

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY (PUBLIC ORGANISATION)

No. 127/2023

10 July 2023

LOCAL GOVERNMENT

Issuer Rating: AAA
Outlook: Stable

Last Review Date: 15/07/22

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

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 an “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 of the near certain likelihood that NEDA would receive timely and sufficient extraordinary support from the government when needed.

KEY RATING CONSIDERATIONS

Integral linkage with the Thai government

Our assessment of NEDA's integral linkage with the Thai government is based on the government’s full 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 has a unique role in supporting the government’s policy on sustainable economic development cooperations with neighbouring and other countries. NEDA extends financial and technical assistance to seven countries based on mutual trade and investment benefits between Thailand and these countries. The financial assistance extended by NEDA is non-commercial and inter-governmental. As such, it is unlikely that a private entity could assume its roles.

NEDA also collaborates with other countries to promote economic and social development and connectivity. NEDA’s operations are aligned with Thailand’s “20-Year National Strategy” (2018-2037) and the “13th National Economic and Social Development Plan” (2023-2027).

Government subsidies constitute the major revenue source

TRIS Rating expects that the government will provide operational subsidies and supports to NEDA on an ongoing basis. Government subsidies have been the main funding source of NEDA’s financial and technical assistance to neighbouring and other countries. The subsidies NEDA receives each year are based on its project disbursement plan and the availability of its own accumulated funds.

Government subsidies contributed over 80% of NEDA’s revenue during the fiscal years 2020-2022. Net interest income made up the majority of the remainder. Over the same period, NEDA’s expenditures consisted of financial grants and technical assistance (47%), followed by operating expenses (35%) and interest expenses (18%).

High likelihood of government support

The rating on NEDA is based on our view that NEDA would almost certainly receive timely and sufficient support from the government if needed. NEDA’s financial and technical assistance projects are funded by the government through an annual budget cycle and by NEDA’s accumulated funds. NEDA’s loans are provided to support government policies.

All of NEDA’s projects need to be approved by the Cabinet. The approval documents for most projects contain a clause, which permits NEDA to request additional government subsidies should the counterpart country default. We

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view that a default by NEDA on its debt obligations would severely damage the government's reputation. NEDA's debt constitutes non-guaranteed public debt, according to the Public Debt Management Office (PDMO). NEDA is required to obtain government approval before incurring indebtedness under the public debt management plan.

Fostering economic and social development through prudent financial policies

We expect NEDA's key focus will continue to be infrastructure development that help enhance trade and investment opportunities between Thailand and its key strategic neighbouring countries. These include the Lao People's Democratic Republic (Lao PDR), the Kingdom of Cambodia, and the Republic of the Union of Myanmar. Any challenges faced by any of these neighbouring countries should only delay, rather than undermine NEDA's development efforts within the region.

NEDA has taken cautious measures by closely monitoring the sovereign credit risk and economic situation of the Lao PDR. Priority investment projects are those that serve direct mutual interests with Thailand. For Myanmar, NEDA will only implement previously approved projects while any new projects must conform to the Thai government policy towards the country. Nevertheless, the ongoing political unrest is likely to continue to undermine project progress in Myanmar.

As of March 2023, NEDA's outstanding loans to neighbouring countries stood at THB10.6 billion, an increase from THB10.2 billion as of March 2022. These comprised loans to the governments of the Lao PDR (92% of total loans) and Cambodia (8%)¹. Loan drawdown in Myanmar remains on hold due to political unrest.

NEDA has maintained a conservative leverage policy with debt-to-equity (D/E) ratio set at below 0.5 times. NEDA's D/E ratio remained low at 0.28 times, as of March 2023. Cash and short-term deposits amounted to THB2.2 billion at the end of March 2023.

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 Organisation Act, B.E. 2542, has the organisational 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 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 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 2022- Mar 2023	----- Fiscal Year Ended 30 September -----			
		2022	2021	2020	2019
Total assets	12,890	12,125	11,297	11,127	10,138
Average assets	12,508	11,711	11,212	10,633	9,429
Investment in securities	43	554	1,166	1,319	956
Loans and receivables	10,654	10,484	9,962	9,100	8,714
Borrowings and interest payables	2,825	2,590	2,263	2,560	2,257
Shareholders' equities	9,973	9,474	8,998	8,487	7,719
Average equities	9,723	9,236	8,743	8,103	7,450
Total revenue	644	693	699	957	853
Net interest income	62	116	109	116	108
Revenue from government subsidies	580	580	588	837	742
Gains (losses) on investment in joint ventures	-	(3)	-	-	-
Other operating income	2	1	2	3	3
Expenses related to grants, subsidies, and technical assistance	100	137	111	112	233
Operating expenses	45	80	77	77	72
Net profit (losses)	499	476	511	768	546

* Reviewed but unaudited

Unit: %

	Oct 2022- Mar 2023	----- Fiscal Year Ended 30 September -----			
	*	2022	2021	2020	2019
Earnings					
Return on average assets ¹	7.97	4.06	4.56	7.22	5.79
Return on average equities ¹	10.26	5.15	5.85	9.47	7.33
Net interest margins ¹	1.05	1.00	1.00	1.16	1.19
Government subsidy/total revenue	90.07	83.66	84.10	87.52	86.95
Net interest income/total revenue	9.69	16.68	15.58	12.14	12.71
Gains on trading/total revenue	-	(0.43)	-	-	-
Other income/total revenue	0.25	0.09	0.33	0.34	0.33
Operating expenses/total revenue	6.95	11.60	10.97	8.05	8.66
Capitalisation					
Debt/equity	28.23	27.26	25.11	30.13	29.21
Shareholders' equity/total assets	77.37	78.13	79.65	76.27	76.14
Shareholders' equity/total loans	94.01	90.79	90.73	93.66	88.94
Funding & Liquidity					
Total loans/total assets	82.29	86.06	87.79	81.43	85.61
Liquid assets/total assets	17.14	13.38	11.66	18.02	13.80

* 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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