

# NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 117/2020  
31 July 2020

## GOVERNMENTS

**Issuer Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 12/07/19

### 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” rating outlook. The rating reflects NEDA’s status as a government-related entity (GRE) with an “integral” link to the Thai government. The rating also reflects our view that NEDA’s foreign public policy roles are “critical” to the government. In TRIS Rating’s opinion, the likelihood that NEDA will receive extraordinary support from the government in the times of financial stress is a near certainty.

## KEY RATING CONSIDERATIONS

### Integral link with the Thai government

NEDA’s issuer rating reflects its status as a GRE, integrally linked to the Thai government. Under TRIS Rating’s “Government-Related Entities Rating Methodology”, the issuer rating on NEDA is determined based on the assessed level of its linkage to the government and the importance of its role to the government.

NEDA is assessed as integrally linked to the government supported by the full ownership and control by the government. The government’s full control over its operation is evidenced in the government’s representation in NEDA’s board of directors that comprises representatives of government agencies. NEDA is under the supervision of the Ministry of Finance (MOF).

NEDA has a unique role in executing foreign social, political, and economic policies on behalf of the government in promoting joint economic development with neighbouring and other countries. These activities are primarily non-commercial. As such, it is unlikely that a private entity could assume NEDA’s roles.

In our opinion, an event of default by NEDA would be a major detriment to the government’s reputation, since NEDA’s debt constitutes public debt. According to the Public Debt Management Office (PDMO), NEDA’s debt constitutes non-government guaranteed public debt.<sup>1</sup> Under the public debt management plan, NEDA is required to obtain government approvals for borrowings.

### Reliance on government subsidies

TRIS Rating expects the government to continue providing operational subsidies to NEDA as part of its on-going support. Government subsidies constitute the main funding source to fund NEDA’s activities in providing loans, financial grants, and technical assistance to the recipient countries. The subsidies NEDA receives each year take into account its future funding needs and available cash balances. NEDA’s profit and loss statement treats government subsidies as revenue.

Between fiscal years (FY) 2017 to 2019, government subsidies made up nearly 80% of NEDA’s total revenue. Net interest income made up the majority of the remainder. Around two-thirds of NEDA’s expenditures were composed of financial grants and technical assistance, followed by operating expenses (22%) and interest expenses (11%).

<sup>1</sup> According to the PDMO’s website: [www.pdmo.go.th](http://www.pdmo.go.th)

## Likelihood of government support drives the rating

The issuer rating on NEDA is driven by our view on the likelihood of NEDA receiving timely and sufficient government support in times of financial stress. Government subsidies are provided through ordinary government budgeting cycles to ensure NEDA has sufficient funding to execute the approved projects. Even if NEDA incurred substantial losses from its lending activities, we believe the government would provide sufficient funding to cover the losses. All of NEDA's loan extensions are provided to support government policies and require approvals from the Cabinet. The supporting documents for each project submitted for the Cabinet approval contain a clause, which permits NEDA to request additional government subsidies to meet its debt obligations, should any of its borrowers default.

## Healthy balance sheet with reasonably successful operation

NEDA has maintained a conservative policy to cap its debt-to-equity (D/E) ratio at 0.5 times. NEDA's D/E ratio stood at a low 0.3 times, as of September 2019. We expect NEDA to remain focused on basic infrastructure projects in Cambodia and Myanmar over the next few years. As of September 2019, NEDA's total loans to neighbouring countries, excluding receivables, amounted to THB8.68 billion. These comprised the governments of the Lao People's Democratic Republic (Lao PDR) (93% of total loans) and Cambodia (7%)<sup>2</sup>. The figure rose from THB8.33 billion as of September 2018.

NEDA has been able to mitigate to some extent, the gapping risk from maturity and interest-rate mismatches. NEDA issued THB1 billion of senior unsecured bonds with a maturity of 10 years in the third quarter of 2019. This was to refinance some existing bank loans with remaining maturity of less than three years, and to lock-in lower funding costs. NEDA has further plans to issue bonds to refinance some existing bank loans with near-term maturity.

NEDA also has internally set a minimum cash requirement to cover its interest expenses during FY2020-2021 should it need to provide a debt moratorium to its borrowers, affected by the economic impacts of the Coronavirus Disease 2019 (COVID-19) pandemic.

## RATING OUTLOOK

The "stable" rating outlook reflects our expectation that NEDA will maintain its status as a GRE, integrally linked to the government. We also expect NEDA to continue its role as a government body, carrying out government policies on economic development cooperation with neighbouring countries, with on-going financial support from the government.

## RATING SENSITIVITIES

The credit rating and/or outlook of NEDA could change if our view on the linkage and/or importance of NEDA to the government changes.

## ORGANISATION OVERVIEW

NEDA was established on 17 May 2005 under the 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 Organisation Act, B.E. 2542, has its organisational objective as providing public services that are not primarily profit-driven. NEDA's main objectives are to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries.

The objectives, authority, and function of NEDA are stipulated in Section 7 of the Royal Decree. They are: 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 organisations 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 implementation of the cooperative efforts.

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

<sup>2</sup> NEDA's loan portfolio consisted entirely of long-tenor unsecured term loans with fixed repayment schedules. The principal repayment periods ranged from 20-30 years. These loans charged fixed lending rates not exceeding 2.5% per annum.

transactions and is not mandated to operate with 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.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Fiscal Year Ended 30 September -----				
	2019	2018	2017	2016	2015
Total assets	10,138	8,721	8,509	7,936	7,252
Average assets	9,429	8,615	8,222	7,594	7,070
Investment in securities	956	56	51	101	138
Loans and receivables	8,714	8,359	8,122	7,499	6,748
Borrowings and interest payables	2,257	1,533	1,290	792	830
Shareholders' equities	7,730	7,182	7,217	7,134	6,414
Average equities	7,456	7,200	7,175	6,774	6,190
Total revenue	853	180	327	1,033	755
Net interest income	108	96	99	103	97
Revenue from government subsidies	742	78	227	929	656
Gains (losses) on investment in joint ventures	0	5	(0)	(2)	(3)
Other operating income	3	1	1	4	5
Expenses related to grants, subsidies, and technical assistance	233	153	187	253	241
Operating expenses	72	63	57	60	67
Net profit (losses)	548	(35)	83	720	448

Unit: %

	----- Year Ended 30 September -----				
	2019	2018	2017	2016	2015
<b>Earnings</b>					
Return on average assets	5.81	(0.41)	1.01	9.48	6.33
Return on average equities	7.35	(0.49)	1.16	10.63	7.23
Net interest margins	1.19	1.11	1.20	1.35	1.37
Government subsidy/total revenue	86.95	43.34	69.53	89.91	86.86
Net interest income/total revenue	97.43	94.03	99.06	98.36	97.25
Gains on trading/total revenue	0.01	4.52	0.00	(1.95)	(2.55)
Other income/total revenue	2.56	1.45	0.94	3.59	5.30
Operating expenses/total revenue	8.42	34.89	17.47	5.77	8.86
<b>Capitalisation</b>					
Shareholders' equity/total assets	76.25	82.35	84.82	89.89	88.44
Shareholders' equity/total loans	89.07	86.25	89.22	95.47	95.38
<b>Funding &amp; Liquidity</b>					
Total loans/total assets	85.61	95.48	95.07	94.15	92.73
Liquid assets/total assets	13.80	3.96	4.44	5.38	6.76

## RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

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

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<b>Issuer Rating:</b>	AAA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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