

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 114/2024

4 July 2024

LOCAL GOVERNMENT

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 10/07/23

Issuer Rating History:		
Date	Rating	Outlook/Alert
17/07/17	AAA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA) at “AAA” with a “stable” outlook. The rating reflects NEDA’s status as a government-related entity (GRE) that has “integral” linkage with the Thai government. The rating also reflects our view that NEDA plays a “critical” role in serving the government’s foreign public policy. Additionally, the rating incorporates our expectation that the Thai government will provide NEDA with “extraordinary support” if needed.

KEY RATING CONSIDERATIONS

Integral linkage with the Thai government

We assess NEDA's linkage with the Thai government as “integral”. This is evident through the government’s complete ownership, tight control via board representatives from various government agencies, supervision by the Ministry of Finance (MOF), and the continuous track record of financial support from the government.

NEDA plays a critical role in implementing the government’s policy of sustainable economic development cooperation with neighbouring and other countries. It provides financial and technical assistance on a government-to-government basis, fostering mutually beneficial trade and investment relationships. This unique function makes it difficult for a private organization to replicate NEDA’s work in this area. Furthermore, NEDA actively collaborates with other countries to advance economic and social development, ensuring its activities are aligned with Thailand’s “20-Year National Strategy” (2018-2037) and the “13th National Economic and Social Development Plan” (2023-2027).

Thai government main funder of NEDA

TRIS Rating expects NEDA to receive regular financial support from the government to cover its operational costs. Government subsidies have been the main funding source of NEDA’s financial and technical assistance to neighbouring and other countries. NEDA's annual government funding is determined by project disbursement progress and the availability of its own accumulated funds.

Government subsidies contributed over 80% of NEDA’s revenue during the fiscal years 2021-2023. Net interest income provided most of the remainder. Over the same period, NEDA’s expenditures consisted of financial grants and technical assistance (45%), followed by operating expenses (34%) and interest expenses (19%). The decline in government subsidies as a percentage of NEDA's total revenue to 56% during the first half of fiscal year 2024 is due to a one-time delay in government budget allocation.

Near certain likelihood of extraordinary government support

Our assessment of NEDA’s rating is based on our view of the near certainty of timely and sufficient government support when needed. NEDA’s debt constitutes non-guaranteed public debt, according to the Public Debt Management Office (PDMO). Additionally, NEDA is required to obtain government approval before taking on any indebtedness under the public debt management plan. All of NEDA's loans requires approval from the cabinet and serves to support the government’s foreign policies, fostering relationship with

neighbouring and other countries. NEDA's financial and technical assistance projects are directly funded by the government through annual budgetary allocations, alongside its own accumulated funds. This close alignment underscores the potential for NEDA to receive additional support when needed. We view that a default by NEDA on its debt obligations would severely damage the government's reputation.

In addition, if a counterparty country defaults on its obligations, NEDA can seek compensation for principal and interest on most of the projects to maintain its financial liquidity.

Fostering economic and social development with financial prudence

In the near future, we expect NEDA will maintain its core focus on infrastructure development projects that bolster trade and investment opportunities between Thailand and its key strategic neighbors: Laos, Cambodia, and Myanmar. While challenges faced by any of these neighbouring countries might cause delays, they are unlikely to derail NEDA's long-term development efforts in the region. Also, NEDA has begun expanding its reach through technical assistance and grants to Sri Lanka, Bhutan, and Timor-Leste.

NEDA has adopted cautious measures by closely monitoring the sovereign credit risk and economic situation in Laos. Priority is given to investment projects that directly serve mutual interests with Thailand. Cambodia is likely to receive increased focus from NEDA's development assistance efforts. In Myanmar, NEDA will only proceed with previously approved projects, ensuring any new initiatives comply with the Thai government's policy towards the country. However, ongoing political unrest in Myanmar will likely continue to hinder project progress.

As of March 2024, NEDA's outstanding loans to neighbouring countries totaled THB 11.1 billion, reflecting an increase from THB 10.6 billion in March 2023. These loans are primarily extended to the governments of Laos (89% of the total) and Cambodia (11%¹). Loan disbursements to Myanmar remain suspended due to the ongoing political unrest.

NEDA adheres to a conservative leverage policy, maintaining a debt-to-equity (D/E) ratio below 0.5. As of March 2024, NEDA's D/E ratio remained healthy at 0.38. Cash and short-term deposits amounted to THB2.7 billion at the end of March 2024.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that NEDA will maintain its status as a GRE, integrally linked to the Thai government. We also expect NEDA's role as a government agency serving the Thai government policies on economic development cooperation with neighbouring countries to continue, with ongoing financial support from the government.

RATING SENSITIVITIES

We could revise NEDA's rating and/or outlook downwards if our view on the linkage and/or importance of NEDA to the Thai government changes.

ORGANISATION OVERVIEW

NEDA was established on 17 May 2005 under Thailand's Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548, announced in the Royal Gazette, Volume 122, Part 39A, dated 16 May 2005.

NEDA is a public agency which, according to the Public Organization Act, B.E. 2542, has the organizational objective of providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and functions of NEDA are stipulated in Section 7 of the Royal Decree, as follows: 1) to provide neighbouring countries and other countries with financial and technical assistance; 2) to cooperate with neighbouring countries in economic development; 3) to conduct studies and provide recommendations on cooperation policies and measures; and 4) to coordinate with concerned organizations to integrate cooperation. Financial assistance typically takes the form of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects.

Structurally, NEDA is under the supervision of the MOF. Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives of the government agencies that are directly involved in joint economic cooperation with neighbouring and other countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed upon by the government. The NEDB oversees the implementation of the cooperative efforts.

¹ NEDA's loan portfolio consists entirely of long-tenor unsecured term loans with fixed repayment schedules. The principal repayment periods range from 20-30 years. These loans are charged with fixed lending rates not exceeding 2.5% per annum.

NEDA relies primarily on government subsidies to fund its operations. The financial and technical assistance for neighbouring and other countries is provided on a non-commercial basis. NEDA is not designed to engage in profit-driven transactions and is not mandated to operate with the financial independence of the government. Although the government does not provide guarantees to back up NEDA's obligations, NEDA's debt constitutes part of the country's public debt. All of NEDA's borrowings require government approval.

NEDA's "20-Year Strategies" (2020-2039) are aligned with the "20-Year National Strategy" (2018-2037) and the "13th National Economic and Social Development Plan" (2023-2027). Key priorities are the promotion of regional trade and logistics, international relations, and sustainable developments. Further, 5-year strategies for each target country outline areas of support. These include cross-border trade, transport infrastructure, energy sustainability, as well as health care and human resource development.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Oct 2023- Mar 2024	----- Fiscal Year Ended 30 September -----			
		2023	2022	2021	2020
Total assets	13,956	13,067	12,125	11,297	11,127
Average assets	13,512	12,596	11,711	11,212	10,633
Investment in securities	2,542	291	554	1,166	1,319
Loans and receivables	11,179	10,966	10,484	9,962	9,100
Borrowings and interest payables	3,784	2,996	2,590	2,263	2,560
Shareholders' equities	10,154	9,980	9,474	8,998	8,487
Average equities	10,067	9,727	9,236	8,743	8,103
Total revenue	170	712	693	699	957
Net interest income	75	130	116	109	116
Revenue from government subsidies	95	580	580	588	837
Gains (losses) on investment in joint ventures	-	0.3	(3)	-	-
Other operating income	0.2	2	1	2	3
Expenses related to grants, subsidies, and technical assistance	34	107	137	111	112
Operating expenses	53	96	80	77	77
Net profit (losses)	83	503	476	511	768

* Reviewed but unaudited

Unit: %

	----- Fiscal Year Ended 30 September -----				
	Oct 2023- * Mar 2024	2023	2022	2021	2020
Earnings					
Return on average assets ¹	1.23	4.00	4.06	4.56	7.22
Return on average equities ¹	1.65	5.18	5.15	5.85	9.47
Net interest margins ¹	1.11	1.03	0.99	0.97	1.09
Government subsidy/total revenue	56.00	81.51	83.66	84.10	87.52
Net interest income/total revenue	43.91	18.29	16.68	15.58	12.14
Gains on trading/total revenue	-	(0.04)	(0.43)	-	-
Other income/total revenue	0.09	0.23	0.09	0.33	0.34
Operating expenses/total revenue	31.25	13.49	11.60	10.97	8.05
Capitalisation					
Debt/equity	37.57	29.97	27.26	25.11	30.13
Shareholders' equity/total assets	72.11	76.37	78.13	79.65	76.27
Shareholders' equity/total loans	90.46	91.44	90.79	90.73	93.66
Funding & Liquidity					
Total loans/total assets	79.71	83.52	86.06	87.79	81.43
Liquid assets/total assets	19.60	15.84	13.38	11.66	18.02

* Reviewed but unaudited

1 Annualised

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Neighbouring Countries Economic Development Cooperation Agency (Public Organisation) (NEDA)

Issuer Rating:	AAA
Rating Outlook:	Stable

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