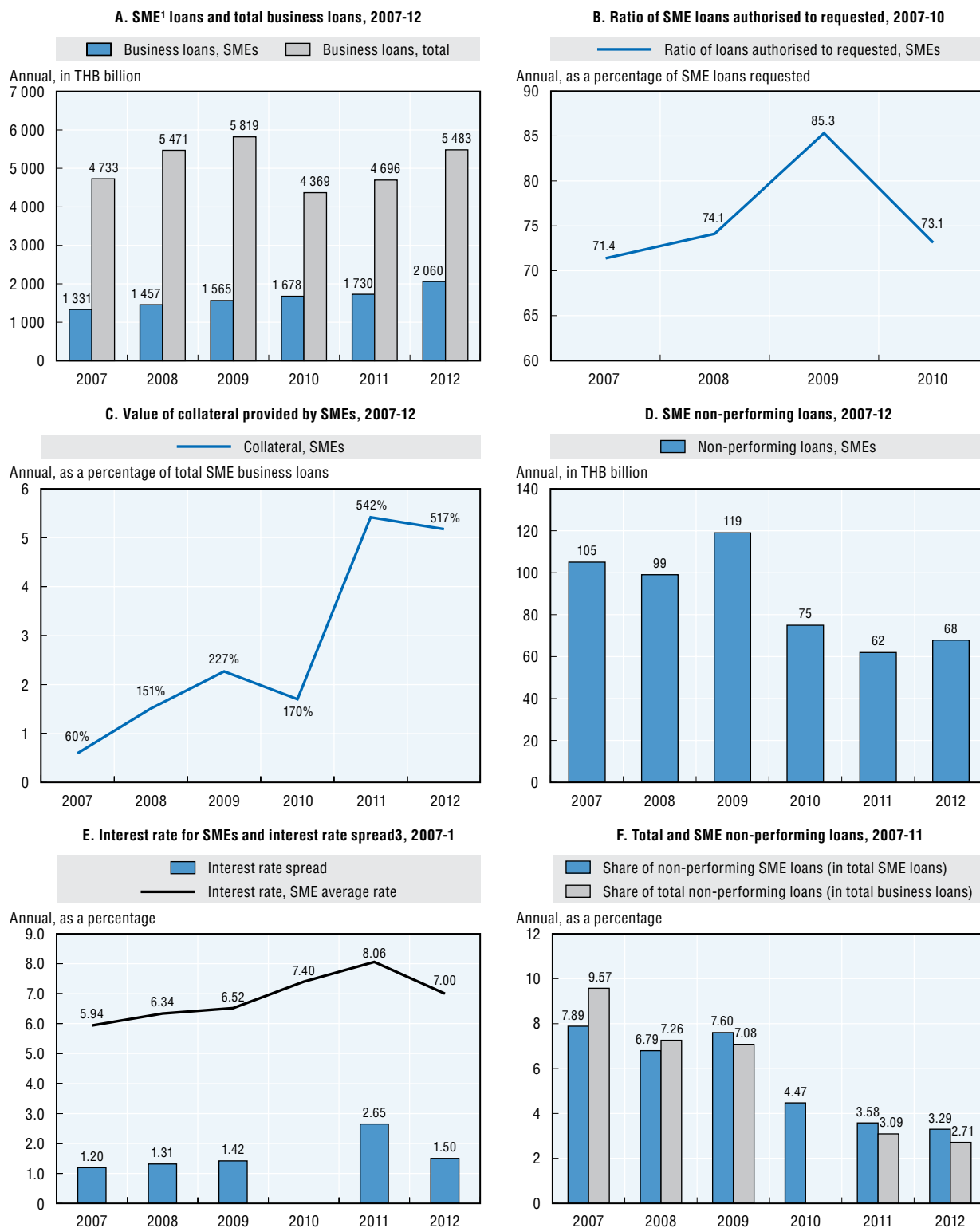
Indicators	Definitions	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	THB billion	1 331	1 457	1 565	1 678	1 730	2 060
Business loans, total	THB billion	4 733	5 471	5 819	4 369	4 696	5 483
Business loans, SMEs	% of total business loans	28.1	26.6	26.9	38.4	36.8	37.6
Short-term loans, SMEs	THB billion	578	647	692	973	783	988
Long-term loans, SMEs	THB billion	753	810	873	701	879	1 068
Total short and long-term loans, SMEs	THB billion	1 331	1 457	1 565	1 674	1 662	2 056
Short-term loans, SMEs	% of total SME loans	43.4	44.4	44.2	58.1	47.1	48.1
Loan guarantees outstanding, SBGC	THB billion	..	..	..	64.0	86.9	143.0
Government guaranteed loans, SMEs	THB billion	..	..	21.4	..	..	..
Loans authorised, SMEs	THB billion	217	312	186	392	..	..
Loans requested, SMEs	THB billion	304	421	218	536	..	..
Ratio of loans authorised to requested, SMEs	%	71.5	74.1	85.3	73.1	..	..
Non-performing loans, total	THB billion	453	397	412	..	145	149
Non-performing loans, SMEs	THB billion	105	99	119	75	62	68
Non-performing loans, SMEs	% of SME business loans	7.9	6.8	7.6	4.5	3.6	3.3
Non-performing loans, large	% of total business loans	9.6	7.3	7.1	..	3.1	2.7
Interest rate, SME average rate	%	5.94	6.34	6.52	7.40	8.06	7.00
Interest rate spread (between average interest rate for loans to SMEs and large firms)	%	1.20	1.31	1.42	..	2.65	1.50
Collateral, SMEs	THB billion	793	2 201	3 553	2 855	9 370	10 658
Collateral, SMEs	Value of collateral provided by SMEs over SME business loans, %	59.6	151.0	227.0	170.1	541.7	517.5
Other							
Payment delays, SMEs	Average number of days	33.0	..	..	..	..	..
Bankruptcies, total ¹	% of insolvencies over total number of SMEs	66.0	..	..	..	..	..

Note: 1. According to the Bank of Thailand, Thailand only has data for 2007 due to the financial statement reformat required by the Ministry of Commerce in 2009. Therefore, all financial statement data in 2008 are delayed for submission. In 2007, there were 370 118 insolvent companies in Thailand. In other words, Thailand had 6 600 insolvent companies per 10 000 enterprises. However, it should be noted that while companies shut down very frequently, it is also very easy for them to restart.

Source: Refer to Table 30.3.

StatLink  <http://dx.doi.org/10.1787/888933015011>

Figure 30.1. Trends in SME and entrepreneurship finance in Thailand



Notes: 1. Firms with sales less than THB 400 million (EUR 10 million). 2. Spread between average interest rate for loans to SMEs and large firms. Banks did not provide information for 2010.

Source: Bank of Thailand.

StatLink <http://dx.doi.org/10.1787/888933016398>

Table 30.3. **Definitions and sources of indicators for Thailand's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Outstanding amount of SME loans provided by bank at the end of period, stocks. Banks in Thailand define SMEs as enterprises with sales less than THB 400 million and/or a credit line less than THB 200 million.	Bank of Thailand.
Business loans, total	Outstanding amount of all loans (excluding interbank loans) provided by bank at the end of period, stocks.	Bank of Thailand.
Short-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity less than one year, stocks.	Bank of Thailand.
Long-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity more than one year, stocks.	Bank of Thailand.
Loan guarantees outstanding, SBGC	SME loans guaranteed by Credit Guarantee Corporation. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Bank of Thailand.
Government guaranteed loans, SMEs	Guarantees outstanding at the end of the year. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Small Business Credit Guarantee Corporation, Annual Report.
Loans authorised, SMEs	SME loans approved by the banks.	Bank of Thailand.
Loans requested, SMEs	SME loans requested for approval.	Bank of Thailand.
Non-performing loans, total	Figures cover all enterprises in the Thai banking system.	Bank of Thailand.
Non-performing loans, SMEs	SME loans 90 days past due date. Figures cover all SMEs in the Thai banking system.	Bank of Thailand.
Interest rate, SME average rate	Average interest rate charged to new SME loans, approved by the bank during a year.	Bank of Thailand.
Interest rate spread (between average interest rate for loans to SMEs and large firms)	Average interest rate spread between SME loans and corporate loans.	Bank of Thailand.
Collateral, SMEs	Appraisal value of collateral based on market valuation.	Bank of Thailand.
Other		
Payment delays, SMEs	Average payment delay in days for trade credit, business-to-business (i.e. seller gives credit term to buyer for 30 days but the buyer makes a delayed payment after credit term 15 days. So, the payment delay is 15 days). SMEs are defined according to the national definition contained in Box 30.1.	Business online.
Bankruptcies, SMEs	Insolvent SMEs divided by the total number of SMEs, presented as a percentage. SMEs are defined according to the national definition contained in Box 30.1.	Business online.

References

- OECD (2011), Thailand: Key Issues and Policies, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris. doi: <http://dx.doi.org/10.1787/9789264121775-en>
- Scheela, W. and Jittrapanun, T. (2008). "Impact Of The Lack Of Institutional Development On The Venture Capital Industry In Thailand", Journal of Enterprising Culture (JEC), World Scientific Publishing Co. Pte. Ltd., vol. 16(02), pages 189-204.



From:
Financing SMEs and Entrepreneurs 2014
An OECD Scoreboard

Access the complete publication at:
https://doi.org/10.1787/fin_sme_ent-2014-en

Please cite this chapter as:

OECD (2014), "Thailand", in *Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/fin_sme_ent-2014-34-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.