

ICR Review
Operations Evaluation Department

1. Project Data:	Date Posted : 07/06/2004		
PROJ ID : P053616	Appraisal		Actual
Project Name : Thailand Financial Sector Implementation Assistance	Project Costs 22.0 US\$M)		NA
	(US\$M)		
Country : Thailand	Loan/ Loan US\$M) 15.0		
	/Credit (US\$M)	9.9	
Sector (s): Board: FSP - Central government administration	Cofinancing US\$M)		
	(US\$M)		
(100%)			
L/C Number : L4233	Board Approval	98	
	FY) (FY)		
Partners involved :	Closing Date 09/30/2000		09/30/2003

Prepared by : Elliott Hurwitz Reviewed by : Laurie Effron Group Manager : Kyle Peters Group : OEDCR

2. Project Objectives and Components

a. Objectives

The project objective was to provide implementation assistance to the Thai Government to improve the structure, resiliency and soundness of the financial sector, and to address the immediate need to resolve finance companies which were suspended during the 1997 economic crisis.

The project was part of a broad effort to support stabilization and structural adjustment, and complemented the standby facility provided by the Fund and emergency financing from bilateral and multilateral sources . The project was part of the Bank's lending program centered on two structural adjustment loans, the first focused on the financial sector and the second on broader structural measures designed to enhance competitiveness .

b. Components

The original project components, with the PAD funding and actual expenditures are :

1. Strengthen financial institution resolution processes (US\$9.2m, US\$6.3m)
2. Improve capacity to identify future problem financial institutions in an appropriate timeframe and raise supervisory standards (US\$2.3m, US\$1.0m)
3. Rationalize the supervisory regime (US\$0.2m, US\$0.4m)
4. Strengthen market discipline (US\$1.6m, US\$0.6m)
5. Improve the bankruptcy and collateral foreclosure processes (US\$0.4m, US\$0.3m)
6. Implement financial infrastructure and institutional changes US\$ 0.9m, US\$0.3m)
7. Consulting services for studies (US\$0.4m, US\$0.7m)

Components added during implementation include Accelerated Voluntary Restructuring Program and

Modernizing

Public Debt Management, both approved by the Board as part of the first restructuring, then subsequently dropped

from this project (due to availability of grant funding); Economic Law Reform; TA for in-court mediation for financial

disputes; support to Government Housing Bank . (funding data for these components were not available)

c. Comments on Project Cost, Financing and Dates

The project was restructured twice, in 1999 and 2000, due to lagging disbursements, to add several new components, and drop others; consequently the project was extended twice . For some activities envisioned by the

project, grant funding became available after project initiation, and US\$ 5.2 million was unused and was cancelled .

Data on the actual overall project cost was not available . Some project activities were implemented under an

associated PHRD grant of US\$2.0 million.

3. Achievement of Relevant Objectives:

Address the immediate need to resolve finance companies which were suspended during the 1997 economic

crisis . The project provided appropriate assistance to the Financial Restructuring Authority (FRA) in its effort to sell

the assets of the 56 finance companies which were at the core of the financial crisis . This assistance included sector

studies, support to FRA management, advice on asset valuation, and advice on asset disposition .

Technical advice

was also provided to the Bank of Thailand on restructuring the finance companies' debt, estimating their recapitalization requirements, and monitoring their financial performance . The project also provided advice on the

□ restructuring and privatization of intervened banks .

Implementation assistance to improve the structure, resiliency and soundness of the financial sector

: Improve

capacity to identify future problem financial institutions in an appropriate timeframe and raise supervisory standards :

The Bank provided advice and training on financial institution accounting rules, disclosure, and auditing; training and

manuals for staff supervising financial institutions, including risk -focused supervision, external audit of commercial

banks, and standards for property valuation . The Bank provided advisory assistance to officials on international

experience in supervision of deposit -taking institutions. Also, the capacity of state -owned banks to restructure debt

was enhanced by the provision of valuation guidelines, an industry database, and training .

Strengthen Market Discipline: Market discipline was enhanced by advisory services on enterprise accounting

standards and regulations; improved quality of financial information; and improved corporate governance .

The

project also supported a capacity -building program for the Institute of Certified Auditors and Accountants . Progress

was also made toward development of a Deposit Insurance Scheme, including several studies, public information

services, and a study tour .

Improve Bankruptcy and Collateral Foreclosure Processes : Assistance was provided to review the Bankruptcy Act

and enhance the IT capacity of the Central Bankruptcy Court . The project contributed to Economic Law Reform by

strengthening the foreclosure and debt collection regime, and also by helping to develop the capacity of

the Ministry of Justice to facilitate reorganization of distressed firms .
 Implement Financial Infrastructure and Institutional Changes : The project supported development of a medium -term strategy for a sound and efficient banking sector, and also underwrote conferences of government officials and private sector participants to assess procedures used in clearing NPLs and potential ways to improve investor interest in Thai securities. The project also supported advisory services on measures to improve capital market efficiency, including consulting services to develop the regulatory framework and market for securities borrowing and lending.

TA was provided for in-court mediation of financial disputes at the Office of the Judiciary . Finally, support was also provided to the Government Housing Bank in modeling its portfolio, and to the start -up of the National Real Estate Information Center and its IT operations .

4. Significant Outcomes/Impacts:

FRA completed the sale of the 56 finance companies and the sale of their assets
 Non-performing loans declined from around 48% of total loans in May, 1999, to 29% in September, 2001, and 11% in January, 2002 (however, this decline was accompanied by a parallel increase in distressed assets, according to an 8/01 IMF report)

Significant progress was made in strengthening standards and practices utilized in supervising financial institutions

5. Significant Shortcomings (including non-compliance with safeguard policies):

The project made less progress than envisioned in the reform of economic law
 The project did not put into place a financial early warning system
 Less progress was made than had been envisioned in the areas of : establishing new corporate governance rules; establishing prompt corrective action rules in law; and modernizing public debt management .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	This outcome rating implies no judgment on the objective of resolving the finance companies, which is the subject of an on-going OED assessment in the context of an adjustment loan.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	While Bank Performance was overall satisfactory, there were a number of deficiencies. The Bank did not provide adequate support in the area of procurement, as difficulties were encountered in this area throughout the project. And turnover on the Bank team hindered progress, especially in the area of Economic Law Reform.
Borrower Perf .:	Satisfactory	Satisfactory	High turnover on the implementing agency's staff hindered progress .

Quality of ICR : Satisfactory

NOTE:

NOTE ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

In a project initiated in an urgent situation, the Bank needs to make a strong effort to assure that adequate

expertise in the areas of procurement and disbursement are available in the implementing agency
Country Development Partnerships comprise an effective vehicle to enhance sustainability and maintain the momentum of reform

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

Although the ICR is rated satisfactory, it has significant weaknesses :

It was very difficult to follow which of the components and objectives were attributed to the project and which

were the result of activities financed outside of the project . The ICR reviewed individual components and their

implementation, including descriptions of activities under that component and then mentions that the activities

were in fact financed by a grant or other funds (for example, in paragraphs 3.4.2, 4.2.11, 4.2.16, 4.2.17, 4.2.19,

4.2.22). As a result, it is difficult to get a coherent picture of what the project did in fact finance and to what

extent the achievement of various objectives can or cannot be attributed to the project . A table would have

helped the reader to get the bigger picture of project contributions .

The ICR does not adequately report important information relevant to project performance . For example,

disbursement during project implementation was slow, a major reason for the 3-year delay in the closing date .

In addition, beyond the start -up difficulties described in the ICR, Implementation Progress and the project

Procurement Schedule were rated unsatisfactory during supervision . The ICR does not address a number of the

Key Performance Indicators defined in the PAD (Annex 1). In addition, during implementation, the project was

restructured twice, with formal loan amendments sent to the Board on both occasions . Of the five components

added (bottom of section 2.b.), two were dropped due to availability of grant funds, and one (Economic Law

Reform) was only partially fulfilled, due to turnover on both the Bank and Borrower teams and unfamiliarity with

procurement guidelines. The ICR should have commented on the relatively poor implementation record of

components added in the course of formal project restructuring .

The ICR makes a number of vague and unsubstantiated claims of project achievement (e.g., paras 4.1.5, 4.2.23,

4.5.1, 4.5.2, 4.5.3, 4.5.6), and in several places, the ICR makes statements of questionable validity and

relevance, for example: "The Bank anticipated the activities and the actions that were needed by the Borrower

following the 1997 crisis for the financial sector ." (7.3.1); and "The government's 2 requests for project extensions demonstrated its commitment and comprise evidence of likely sustainability " (6.1.3).

Annex 2 lacks the standard tables on Project Cost by Procurement Arrangement (Actual) and Project Financing

by Component (including government and cofinanciers)

Finally, the ICR would have been stronger if it had reported on the disposition of the assets of the finance companies, i.e., what percent of the nominal value was obtained when the assets were sold, and how much public debt was incurred as a result of the process .

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