37281

THAILAND

Country Development Partnership:
Financial and Corporate Sector Competitiveness Program Assessment and Completion Report
June 2006

ABBREVIATIONS AND ACRONYMS

AAA	-	Analytical Advisory Activities
ADB	-	Asian Development Bank
ADRO	-	Alternative Dispute Resolution Office
AMC	-	Asset Management Corporation
AML/CFT	-	Anti-Money Laundering and Combating the financing of Terrorism
AMLO	-	Anti-Money Laundering Office
APEC	-	Asia Pacific Economic Cooperation
ASEM	-	Asia Europe Meeting
AUSAID	-	Australian Agency for International Development
BAAC	-	Bank of Agriculture and Agricultural Cooperatives
BOT	-	Bank of Thailand
BT	-	Bank Thai
CBC	-	Central Bankruptcy Court
CDP	-	Country Development Partnership
CDPC-C	-	Country Development Partnership for Competitiveness
CDRAC	-	Corporate Debt Restructuring Advisory Committee
CFO	-	Chief Financial Officer
CGAP	-	Consultative Group to Assist the Poorest
CPE	-	Continuing Professional Education
CRM	-	Credit Risk Mitigation
DAP	-	Director Accreditation Program
DCA	-	Debtor-Creditor Agreement
DIA	-	Deposit Insurance Agency
DOI	-	Department of Insurance
ELDI	-	Economic Law Development Institution
FSAP	-	Financial Sector Assessment Program
FIRST	-	Financial Sector Reform And Strengthening
FIDF	-	Financial Institution and Development Fund
FPO	-	Fiscal Policy Office
FSIAL	-	Financial Sector Implementation Assistance Loan
GDLN	-	Global Distance Learning Network
GTZ	-	German Agency for Technical Cooperation
IAIS	-	International Association of Insurance Supervisors
IBFs	-	International Bank Facilities
ICA	-	Inter-creditor Agreement
IRB	-	Internal Ratings Based Approach
ISDA		International Swaps and Derivatives Association
KTB		Krung Thai Bank
LED	-	Legal Execution Department
LRC	-	Legal Reform Committee for Development of Thailand
M&A	-	Mergers and Acquisitions
MAS	-	Monetary Authority of Singapore
MCFD	-	Mediation Center for Financial Disputes
MOC	-	Ministry of Commerce
MOF	-	Ministry of Finance
NBFIs	-	Non-bank Financial Institutions
NP	-	Notice Pending
NPL	-	Non-performing Loan
OECD	-	Organization for Economic Co-operation and Development
OSMEP	-	Office of SMEs Promotion
OTC	-	Over the Counter
PCA	-	Public Company Act
PHRD	-	Policy of Human Resource Development
REIC	-	Real Estate Information Center
ROSCs	-	Reports on Observance of Standards and Codes
RTG	-	Royal Thai Government
SA	-	Simplified Agreement
SBL	-	Securities Borrowing and Lending
SCIB	-	Siam City Bank
SEA	-	Securities and Exchange Act
SEC		Securities and Exchange Commission
SET	-	Stock Exchange of Thailand
SFIs	-	Specialized Financial Institutions
SIFC	-	Small Industry Finance Corporation
SICGC	-	Small Industry Credit Guarantee Corporation
SMEs	-	Small and Medium Enterprises
SP	-	Suspension
SPV	-	Special Purpose Vehicle
SRO	-	Self Regulatory Organization
TA	-	Technical Assistance

ICAAT	- Institute of Certified Accountants and Auditors of Thailand	TAMC	- Thai Asset Management Corporation
IDB	- Inter-dealer Broker	TBDC	- Thai Bond Dealing Center
IFCT	- Industrial Financial Corporation of Thailand	TMB	- Thai Military Bank
IMF	- International Monetary Fund	TOR	- Term of Reference
IOD	- Thailand Institute of Directors	TRIS	- Thai Rating Information Service
IOSCO	- International Organization for Securities Commissions	TSD	- Thailand Security Depositary Company
		WB	- World Bank

CURRENCY EQUIVALENTS

Currency Unit = Baht
(As of June 30, 2006)

Baht 1,000	=	US$ 26.16
US$ 1.00	=	Bath 38.223

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FISCAL YEAR: October 1 – September 30

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PREFACE

This report has been prepared by a World Bank team[2] in consultation with key Royal Thai Government (RTG) agencies including the Bank of Thailand, the Ministry of Finance, the Securities and Exchange Commission, the Department of Insurance (Ministry of Commerce), the Office of the Judiciary, and the Council of State. It is a Program Completion Report for the Country Development Partnership on Financial and Corporate Competitiveness (CDP-FC) which was launched in April 2003. The Report makes an assessment of the outcomes of the program to date and the progress toward achieving its objectives and takes stock of activities supported by the program for the period January 2003 through December 2005. It assess the policy changes or key actions taken by the RTG which have led or could lead to policy changes, especially those which are linked to the activities supported by the program; and discusses key lesson learned from the partnership.

We hope this Report will stimulate discussion within Government and between the World Bank and the RTG on financial and corporate sector development as well as the future role of the World Bank in the sectors after the conclusion of the program[3].

[2] The World Bank team was comprised of the following persons: Renuka Vongviriyatham,Task Team Leader, Thomas Rose, Program Manager, Tanatat Puttasuwan, Senior Private Sector Development Specialist, Noritaka Akamatsu, Lead Financial Economist,, Program Assistant, and Pablo Gallego Cuervo, Consultant. The team has been supervised by Thomas A. Rose, Program Manager, and Kazi Matin, Lead Economist.

[3] This report assesses the outcomes of the CDP-FC based on official statistical data provided by counterpart agencies. To the extent possible, efforts have been made to collect and report the most current statistical data available through December 2005.

SUMMARY

1. The World Bank (WB) has been actively supporting the Royal Thai Government (RTG) reform efforts in the financial and corporate sectors since shortly after the onset of the Financial Crisis in 1997. Following that initial direct support, the WB's support to the RTG shifted toward a development partnership. The new framework known as the Country Development Partnership (CDP) was initiated as a knowledge-based partnership and a new non-lending instrument of support, which set out a medium-term integrated framework for reform. The CDP for Competitiveness (CDPC) was the first CDP developed for Thailand (July 2001 - July 2002). The CDPC covered the financial sector among other areas of competitiveness, which were identified as constraints on Thailand's medium-term competitiveness[4].

2. The CDPC served as the basis for the development of partnerships with the Government in several areas. As a follow on to the successful completion of the CDPC, the Country Development Partnership on Financial and Corporate Competitiveness (CDP-FC) was launched in April, 2003 and subsequently endorsed by the Bank of Thailand (BOT) in June, 2003 and by the Ministry of Finance (MOF) in July, 2003. It has been the basis of World Bank support to BOT, MOF, and other agencies in the financial sector since April, 2003. Its most basic strength was that it was voluntary. Actions taken were not part of a loan condition, but a mutually agreed reform agenda led by the government and supported by the World Bank and others. The partnership program (Financial and Corporate Sectors) concluded in June, 2006.

3. This paper is a program assessment and completion report. It seeks to assess whether the strategic objectives of the CDP-FC program have been achieved. If such strategic objectives have not been achieved, it assesses whether there is progress toward achievement of the objectives and whether the program has contributed to policy changes. It also attempts to draw key lessons from the work done for future reference.

4. The assessment concludes that the program's strategic objectives have overall been somewhat achieved. It appears some of the strategic objectives and outcomes have greatly benefited from the program, while others have been assisted by the program, but the impact of continued growth in economic activities may have provided more immediate results than the structural reforms which in some cases suffered delays.

5. The CDP-FC program was relevant in assisting the RTG in addressing medium-term issues in the financial sector following the progress made in the first few years post crisis. Progress was seen in attaining some of the desired outcomes in this sector. Its role

[4] Those areas included strengthening financial and corporate sector reform and restructuring, enhancing the knowledge economy with an emphasis on education, skills enhancement, science, and information technology. In addition, it included improving the delivery of infrastructure services through regulatory framework modernization, state enterprise reform, sound macroeconomic management, and legal and business environment improvement.

in the corporate sector however, while designed to address many important issues, may not have been as successful in that it is not clear the RTG has had as clear a vision of the direction to be taken as it had for the financial sector. Overall however, the CDP-FC has contributed in many ways, and while not achieving all of its desired outcomes in total, many outcomes have been seen and others will be seen in the future if the Government stays on its path of strengthening the competitiveness of Thai banks and businesses. This takes on a heightened role given on-going bi-lateral trade discussions which may further liberalize the financial sector and put added competitive pressure on the corporate sector.

6. This paper is organized as follows: Chapter I gives an introduction to the CDP-FC program and discusses key program activities supported by the World Bank and other partners. Wherever possible, it attempts to identify the impact of the program on the RTG's policy changes, institutional developments, capacity building, and sustainability. Chapter II reports key developments, policy changes and reform actions implemented by the RTG in the six areas under the CDP-FC during the period. Chapter III assesses the outcomes of the CDP-FC program and progress toward achievement of the outcomes based on several indicators reviewed and mentions some further steps that may be needed to achieve full impact of the objectives and outcomes of the program. Chapter IV describes lessons learned and recommendations for future programs. Chapter V provides an overview of feedback obtained from the RTG participants at a Workshop held to assess the CDP-FC program and Chapter VI draws upon the report and provides an overview assessment of the design of the program and along with brief conclusions.

CHAPTER I
THE COUNTRY DEVELOPMENT PARTNERSHIP ON FINANCIAL AND CORPORATE SECTOR COMPETITIVENESS (CDP-FC), AND THE SUPPORT OF THE WORLD BANK

7. The Country Development Partnership on Financial and Corporate Competitiveness (CDP-FC) has been the basis of WB support to BOT, MOF, and other agencies in the financial sector since April, 2003. The CDP-FC did not cover the broad competitiveness agenda as this was done in the earlier CDPC[5]. While the financial and corporate restructuring component of the CDPC emphasized the short-term structural reforms necessary to cope with the adverse impact of the financial crisis, the CDP-FC has been geared toward medium-term policy issues and structural reform necessary to enhance the competitiveness of the financial and corporate sectors. The CDP-FC was designed to provide support in the areas of policy advice, technical assistance, and capacity building in response to the needs of the authorities.

8. The strategic objectives of the CDP-FC were: (i) to decrease vulnerability; (ii) to improve the allocation of resources to their most productive uses; (iii) to promote sustainable growth; and (iv) to ensure access to assets and income opportunities for all segments of society. These objectives initiated under the overall process of enhancing structural reform through both strategy and implementation support in the six components of the CDP-FC. The World Bank worked with several key government agencies to identify critical reform issues and needed technical assistance in six areas that supported the objectives of the CDP-FC: (i) strengthening financial sector strategy and structure; (ii) enhancing supervision and regulation; (iii) improving the speed and quality of corporate and debt restructuring; (iv) enhancing intermediation on a risk-adjusted basis; (v) improving corporate governance; and (vi) developing capital markets (Table 1).

9. US$3.75 million of financial support was mobilized by the World Bank for this partnership (this does not include other donor support), primarily from grant resources and secondarily from the Financial Sector Implementation Assistance Loan (FSIAL) (Table 2). In addition to the support mentioned, the World Bank dedicated four full time and several part time WB staff to working with the Government in its efforts to meet the objectives. Of a total of US$2.62 million in grant resources mobilized to support the financial and corporate sector reform under the CDPC, a total of US$ 1.77 million was carried forward and disbursed through the continuation of reform programs under the CDP-FC. In addition, grant resources of US$ 1.21 million were mobilized to support selected activities under the CDP-FC program. Supplementing grant resources, the FSIAL supported many CDP-FC activities, some of which were initiated prior to the

[5] The Country Development Partnership for Competitiveness (CDPC) was the first CDP, a non-lending instrument, developed for Thailand (July 2001 - July 2002).

CDP-FC but have been carried forward under the CDP-FC. All together, US$ 0.77 million was utilized under FSIAL to support the program.

Table 1: Thailand Country Development Partnership on Financial and Corporate Competitiveness (CDP-FC)

Component	*Intermediate Outcome*	*Bank Group Engagement*	*Other Partners*
Strengthen the Financial Sector Strategy and Structure	Set a medium term strategy for the financial sector • Financial Sector Master Plan • Improve Market Discipline via Transition to Limited Deposit Insurance	Policy advice by Bank staff, third party technical assistance, workshops, GDLN, capacity building, analytical reports and policy notes as requested	Grant Funds: ASEM, PHRD
Enhance Supervision and Regulation	Enhance Regulation and Supervision of Financial Institutions • Build Supervisory Capacity • Implementation of New Regulations • Address Financial Conglomerates • Review the role and supervision of Specialized Financial Institutions	Policy advice by Bank staff, third party technical assistance, workshops, GDLN, capacity building, analytical work and policy notes as requested	ASEM, PHRD, Regulatory Agencies Worldwide, AusAid, IMF
Improve the Speed and Quality of Corporate and Debt Restructuring	Resolve overhang of NPLs, and enhance competitiveness of Thai banks and firms • Thai Asset Management Corporation and Financial Institutions Development Fund • Legal, Judicial and Out of Court Debt Workout Regimes	Policy advice by Bank staff, third party technical assistance, capacity building, analytical reports and policy notes as requested	ASEM, PHRD, Kenan Institute Asia, AusAid, American Bankruptcy Institute
Enhance Intermediation on a Risk Adjusted Basis	Promote sound intermediation and new lending on a risk adjusted basis to support sustainable growth • Risk Management and Rationalization of Government-Controlled Financial Institutions • Credit Information • Non Bank Financial institutions	Policy advice by Bank staff, third party technical assistance, capacity building	ASEM, PHRD, Regulatory Agencies Worldwide, AusAid, Kenan Institute Asia, ADB, GTZ
Enhance Corporate Governance	Promote Good Governance of Financial Institutions and Firms • Adoption and Implementation of Accounting and Auditing Standards • Improve Shareholders' Rights and Education of Directors	Policy advice by Bank staff, third party technical assistance, capacity building	ASEM, PHRD, AusAid, ADB
Develop Capital Markets	Improve access to debt, equity and risk management products to support growth of banks and firms. • Market Architecture and Clearing & Settlement for Bond Market • Risk Management Products (Derivatives) • Implement Capital Market Master Plan	Policy advice by Bank staff, third party technical assistance, capacity building, workshops, and policy notes as requested. Technical assistance from the International Finance Corporation.	ASEM, PHRD, Regulatory Agencies Worldwide, AusAid, Kenan Institute Asia, ADB

Table 2: Loan and Grant Funds[6] in support of the CDP-FC Program (Million US$)

Grant/Loan	Total Amount	Amount supporting CDP-FC	Effective Date	Closing Date	Activities
FSIAL (4233-LN)	15.00	0.77	Dec 5, 1997	Sept 30, 2003	• Strengthening the financial sector • Promoting corporate restructuring • Project management and coordination • Capacity building for economic law reform
PHRD (TF025858) Special Establishment of Thai Financial Accounting Standards Board	0.75	0.53	Jul 30, 1999	May 31, 2003	• Developing CPE program for accountants • Developing CFO program • Developing financial reporting guidelines for SMEs • Issuing practical guidelines for practitioners
ASEM (TF024686)[7] Establishment of Institute of Directors	0.40	-	Sept 21, 1999	Aug 31, 2002	• Training the trainers of the Thai IOD Developing training program • Developing baselining program
PHRD II Miyazawa (TF026153)	2.41	0.87	Dec 16, 1999	Apr 22, 2003	• Building supervision capacity in the financial sector • Financial sector restructuring • Strengthening specialized financial institutions (SFIs)
ASEM II (TF050491) Out of Court Mediation	0.40	0.37	Jul 17, 2002	Mar 31, 2004	• Workshop and training for registered mediators and administrators • Developing mediations rules, codes of conduct, and operation manual • Developing and carrying out public relation strategy campaign

[6] The PHRD (TF025858), ASEM (TF024686), ASEMII (TF05491), and PHRDII Miyazawa were mobilized to support the implementation of the CDPC and were, with the exception of ASEM (TF024686) which was completed before the CDP-FC, carried through to the reform programs under the CDP-FC.

[7] These technical assistance activities were completed before the covering period of this report (April 2003-December 2005).

Grant/Loan	Total Amount	Amount supporting CDP-FC	Effective Date	Closing Date	Activities
ASEM II (TF052385) Strategy and Implementation of a Competitive Financial Sector	0.99	0.99	Sept 23, 2003	Aug 30, 2006[8]	• Strengthening structure, regulation, supervision and market discipline of financial institutions • Innovation in financial instruments • Framework for micro-finance providers and services
ASEM II (TF053461) Preparation for Financial Services Liberalization	0.22	0.22	May 19, 2004	Feb 28, 2006[9]	• Preparation for financial service liberalization
TOTAL		**3.75**			

10. The main activities on financial and corporate sector reform supported by the World Bank under each component of the CDP-FC are discussed below. Some of these activities were initiated prior to the CDP-FC but were carried forward through completion under the CDP-FC. Some selected activities, while completed before the launch of the CDP-FC, are also discussed due to their relevance to downstream work supported under the CDP-FC. Component activities are provided in Annex II.

COMPONENT 1: FINANCIAL SECTOR STRATEGY AND STRUCTURE

11. The World Bank supported an initial formulation of the Financial Sector Master Plan through knowledge sharing. The BOT and the World Bank (through ASEM Trust Fund) co-organized a two-day conference in 2002 on "Modernizing the Thai Financial System". The conference helped the authorities to learn more about the challenges and process of setting a medium-term strategy for the financial sector from their counterparts from other countries.

12. The World Bank assisted the authorities in identifying and contacting key resource persons who had experienced a similar strategy setting process and facilitated their sharing of knowledge and lessons learned. Financial sector experts and regulators from Australia and Canada discussed the development of a financial sector strategy through the work of the Campbell and Wallis Commissions in Australia and the McKay Commission

[8] The closing date of this grant was extended from August 2005 to August 2006.
[9] The closing date of this grant was extended from August 2005 to February 2006.

in Canada. The Chief Executive of the Banking Council of South Africa, who led the creation of E-Banking in South Africa, presented how innovations in technology, information, and distribution could be used to increase access and develop "Financial Services for All". Enhancing access to finance, especially for those outside urban areas and not served by the then current distribution system and products, had been identified by Thai policy makers as one of key objectives of the financial sector strategy The audience on the first day included senior stakeholders of around 200 people from private and public sectors. A smaller workshop was held on the second day for the actual working group assigned the task of developing the strategy, and a limited audience focused on the process of setting a medium-term strategy. This conference served as one of the catalysts for Thai policy makers to develop a medium-term strategy for the Thai financial sector.

13. One activity planned under the CDP-FC was for a BOT pilot project "the Computerization of the Village Fund and Microfinance Group's Operation" which was canceled after it was determined to be redundant due to another project implemented by the Office of National Village and Urban Community Fund Committee. The project was intended to improve access to finance by developing accounting software on deposits and loans for a selected group of semi-formal microfinance operators. SFIs were expected to collect such information and cash from the village fund and microfinance institutions to process the deposit transactions and update their book keeping records. The BOT hoped that the software would strengthen the linkage between semi-formal microfinance operators with formal financial institutions. This work has gone forward through one of the SFIs.

14. The World Bank's support in the area of a limited deposit insurance scheme began in December 1998 when the IMF and the World Bank jointly prepared a report on "Recommendations and Rationale for a Deposit Insurance Scheme", which recommended a framework and design for a future scheme supported by cross-country analysis. Subsequently in 1999, the World Bank and the IMF provided advisory support in drafting the Deposit Insurance Law. In 2002, the World Bank supported the Financial Institution Development Fund (FIDF), under the BOT, to design a transition arrangement from the then blanket guarantee to a limited deposit insurance scheme. This was followed by technical assistance in organizational design and operation manuals for the planned Deposit Insurance Agency (DIA). In 2005, the World Bank assisted the FIDF to identify required management information and other system needs for the DIA, assess the availability and sources of data, and prepare an efficient MIS system and reporting formats. The MIS system was deemed necessary for the implementation of a limited deposit insurance scheme when the Deposit Insurance Law is enacted.

15. With support from the World Bank, the MOF has developed operational tools to enhance the capacity of semi-formal to informal microfinance intermediaries to develop business plans, to enhance the management of their risks, to better monitor their performance and to implement internal controls. 29 people were trained to be trainers. These trainers in turn are expected to further utilize the materials and techniques to train their target groups. Such operating tools should help support the implementation of the

Master Plan for Grass-root financial services, which is being finalized by the Microfinance System Development Committee (MSDC), chaired by the MOF. Through this project, the MOF was advised to assess and rate existing microfinance operators based on their capacity and performance and to develop simplified accounting practices that could be adopted by the concerned institutions.

16. In addition, technical assistance to the Fiscal Policy Office (FPO) on financial service liberalization was completed in February 2006. The consultant was hired to assist the MOF to assess the economic implications of financial services liberalization on Thailand, formulate strategies, prepare for trade negotiations, and disseminate the strategy and outcome of the negotiations. This helped Thailand to prepare for negotiation with the US and others on possible Free Trade Agreements (FTAs), of which one key emphasis has been financial services liberalization. A public hearing on the strategy was convened in February 2006 but dissemination of the outcomes of this work will be delayed until the conclusion of negotiations.

COMPONENT 2: REGULATORY AND SUPERVISORY REGIME

17. Prior to the launch of the CDP-FC, extensive technical assistance activities were provided to the BOT to strengthen on-site monitoring and off-site examinations. The BOT was supported by the US Treasury Department in developing on-site examination manuals, and by the World Bank in enhancing quality review and by conducting quality control reviews of risk focused supervision for on-site examination. The World Bank also provided support in strengthening the off-site surveillance process, improving data collection and analysis for the off-site supervision unit, and supporting on-the-job training. Under the CDP-FC, the World Bank continued to provide capacity building and technical assistance support to strengthen the BOT's capacity to regulate and supervise deposit taking financial institutions.

18. The World Bank mobilized significant technical assistance to assist the BOT in its efforts to set up the School for Examiners in 1999. After its establishment, the World Bank's continued support has deepened the curriculum of the School for Examiners. To strengthen further the quality of the training programs, the World Bank supported the Quality Assurance Assessment for the School for Examiners in 2003. The BOT's examiners are now required to pass 6 core training programs offered by the School together with an established period of on-the-job training before they can be promoted to commissioned examiners. To date, 28 commissioned examiners have been certified through the School's training programs and 93 examiners are in the process of certification. Training programs offered by the School have also helped strengthen the capacity of 300+ commissioned examiners who were certified before the School was set up. This process has been institutionalized by the BOT.

19. In addition to regular certified training programs offered by the School for Examiners, the World Bank has also supported the development of specialized training courses as well as the training of selected future trainers. These specialized courses are

designed to strengthen the teams of specialized examiners who are being assigned to supervise financial institutions by type of risk. Through this capacity building program, best practice has been transferred from abroad, both from active supervisors and current training programs from supervisory agencies in what have been judged to be best practice countries. In addition, the BOT's instructors have been able to network with supervisory authorities from various countries. With the World Bank's support, 8 training courses[10] were developed and delivered and the BOT's instructors participated in 6 training courses abroad. These specialized training activities assisted the BOT in various areas including to prepare its guidelines and audit manuals on risk management. Audit manuals and guidelines for the management of 5 risks[11] were disseminated to financial institutions in December 2003 and an additional 5 guidelines[12] were disseminated in February 2005.

20. The BOT has been active in identifying capacity building and technical assistance needs. The Supervision Department appointed a contact person to monitor and coordinate technical assistance and training activities supported by several international organizations (including the World Bank) and supervisory authorities to minimize overlap and ensure that TA resources were being effectively used. Along this line, the World Bank continued to facilitate the capacity building program for BOT staff in cross-border supervision, solvency and risk based supervision for insurance companies, best practice supervision for non-bank financial institutions, implementation of IAS 39, and analyzing and validating derivatives pricing and portfolio by supervisors. Technical assistance was provided to the BOT to assess the current information system, and call report readiness according to the new BIS Accord. Through ASEM II Trust Funds, the World Bank also supported the BOT's staff to work with the Monetary Authority of Singapore (MAS) on E-Banking supervision for one month.

21. Technical assistance to the Department of Insurance (DOI)[13] to strengthen the supervisory regime for the insurance industry was completed in 2000 following the diagnostic review of the insurance industry by World Bank staff. It reviewed the supervisory and regulatory framework for the insurance industry, proposed specific recommendations for their enhancement, and designed a time-bound action plan for their implementation. Measures to strengthen the capacity of the DOI to supervise the industry according to best practices were identified. Supported under the CDP-FC, the DOI invited the Office of Superintendent of Financial Institutions (OSFI), Canada, to train 50 insurance supervisors on solvency and risk-based supervision. Representatives from OSFI were invited back in late 2005 to review the draft guidelines on corporate governance for insurance companies and to organize a workshop for its officials and industry representatives to raise awareness on best practice corporate governance guidelines as well as business practices and operating standards for the industry. The

[10] These specialist training courses include operational risk, credit scoring and credit rating, credit risk model verification, market risk assessment, financial institutions analysis, consolidated supervision, foreign exchange and trade finance, and credit risk supervision in compliance with the new Capital Accord.
[11] The five areas of risk management include: strategic risk, credit risk, market risk, liquidity risk, and operational risk.
[12] These manuals include: internal rating, loan portfolio management, credit scoring for retail loans, risk model validation, and credit and market risk stress testing.
[13] This assistance was completed before the monitoring period of this report (April 2003-December 2004).

corporate guideline was completed and the DOI organized a public hearing on the guideline in November 2005.

COMPONENT 3: CORPORATE AND DEBT RESTRUCTURING

22. Prior to the launch of the CDP-FC in 2003, the World Bank provided technical support through the ASEM Trust Fund and PHRD Miyazawa Trust Fund to the Corporate Debt Restructuring Advisory Committee (CDRAC) within the BOT to develop time-bound inter-creditor and debtor-creditor agreements, particularly for cases which involved multiple creditors, and helped to build its institutional capacity to facilitate voluntary out-of-court debt workouts.[14] The regime was conceived by the BOT at the urging of international financial institutions in the early stages of the financial crisis. It was supported by the CDP-C, and continued to receive support in the early days of the CDP-FC.

23. Under the CDP-FC, the World Bank continued to provide support to the renewed objectives of facilitating and enabling the environment for corporate restructuring. Key activities included supporting the implementation of the Economic Law Reform Capacity Building Project under the Council of State, institutional capacity building for the Thai Asset Management Company (TAMC) and for the Alternative Disputes Resolution Office of the Office of the Judiciary.

24. The Bank was requested to support the Economic Reform Capacity Building Project through the FSIAL. After over a year delay due to a change in Government, the Project received endorsement and was implemented by the Council of State. The Project aimed to (i) build institutional capacity to implement a comprehensive reform of economic laws – including amending, repealing, and enacting new laws; and (ii) establish the Economic Law Development Institute (ELDI) within the Council of State as the center for a comprehensive legal reform efforts and a source of public information on economic laws. Prior to the Project, economic legal reform in Thailand was implemented in "silos", segregated among responsible ministries. Gathering inputs from the public was not the norm. The Project sought to widen the scope of legal development to include stakeholders such as the legal profession, academia, and the general public. The ELDI would identify and form technical working groups comprising of representatives from the stakeholders to engage in legal reviews, and propose amendments and new legislation.

25. Due to substantial delays in the project's start-up, not all activities were completed during the 18 months of project implementation. The ELDI was successfully established within the Council of State, legal research was completed for 3 of the 10 designated areas: company accounting laws and audits, small and medium enterprise laws, and secured transaction laws. The economic law website was created with translations of relevant economic laws into English and posted on the website. After the project was closed, the Council of State continued its efforts with all four project component

[14] The programs ended as the CDP-FC was launched.

activities, receiving financial support from both the budget and bilateral financial supports.

26. As requested by the TAMC, the PHRD Miyazawa Trust Fund was amended to accommodate its capacity building activities. Specifically, there were three components to the technical assistance program: (i) training TAMC personnel and stakeholders on business and debt restructuring fundamentals, guidelines, rules and regulations; (ii) preparing a Handbook of Guidelines and Regulations for distribution to stakeholders and the public; and (iii) developing and implementing a market communication campaign to build public awareness of the potential benefits of TAMC and debt restructuring. In addition, the Bank organized two closed door roundtable discussions among the senior executives of centralized AMCs in Asia to share experience and international practices. Eventually, the program succeeded in training all TAMC technical personnel both in Bangkok and up-country, a group of creditors represented by the Thai and Foreign Bankers Associations, and the judiciary. The World Bank also provided an analytical report to strengthen the governance and disclosure of TAMC. Some of the World Bank's recommendations have been implemented by TAMC. For example TAMC now discloses cash collection of its asset resolutions.

27. The World Bank mobilized ASEM Trust Funds to support a capacity building program for the Mediation Center for Financial Disputes (MCFD), established within the Alternative Dispute Resolution Office of the Office of the Judiciary (ADRO). The project aimed to build institutional capacity of MCFD to effectively administer out-of-court mediation of financial disputes, especially NPL cases, as an alternative to judicial trials. The program consisted of three components (i) training of registered mediators by international mediation experts, (ii) developing mediation rules, a code of conduct, and an operating manual ("RCM Standards"), and (iii) designing and implementing a market communications campaign. The Project was implemented in 15 months and closed in March 2004. The ADRO continues to implement activities through the Office of the Judiciary Training Center and its Public Relations Division.

COMPONENT 4: NEW LENDING ON A RISK ADJUSTED BASIS

28. To facilitate lending on a risk-adjusted basis, the World Bank provided technical support to enhance intermediation capacity in strengthening credit risk management, organizational structure, and management capacity for several state-owned financial institutions. Technical assistance and policy advice were provided to Thai authorities to develop an information infrastructure for the general public and financial institutions to better underwrite loans and investments on a risk-adjusted basis.

29. The World Bank provided support to the Government and the credit Bureaus in looking at the Credit Information Business Act and some of the unintended implications of it as well as to build capacity. Workshops were held for regulators and the Thai Bankers' Association. Kenan Institute Asia helped to build capacity by providing consultants from the Federal Trade Commission and an industry association from the US,

and the World Bank provided and funded an expert Bank staff to discuss concerns. Following the workshop, the authorities proposed amendments to the Law to reduce the legal risks to the credit bureau and its members. The World Bank continued to provide advice to the BOT in responding to issues raised by Parliament on the proposed amendments. The amendments to the Credit Information Business Act were enacted in February 2006.

30. The World Bank worked closely with Kenan Institute Asia to assist the SEC to design a program aimed to strengthen the competence of the property valuation profession, particularly those certified to value assets held by publicly traded companies or assets held as collateral by financial institutions. The diagnostic review of the performance of the Thai valuation profession, prepared by the Royal Institute of Chartered Surveyors (RICS) in 1999, identified that the lack of the professional standards was an urgent problem and a single set of standards based on internationally-recognized best practice needed to be established so the profession would be based on a system of qualification and accreditation. The study also recommended the development of an intensive training program for the valuation profession to enable industry practitioners and regulators to have the same basic understanding of valuation methodologies. The preparation of standards requires a strong methodological consensus and thus a very good knowledge of the appropriate methodologies.

31. The World Bank supported the SEC in developing the "train the trainer" program on the valuation methodology and the certification exam for valuers specialized in income property valuation. These assistance activities were completed in 2003. In addition, the SEC led the effort, supported by Kenan Institute Asia, in drafting Thai, but internationally accepted, standards, code of ethics, practice guidelines and audit manual, curriculum and examination for training on the new standards and code of ethics. The new standard was completed and has been implemented since July 2005.

32. The Government Housing Bank (GHB) had been provided with a three phased technical assistance support program to facilitate the establishment of the Real Estate Information Center (REIC). The GHB was assigned by the MOF to take the lead in establishing the Center, which aims to reduce information inefficiencies in the market and provides a warning system to the country. The first phase, completed in 2000, focused on designing the framework for the center. The framework design involved (i) determining its legal status, administrative status, organization design and governance structure, (ii) identifying sources of information, scope of coverage, and information system to be used for data collection, processing, dissemination and maintenance, and (iii) proposing funding for the center. The second phase supported the detailed design for goals, organization and management of the center, data collection, data processing, data marketing, and information infrastructure of the center. A time-bound action plan for the establishment of the REIC was also prepared. The last phase, completed in late 2003, involved the implementation of a business plan, the start up of the REIC, and market research in specified areas.

COMPONENT 5: MARKET DISCIPLINE AND CORPORATE GOVERNANCE

33. The World Bank has provided policy advice and technical support to strengthen corporate governance of Thai firms since the 1997 crisis highlighted weak corporate governance practices as contributing factors to structural weakness in the Thai economy. The World Bank supported the establishment and operation of the Thai Institute of Directors (IOD)[15], which has as its mandate to improve corporate governance practices through educational programs and the promotion of best practices. The Thai IOD was established in December 1999, the first such institute in a crisis country in East Asia. The Australian Institute of Corporate Directors (AICD) was selected to help the Thai IOD establish a director education program based on the AICD's training program. 2001 and 2002 base-lining evaluation of corporate governance practices of Thai listed companies against the OECD principles and the SET's code of best practices was conducted with World Bank's assistance. The IOD has conducted the evaluation by itself since 2003.

34. The BOT also received support from the World Bank in cooperation with the Thai Bankers' Association, Association of Finance Companies, Foreign Banks' Association, and White and Case Ltd. (Thailand legal counsel) in drafting the Financial Institution Directors' Handbook. The workshop launching the handbook, supported by the IOD, was convened in December 2001. Training as well as discussions on the topic continues today.

35. In the aftermath of the crisis, the World Bank mobilized PHRD Trust Funds in 1999 to assist the Institute of Certified Accountants and Auditors of Thailand (ICAAT) to support the establishment of a Thai Financial Accounting Standard Board (TFASB), an independent body responsible for setting accounting standards[16]. However after a long period of uncertainty and delay in the legislative endorsement, the originally designed activities had to be revised and in January 2005, the Federation of Accounting Professions (FAP) was established instead. The mandate of FAP, slightly different from those of the proposed TFASB, include issuing accounting and auditing standards, supervising the accounting and auditing profession, and developing and enforcing codes of conduct for the profession.

36. The aforementioned assistance was revised to support the ICAAT in deepening the accounting reform and building capacity of the Office of the Auditor General (OAG). Main activities included (i) developing of a Continued Professional Education (CPE) self-study curricular for accountants and auditors consistent with international standards and best practices, (ii) establishing a Chief Management Accountant (CMA) and Chief Financial Officer (CFO) Accreditation Program, (iii) developing an accounting practice guideline for small and medium sized enterprises (SMEs), and (iv) developing practical guidelines and interpretation of accounting standards. Several training courses and the audit manual for the OAG were also developed under the assistance activities. All

[15] These technical assistance activities were completed before the monitoring period of this report (April 2003-December 2004).

[16] These technical support activities were initiated prior to the launch of the CDP-FC but were completed within the monitoring period of this report (April 2003-December 2004).

activities were completed in May 2003. Over 30,000 copies of the guidelines developed under this support have been distributed throughout Thailand by the ICAAT.

37. In mid 2005, the World Bank completed a Corporate Governance Report on Observance of Standards and Codes (ROSC) on Thailand benchmarked against the OECD Principles. The result showed that the corporate governance framework and actual practices of listed companies are generally either "largely observed" or "partially observed" as measured against the OECD principles of corporate governance. The overall average score for 32 OECD principles is 68 out of 100.[17]

COMPONENT 6: CAPITAL MARKET DEVELOPMENT

38. The MOF established, in close consultation with the World Bank, the Domestic Bond Market Committee in September 1998 by inviting participation of BOT, SEC, Thai Bond Dealing Center, Thai Securities Depository, major market participants as well as relevant departments of the MOF.[18] The objective of the inter-agency committee was to build a domestic bond market, with a primary focus on the government securities market. By early 1999, the Committee developed a roadmap for market development, identified specific issues to be addressed and set up eight task forces to address them. The issues included: (i) primary market and treasury management, (ii) secondary market trading mechanism and architecture, (iii) bond settlement system, (iv) tax impediments in bond investment and trading, (v) market information system, (vi) standardization of trading practice and transaction conventions, (vii) fiscal and debt management, and (viii) repurchase agreement (repo) market, bond lending and bond future market.

39. In addition to advising the Committee on the overall development strategy and management of the task, the World Bank provided targeted technical support for some of the task forces' key issues. The support focused on advising on and developing (i) the architecture for clearing and settlement of government securities trades, (ii) the real time delivery versus payment system, (iii) market information systems, and (iv) taxation of debt instruments and derivatives. A full time resident advisor, sponsored by the US Treasury Department, advised the task forces on primary market and treasury management. Complementing the US Treasury Department's support, the World Bank provided technical support in (i) reviewing and advising on public debt management laws, (ii) developing an integrated debt management information system, and (iii) developing the operational risk management model and training of the PDMO staff. Thai consultants were hired with the World Bank's support to assist the PDMO in coordinating projects. The Committee has made several achievements, leading to strong growth in the domestic bond market. All direct technical support was completed in 2002, although World Bank staff continued to be called upon from time to time.

[17] The averages are calculated based on the following criteria: 100 percent for sub-principles that are "observed", 75 percent for "largely observed", 50 percent for "partially observed", 25 percent for "materially observed" and 0 percent for "not observed".
[18] Including Fiscal Policy Office, Comptrollers General's Department and Revenue Department

40. The Domestic Bond Market Committee subsequently reformed its task forces into five groups with redefined terms of references. Each group is led by a different agency and the Committee is chaired by the Minister of Finance. The five groups include (i) enhancing the primary market, (ii) enhancing the secondary market, (iii) developing hedging instruments and trading platform, (iv) enhancing infrastructure to achieve STP and DVP, and (v) enhancing market transparency and access by use of information technology (IT). The World Bank has provided marginal support to the Committee to redefine the second stage terms of reference.

41. In 2003, the SEC requested the World Bank's assistance financed by a portion of the remaining funds under FSAL to support a study. The study assessed the current status of the Securities Borrowing and Lending (SBL) market in Thailand, identified its weaknesses and impediments to growth of the market, and in concert with a working group of market participants and regulators (the SEC, the BOT, and the SET), recommended a strategy and action plan for policy measures and implementation steps necessary to develop the market. The development of a functional SBL market is very important to the development of a vibrant and robust domestic capital market. The task was completed in September 2003 and an action plan to develop the market was prepared.

42. Additional activities supported by the World Bank under the CDP-FC for bond market development included the followings. Impediments to the development of the asset back securitization market in Thailand were identified by an Expert Panel, in which the World Bank participated under an APEC initiative, in coordination with the MOF and the Thai task force. The BOT initiated an investor education program on financial instruments, sponsored by the World Bank's ASEM Trust Fund, and completed 18 training courses on bonds and derivatives between April 2004 and April 2005. There were approximately 1,200 attendees[19] from both the private and public sectors. Due to the success of the program, the BOT has carried on the training after the funding from the World Bank was exhausted through self-financing. Policy advice was provided to the MOF by the World Bank's treasury (along with the Asian Development Bank (ADB) and IFC) to remove impediments and develop an enabling framework for the issuance of Baht denominated securities by international organizations.

43. Technical support is being delivered to assist the BOT and the Committee to support the development of OTC derivatives market. The final report has been delivered, and it is near completion. While the final report provides useful but general information regarding experiences of other countries[20], the BOT expressed concern that it lacks practical "how to" recommendations. The BOT and the World Bank concurred that the original TOR for consultants could have provided clearer requirements with less room for interpretation to hold the consultant responsible for delivering such recommendations. The BOT is working with the consultant to clarify desired outputs of the technical assistance.

[19] One participant may attend more than one course.
[20] Australia and Korea

44. With ASEM Trust Funds, the World Bank is also supporting the effort to build a bond pricing agency. The Thai capital market infrastructure has been restructured and strengthened considerably to meet the challenges of further development and regional integration. As discussed further in Chapter II below, the Thai Bond Dealing Center has become the Thai Bond Market Association (Thai BMA) and focuses on self-regulation, market information gathering and dissemination and pricing services instead of trading of bonds.

45. The International Finance Corporation (IFC) is providing advisory services to the Thai Bond Market Association (Thai BMA) in focusing on building market surveillance and self-regulatory capabilities. The IFC has also organized two training programs on these topics - the first training was in October 2005 for SEC and Thai BMA and the second one was an executive trip to the US for Senior Officials from SEC, Thai BMA, and Department of Treasury. On the derivatives market, the IFC's most recent work has focused on advising the SEC on drafting regulations for the derivatives market, which has been completed, and the market recently opened at the end of April 2006. The IFC also trained SEC staff on how to understand and implement the new regulations.

CHAPTER II
THE FINANCIAL AND CORPORATE SECTOR REFORM IMPLEMENTED BY THE ROYAL THAI GOVERNMENT (RTG)

46. There was considerable reform effort in the immediate post-crisis period as the RTG attempted to restore solvency to the financial sector and overcome the deficiencies in the regulatory system that contributed to the crisis. Reforms have, however, been more modest over the more recent period (2001-2005).

47. Much of the reform that has occurred during 2001-2005 has focused on strengthening the financial sector. The health of financial institutions has improved significantly and the supervisory capacity has been strengthened. The medium-term strategy for the financial sector has been adopted and is being implemented. The Credit Information Bureau Law has been improved. The MOF has been actively engaged in the establishment of a Real Estate Information Center. The Deposit Insurance Act was endorsed by the Council of State and a transition step to full implementation of a limited deposit guarantee has been taken to remove the state guarantee on creditors of financial institutions. The Alternative Dispute Resolution Office (ADRO) has scaled up the training of newly registered mediators using the curriculum developed from the technical assistance. It also adopted mediation rules, procedures and code of conduct as requirements for all participants. Sale of foreclosed properties (over 10 years old) was made easier by new guidelines in late 2003. A framework for the development of the capital market has been established.

48. However progress has been slow in passing several legislative amendments and introducing new pieces of legislation, specifically, the Central Bank Act, the Financial Institutions Law, the Deposit Insurance Institution Law, and the Secured Transaction Law. For the most part, these have been in draft form since 2000 but have not yet been passed by Parliament. The legal regime for contract enforcement remains weak. While the RTG has given attention to financial and corporate sector reform, the pace of reform often has been slow because consensus building among concerned agencies has been difficult to reach.

COMPONENT 1: FINANCIAL SECTOR STRATEGY AND STRUCTURE

49. The Financial Sector Master Plan, which outlines the medium-term strategy for the financial sector, became effective after it was endorsed by the Cabinet in January 2004, and now is being implemented. The strategy aims to (i) develop an efficient, stable, and competitive financial sector with greater balance between the banking sector and the capital market; (ii) improve access to financial services by all market segments both rural and urban areas; and (iii) ensure consumer protection. The implementation in the first three years has focused on restructuring and strengthening existing financial institutions

and improving competition. After three years, new entrants may be allowed to enter the banking sector contingent on suitable economic conditions.

50. Following the adoption of the Financial Sector Master Plan, new banking licenses were granted to upgrade existing financial institutions and regulatory impediments to operational efficiency of the financial sector have been addressed or are being revised. The MOF has approved the upgrade of financial institutions into 3 domestic commercial banks, 2 retail banks, 2 new full branches of foreign banks, and a subsidiary of a foreign bank. Tax impediments to merger between financial institutions have been removed. Regulations impeding the efficiency of commercial banks' operation are being removed or relaxed including regulations on closing and opening of branches and on lending requirement for a provincial branch. Some of the restrictions on the operation of a foreign bank are being removed.

51. The RTG took an interim step in the implementation of a limited deposit guarantee in November 2003 with the Cabinet's approval of a measure to remove the state guarantee for banks' creditors. However the implementation of the actual limited guarantee deposit insurance scheme has been delayed pending the enactment of the Deposit Insurance Institution Law. The draft law was approved by the Cabinet in November 2004 and recently cleared by the Council of State. It will be re-submitted to the new-Government's Cabinet and the Parliament after being reconfirmed by the MOF and the BOT. In preparation for the eventual enactment of the law, the authorities completed the design for a gradual and measured transition to a limited deposit insurance system, the organization and institutional framework for the Deposit Insurance Agency (DIA), and its informational requirements. Financial institutions were required to submit the aggregate deposit accounts by depositor by March 2006. A contingency plan to cope with the impact of the phased reduction in the deposit guarantee on financial institutions has been prepared by the supervision department. In the future, on-site examination will include the deposit insurance aspects and a campaign to educate the public on limited deposit insurance is being prepared.

52. To improve access to financial services by lower income groups, the Microfinance System Development Committee (MSDC) is finalizing a Master Plan for Grass-root Financial Services incorporating feedback from public hearings held between October 3-14, 2005 and comments received from the Ministry of Finance. The strategic direction of the Master Plan is in three areas, with the emphasis on semi-formal to informal intermediations:[21] (i) strengthening microfinance intermediaries and their human resources and improving their ability to provide services; (ii) rationalizing the role and responsibilities of government agencies involved in microfinance intermediation; and (iii)

[21] Microfinance intermediaries in Thailand can be divided into three groups: (1) Formal institutions including commercial banks and specialized financial institutions (SFIs). They are subject to general laws and specific banking regulation and supervision. (2) Semiformal institutions including village funds, cooperatives, credit unions, and the Community Organization Development Institution (CODI). These institutions are registered entities subject to general and commercial laws but are not under banking regulations and supervision. (3) Informal institutions, which are mostly in the form of self-help groups, comprising a group of people from the same community, such as saving groups. These entities are not subject to any law of establishment nor regulation and supervision.

fostering a microfinance network for sharing of experience and information. According to the Plan, village funds will be allowed to expand their services including accepting deposits and providing payment services. A Committee is considering the means to legalize semi-formal microfinance operators to enable them to make legal transactions. With the enactment of amendments to the law on March 14, 2006, the Bank for Agriculture and Agricultural Cooperatives (BAAC) will now act as a community development bank providing financial and administrative aid to individual(s), entrepreneurs, village funds, community, and other organizations whose key objective is to support farmers and the local community. The amendment will also allow BAAC to provide financial aid to cooperatives in Thailand.

53. Thailand has continued to embark on it path to trade liberalization and has entered into negotiations with various countries. Specifically, Thailand has held 6 rounds of negotiations with the US on a Free Trade Agreement (FTA), of which one key emphasis is the liberalization of Financial Services. An agreement however, has not yet been reached and the current political uncertainty is likely to delay the conclusion of the negotiations. The US has requested free market access to investment and trade in financial services especially in the insurance and mutual fund industries and free transfers of capital with an exception for prudential concerns to maintain safety, soundness, integrity, and financial responsibility. The Fiscal Policy Office (FPO) of the MOF is in the process of assessing the impact of the financial services liberalization on the domestic financial sector and formulating strategic options. The FPO is of the opinion and holds the concern that the Thai financial sector is not ready for such liberalization. In its opinion, time is needed to strengthen domestic financial institutions, to put in place some structural and managerial reforms, to analyze the risk and consequences of free transfers of capital, and to enhance supervisory capacity. In addition, the FPO is still of the view that it is necessary to maintain state owned specialized financial institutions as vehicles for carrying out government policies.

COMPONENT 2: REGULATORY AND SUPERVISORY REGIME

54. The BOT has been strengthening its supervisory policies, procedures, and practices[22]. It has moved to a more risk-focused supervisory regime. Prudential regulations have been developed to require financial institutions to implement a risk management system consistent with the complexity of their respective operations. The bank examiners have shifted their emphasis and now carefully review whether a financial institution can properly manage its risk, but continue to conduct transaction testing to assess the health of a financial institution and verify its adherence to its internal policies, procedures and controls. 48 on-site and off-site examination manuals, which outline appropriate policies and procedures for assessing risk, have been prepared and are being applied. Some of these manuals have been circulated to financial institutions. Examination planning and implementation has become customized to fit the specific

[22] This paragraph refers to a speech by Dr. Tarisa Watanagase, Deputy Governor, BOT, on the BOT's Strategy to Implement Risk-focused Supervision. – BOT Web – www.bot.or.th

financial institution to be examined, which has enabled the examiners to conduct a more comprehensive examination with minimized supervisory burden by focusing on risks and supplementing it with an appropriate level of transaction testing activities.

55. Knowledge gained from a series of training programs supported under and prior to the CDP-FC, as well as training courses supported by other organizations, have contributed to bringing about substantial changes to the BOT's supervisory policies, procedures, and practices. The BOT has broadened the scope of its supervision to include assessing how financial institutions manage their risks in addition to assessing their capital adequacy and conducting transaction testing. There are now clear and standardized procedures for off-site and on-site examination as 48 detailed manuals were developed and are being applied. On-site examination has become more transparent, focused and customized. Examiners now plan and scope to customize the examination to suit the size and activities of the financial institution and concentrate examiner resources on areas that expose the institution to the greatest degree of risk.[23] An exit meeting with management and a questionnaire are required for on-site examinations and the composite rating of financial institutions must be cleared by the Review Committee chaired by a deputy governor.

56. In addition, the BOT is strengthening its consolidated supervision regime, which had been identified in a self-assessment as being a weakness. Although lacking in specific legal power until it is endorsed with the passage of the new Financial Institution Law, the BOT attempts to overcome the weakness by issuing a guideline on consolidated supervision of financial conglomerates. The consultative draft was released in September 2005. The guideline defines the scope of a banking group, whose operations, including subsidiaries, affiliates, and other entities in which the group has substantive holdings, will be subjected to consolidated supervision. It also specifies direction on intra-group transactions, required capital adequacy levels, and large exposure on a consolidated basis. The guideline will be initially implemented on a pilot basis for one year to ensure a smooth transition to full implementation. Three supervisory authorities have formalized an agreement in principle to facilitate this consolidated supervision of conglomerates by signing an MOU in late 2005 which will encourage the sharing of information among the three.

57. In preparation for the full implementation of the new Basel accord, the BOT has developed specific measures for each of the three pillars. Those three pillars include: minimum capital requirements, supervisory review, and market discipline. A series of consultative papers with specific policies and guidelines have been released for industry comments and a public hearing was held in 2005. The BOT has continued its bilateral dialogue with commercial banks to ensure their readiness to adopt Basel II. Its bank supervisors have been trained with intensive training courses and internal examination manuals have been developed. A number of prudential guidelines to strengthen banks' risk management have been issued including an internal rating system, loan portfolio management, credit scoring, risk model validation and credit and market risk stress

[23] This is referred to in the speech made by Dr. Tarisa Watanagase, Deputy Governor,BOT, on the BOT's Strategy to Implement Risk-focused Supervision.

testing. These tools should enable banks to better manage their risk and price loans according to their customers' risk profile. The BOT targets the full implementation of Basel II by the end of 2008 (

58. Figure **3**).

59. Meanwhile, all financial institutions are required to submit by June 2006 their Basel II implementation plans for BOT's approval.

Table 3: Basel II Implementation Timeframe

	Description
Year end 2005	The BOT is to issue a series of consultative papers and conduct an industry hearing before finalizing the Basel II framework
June 2006	Banks to submit Basel II implementation plans for approval
Year end 2007	Begin parallel calculation of Basel I & Basel II: one year for simple approaches and two years for advances approaches
Year end 2007	Begin new Basel II capital charge and continue parallel calculation
Year end 2009	Begin new Basel II capital charge

Source: BOT, Supervision Report 2004

60. The Department of Insurance (DOI) has taken steps to improve its methods and capacity to supervise insurance companies. The DOI is in the process of amending legislation for a transition from price and product control to assessing the solvency of insurers and their ability to manage risks. The proposed amendments, under review by the Council of State, will grant the DOI more flexibility and authority in supervising the industry, increase the foreign ownership from 25 percent to 49 percent, and enforce proper asset and liability management. Its supervisors have been trained on solvency and risk-based supervision, although continued capacity building programs are required. The DOI is about to issue corporate governance guidelines which will cover areas such as : (i) board of directors, (ii) internal controls, (iii) internal audit, (iii) compliance function, (iv) code of best practice, and (v) transparency and disclosure. In addition, the DOI is preparing a guideline to reinforce the fit and proper test of insurance companies' management. It is preparing a regulation which will specify qualification of insurance companies' shareholders and require prior approval by the DOI of acquisitions by major shareholders. Since the industry still lacks an adequate market infrastructure and technical expertise, there will be a transition period to full implementation of the guidelines.

COMPONENT 3: CORPORATE AND DEBT RESTRUCTURING

61. The policy reform to adopt voluntary debt workouts was considered a major development in Thailand, for no such regime existed before the crisis. The voluntary out-of-court workout framework led by the Corporate Debt Restructuring Advisory Committee (CDRAC) concluded in mid-2003. The CDRAC process completed 52 percent (Baht 1.48 trillion) of its Baht 2.84 trillion targeted cases in its five-years of operation. The CDRAC's volume of completed restructurings represents 85 percent of

the cumulative completed debt restructuring to date. The remaining cases, have a total value of over Baht 1.36 trillion, failed the CDRAC process and were transferred to TAMC (Baht 953 billion) and to the Civil Court for resolution (Baht 404 billion).

62. Following the conclusion of the CDRAC out-of-court process, the BOT, under the auspices of CDRAC, introduced a new out-of-court mediation framework in mid-2003 to further accelerate debt restructuring for debtors engaged in the legal resolution process. The voluntary mediation framework was led by the CDRAC for private banks and AMCs. Targeted debtors for this process included: (i) cases under the court process; and (ii) cases in the legal execution process after court judgments had been rendered.[24] In this process, the creditors selected from the BOT's list of eligible cases and submitted to CDRAC on a monthly basis the cases they wanted to negotiate for debt settlement. The CDRAC, in turn, contacted the debtors, and if agreed, both parties entered into the CDRAC-led mediation process to accelerate resolution under an established guideline and strict negotiation timeframe. Failure to reach an agreement within the timeframe resulted in a continuation of the legal proceedings. As of December 2005, this BOT initiative had resolved 1,198 cases with a value of Baht 17,037 million out of a total of 2,606 cases with a value of Baht 40,220 million which were enrolled in the program or had a 42 percent completion rate by value. At the end of September 2006, the CDRAC office will be closed permanently, but institutional memory and policy and procedures for voluntary out of court debt restructuring have been well-recorded by the BOT for future reference. Out of court settlement and negotiation is now engrained in the banking sector, and many in the sector are much better prepared today to negotiate and restructure problem assets.

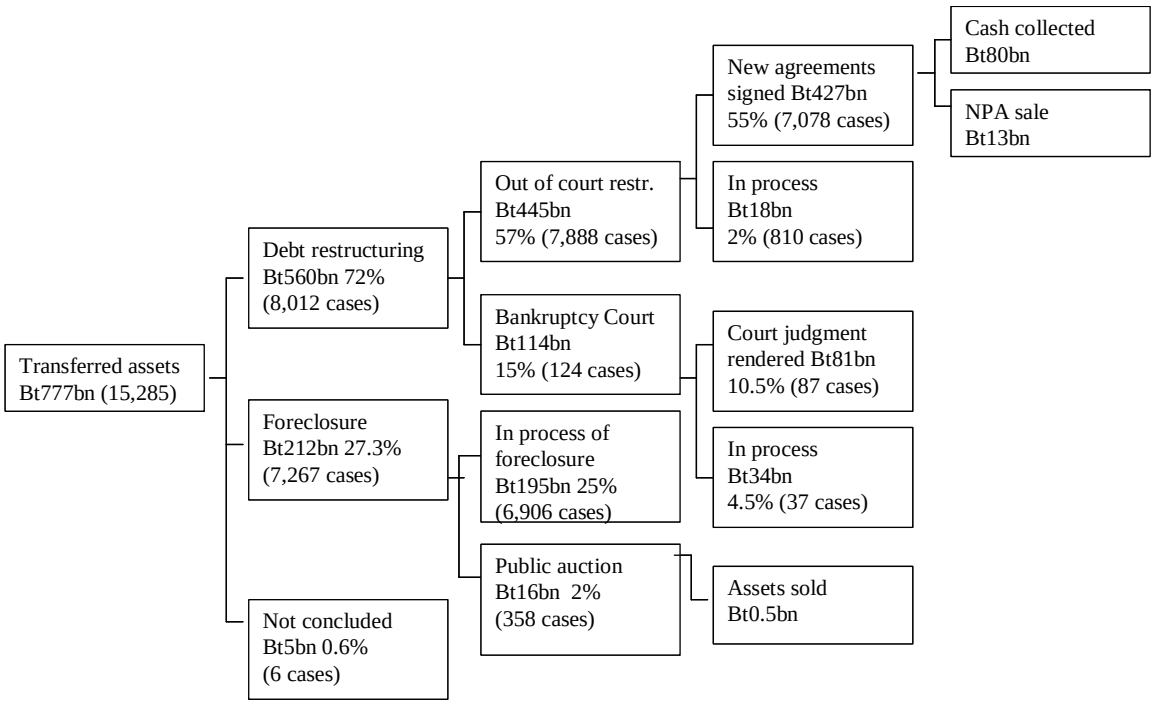
63. The Mediation Center for Financial Disputes (MCFD) was established in 2002 within the Alternative Dispute Resolution Office of the Office of the Judiciary (ADRO). The MCFD's mandate is to administer out-of-court mediation of financial disputes, especially NPL cases, as an alternative to judicial trials. Registered mediators have been trained by international mediation experts. Mediation rules, code of conduct, and an operations manual ("RCM Standards") have been developed, adopted, and disseminated. A market education campaign has been conducted to raise public awareness and to share the benefits of out-of-court mediation. To date MCFD has registered over 240 mediators which include a diverse group of legal, financial, accounting, and business professionals. In addition, ADRO has issued mediation rules and codes of conduct, and successfully mediated an average of 900 financial dispute and/or NPL cases per year since 2002. The training, the dissemination of the RCM Standards, and the market communication campaign have all been institutionalized and implemented by ADRO through the annual budget process.

64. The Government created the TAMC to address assets remaining from the financial crisis. By the end of 2005, the TAMC had successfully concluded the resolution of Baht 772 billion of distressed assets out of Baht 777 billion assets transferred to it (Figure 1).

[24] In this process, creditors and debtors agree to enter the CDRAC-led mediation process to further negotiate a debt settlement under a required guideline and timeframe. Failure to reach an agreement within the timeframe results in continued legal process.

Additionally, debt restructuring plans have been approved for 72 percent of the total value of assets transferred or 53 percent by asset volume with an expected recovery rate of 48 percent. The TAMC expects to use its special powers to foreclose assets on the remaining unresolved cases where restructuring plans were not agreed to. For the most part, debt restructuring has been voluntarily except for a group of 124 larger cases which were restructured through the Central Bankruptcy Court (CBC). Detailed information for large restructuring cases has been disclosed on its website. As of December 2005, total completed debt restructuring accounted for 65 percent of transferred assets by value and 47 percent by volume. Baht 93 billion cash has been collected mainly from restructuring, which accounted for 35 percent of the expected recovery value of restructured debts (17 percent of the book value). The TAMC has already conducted 16 public auctions to divest foreclosed assets from Baht 16 billion debts and has redeemed 27 percent of promissory notes issued by the FIDF.

Figure 1: Progress in Distressed Asset Resolution by TAMC (as of December 2005)



Source: TAMC
Note: Figures in percentage are as percent of transferred assets by value.

65. The Economic Law Development Institute (ELDI) was established on March 12, 2001 within the Council of State as the center for a comprehensive legal reform effort and a source for public information on economic laws. The ELDI identified and formed technical working groups comprising representatives from the stakeholders to engage in legal reviews, and propose amendments and new legislation, if necessary. The ELDI engaged legal professionals and academia in legal research of relevant areas. Legal reviews were completed for company accounting laws and audits, small and medium enterprise laws, and secured transaction laws. The economic law website was created

with translations of relevant economic laws into English and posted on the website. The Institute was, unfortunately, dissolved in October 2004 due to the expiration of the Law Reform Committee for the Development of Thailand (LRC)'s term of engagement.

COMPONENT 4: NEW LENDING ON RISK ADJUSTED BASIS

66. In March 2003, the MOF held a seminar with a broad range of stakeholders to discuss the newly enacted Credit Information Business Act. While the Act provided a framework for sharing of credit information by financial institutions, it created onerous legal risks to the credit bureaus and their members. The Act permitted unlimited inflow data but limited outflow data and mandated large fines and criminal penalties against the credit bureau and its members for all violations. Unlike international practice of only holding liable credit bureaus for willful violations and fraud, the original act also held the credit union and its members liable for accidental disclosures. Upon the enactment of the Act, two credit bureaus, established after the crisis[25], temporarily ceased their operations. The bureaus re-opened after the authorities took some measures to reduce their operational risk and they retooled their management information systems (MIS). In 2005 the two credit bureaus were merged and renamed National Credit Bureau. Amendments to the Credit Information Business Act become effective in mid February 2006. While incremental, the amendments reduce legal risk to the credit bureau and its members, imposed by the original Act. The amendments also give more flexibility in how and when a debtor should be notified after his/her information is submitted to the credit bureau.

67. The Real Estate Information Center (REIC) commenced operations in August 2004. It was set up as an independent unit within the Government Housing Bank (GHB), which funded its operations. Initially, the Center acquired available property and transaction data from various sources and made it available to the market through its webpage – www.reic.or.th. It appears the REIC may not be able to provide the degree of comprehensive information originally planned because of the significant expenditures for IT infrastructure and operating costs which are required to make the Center fully operational. The REIC will gradually expand the coverage and scope of information to minimize investment cost and burden on the RTG's budget. The current organizational setting seems sensible since the original design to establish the REIC as a Public Organization Authority (POA) with comprehensive information coverage requires substantial investment. Currently the Center reports by quarter aggregate housing starts, completions, sales, transfers, price index, and financing information, but generally the information lacks depth and desired segmentation. The REIC remains within GHB and is supervised by the REIC Committee, appointed by the MOF.

68. The SEC has taken the lead in strengthening the competence of the property valuation profession, particularly those certified to value assets held by publicly traded

[25] Central Credit Information Service Co., Ltd., sponsored by the Thai Bankers Association, focuses on firms' information, while Thai Credit Bureau, sponsored by the MOF under the Government Housing Bank, focuses on information of individuals.

companies or assets pledged as collateral to financial institutions. The Professional Practice Standards and Code of Conduct for Property Valuation, developed with assistance from Kenan Institute Asia, became effective in July 2005. The SEC coordinates with industry associations to enforce the new standards on their members. Valuation firms must be certified by the SEC to be able to value properties held by publicly traded companies. Key criteria for certification includes (i) the firm must be endorsed by the association; (ii) the management of the firm must be qualified—the SEC makes judgment by reviewing samples of his/her valuation reports and requiring the person to pass its examination[26]; and (iii) the firm must have a good system to control work inflow. The certification of each firm will be renewed every two years. In the future the SEC plans to certify individual valuers in addition to firms. The associations in coordination with Thammasart University are developing a framework to certify individual valuers.

69. The MOF is developing a policy direction for state-owned financial institutions (SFIs). Following a high-level meeting in October 2005, the MOF in November 2005 established a Committee to formulate and implement policies concerning SFIs. The policy priorities involve four areas: NPL resolution, market segmentation, prudential regulation, recapitalization, and synergy. NPL resolution is the first priority because some SFIs[27] have been faced with substantial increases in their NPLs. SFIs are expected to reduce their NPLs to below 10 percent within three years, write off their 3-5 year old NPLs, which are fully provisioned, and set clear conditions for the transfer of their NPLs to AMCs. The MOF is attempting to better define market segmentation of each SFI with the following key principles: (i) avoiding direct competition with commercial banks, (ii) minimizing the overlap with other SFIs, and (iii) focusing on serving underserved areas[28]. A set of prudential regulations will be developed taking into account the functions and special circumstances for SFIs. Synergy between SFIs will be promoted. A request for state recapitalization will require a sound justification.

COMPONENT 5: MARKET DISCIPLINE AND CORPORATE GOVERNANCE

70. The SET and the SEC have been working to strengthen the reporting and disclosure standards of listed companies through monitoring financial and non-financial disclosure and providing incentives for such disclosure. The SEC has improved its close monitoring of audited financial statements and annual registration statements of listed companies to ensure that accounting practices of listed companies are in compliance with the Thai accounting standards and to prevent companies from misappropriating their assets

[26] The examination was originally developed with the assistance by the World Bank. In addition the World Bank also assisted in developing training course on valuation methodology for income generating properties. A "Train the trainer" course was delivered to 65 participants.
[27] Especially SME bank and EXIM bank
[28] Based on these principles, BAAC will focus on lending to farmers, GSB will emphasize saving mobilization and microfinance, GHB will offer mortgages with unique characters such as long-term fixed rate and default insurance to smaller clients, SME bank will focus on lending to SMEs and assisting them to graduate to tap funding from commercial banks, and EXIM bank will focus on external trade finance.

through connected transactions. Non-complying companies are required to make appropriate amendments or sanctions are imposed.

71. The SEC has initiated measures to raise the quality and accountability of directors through administrative sanctions, as the legal enforcement of criminal charges for misconduct is currently inadequate. Since March 2005, the SEC has established a mandatory Director Registration program. All listed company directors and senior executives are required to register. Under this program, directors whom the SEC finds to have questionable backgrounds and credentials will be evaluated by an independent Director's Disciplinary Committee. The Committee will make recommendations to the SEC whether to remove those directors from the Directors Registration list. Directors who are removed from the list will no longer be allowed to become directors of any listed company. The SEC has issued relevant regulations and guidance, including a Director's Handbook. The handbook describes the roles and responsibilities of directors under Thai law and best international practices and will serve as a guide for directors. The SEC's objective is to enhance Directors' understanding of their roles and responsibilities, thus strengthening their capacity and effectiveness, and promoting good corporate governance.

72. Progress in revising relevant laws including the Public Limited Companies Act (PCA) and the Securities and Exchange Act (SEA), and drafting laws concerning class action lawsuits has been slow. A revised draft of the SEC Act has been prepared but not enacted. This act would require enhanced fiduciary duties of directors, including sanctions for violation of those duties, and strengthens the rules governing related party transactions. The Cabinet has approved the draft SEC Act and it is being reviewed by the Council of State.

73. The Thailand Institute of Directors (IOD), in cooperation with the SET and the SEC, has continued its training program for directors and provides an assessment of progress made in corporate governance. Its Director Certification Program (DCP) has certified over 1,904 company directors. 2,977 directors have completed a one-day Director Accreditation Program (DAP) which covered the compliance roles of directors of listed companies. In addition, following an extensive examination process 140 participants have been awarded the title of "fellowship" in recognition of their training and understanding of the principles. The work of IOD is considered to be "best practice" for training directors in East Asia. The SET has sponsored this program and is considering making it mandatory for independent directors of listed companies. All directors of newly listed companies are now required to pass this program as a pre-condition for the SEC's approval of the listing application. In addition, as part of looking at the role and responsibility of Directors, IOD identifies the best boards in listed companies and announces awards each year. This has created peer competition and has contributed to enhancing corporate governance and the role of members of the board. Finally, the IOD is preparing to increase its courses to include specific course tailored to Board Chairpersons, Board Secretaries, Audit Committee Members and others.

74. The Federation of Accounting Professionals (FAP) was established in January 2005 to assume the responsibilities of the Institute of Certified Accountants and Auditors of Thailand (ICAAT). Its mandates include issuing accounting and auditing standards, certifying and supervising accountants and auditors, and developing and enforcing the codes of conduct for the profession. The FAP will continue to intensify its efforts to improve skills and knowledge of accountants and auditors. A Certified Financial Officer (CFP) program has been established and thus far, 60 professionals have completed the program. A Certified Management Accountant (CMA) program has also been established. A major part of this effort has involved the improvement and expansion of Continuing Professional Education (CPE) for accountants and auditors, development of practical guidelines and interpretation of accounting standards, and the development of accounting practice guidelines for SMEs. It is critical that Thailand adheres to international accounting and auditing standards and disclosure to ensure comparability and better understanding by market participants with recognition that the requirements on SMEs in a developing economy may be different than those applied to larger companies. Thailand has announced a plan to substantially adopt international accounting standards by end 2006.

COMPONENT 6: CAPITAL MARKET DEVELOPMENT

75. The new Public Debt Management Law was enacted in February 2005. While the Law permits some flexibility in public debt management, the MOF may be constrained due to the conservative attitude of Parliament toward a budget deficit and restrictions on spending as stipulated in the Law. However the Law provides room for interpretation regarding the scope of government spending on social programs and investment in public projects.[29] With respect to the latter, a proposal for Baht 1.7 trillion of public expenditures in the next five years for "mega projects", if approved by Parliament, will be partially funded from the domestic debt market.

76. The market infrastructure of the Thai capital markets has been reformed considerably in recent years. The Stock Exchange of Thailand (SET) is consolidating all securities and financial derivatives trading activities under its umbrella.[30] In November 2003, the SET established the Bond Electronic Exchange (BEX) as a subsidiary to provide a market place for bond trading by retail investors.[31] However trading value and volume in the BEX has been limited as the majority of trades are executed over the counter by bond dealers for institutional investors. Subsequently, the SET acquired the Fixed-Income and Related Securities Trading System (FIRSTS) from the then Thai Bond Dealing Center (TBDC). FIRSTS is an electronic multi-dealer bond trading platform, which can support both the inter-dealer and the dealer-to-client trading.

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[29] The new law allows the government to issue debt securities for (i) financing the budget deficit, (ii) financing economic and social development expenditures, (iii) refinancing of outstanding public debts, and (iv) on-lending to other authorities.
[30] except for OTC derivatives such as swaps.
[31] based on AOM (conventional order matching) and Put Through for larger lots (over Baht 100,000).

77. Another important reform guided by the Domestic Bond Market Committee is the transfer of the central custody and settlement function for government securities from the BOT to the Thai Securities Depository (TSD), a subsidiary of the SET.[32] This decision creates a central securities depository agency for all securities publicly traded in Thailand. This should facilitate the efficient use of government securities as collateral. Using government securities as collateral would enhance the efficiency of settling large value securities transactions and enable a reduction of transaction costs without sacrificing settlement safety. Reduction of transaction costs is critical in promoting the liquidity of the secondary fixed income market.

78. TSD is building its capacity to perform the role of a central depository agency. It has created The Thai Clearing House as its subsidiary to isolate risks assumed from securities clearing from its custodian business. Currently TSD can achieve the Delivery versus Payment (DVP) with direct online links with Bahtnet 2 for payments although its broad band-based network with its tight security results in an overly long response time[33]. TSD will adopt the SWIFT standard messages for its custodian members while using its existing TSD formats for non-custodian members. To compensate for higher fees than those charged by the BOT for the transfer and custody of government securities, TSD tries to offer high value-added services including repo clearing, bond lending, and collateral management with daily mark-to-market and submission of margins in cash the next day.[34] TSD is acting as a clearing agent for trading activities in the BEX[35] and is considering acting as a central counterparty (CCP) for the settlement of repo transactions.[36] TSD is also expected to become a depository agent for bills of exchange (BE) and short-term debentures in dematerialized forms. This would substantially reduce the administrative cost associated with the continuous rollover of instruments.

79. With the transfer of FIRSTS to the SET, the SEC approved in October 2005 the transformation of Thai Bond Dealing Center into a self-regulatory organization (SRO), the Thai Bond Market Association (Thai BMA). As part of the effort, Thai BMA is aiming to be a bond pricing agency to provider rational pricing for bonds not actively quoted nor traded. By doing so, it aims to be the price information center for all bonds in the market. The prices provided by Thai BMA are expected to be benchmarks for valuation of bond portfolios of mutual funds and securities companies which are under the regulation and supervision of SEC. Banks, insurance companies and pension funds are all expected to follow suit. This is expected to enhance fairness and effectiveness in applying prudential regulation and conducting risk management. Thai BMA's role includes; (i) disseminating prices of bond trading; (ii) performing market monitoring and surveillance; (iii) providing market standards and conventions; (iv) developing capacity of market participants and facilitating discussion on bond market development. Currently there is a project to strengthen its capacity as a bond pricing agency. As the designated

[32] The transfer is planned to take place in May 2006.
[33] Current settlement cycles are T+2 for bonds, T+3 for equity and T+1 for derivatives but market participants are ready for T+2 for equity.
[34] TSD is advised by the Korea Securities Depository (KSD) on the business model.
[35] This is possible because the transaction value and trading volume in the BEX participated only by individual investors is much smaller than in FIRSTS participated by institutions.
[36] The Euroclear and Bank of New York (BONY) do act as a central counterparty for repo transactions.

information center, it receives information on the price and volume of all bond trades in the market and prices quoted by the primary dealers. Thai BMA already constructs[37] a zero coupon yield curve and offers credit spreads over the yield curve based on the credit rating of corporate bonds.

80. The BOT, in consultation with the Public Debt Management Office (PDMO) of the MOF, is pursuing the possibility of building a full-fledged primary dealer (PD) system for the government bond market. The current PDs in Thailand have neither an exclusive right to participate in the primary auctions nor an obligation to make markets for government bonds. The lack of a well functioning private repurchase (repo) market is a critical ingredient and development of the PD system is impeded without private repos. The provision of securities lending services is also necessary to facilitate the development of the repo market by enabling tri-party repos. Such developments together with the BOT's effort to reform its monetary operations are critical to creating an environment in which a full-fledged primary dealer system can be adopted successfully. Market participants are also trying to facilitate a country annex to the Master Repurchase Agreement (MRA) to facilitate the use of private repos.

81. To develop the private repo market, the BOT plans to establish the Bangkok Interbank Offer Rate (BIBOR) by developing the inter-bank money market as the core of the open money market operation. To do so, the BOT is reforming its monetary policy framework and operational methods which currently rely heavily on BOT repurchases. The volume of BOT repos is greater than that of private,[38] and the former is highly concentrated in the overnight market while the latter is in the one to two-week market. Currently commercial banks heavily rely on bilateral repos with the BOT to adjust their day-to-day liquidity needs instead of adjusting those among themselves. The BOT is thinking about influencing the aggregate reserve balance of the banking system instead of the reserve position of each individual bank. Thought is being given to this since otherwise, banks are likely to continue to rely on the BOT as their bilateral counterparty in managing their liquidity. To a significant extent, the current situation is a result of a continued liquidity needs for funding the FIDF financial restructuring costs.[39] Therefore, the planned closure of FIDF in 2007 could provide a good opportunity to reform the BOT's monetary policy framework and operational methods.

82. The SET plans to introduce interest rate (or government bond) futures on the Thailand Futures Exchange (TFEX) in the second half of 2006 following the introduction of equity (SET 50 index) futures in April 2006. Interest rate futures will facilitate primary dealers' ability to hedge their positions in government bonds. Its introduction has been delayed due to the weakness of benchmarks. Participants in TFEX are required to contribute to its settlement guarantee fund. Banks however, are not yet willing to contribute to the guarantee fund until interest rate derivatives are introduced in the

[37] As discussed earlier, the primary dealers in Thailand today do not possess full characteristics of conventional primary dealers in a formalized primary dealer system found in the US or EU states.
[38] Monthly average volume of BOT repos amounted to Baht 1.7 trillion in 2004 and Baht 2.2 trillion in 2005 while that of private repos were Baht 5 billion and Baht 12 billion in the respective years.
[39] Repos outstanding to finance FIDF amounted to Baht 300 billion.

market. Both the interest rate futures market and securities lending services require sound collateral and risk management at the clearing house, which in turn requires rational valuation of the collateral as well as rules for margin requirements. Thai BMA's role as a bond pricing agency will be critical in this regard.

83. Progress has been made to promote the supply-side of the domestic bond market. The MOF and the SEC have identified impediments to the development of securitizations in Thailand and are in the process of removing such impediments. The draft Trust Act, approved by the Cabinet in December 2003, is being reviewed by the Council of State The Special Purpose Vehicle (SPV) Law is being amended to allow the SPVs to become tax-neutral pass-through vehicles to enable the securitization of future flow of receivables, and to address the bankruptcy mode for SPV. Accounting standards for securitization are being developed by ICAAT. In addition to developing the domestic securitization market, the MOF is keen to promote the globalization or regional integration of the bond market. International finance institutions, governments in this region and their agencies all have been allowed to issue Baht denominated securities. While the international organization bonds issued by ADB, JBIC and the World Bank are still small in size, MOF intends to promote issuances not only of these international organizations bonds, but also of private multinational bonds in the Baht market.

84. The Capital Market Master Plan II (2006-2010) was proposed by the Federation of Thai Capital Market Organization (FeTCO) and related government agencies to the MOF, following a public hearing in February 2006. This is a follow-on plan to the Master Plan I (2002-2005). The proposed Plan II aims to raise the standard and size of the capital market such that it becomes an alternative for fund raising and saving by ensuring that it can achieve its full valuation while maintaining price stability. Plan II focuses on the following areas: (i) increasing the size of **the equity market** by allowing domestic institutional investors up to a 20 percent share in equity investment; (ii) increase the size of **the fixed income market** by increasing supplies (both government and corporate securities) and promoting investment by individual investors using tax incentives; (iii) developing **derivative** instruments as hedging tools for market players and investors; (iv) strengthening the capacity and financial stability of **market intermediaries** by increasing their capital requirements, encouraging more revenue diversification, and gradually liberalizing brokerage fees; (v) promoting **good corporate governance practices** of listed companies; (vi) enhancing financial literacy of **domestic investors**; and (vii) to reemphasize the role of **regulatory agencies** in developing the market in addition to regulating it.

CHAPTER III

ASSESSMENT OF THE CDP-FC PROGRAM – OBJECTIVES AND COMPONENTS

I. ASSESSMENT OF THE STRATEGIC OBJECTIVES OF THE CDP-FC

85. The assessment shows that the program's strategic objectives have been somewhat achieved. The achievement of the objectives has been the result of a mix of factors, with perhaps a heavier reliance on economic growth for some objectives rather than structural reforms suggested by this CDP-FC program. Certainly the program has contributed to the overall results, but the lingering question of the status of many of the reforms remains an issue as the program concludes. In assessing outcomes of the program it is important to consider this in light of the overriding process of enhancing structural reform through both strategy and implementation support which was to be the cornerstone of the activities of the program. Of the program's strategic objectives, the outcomes of three objectives—reducing vulnerability, promoting sustainable growth, and increasing access to financial services did well, but still suffered from the failure to have fully addressed some of the underlying inadequacies; while the outcome of improving resource allocation did not do as well.

86. There are several caveats which must be considered in assessing the outcomes of the CDP-FC program at this stage. In looking at the program one must consider that many of the desired outcomes could not realistically be reached within the limited timeframe of the CDP-FC. Reform measures take time to process, implement and produce results. It is challenging to assess the achievements of the program when several activities supported by the CDP-FC remain unfinished and several reform actions are in the early stages of implementation. One way to overcome this is to assess the progress in achieving those outcomes not the full achievement of the desired outcomes. Second, some of the current status of the measures and actions of the financial and corporate sectors can be attributed to reform actions taken by RTG prior to the formal initiation of the CDP-FC. Many of these were supported by the earlier CDP as well as support provided in the early days of the crisis. The WB has provided continuous support to the financial and corporate sector reform effort since the crisis, and assessing the current competitiveness of the financial and corporate sectors could provide some insights on the outcomes of the WB's support and the value of its efforts.

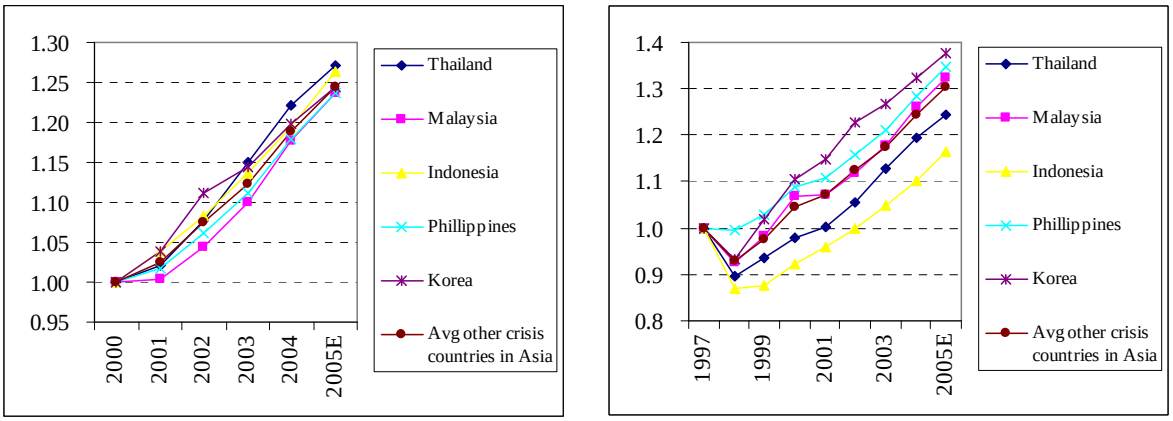
OBJECTIVE: PROMOTING SUSTAINABLE GROWTH

87. Since 2000,[40] The Thai economy has outperformed many other countries in Asia which also had experienced financial crisis in the late 90s. However it has

[40] This reflects data to December 31, 2005. The first half of 2006 suggests this might change, but the slow down could be a short term deviation attributed to the political instability during the first half of the year.

underperformed others when looking at cumulative growth since 1997 (see Figure 2). Moreover its 2005 per capita national income in USD term remains below the pre-crisis level. Thailand's economy has shown strong growth in recent years in part because its growth appears to have hinged on excess capacity in the real sector, and a low real interest rate environment instead of the implementation of a full program of structural reforms which may be essential to sustaining its medium-term growth potential. Additional investigation is needed to determine whether Thai firms (borrowers) have undertaken significant operational restructuring necessary to improve their governance, competitiveness and future performance. This will be critical in the future as cross boarder trading increases and as others in the region grow and become more competitive.

Figure 2: Annual Real GDP growth in Countries in Asia Experiencing Crisis



88. The work done under several components has contributed positively to helping set the environment for sustained growth as a result of a stronger financial sector. Specifically, looking at the financial sector from a more strategic perspective under Component 1 (Financial sector Strategy and Structure) has provided the Government an opportunity to better asses and plan given the impact of the sector on the economy as a whole. Recognizing areas of strengths and weaknesses has enabled the setting of a course of action. Components 2 and 3 (Enhancing the Regulatory and Supervisory Regime and Improving the Speed and Quality of Corporate and Debt Restructuring) have helped to strengthen the financial sector by providing necessary checks and balances as well as allowing a better assessment of risk. It should be noted however, that while positive contributions can be attributed to several of the components, the overall impact on the sustainability of growth is somewhat limited given this CDP was limited to the Financial and Corporate Sectors.

OBJECTIVE: REDUCING VULNERABILITY, FREQUENCY, AND COSTS OF DOWNTURN

89. Financial vulnerability has reduced substantially as Thai firms and banks have become healthier for the reasons mentioned above. This appears to have happened across all industries. Firms have been de-leveraging and have continued to reduce their foreign currency debts. Debt to equity ratios of non-financial listed firms has declined to 1.26 times in Q3 2005 from approximately 2 times in 2002 and from over 3 times in 1998. Interest coverage ratios of non-financial listed firms in Q3 2005 have increased to 8.75 times from 3.86 times in 2002[41]. According to the BOT's survey, private non-bank external debts denominated in foreign currencies have continuously declined since 2000[42]. Thai firms however, have become very cautious in making new investments and increasing their financial leverage which may lead to supply constraints in the future.

90. The health and profitability of Thai commercial banks has also become stronger (see Table 4). The improvement in performance is stronger for small banks (mostly foreign owned) and large banks and less so for medium banks. With the recovery of Thai banks' financial condition, the BOT progressively, since 2004, has tightened the enforcement of its prudential regulations on loan classification and loan loss provisioning through its on-site examination of financial institutions. Several banks were instructed to put aside additional loan loss provisions after a BOT on-site team found higher than reported NPLs. Although the level of NPLs at Thai commercial banks remained higher than other banks in Asia[43], their loan loss reserve coverage was also higher at 75 percent of NPLs in 2005. This should provide some degree of cushion against any future slowdown, in the event that happens.

Table 4: The Financial Position and Profitability of Thai Commercial Banks

	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Interest margin	2.7%	-0.3%	0.0%	1.1%	1.6%	1.8%	2.0%	2.5%	3.0%
Net interest income to average assets	3.2%	0.5%	0.6%	1.4%	1.7%	1.8%	2.1%	2.5%	2.9%
ROE	-20.4%	-110.8%	-109.4%	-4.8%	32.8%	4.2%	10.5%	16.8%	16.5%
ROA	-1.4%	-6.1%	-6.1%	-0.2%	1.5%	0.2%	0.7%	1.2%	1.4%
Pre-provision profit to assets	2.1%	-1.2%	-1.1%	0.0%	0.4%	1.0%	1.4%	1.7%	1.9%
Provision expenses to assets	3.3%	5.0%	5.2%	2.2%	0.6%	0.7%	0.7%	0.5%	0.4%
Loan loss allowances to NPLs		28%	38%	44%	47%	63%	73%	74%	75%
Total capital adequacy ratio				11.3%	13.3%	13.0%	13.4%	12.4%	13.3%
Tier-1 capital				7.5%	8.9%	8.9%	9.6%	9.0%	10.0%

[41] The SET's corporate update issue 4/2005

[42] The BOT report on private non-bank external debt survey as of September 2005. The report was based on the BOT's survey of 2,348 enterprises.

[43] It is actually rather difficult to accurately compare NPL numbers across the countries in the region in that classification standards and more importantly enforcement of existing standards have varied considerably. It does however appear that Thailand may be among the better countries in reporting the accuracy of its NPL numbers through the progressive efforts of the BOT.

Equity to total assets				4.3%	5.0%	5.5%	7.1%	7.7%	9.0%

Source: The BOT and the WB's estimate

91. There has been a significant decline in financial vulnerability but one might look at this with caution, as one might consider that it is possible that some of the decline in financial vulnerability resulted from aspects external to reform measures. Meeting expectations of the desired outcomes has been constrained due to the fact that many necessary changes, such as new laws, are pending enactment even after years of discussion. These include key pieces of legislation such as the Financial Institution (FI) Law and the Deposit Insurance Agency (DIA) Law. In addition, it does not appear that the weak legal regime for contract enforcement has been fully addressed. Unless it is empowered by the Financial Institution Law, the BOT may be legally challenged if it intervenes in troubled financial institutions if it were to attempt do so before the institutions' capital is depleted. This element of prompt corrective action is necessary to help minimize the cost to taxpayers of potential costly weak institutions. Without the DIA Law, a transition to a partial deposit guarantee cannot be implemented. A partial deposit guarantee regime potentially minimizes the cost to taxpayers in the event an institution has financial difficulties by not proving financial coverage to uninsured depositors. It is hoped that such a threat will further help to discipline financial institutions. In addition, the passage of the DIA Act could prove to be an incentive for increased peer pressure on high risk taking institutions as part of the cost for their bad behavior could be passed on to other institutions in the system through higher premiums or special assessments. In addition, the necessary balance in the financial system between creditors and debtors does not appear to have been achieved thus making the cost of contract enforcement for loan recovery high.

92. Greater linkages between the components and this objective are apparent in that the impact could be more immediate, although the real sustainable impact may not be tested until the next economic downturn. Strengthening supervisory capacity and regulations should enable the government to preemptively address issues rather than have to address them after a surprise downturn. Providing lenders and corporates a way in which to address financial problems rather than stock piling the problems should permit a more orderly resolution resulting manageable numbers of non performing assets at any given time. Strengthening the corporate environment through increased transparency as well as recognition of the constructive role officers and directors can have should help eliminate some of the apparent weaknesses identified at the time of the crisis. Diversification of the financial sector through the expansion of the capital markets will help to eliminate the concentration risk which resulted in the near collapse of financing immediately following the crisis. All of these steps contribute heavily to lessening the vulnerability of the economy to harsh and costly shocks, although they will not eliminate them all together.

OBJECTIVE: IMPROVING RESOURCE ALLOCATION

93. While the credit information infrastructure has been strengthened and commercial banks have gradually improved their risk management capacity through contributions of

the CDP-FC program, this outcome was not fully reached because the banking environment has not provided a strong incentive yet for better resource allocation. State owned financial institutions continue to have a strong presence making up 40 percent of the loan market share following their substantial growth after the onset of the crisis.[44] These state owned financial institutions have been used by the RTG to pump up the economy. Thus, they may have contributed to a growth in the economy, but the lingering question remains, at what cost? Of the total of 13 state-owned financial institutions[45], ten state owned specialized financial institutions (SFIs) are not subject to the BOT's prudential regulations but governed by their own laws and supervised by the MOF. The BOT has been authorized by the MOF to conduct regular on-site examinations of SFIs based on prudential regulations for commercial banks. This has not yet affected the required capital adequacy of SFIs, but it could be argued that their special position as being Government owned in itself provides a capital coverage not available to private institutions and thus meeting required capital levels may be less important. This however, begs the issue of the potential impact on private institutions, or the ultimate cost to the citizens of Thailand. While regular on-site examinations of SFIs appear to be taking place, it is less clear that findings of these examinations result in any meaningful changes to their operations.

94. In addition, because the blanket guarantee for depositors remains in place—only the state guarantee on creditors was removed - depositors are indifferent in placing their deposits with strong or weak financial institutions. This places a heavy burden on regulatory and supervisory authorities to monitor and curb risks being incurred by banks. Finally, the perceived debtor friendly legal regime discourages firms to undertake operational restructuring and allows uncompetitive players to continue to operate.

OBJECTIVE: ENSURING ACCESS TO FINANCIAL SERVICES

95. The steps taken under the CDP program to support the sustainable development of credit bureau is an important aspect of increasing access. Credit reporting can serve many aspects of strengthening the financial sector and thus the economy, by allowing a better assessment of risk, and increasing the likelihood of those with limited assets, but a strong credit history to be able to borrow. The improved credit information reporting and disclosure has helped to increase access to financial services by poor households but the evidence is less clear for its impact on access to credit by SMEs. There has been a great deal of planning and preparation of various strategies to improve access to financial services including the Financial Sector Master Plan (the BOT) and the Master Plan to Strengthen Grass-Root Financial Services (MOF) but in both cases, implementation has been slow and more time is needed to bring about meaningful changes. In addition, on review of the current draft Master Plan to Strengthen Grass-Root Financial Service

[44] Including SCIB and BT but excluding TMB

[45] Legally, SCIB and BT are no longer state banks since the FIDF, under the BOT, has gradually divested its holding in both banks to below 50 percent. However in practice whether these two banks should be classified as state or private banks is less clear given that the state remains their major shareholders and continues to strongly exercise its shareholder's right through its appointed board members at both banks.

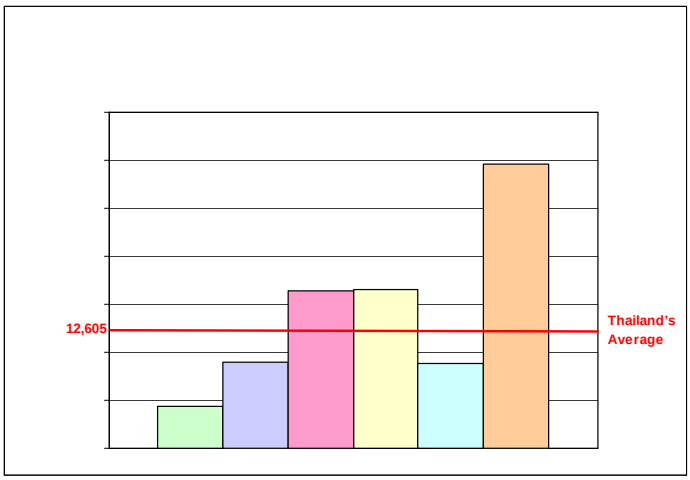
suggests that it may fail to adequately address the linkage of semi-formal microfinance activities with the mainstream financial sector. Once again, the weak legal regime for contract enforcement, non-existence of a solid secured transaction framework, and poor financial disclosure continue to be key impediments to increasing access to credits by SMEs. Access to financial services, albeit improved, remains uneven throughout the country. (See

96. Figure 3)

Figure 3

97. Figure 3 provides a snap shot of weakness in access, especially in the Northeast and to some extent even in the North and South. Commercial banks' branches are highly concentrated in Bangkok and the central region. The ratio of population per banks' branches as of 2005 in the northeast region of Thailand is very similar to that found in Lao PDR, which has a much less developed financial system. This however is only reflective of the commercial banks and does not include the number of cooperatives or semi-formal microfinance operators, branches and representative office of SFIs (especially BAAC[46]) due to the lack of sufficient detailed information on them. While commercial banks continue to expand their branch network throughout the country, the growth rate was the fastest in the central region and the lowest in the northeast. In July 2005, the BOT issued a regulation, which specifies an interest rate ceiling for consumer loans. This action was taken to prevent a potential vulnerability resulting from excessive growth in household debts, but could effectively limit access to formal financial services by lower income groups.

Figure 3: Access to Financial Service in Thailand



contract enforcement regime as reported in "The 2006 Doing Business Report"[47] where Thailand scored substantially worse in this area than others in the region. On average it takes 390 days to resolve a payment dispute in Thailand which is substantially longer than 75 days in Korea, 241 days for China, and 300 days for Malaysia. Firms in the 2005 Private Investment Climate Survey (Thailand) [48] reported that court cases to resolve a payment dispute take on average 420 days but can take up to 1,680 days.

II. ASSESSMENT OF THE SIX COMPONENTS OF THE CDP-FC

COMPONENT 1: FINANCIAL SECTOR STRATEGY AND STRUCTURE: MODERATELY SATISFACTORY

99. Progress in the implementation of the Financial Sector Master Plan, and other actions discussed have brought about some achievements in strengthening the financial sector strategy and structure and in improving the depth and efficiency of the financial sector. However, the progress in enhancing market discipline of deposit taking financial institutions and access to financial services by SMEs and low-income household lags and has not been fully realized at this stage. The increased role of the Government owned financial institutions poses a challenge to competition and market discipline. The delay in the enactment of several key pieces of legislation impedes further strengthening of the development of a competitive financial sector. Legal and judicial weaknesses constitute a major constraint for effective financial intermediation. The growing pressure, from the US and other trading partners through FTA negotiations, for Thailand to open up its financial service sector may serve as the impetus for the RTG to implement structural reforms to strengthen the sector. Progress is visible, but the items not yet fully addressed are significant and thus, the overall progress for this component is deemed limited resulting in this outcome being rated only **moderately satisfactory.**

100. The Financial Sector Master Plan, which outlines a medium-term strategy and structure for the Thai financial sector was the result of a major effort and reflected the result of a consultative process which helped to add to the comprehensiveness of the Plan. The Plan is under implementation and progress can be seen. The shift in the breakdown of the role of differing financial institutions in Thailand commenced shortly after the financial crisis Figure 4 and the Master Plan reemphasizes this direction. Licenses for deposit taking financial institutions have been rationalized. Six new licenses have been granted to upgrade existing qualified financial institutions into commercial and retail banks. Small financial institutions such as finance and credit foncier companies are discouraged from mobilizing deposits from the general public. Regulatory impediments to operational efficiency and the competitiveness of the commercial banking sector are

[47] 2006 Doing Business report can be found at - http://www.doingbusiness.org/documents/DoingBusines2006

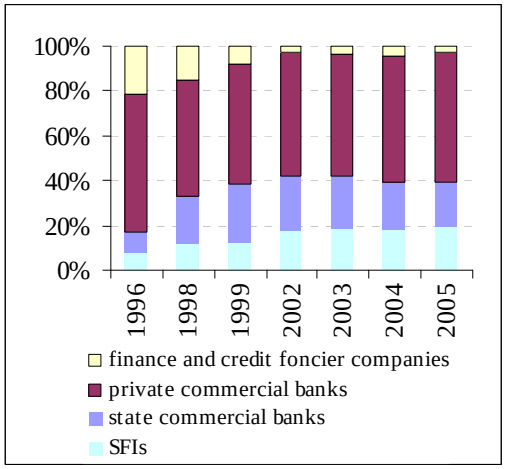
[48] This data comes from: A yet to be published report entitled Thailand: Investment Climate, Firm Competitiveness and Growth. Publication expected by fall 2006

being revised. Barriers to entry and competition are being reduced as financial institutions are allowed to expand their scope of services and branch restrictions for foreign banks are being relaxed.

101. Since the Financial Sector Master Plan is in the early stage of implementation, more time is needed to bring changes to the structure and competitiveness of the sector. Commercial bank loans continue to be the main funding source for the Thai private sector even though the capital market has grown substantially. The progress toward a more diversified financial sector is a very positive sign and could help to prevent some of the concentration risk identified during the crisis when most financial transactions were conducted solely through the banking system. Financial institutions' loans accounted for 46% of the total size of the financial sector in 2005 compared with 71% in 1996 (see Figure 5)[49].

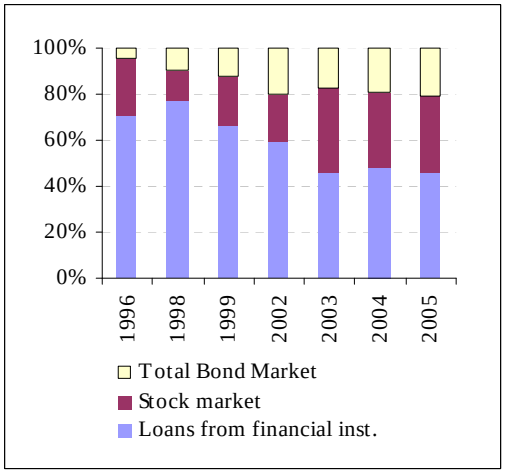
102. Consolidation as a result of the Financial Sector Master Plan has mostly involved small players with the exception of one large transaction in 2004, which was a state initiated merger. The total number of financial institutions[50] declined from 75 in 2002 to 57 in January 2006 (Table 5). Foreign banks have remained small with less than a 15 percent share of total financial system loans and are unlikely to pose significant competitive pressure on domestic banks. The Financial Sector Master Plan, in its early stage of implementation, has achieved some of its objectives in restructuring and strengthening existing financial institutions.

Figure 4: Breakdown of the share of the market by Thai Financial Institutions



Source: The BOT, and WB's estimate

Figure 5: The Breakdown of theThai Financial Sector



Source: The BOT, the SET, the SEC, and WB's estimate

[49] The stock market and the bond market accounted for 33 percent and 21 percent of the total financial sector respectively. The share of the capital markets may overstate their importance as a funding source for the private sector because it appears price appreciation has been one of the major contributors to the substantial growth in the stock market in recent years. The size of the corporate bond accounted for only 4 percent of total financial sector.

[50] This includes stand-alone international banking facilities (IBFs).

Table 5: The Number of Financial Institutions

Financial Institutions	Pre-crisis Jun-97	Dec-02	Dec-04	Oct-05	Jan-06
Domestic Private Banks	14	6[1]	6	8[7]	10[10]
Domestic Private Banks (with the majority foreign ownership and control)	0	4[2]	3[5]	4[8]	4[11]
Foreign (single branch) Banks	22	20	20	18[9]	17
State-owned Banks	1	3[3]	3	3	3[12]
Total Commercial Banks	**37**	**33**	**32**	**33**	**34**
Finance Companies	102	19	18	13	9[13]
Credit Foncier Companies	11	6	5	5	4[14]
State-owned Specialized Financial Institutions	7	10[4]	10[6]	10	10
Total Financial Institutions	**157**	**68**	**65**	**61**	**57**
Stand-alone IBFs of Foreign Banks	15	7	4	2	0
Total	**172**	**75**	**69**	**63**	**57**

Source: Bank of Thailand

[1] BBC (wound down), FBCB (merged with KTB) LTB (merged with RSB), and BMB (merged with SCIB). And NFB was granted banking licenses in 2Q 2002.
[2] Includes BOA, DTDB, SCNB and UOBR which have the majority foreign ownership and control.
[3] Includes KTB, SCIB, and Bank Thai.
[4] Includes TAMC, AMC, and Secondary Mortgage Corporation, which opened in July 1997.
[5] DTDB and IFCT were merged with TMB in 3Q 2004.
[6] IFCT merged with TMB in 3Q 2004 and the Islamic Bank of Thailand was opened in Q2 2003.
[7] Two new banking licenses were granted to upgrade two finance companies (Kiatnakin Finance Public Co., Ltd. and Tisco Finance Public Co., Ltd.)
[8] One new banking license was granted to upgrade a branch of a foreign bank.
[9] Standard Chartered Bank closed October 2005 and the International Commercial Bank of China was granted a branch upgrade.
[10] Banking licenses were granted to Asia Credit Public Co., Ltd. & Land and Houses Credit Foncier Public Co., Ltd.
[11] BOA merged with UOB on 28 November 2005 and changed name to UOB. And one banking license was granted to upgrade a GE Money Finance Public Co., Ltd.
[12] Include Siam City Bank and Bank Thai. Also see footnote # 45 on Page 41.
[13] Four finance companies were closed down following two were granted banking licenses.
[14] One credit foncier company was closed down in December 2005 following its upgrade into a bank.

103. Progress has been limited in strengthening the legal framework including the banking legislation, the bankruptcy law, foreclosure law, the secured transaction law etc. The Financial Institution Business Law that would replace the existing commercial banking law and finance company and credit foncier company law has not been passed. The current legal framework for contract enforcement is not conducive to an effective credit culture. Despite improvement, the bankruptcy law and its implementation by the judicial system appear to still be overly biased in favor of debtors, resulting in long

delays and a high degree of uncertainty. The foreclosure law is still seen as debtor friendly and time-consuming for creditors to get court judgment and to realize on their collateral in the event of default. Even when the court judgment has been rendered, it is time consuming to execute the sale of foreclosed assets through the official execution department.

104. Thailand is one of a few remaining countries in East Asia to still have a blanket guarantee of deposits as it has not passed a limited deposit insurance law. While an interim step was taken in November 2003 when the state guarantee for banks' creditors was removed, the removal of the guarantee for large excess deposits has been delayed. This delay is attributed in part to the authorities desire to defer initiation of the legislative approval process until after key pre-requisite conditions were met[51]. The draft law was approved by Cabinet in November 2004 but has not been endorsed by Parliament. Uncertainty as to when the law might be passed continues. A continued strong presence of state-owned financial institutions could pose additional challenges for the implementation of a partial deposit insurance scheme.

105. It should be noted however, that the implementation of the transition to a partial deposit insurance scheme could proceed quickly and the DIA could be established once the Law is enacted since preparatory work has almost been completed except those steps which require passage of the Law. At this stage, bankers and a certain group of depositors[52] are aware of the RTG's plan to reduce the deposit guarantee from unlimited to limited coverage following a public hearing held in 2002 but this has not led depositors to differentiate between financial institutions. Accounting and auditing standards, prudential regulations on loan classification, and public disclosure of financial statements of financial institutions have improved significantly, which should help the market to discipline financial institutions once the Law is enacted.

106. The authorities have implemented measures to enhance access to financial services but the full outcome has not been realized as most are still at an early stage of implementation. Following the endorsement of legislative amendments, the Bank for Agriculture and Agricultural Cooperatives (BAAC), with its extensive branch net work, has been allowed to expand its services beyond agricultural finance. The Master Plan to Strengthen Grass-root Financial Services is being finalized. The MOF recently granted, as recommended by the BOT, new licenses to two retail banks whose focused clientele are SMEs and low-income clients. The BOT issued regulations in early 2006 to lower risk weightings of loans to SMEs.

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[51] The pre-conditions for the implementation of a partial deposit guarantee were outlined by the consultants supported by the World Bank's technical assistance in June 2001. For example the authorities were advised not to take action on lifting the guarantee until each of the five large Thai banks is rated Composite 3 or better and C or better for Fitch's individual ratings and Moody's "financial strength rating." Also the public should not have excessive concerns about the current and prospective economic conditions of the country and the economy should have had two to three more years of at least 4 or 5 percent growth and inflation has kept within the BOT targets of 0 to 3.5 percent per year.

[52] Through the public hearing, it was announced that the deposit guarantee amount will be reduced gradually to reach one million baht in four years. The first phase is estimated only to impact about 7,000 large depositors.

107. *Follow-up Activities and Desired Actions:* In the area of access to financial services, the MOF is organizing a workshop on microfinance in Thailand to be financed by the ASEM Trust Fund which is to be held soon. It aims to bring together experts in the microfinance industry, including community leaders, people with experience in microfinance in Thailand, and international experts, to share information, experiences, and success stories, and to provide feedback on the national policy to strengthen microfinance operations. Additionally, the technical assistance to the FIDF to design a public awareness plan for a limited deposit insurance scheme will soon be carried out. The plan is to design a campaign to raise awareness in the public of the benefits of the limited deposit insurance system, educate the public on the scheme, and maintain the public's confidence in the financial system. This plan is necessary to smooth the transition from a blanket to a limited guarantee. The Government should move forward in limiting its current guarantee through progressive measures and steps and enact the pending legislation creating the limited Deposit Insurance Scheme.

COMPONENT 2: REGULATORY AND SUPERVISORY REGIME: SATISFACTORY

108. Intermediate outcomes for component 2 include the followings: (i) enhanced supervision and capacity of financial institutions' supervisors; (ii) improved framework for the supervision of financial conglomerates and increased cooperation across regulatory agencies; and (iii) enhanced disclosure by financial institutions.

109. This component is rated **satisfactory**. Despite the delay in passing key legislative amendments, substantial progress has been made in strengthening the regulatory and supervisory framework as well as the capacity of deposit taking financial institutions. A more transparent institutional framework has been set up to develop policy and issue regulations. The regulations on loan classification and provisioning requirements have improved and enforcement has tightened although the regulations are still subject to interpretation which can lead to an uneven implementation by financial institutions. The key supervisory methodology has shifted from rule based compliance to risk focused. Detailed manuals for on-site and off-site examination have been developed and are being applied. There is a certification process for commissioned examiners. Directives and guidelines are being issued to compensate for weakness in the supervisory regime caused by the delay in enacting legislative amendments although enforcement potentially faces legal challenges. Supervision of the insurance industry lags behind but is improving.

110. Progress has been limited in the passage of key legislative amendments, especially the new Financial Institutions Law. The draft new Financial Institutions Law aims to provide more independence and accountability to the bank supervisor, empowers the BOT to conduct consolidated supervision, introduces a risk-based supervisory framework, facilitates clearer definitions of connected lending, and defines a framework for the orderly and timely exit of problem institutions. The enactment of the Law is likely to be delayed further. Currently most legal powers, especially the major ones

including granting and revoking licenses, etc., remain with the MOF whereas the day-to-day supervision rests with the BOT. The combining of roles can make the decision making process time consuming and complex.

111. Lacking legal authority under current laws, the BOT has taken several measures to strengthen its regulatory framework. Directives and guidelines are being issued to compensate for the lack of clear legal authority and although this could be challenged and may make enforcement difficult, it is a positive step of the BOT. For example, a guideline on consolidated supervision will be issued soon based upon a consultative draft issued in September 2005. An information sharing agreement between three supervisory agencies has been formalized with the signing of an MOU in late 2005. The BOT will soon issue a policy statement on preventive steps and prompt corrective action. This should make the intervention process and exit procedure for problem financial institutions more transparent and understandable to the industry. The current regime for liquidating and intervening problem financial institutions is not clear and is not triggered by any clear event resulting in automatic action, but is at the wide discretion of supervisors and thus needs to be reviewed and clarified.

112. A transparent institutional framework has been established to strengthen the bank regulatory and supervisory framework. A Financial Institutions Policy Committee (FIPC) was established to assist in spotting issues requiring changes to the regulatory and supervisory process. Chaired by the BOT governor, the FIPC consists of representatives of the MOF, the SEC, and the DOI, senior BOT supervisor, and outside experts. Its mandate is to develop policy, issue regulations in coordination with other supervisors, and develop new supervisory methods and techniques to address changes in the system.

113. Capacity of supervisors and examiners has been strengthened through extensive classroom and on the job training as well as a technical certification program. The School for Examiners, established to provide training programs for bank examiners with exit examinations, is crucial to this certification process.

114. The examination process and procedures for financial institutions have become more transparent, focused and customized. 48 detailed manuals have been prepared and are being applied to off-site and on-site examinations. Prior to an on-site examination, the examination teams prepare for the exam by customizing the examination based upon the size and complexity of the financial institution's operations. Customizing examination plans and following through has enabled the BOT to conduct a more comprehensive examination of financial institutions while minimizing the supervisory burden on them.

115. The accounting, auditing, and disclosure environment for the financial sector has improved but is not yet substantially consistent with international standards and practices. Thailand has however, announced a plan to fully adopt international accounting standards (IAS) based upon the Thai economy and state of development by end 2006. All domestic commercial banks are listed companies so they are subjected to the requirements set by

the SET and the SEC on corporate governance and disclosure[53] in addition to the requirements set by the BOT. The BOT requires a financial institution to disclose information on NPLs, lending to related parties and violations of the BOT's rules and regulations. With the implementation of Pillar III under Basel II, a financial institution will be required to disclose more information, particularly those related to their risks.

116. The Department of Insurance (DOI) has taken steps to improve its processes and capacity to supervise insurance companies. Laws are being amended to support a transition from price and product control to assessing the solvency of insurers and their ability to manage their risks. Supervisors have been trained on solvency and risk-based supervision. A continued capacity building program is required. In late 2005 a self-assessment was completed with assistance from OSFI, on supervision and regulation of the insurance industry benchmarked against the IAIS Insurance Core Principles (28 ICPs). The self-assessment revealed several weaknesses in the area of capital adequacy and solvency (ICP 23) and various governance principles. Actions are being taken to address the identified weaknesses. The DOI will soon issue corporate governance guidelines developed in consultation with the industry. In addition, it is preparing a guideline to reinforce the fit and proper test for insurance companies' management and a regulation which will specify necessary qualifications for insurance companies' shareholders and require prior approval by the DOI of their major shareholders.

117. *Follow-up Activities and Desired Actions:* As in the case of BOT, government agencies are doing what they can to address the weaknesses even when it is not yet possible to enact laws, but this along will not be enough and progress needs to be made in strengthening the legal framework. Banking legislation, revisions to the bankruptcy law, a foreclosure law that supports contract enforcement are all needed. The Financial Institution Business Law needs to be debated and passed as does the Act for the Central Bank. The World Bank is supporting the BOT in developing a sufficient and effective supervisory review policy and system which is consistent with Basel II implementation. The project will help to develop necessary prudential guidelines to enhance banks' risk management systems and build supervisory capacity in implementing Pillar II. Beyond the CDP-FC timeframe, the World Bank will participate in the Financial Sector Assessment Program (FSAP) of Thailand to identify strengths, weaknesses and potential sources of vulnerability to the financial sector, the economy and development. Finally, DOI should complete its review of its plan for the sector and issue it and needed regulations.

COMPONENT 3: CORPORATE AND DEBT RESTURCTURING: MODERATELY SATISFACTORY

[53] Listed companies are required to disclose (i) quarterly and annual financial statements, reviewed and audited ; (ii) their top 10 shareholders as well as any related party transactions; (iii) timely non-financial information with material effect on the company among others..

118. Intermediate outcomes include the followings: (i) improve speed and quality of corporate restructuring via TAMC; (ii) improve the legal regime for credit enforcement; and (iii) improve the out-of-court debt restructuring regime.

119. This component is rated **moderately satisfactory** even though considerable steps have been taken because much remains to be done. Thailand has taken several measures to expedite debt restructuring in the face of constrained and weak legal and judicial regimes. However results have been moderate. The apparent debtor friendly legal regime for contract enforcement doesn't encourage corporate restructuring and makes the loan recovery process slow and costly. Debt restructuring outside an ordinary legal regime by the Public AMC (TAMC) has shown progress in voluntary debt workout negotiations but executing the new agreements remains a challenge. Moreover NPLs under TAMC's responsibility were mostly transferred from state owned banks and AMCs while a sizeable proportion of NPLs in the private banks are left to bilateral negotiations and court-supervised workouts. The voluntary out-of-court restructuring framework facilitated by CDRAC at the BOT, was introduced during the financial crisis and subsequently BOT established initiatives to facilitate the existing framework for formal out-of-court mediation which has shown significant impact on reducing NPL overhang at financial institutions. The going concern is the backlog of cases in the Civil Courts where mortgages are enforced. As of September 2005, the Office of the Judiciary reported that there remained over 199,540 civil cases pending court decisions, almost 3 times the level of unresolved cases as reported back in year 2004.

120. The financial performance of Thai firms has improved. While it is impossible to assess the overall performance of Thai firms due to inadequate enterprise statistics[54], the assessment can be done for publicly listed firms in the SET. It is well documented that the leverage ratio of listed firms has declined in the last 3 years. The improvement however, is by no means fully attributable to the reform policies on corporate and debt restructuring, but perhaps more on the economy's marked improvement during the period. The country's economy experienced growth in exports, consumption, increased capacity utilization and outputs, all of which contributed to a better financial performance of firms. The key open question is if these firms have taken advantage of this positive economic environment to change and enhance their operations and governance.

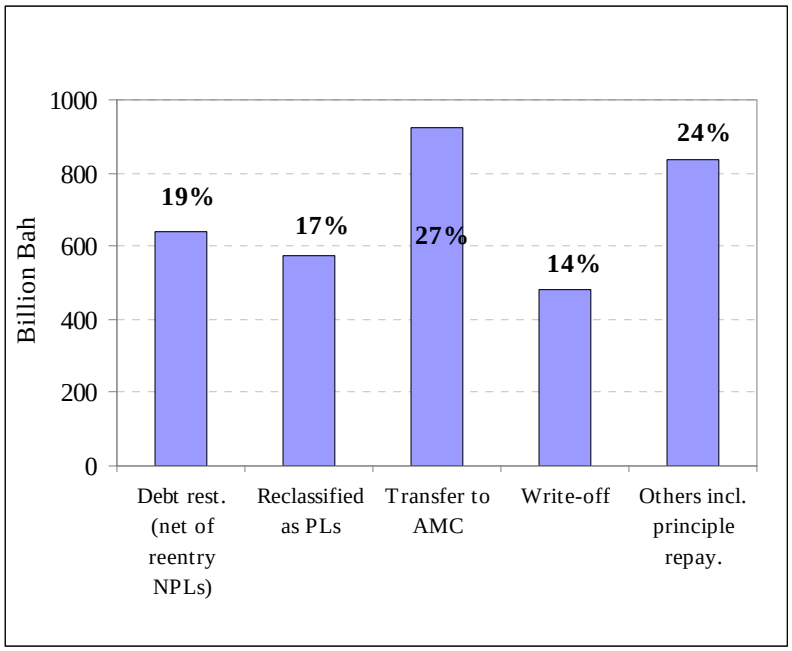
121. On issues related directly to this particular component, the speed and quality of debt restructuring, however, are subjected to debate. The completed corporate and debt restructuring cases produced mixed results. Evidence of real business restructuring that involved changes in business ownership and top management were few and far between. This may be due to the fact that most large firms are family-controlled businesses, even though they are listed on the stock exchange. In such cases, changes in the ownership or top management are going to be difficult.

122. While significant efforts and measures have been taken to expedite the speed and quality of debt restructuring, results have been moderate. As of 3Q 2005, a reported total

[54] See extensive discussion on the Thai enterprise statistics in the Thailand Economic Monitor**, April 2004 Edition.**

Baht 1.75 million debts have been restructured since October 1999. However the quality of debt restructuring has been somewhat weak as evidenced by Baht 1.1 million restructured debts having reverted back into NPL status.

Figure 6: Reasons for Reduction in NPLs



Source: the BOT and the WB's estimate

123. The CDRAC's voluntary out of court process completed 52 percent or Baht 1.48 trillion of the Baht 2.84 trillion pending cases in its six-years of operation (Table 6). Completed debt restructuring through the CDRAC process represented approximately 85 percent of the cumulative debt restructuring by financial institution to date.[55] However CDRAC did not track the quality of completed debt restructuring through its process. The remaining cases, a total value of Baht 1.36 trillion, failed the CDRAC process and were transferred to TAMC (Baht 953 billion) and to the Civil Court for resolution (Baht 404 billion).

124. The BOT initiative on an out-of-court mediation framework post 2003 appears to have had only a small impact on reducing the NPL overhang. The BOT initiative was a voluntary mediation framework led by CDRAC for private banks and AMCs to accelerate debt restructuring for cases under the legal process and to help lessen the backlog in the Civil Courts. The BOT selected a target group of 136,728 cases, with the value of Baht 426,843 million. In the 26 months of operations through December 2005,

[55] September 2005. Note that targeted cases under the CDRAC process go beyond NPLs at financial institutions. For example the process also included bond holders and other creditors.

overall progress was moderate in that creditors selected only 8.9 percent of the total target debtors by credit value, and only 4.9 percent of the selected debtors have participated in the program (Table 7). As of December 2005, the completion rate was only 4 percent of target debtors by value or 42 percent of selected debtors (by value) which have agreed to participate in the program, but of those who voluntarily participated, the success rate was close to 98%.

Table 6: Status and Progress of Debt Resolution under the CDRAC (1998-2005)

As of December 31, 2005

	Target Debtors pre 2003		Target Debtors post 2003						Total Target Debtors (1998-2005)	
			In legal process		DCA/ICA target debtors		Total			
	Cases	Mil. Bt.	Cases	Mil. Bt.	Cases	Mil. Bt.	Cases	Mil. Bt.	Cases	Mil. Bt.
1. Debtors in the restructuring process	12,186	1,889,685	2,429	20,893	26	17,035	2,455	37,928	14,641	1,926,613
1.1 Completed restructuring cases	12,186	1,889,685	2,386	20,549	26	17,035	2,412	37,584	14,598	1,926,269
1.1.1 Successfully restructured	10,445	1,485,123	1,175	6,298	23	10,740	1,198	17,038	11,643	1,501,161
1.1.2 Unsuccessfully resolved	1,741	404,562	1,211	14,251	3	6,295	1,214	20,546	2,955	425,108
1.2 In the negotiation process	-	-	43	344			43	344	43	344
2. Being contacted to participate in creditor-debtor meeting	-	-	37	107			37	107	37	107
3. Others (eg.debtor declared bankrupt, transferred to TAMC or debtors being restructured under ICA/DCA)	3,200	953,064	114	2,185				2,185	3,314	955,249
TOTAL	**15,386**	**2,842,749**	**2,580**	**23,185**	**26**	**17,035**	**2,492**	**40,220**	**17,992**	**2,881,969**
Sucessfully restructured to target debtors	68%	52%	46%	27%	88%	63%	48%	42%	65%	52%

Source: CDRAC

Table 7: Status and Progress of CDRAC Mediation Program

As of December 31, 2005

Unit: Million Baht

Stages	**Total**		
	#Cases	**Amt.**	**% of Total**
Target Cases in Legal Process	**136,728**	**426,843**	**100.0%**
Creditors selection of debtors to negotiate in the CDRAC mediation program	4,888	37,797	8.9%
Selected debtors agreed to participate in CDRAC mediation program	2,429	20,893	4.9
Settlements and Resolution Completed	2,386	20,549	4.8%

Source: CDRAC

125. The resolution of distressed assets by the TAMC outside the judicial regime has shown progress. Its special power to foreclose and auction assets helped to speed up the resolution of distressed assets transferred to it. At the end of 2005, completed debt restructuring accounted for 65 percent of Baht 777 billion transferred assets (47 percent

of the number of cases). Seven percent of transferred assets are in the process of being restructured and the TAMC's special power will be used to foreclose 27 percent of transferred assets. Cash collection has reached 35 percent of the expected recovery value of restructured debts. The quality of debt restructuring by the TAMC has been reasonable thus far, with seven percent of restructured debts returning to past due status for longer than 90 days.

126. A more significant challenge facing the TAMC is the resolution of Baht 212 billion assets being foreclosed using its special powers. Its original board decision was for the TAMC to seek private sector minority partnerships to invest in those assets while it retained majority ownership in the assets. This was aimed to prevent "fire sales" of the assets. While it is a viable consideration, a significant volume of those assets could become idle for a long time before they are released back to the market. TAMC's current plan is to conduct public auctions of those assets to speed up the resolution process and maximize recovery values. This is an area warranting careful review by the Government due to the risk posed to communities and business sectors if the assets are not disposed of in a timely manner and instead remain marginally productive while being held by the TAMC.

127. While there is evidence of an increasing demand for out-of-court mediation as an alternative to judicial proceedings, thus far, the statistics represent only a minor portion of financial disputes and NPL cases. However what is seen is a growing acceptance by the Thai corporate culture of out-of-court mediation as a viable alternative to a lengthy and costly trial. The capacity of the mediators is being strengthened. Through the Alternative Dispute Resolution Office (ADRO) of the Office of the Judiciary over 350 trained mediators have been registered and on average 50 percent of the financial disputes and/or NPL cases have been successfully mediated by ADRO per year since 2002. The percentage of successful cases under the ADRO grows to approximately 80% if one deducts the cases that were pulled from the formal process, but still resulted in compromises acceptable to both parties (**Table 8).**

Table 8: Cases Mediated by the Alternative Dispute Resolution Office

	Number of cases	Successfully mediated	Not successfully mediated	Remaining	% Successfully mediated
2002	988	500	107	381	51%
2003	750	342	46	362	46%
2004	599	294	32	273	49%
2005	263	84	10	169	32%

Source: ADRO

128. Progress in legal and judiciary reform to promote corporate restructuring remains slow. A three-point amendment to the individual bankruptcy liquidation framework of the Bankruptcy Act endorsed by the Cabinet is still under review by the Council of State. Even so, the amendments only cover individual bankruptcies, while the remaining weaknesses in the corporate bankruptcy framework have not been addressed. The

amendments to the Civil Commercial Code on Legal Execution to expedite the sale of foreclosed properties by reducing fees to attract buyers to the foreclosed property market have also been awaiting Parliamentary consideration since early 2004. Nevertheless, the prevailing market consensus is that the reduction in fees would only minimally accelerate the sale process, and more rigorous amendments to the legal execution procedures are still needed to expedite the sale process. Similarly, the Secured Transaction Act has been pending since 2003 while it awaits a sub-Cabinet review before submission to the Cabinet and finally Parliamentary approval. The Act would greatly enhance the corporate restructuring framework by providing greater flexibility in collateralization of other assets besides the traditional pledging of real estate.

129. *Follow-up Activities and Desired Actions:* The work continues in this area even though all related activities in the CDP-FC were completed. Progress was made in some areas, and it is important that the Government continue pushing those. Out-of-court loan workouts have proven successful and beneficial to the financial sector and should continue to be encouraged. Further, attention should be given to addressing the weaknesses in the legal system so that creditors and others have the ability to enforce contracts in a timely and meaningful way. The work of ELSI should be restarted and all economic laws reviewed, and posted on the web for all to access.

COMPONENT 4: NEW LENDING ON A RISK ADJUSTED BASIS: MODERATELY SATISFACTORY

130. Intermediate outcomes include the followings: (i) enhance level playing field between state and private financial institutions; and (ii) strengthen information infrastructure.

131. This outcome is rated **moderately satisfactory.** Significant progress has been made in strengthening the information infrastructures such as the Credit Bureau and the Centralized Real Estate Information Center. The property valuation profession as well as the standards for property valuation and valuers is being enhanced. Financial institutions are strengthening their capacities to assess the risk of borrowers and price loans according to borrowers' risk profiles. However a strong presence of state owned financial institutions with 40 percent loan market share is of concern. The share of state financial institutions has grown substantially after the crisis following their rapid credit expansion, which was driven by the government's policy to use state financial institutions to pump up the economy. This could undermine the efforts by the authorities to promote lending based on a risk adjusted basis.

132. Credit infrastructure has improved but could be strengthened further to enable financial institutions to accurately assess and price risk. The credit bureau is a critical element of the financial infrastructure necessary to promote and sustain credit to individuals and SMEs because it readily provides information to creditors and helps to discipline problem debtors. The current databases of the National Credit Bureau (NCB) have grown to over 30 million accounts covering more than 11 million individuals and

approximately 180,000 firms. Its current database is estimated to cover about one-forth of eligible voters and over one-third of firms registered with the Ministry of Commerce (MOC)[56]. These estimates are complicated by the fact that not all eligible voters are necessarily currently in the formal workforce and many in the informal workforce are not clients of the members of the NCB. In addition, many financial institutions will only provide credit to those in the formal sector. If this is considered, then the percentage of coverage by the NCB would be considerably higher. The bureau provides both negative and positive information based upon a three-year history. All major financial institutions including SFIs are members of the NCB. Others wishing to join NCB (beyond financial institutions) must be approved by the Credit Information Protection Committee. The current legal regime does not permit the bureau to provide credit scoring information so financial institutions need to rely on their own database, which is limited in scale, to do the credit scoring of their clients. A specific privacy law to protect consumers' rights has not been prepared and consumers are not always well aware of their rights, although there are several existing laws which are meant to protect consumers' rights and their privacy. One such law is the Credit Bureau Act itself which provides for obtaining consent and that the only purpose for which the data can be used is for credit analysis purposes. Access to the data is also limited to financial institutions, and consumers have the right to see their data and to request corrections if there are errors. Finally, consumers have the right to appeal to the Credit Information Protection Committee. It is not clear how these protects are actually being implemented.

133. Aggregated property information is available through the Real Estate Information Center (REIC) but the information still lacks depth and market segmentation. The REIC is an independent unit within the Government Housing Bank (GHB) and is financed by the GHB. Due to budget constraints, the current information coverage by the REIC is still limited. Over time the scope and coverage of information can be expanded, and the timeliness of information can be improved. The financial crisis revealed serious weakness in the country's ability to assess the property market due to a lack of adequate market information. While substantially improved, greater detailed information on the property market could help the market assess the dynamics of supply, demand, pricing, and valuation and to better underwrite loans and investments on a risk-adjusted basis.

134. The newly adopted valuation standards and codes of conduct have not had a substantial impact on the improvement of the quality of the valuation profession as the implementation is still at an early stage. Since property is often the main collateral for loans, financial institutions need to be able to accurately value property to determine the level of loan to value, estimate expected losses and loss given default (LGD), and price their risks and loans accordingly.

135. The high loan share of state-owned financial institutions could negatively compromise the efforts of the BOT and the industry to move to risk adjusted lending. This will continue to be the case unless a level competition playing field between state and private institutions can be ensured and prudent risk management of state financial

[56] There are about 45 million eligible voters and as of February 2006, there were 499,119 enterprises registered with the MOC.

institutions is enhanced to minimize distortion of pricing and competition. Competition is level between state and private commercial banks in some areas, but state commercial banks have ready access to government support for capital. In addition, in some instances, customers capable of paying market rate interest are being drawn to the government owned institutions which are able to provide below market rates. SFIs are not subject to the BOT's prudential regulations; however, the BOT is authorized to conduct regular on-site examination of them. Following BOT examinations, recommendations are made to the MOF for possible improvement actions. This does not insure the corrections are taken, nor does it necessarily impact required provisioning expenses and capital adequacy of SFIs. The MOF's plan to define the clearer market segmentation of SFIs to avoid direct competition with commercial banks and to focus their activities on areas of market failure is strongly welcomed but it's too early to see what steps will be implemented or the impact they might have on competition and access. The proposal to implement public service accounts to more clearly separate policy lending from commercial activities has not been endorsed by the MOF and it is uncertain when this will be implemented, but could be of value to the State Banks and Specialized financial institutions as well as the Government in that it would permit a fuller cost benefit analysis of the policy lending programs.

136. *Follow-up Activities and Desired Actions:* All planned activities within the CDP-FC have been completed, but more action is needed by the Government if it is to achieve what it has set out to do. Continued work on risk adjusted lending is necessary. The REIC is currently in the process of attempting to develop better property data, but is someone limited by its current organization and budget. The REIC should be expanded to incorporate more detailed information about the market and should be prepared to do so in a timelier manner. Consideration might also be given to making the REIC self sufficient and not reliant on a GHB. The property valuation profession needs further capacity building and direction until it is more established and reliable.

137. The work of the MOF in looking at NPL resolution, market segmentation, prudential regulations and recapitalization of the state owned financial institutions needs to continue and be accelerated. To properly function and to adequately measure their risks and costs, SFIs should be able to assess the costs and actual benefits of the government's policy lending. This should provide the Government with a clearer picture of the financial support that will be required as a result of its policy lending programs. The Government needs to carefully study the role of each of its financial institutions to determine if there are still needed and/or if their role should be changed to more clearly address market failures, rather than be entities competing with private sector institutions often for the same customers. This is not meant to suggest that all government financial institutions should cease to exist. Clearly in all countries there can be a role for government to address market failures, but the government should also be prepared to step back and allow the market to operate once the failures are being addressed by the market.

COMPONENT 5: MARKET DISCIPLE AND CORPORATE GOVERNANCE: SATISFACTORY

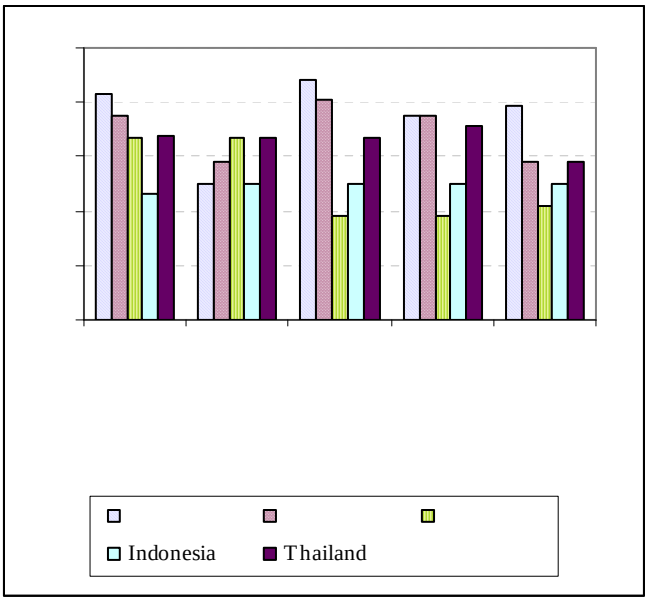
138. Intermediate outcomes include the followings: (i) enhance corporate governance, of and disclosure by Thai firms; and (ii) improve accounting and auditing standards.

139. This component is rated **satisfactory.** The recently completed corporate governance Report on Observance of Standards and Codes (ROSC) against OECD principles for Thailand has indicated improvement in corporate governance practices but some further reform is required. The overall score for observance of 32 OECD principles is 69 out of 100. Weaknesses are in the areas of clearly delineating responsibilities of the board, followed by rights of shareholders and role of stakeholders. Legal enforcement remains a major challenge. Thailand ranks higher than Indonesia and the Philippines but lower than India and Korea in the area of Corporate Governance.[57](Figure 7)

140. According to the Thai IOD's assessment[58], the overall corporate governance (CG) score of Thai listed companies has improved over the past three years, especially in the areas concerned with the role of stakeholders and disclosure and transparency. The results showed an increase of an overall score to 69 (on a 100 scale) in 2005 from 60 in 2003. The CG score on the role of stakeholders improved greatly from the 2003 assessment, rising by 60 percent. For disclosure and transparency, there was a 28 percent increase. The area which requires further improvement is the board's responsibilities. As suggested by the World Bank, Thai listed companies should rigorously develop and promote a more active role for the board of directors. The industry groups with the most members in the top quartile of the CG rating were: (i) resources (77 %), (ii) technology (42%), and (iii) financials (35%). Companies with outstanding CG scores are not concentrated in the large-scale groups. The IOD's public awareness campaign of publishing the names of the highest rated firms and board members seems to be having an impact as companies are more eager now to strive for the recognition and are being questioned by shareholders when their relative positions slip from one year to the next.

Figure 7 : Corporate Governance ROSC

[57] Philippines corporate governance ROSC (2001), Korea (2002), Indonesia (2004), and India (2004)
[58] Thai IOD assessed the CG score of 371 listed companies in 2005.



Source: CG ROSC, the SET

141. *Follow-up Activities and Desired Actions:* All formal activities have been completed under the CDP-FC and it appears the SEC and the IOD are working to ensure continued progress in the area of governance. Relevant laws including the Public Limited Companies Act (PCA) and the Securities and Exchange Act (SEA) need to be enacted, and new laws concerning class action lawsuits should be give consideration.

142. Considerable progress has been seen in the area of Corporate Governance and the leadership of both the IOD and SEC are to be commended, but there is now a risk of complacency which should be avoided. Continued public campaigns and ranking of companies is valuable. Perhaps greater attention could now be given to increasing public awareness of good corporate governance such that the public, especially investors make a more vocal demand on corporate officers and directors to meet high standards.

143. SEC and FAP are moving toward adopting additional IAS/IFRS accounting standards, but are faced with the question of timing in that the standards themselves are currently being rewritten. The FAP should be encouraged to continue to bring Thai Accounting Standards in line with those accepted internationally, as not all standards are to be rewritten, and in some cases they are only slight modifications, rather than delay awaiting final actions on the amended standards. This should include setting realistic standards for SMEs, but clearly not as extensive as those applicable to listed companies. These steps would help to ensure more reliable financial data, thus facilitating lending and in some instances would be of value to those involved in cross boarder trade.

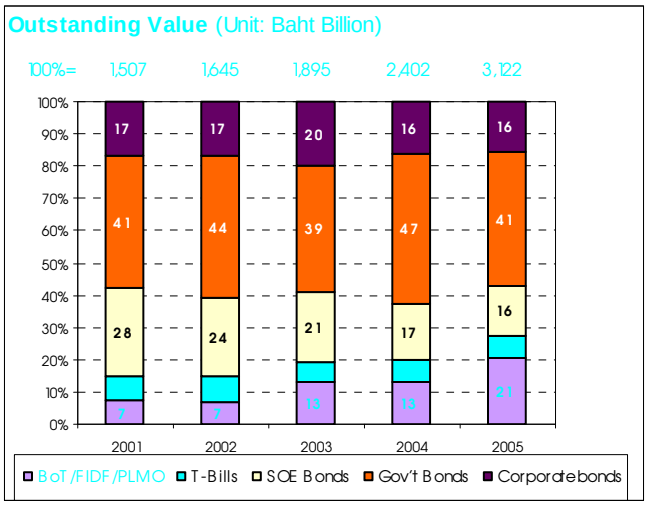
COMPONENT 6: CAPITAL MARKET DEVELOPMENT: SATISFACTORY

144. Intermediate outcomes include the followings: (i) enhance the depth and efficiency of the domestic capital market as an alternative source of finance; (ii) improve market

liquidity and transparency; (iii) strengthen the efficiency of trading and the clearing & settlement platforms for securities trading; and (iv) improve risk management mechanism for market players.

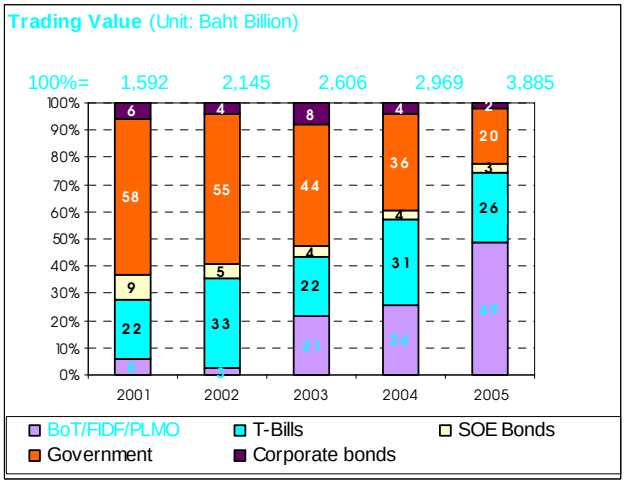
145. This component is rated **satisfactory**. Since the crisis, the size of the domestic bond market has grown substantially mainly driven by the growth in government securities (see Figure 8). The bond market has increasingly become an alternative funding source for Thai firms. The size of corporate bonds while remaining small have doubled in size in three years to Baht 0.57 trillion in 2005. The liquidity of the secondary market liquidity has gradually improved as evidenced by a continued increase in average daily turnover from Baht 430 million in 1997 to Baht 15,856 million in 2005. The secondary market has achieved some degree of transparency as trading prices are disclosed by Thai BMA within 30 minutes for Government Bond transactions and two times a day (afternoon and end of day) for Corporate Bonds. Thai BMA also discloses prices quoted by primary dealers and it is developing models to price illiquid securities and derivatives so that market players can use a common price to value their bond portfolios. Attempts have been made to improve risk management tools by establishing a derivatives exchange. A derivatives law, governing exchanged traded transactions was enacted in 2003. The exchange will soon offer equity futures (SET 50) followed by interest rate futures. The clearing and settlement platform for all securities will soon be consolidated into the TSD. Also TSD will become a central securities depository agency for all publicly traded securities in Thailand. This should enhance the efficiency of settling large value securities transactions and reduce transaction cost without compromising settlement safety since government securities can be used as collateral. Further reductions in the cost of transactions are critical for promoting liquidity of the secondary fixed income market.

Figure 8: Outstanding Value of Debt Securities



Source: Thai BMA

Figure 9: Trading Value of Debt Securities



Source: Thai BMA

146. The quantitative growth of the bond market is certainly an encouraging sign despite the limited corporate demand for long-term credits. After the crisis, the Thai corporate

sector has become more cautious about incurring debt. It seems that Thai corporations' target level of debt ratio has shifted downward. The steady growth of the Thai economy in recent years has raised the capacity utilization of Thai corporates.[59] Healthy profits have also enabled them to pay off debt obligations and reduce the debt equity ratio to the pre-crisis levels. Thus, they are expected to sooner or later start investing more in capacity expansion. The market expectation, assuming the economy will grow by at least 5% in 2006[60], is that the volume of corporate bond issuances will surpass that of 2005, which was Baht 180 billion, even in the current environment of rising interest rates. In addition, the cautious attitude of the Thai corporate sector toward debt financing is directed particularly toward that in foreign currencies. Thus, greater part of the growth of demand for long-term credit is now more likely to be translated into debt financing in Baht.

147. Securitization is gradually growing in Thailand. Auto lease receivables and consumer credit have been popular assets to be securitized so far, reflecting the strong consumption demand. The reduction in the Specific Business Tax from 3.3% to 0.1% for treasury operations by banks helped the growth. An amendment to the SPV Act to exempt SPVs from corporate income tax has also been accepted by the Cabinet and is currently being processed in Parliament. So far, banks have not shown strong interest in selling their real estate mortgage assets because of their high credit quality and value to their own portfolio and income statement. Yet, some banks with emerging concentration of their assets in mortgage loans seem to be considering the possibility. However, BOT is yet to come up with guidelines for capital adequacy requirements for securitization in line with Basel II in order not to inadvertently encourage regulatory arbitrage of capital required. There seems to also remain some issues related to land ownership registration and transfer, which are to be addressed by the Ministry of Interior.

148. Regular and non-fragmented supplies of benchmark securities are the prerequisite for a liquid secondary market. Currently supplies of government securities are fragmented and the Public Debt Management Law, enacted in February 2005, may continue to restrict the MOF from issuing government securities if the budget remains in surplus. Regular supplies of benchmark securities are required for maintaining the yield curve. Yield curve is necessary for the pricing of non-benchmark securities. It was estimated that at least Baht 150 billion government securities should be issued annually to maintain the benchmark yield curve. Regular and substantial supplies of government securities will enhance the liquidity of the secondary market and support the development of the bond futures market. A buy back program can be used to reduce fragmented supplies. Currently it appears the key performance indicators for the MOF only focus on reducing the debt level and short-term interest expenses instead of long-term costs. The MOF funding costs could be lower over the long term if the bond market continues to be liquid.

[59] It has recently surpassed 70%, a ratio at which corporations are generally expected to start investing for capacity expansion.
[60] But the market expectation seems to be that the interest rate will peak out in summer this year.

149. Despite attempts made by concerned agencies, the private repurchase (repo) market remains inactive. This may be natural since demand for government securities has been growing faster than the supply, so market participants tend to hold on to their government securities. In addition, demand to borrow from the private repo market has been limited due to players having excess liquidity. Moreover the private repo market is competing with the BOT's bilateral repo facility due to BOT's need to finance the FIDF's debt. The lack of well functioning private repurchase (repo) market impedes the development of the primary dealer (PD) system since market-making is a critical ingredient of a sound PD system and market-making is difficult without private repos.

Table 9: Annual Turnover in Various Money Markets

Baht billion	2004	2005
Private repo	5.3	12.1
BOT repo	1,700.0	2,200.0
Interbank	6,000.0	9,000.0

Source: the BOT

150. TSD could also consider accepting non-residents as direct users. It would facilitate the integration of the Thai capital markets with regional markets. TSD should also provide STP links for all qualified market operators including non-residents to promote inter-market competition. However, such a step would likely require amendments to The Securities Law which today stipulates that only entities licensed by SEC can be members of SET. Whereas, the Derivatives Law does not have an equivalent clause and, therefore, can potentially accommodate non-resident participation. Accommodation of non-residents may also call for a reform of TSD's ownership and/or governance structure. Participation of non-residents could raise some concerns which should be adequately considered before taking action, but as greater regionalization takes place, accommodation may be necessary. So far, TSD has been owned by the SET. The transfer of FIRSTS to BEX and the centralization of all securities trading activities under the umbrella of SET reduced an immediate concern regarding the governance of TSD.

151. *Follow-up Activities and Desired Actions:* The development of the bond market continues to be hampered by a lack of liquidity. In addition, the supply side is weak resulting in the lack of a real benchmark by which the markets and price and judge. Contributing to this has been the lack of a regularly scheduled series of bond issuances and other fragmentation of the market. The World Bank will continue to assist the BOT to complete technical assistance support in developing a liquid and vibrant over-the-counter (OTC) derivatives market in Thailand to enable market participants to hedge their interest rate risk domestically. To play the role of a central pricing agency offering prices for "all bonds" in the market, Thai BMA needs to develop price calculation models for illiquid bonds which are neither traded nor quoted. The WB will continue to support the efforts of Thai BMA to be a bond pricing agency if requested and to the extent that Bank expertise can be made available.

CHAPTER IV

WORKSHOP FEEDBACK FROM GOVERNMENT COUNTERPARTS

152. Fundamental to the program has been the partnership relationship between the RTG, the WB and other donors. As a result, on-going dialogue has been at the core of the working relationship and is reflected in this report. The report has been prepared in conjunction with on-going discussions on the components and outcomes of the program. A CDP-FC assessment and completion workshop was held June 8, 2006. RTG counterparts participated and provided their feedback on the CDP-FC Program (Annex 1: List of Participants). The comments received have been incorporated into the report to the extent possible. To provide a clearer understanding of the comments, they are discussed below.

153. The workshop participants were broken down into six groups representing the six components of the program. People were assigned to the component which was aligned with the areas of their responsibility and involvement in the CDP. The groups discussed their component and assessed it as well as the general program and provided valuable comments. The comments can be broken down into five general areas: Scope of the program, substantive contributions of the program and more specifically the WB, achievements and outcomes, the process by which the program was managed, as well as some thoughts on what actions might be needed that were not already outlined in the draft report.

154. **The Scope of the program** was seen as appropriate, even though it attempted to cover a broad area encompassing financial and corporate sectors. The counterparts expressed that given the circumstances at the time with the country just emerging from a financial crisis that the scope of the program was by necessity broader than it might otherwise have been. Strong support was expressed for each of the six components. The participants at each group felt that their component was highly relevant to the Government's overall direction and goals.

155. While many focused on the appropriateness of the scope, some were concerned that meeting the established objectives today highlights the need for a very comprehensive approach by the RTG which should include a greater push on quality education, wider opportunities for broader income distribution and attention to consumer debt and raising the level of awareness among the citizens of financial responsibility in the management of finances, especially in the rural areas.

156. One area pertaining to the scope was raised in the context of one component where the group expressed that the overall result of their component might have been better had WB support been more focused at the initial stages of the program. It was felt that the WB had perhaps attempted to cover too much and thus its support was diluted and not always well focused.

157. **Substantive contributions** specific to the areas contained in the components were discussed, but in general rather than item by item given the volume of specific outputs in many of the components. Mention was made by the group looking at what had been done to enhance supervision and regulation at the high quality of outputs and their linkages to achieving some of the outcomes. Specific reference was made to the attention and support given to the school for examiners, consolidated supervision, risk based supervision and Basel II and how important this support was to contributing to the strengthening of supervision. The creation of the REIC was seen as a significant step to begin addressing identified weaknesses and that the support provided was instrumental in moving this forward. Likewise, the creation of the IOD and the emphasis on corporate governance was seen as a direct result of the support provided by the WB and essential to moving toward some of the objectives.

158. In the area of capital market development, it was felt that the support of WB in assisting the Government to better understand the role of the Government Bond Market was very helpful. It was expressed however, that the support provided may not have been as comprehensive as may have been needed resulting in steps being taken which today may need to be modified. There was mention in this regard that it was not clear if this was a weakness in the support provided, or a question of timing and receptiveness.

159. **Achievements and outcomes of the program** were also discussed. Overall it was felt the objectives were somewhat achieved, which was also deemed appropriate given the broad scope, even though the level of achievement may have varied from objective to objective. The groups identified linkages between their components and the objectives as follows: i) Decrease vulnerability; ii) improve the allocation of resources; iii) promote sustainable growth; and iv) Ensure access to assets and income opportunities to all.

160. **Process and management of** the program was discussed so that consideration could be given to changes if necessary should the program be introduced in other subject areas in Thailand or in other countries. It was felt that the joint management had generally worked very well and had resulted in good interaction between Government agencies and the WB, but that more may have been needed to ensure a higher degree of cooperation and communications among the various RTG players.

161. Comments were made that more might have been done to ensure better cross ministry understanding of what was being done in the various components and that this might have been done through the sharing of reports and other outputs in a timely manner to all rather than limiting them to those directly responsible. It was expressed that this would provide a better opportunity for meaningful contributions and would allow those not directly involved time to reflect on the possible impact of the outputs to their own work. Greater interaction (networking) between the CDP participants on a regular and on-going basis could be valuable. It was felt this could help others to see the broader picture of what was being done and the scope of the overall direction. The question was also raised as to why more was not done to persuade government to appoint one person to

oversee the strengthening and restructuring of the financial sector who at a significantly high level could have ensured stronger coordination.

162. **Measures were suggested** for post CDP-FC.

a. Some workshop participants were concerned that on-going dialogue between the RTG and the WB not end simply because the formal program on CDP-FC was concluding. There was some concern that there may be a need to continue in some areas or there will be a risk that sustainability of what has been accomplished as well as the sustainability of actions pending could be lost.
b. Many expressed the view that there were important issues and policy dialogue remaining and that the WB should continue to be engaged even if not as extensively as earlier.
c. It was felt that the Insurance and securities supervisors and sectors might require further attention and support if they were to contribute to the on-going efforts to meet the objectives set for the CDP.

163. **Other issues raised** covered several areas, but one of note pertained to the rating assessment of Component 4. The counterpart group felt that the component should be upgraded to "Satisfactory" from its current "Moderately Satisfactory" rating. Concern was expressed that perhaps in writing the report there was a failure to fully recognize the important and separate role played by the Government institutions which were not motivated by profit, but rather by development goals. Further, it was mentioned that even these institutions are implementing improvements to their risk management and are trying to start credit scoring and have become members of the credit bureau.

CHAPTER V

LESSON LEARNED AND RECOMMENDATIONS

164. Coordination among different agencies involved in the financial sector reform effort, project implementation under ASEM Trust Funds, diagnostics work and the CDP-FC has not always been well coordinated and could be strengthened. In addition, given multiple donors involved in the financial and corporate sector reform, the coordination on technical support from multilateral organizations and bilateral donors could be improved. Previously WB regularly updated the general donor technical assistance matrices and hosted Donor Coordination meetings, but with the shift in support following the immediate work after the crisis, this was stopped. Perhaps a greater attempt at coordination could have been accomplished through regularly updating one another through the use of e mail. Other countries facing similar donor coordination issues might wish to the less time consuming e mail exchange as a possible means to enhance coordination and assist in preventing overlap, duplication and possible forum shopping.

165. In the case of this CDP-FC, there was slow progress in the implementation of activities funded under trust funds. This appears to have been in part due to complex procurement and disbursement procedures which often appeared conflicting or overlapping. This can be attributed to several factors, but a primary one was the need to abide by not only the Bank's procurement process, but also the ASEM Donor's regulations as well as the Thai Government's regulations. This area could be addressed through stronger up-front coordination and agreement on procurement processes to address concerns, bring uniformity and speed the process. It should be noted that the World Bank and other donors are engaged in coordinating this issue on many countries today, so perhaps the negative impact of different rules will soon have been addressed.

166. One major cause for delay however, was often the very slow processing and decision making within the Government, both on the TA as well as follow up implementation of recommendations. This happened, even when there was full agreement on the issues and steps to be taken. Laws drafted remain in draft form for years, and once passed there has been mixed implementation and follow up even when there were good efforts made by Government agencies. There were times when the desire for perfection, or reach for the international "best practice" by either the donor community or the Government contributed to delays as striving for perfection at times may not be realistic at a given stage of development as other factors impact the results.

167. In the future, particular attention should be given to the following key issues and questions at the design stage of a program:

- The scope of program. Is it too ambitious?
- Are the desired outcomes realistic within the timeframe provided, or can this be addressed in other ways?

- ③ The coordination arrangement among different agencies and with other partners should be addressed at the start of the program, and decisions need to be made as to who will manage the coordination
- ③ The management of the program should be agreed upon before the program starts, and may be best if seen as a joint effort.
- ③ Can the focus of the program be limited and thus more clearly supported rather than have an extensive number of individual outputs.

CHAPTER VI

CONCLUSION

168. The overall CDP-FC program is rated S**atisfactory,** but as seen in looking at the six components the rating was very close to Moderately Satisfactory.

169. **Program Design and Implementation** - CDP-FC was launched at an appropriate time when there was a renewed ownership within the RTG in moving forward on difficult reform actions. During the program, the BOT and the MOF were committed to the areas defined within the components of the CDP-FC. Accelerating accounting and corporate governance changes and initiating out of court settlement processes were designed to enhance the stability of the corporate sector, while accelerating the implementation of a partial deposit guarantee scheme to replace the current guarantee and formulating a medium-term strategy for the financial sector were envisioned to strengthen the financial sector. The RTG was also keen to negotiate bilaterally with its major trade partners on Free Trade Agreements. These discussions included a number of areas impacting both the corporate and financial sectors. This external force may help to further move along the structural reform agenda in both sectors.

170. The program design was well received. The new concept of a partnership, especially following the crisis and the days of strong conditionality opened not only a new way of doing business, but provided for very meaningful dialogue which would not have continued to be possible under the older mode of business. The program was highly relevant to the RTG's priorities, especially in the financial sector. The Government was keen to address medium-term issues post crisis after having established financial stability and having regained the public's confidence. The program's relevance in the corporate sector is not as clear. The crisis revealed weaknesses in the corporate sector which had not previously been apparent, thus the CDP corporate work should have been highly relevant, but the corporate sector was more difficult to address than anticipated, in part because setting priorities was difficult. The historical background of businesses as well as the ownership structure of many of the larger companies as well as the diversity of entities may have contributed to this lack of a clearer defined corporate sector plan. None the less however, the program was relevant in several areas related to enhancing the corporate sector.

171. The design of the CDP-FC may have suffered from the lack of experience in that it was one of the very first CDPs. Subsequent CDPs have benefited from the experience and as a result have been easier to manage. Financial resources were mobilized and activities were committed before the design of the results-oriented partnership program was completed.[61] A number of activities were commenced prior to the program and thus influenced the program's design, rather than the objectives of the program determining

[61] The only exception is ASEM II (TF053461) Preparation for Financial Services Liberalization, which was approved on February 20, 2004 and became effective on May 19, 2004.

the activities. The scope of the program was very broad and perhaps a bit ambitious as it attempted to cover a wide range of significant aspects of the financial and corporate sector reform needs of the country. As a result, resources were spread out among a large number of activities. While this enabled the WB to remain engage in a full range of financial and corporate sector reform discussions, and provided some degree of flexibility for subsequent adjustments, this broad approach made it challenging to ascertain the quality and impact of individual outputs and to judge their role in policy change.

172. One positive aspect of the program's design was that in the area of corporate sector where the allocation of resources was contingent upon reform progress, especially in the area of legal reform. As a result, as the program commenced, only limited resources were directed to the sector due to the slow reform progress experienced. The risk with this approach was whether the World Bank would be able to quickly add more resources if the corporate sector and legal reforms were being achieved, but this was not tested due to the continued slow progress.

173. The expected outcomes at the time of design may have been overly ambitious given the outputs (activities) and inputs (resources) and as a result, somewhat challenging to achieve during the life of the formal program. The broad scope of the program's activities required a significant number of inputs from sources beyond the formal CDP-FC, and thus, the CDP-FC was but a part of the Government's overall activities to reform and strengthen the two sectors. It is clear however, in looking at the policy dialogue and outputs of the CDP-FC that it contributed to the results and should continue to contribute long after the formal program has ended.

174. The implementation of the program faced some challenges. First, disbursing financial resources mobilized to support the program's activities was time-consuming. There were also delays in the processing of financial resources for the CDP-FC. ASEM II (TF052385), Strategy and Implementation of a Competitive Financial Sector, [62] became effective 11 months after it was approved. By the time it became effective, activities committed under its two main components: the formulation of the Financial Sector Master Plan and the Master Plan for Grass-Root Financial Services, were already completed by line agencies. Redesigning the program activities was significantly challenged by the small degree of flexibility permitted in the Trust Fund arrangement. In addition delays were experienced due to what were seen by clients as complicated procurement and disbursement processes and the new cost sharing arrangement for technical assistance. Further, the authorities and thus the program were required to comply with not only the World Bank's procurement method but also ASEM Donor's and the RTG's own regulations.

175. Second, there were multiple agencies involved in the CDP-FC but the program design did not call for the establishment of a steering committee to oversee implementation progress and make key decisions. Instead the CDP-FC supported a

[62] While ASEM II TF052385 was approved on November 1, 2002, it had not been effective until September 23, 2003.

number of already established committees and working groups.[63] These committees had representatives from concerned agencies, which did help to enhance coordination among the different agencies. They were however, only responsible for a specific segment of the financial industry, not the overall financial sector and the CDP-FC was not assigned to be the responsibility of any of these committees. It was not until near the end of the program that the MOF established a high-level Committee whose responsibility was the development of the overall financial sector.

176. Third, the World Bank was not always able to respond or to respond quickly by tapping into the vast knowledge of the staff, due to budget constraints and sometimes the unavailability of technical experts. The RTG's requests were often ad-hoc and urgent so the required arrangement made it difficult for the World Bank to respond quickly. It should be noted that IMF seemed to have had the ability when called upon to access available resources to hire outside experts, or to mobilize its own in-house technical staff much more quickly.

177. **Achievements and Outcomes**- The program has achieved positive, but mix results in term of the institutional development impact and sustainability. Development impact has been significant in strengthening the BOT's supervisory capacity, which is likely to be sustainable. Such a substantial impact can be attributed in part to the World Bank's continued support in the area with substantial resources since the crisis. However the supervisory regime for deposit taking financial institutions could be strengthened further with the enactment of relevant laws which have been in draft for many years.

178. The program's impact on developing a market disciplinary system has been limited given that the Deposit Insurance Institution Law has yet to be enacted, but could be significant once this piece of legislation is passed. The support provided by the WB in planning for the limited scheme, examining deposit histories and suggesting deposit insurance limits, looking at data management needs and supporting the design of a campaign to raise awareness among the public of the impact of a limited scheme will all contribute heavily to the eventual scheme. The sustainability of the progress made depends on whether the Deposit Insurance Agency once established will be able to leverage on knowledge gained by the FIDF, the main counterpart for the program's activities. There is a risk FIDF may be wound down and its staff disbursed before the DIA is established.

179. Institutional development impact for enhancing speed and quality of corporate debt restructuring has been assisted by the program's support to the CDRAC, the TAMC, the MCFD and the ELDI. Debt restructuring, asset management, and mediation were all new to Thailand pre-crisis. While some may question the sustainability of the debt restructuring and out of court workout initiatives, one can see that banks have endorsed such programs, asset management companies have been formed and people previously

[63] Those committees include the Committee drafting the Financial Sector Master Plan, the Microfinance System Development Committee (MSDC), the Bond Market Committee, the Committee drafting the Insurance Industry Master Plan, the FTA working group and etc

employed by the temporary institutions assigned such responsibilities do have enhanced skill which can be used.

180. The implementation of the Financial Master Plan (2004) is a good indicator of the program's development impact. However the specific contribution of the CDP-FC was confined to assisting the Committee to kick-start the strategic formulation process with the conference on "Modernizing the Thai Financial System" in 2002. Other work however in the overall program contributed to the Master Plan. One planned activity to support the advise on the content of the Master Plan in support of implementation in enhancing access to finance did not materialize, as a result of a delay in the effectiveness of the main funding instrument (ASEMII TF052385) and the cancellation of the project due to its duplication with another project implemented by the other RTG authority.

181. Development impact has been less than expected in enhancing lending based on a risk-adjusted basis, but still there are steps that have been taken that have enhanced the knowledge and direction toward risk adjusted lending. The amendment to the Business Credit Information Act, which governs the operation of the Credit Bureau, is a positive example. The revisions to the law were enacted following the CDP-FC's continued dialog and advices. The WB's contribution was valuable in identifying weaknesses and providing information on approaches taken by other countries to the issues which caused the credit bureaus to temporarily close. The impact is expected to be sustainable as the Credit Bureau has re-opened its operation and legal risk imposed by the law has been reduced. The credit bureau's ability to do its job has been enhanced which should assist financial institutions in being able to make credit decisions on a risk adjusted basis. The development of the Real Estate Information Center is another positive result, but the development impact might have been greater if the center could have been fully established and self sustaining. The program's effort to strengthen the real estate valuation profession has shown some results, but the lack of continued support in delivering the already developed capacity building program may slow continued progress and may even bring into question the sustainability of what has already been achieved.

182. The least successful case is the rationalization of state-owned financial institutions and the strengthening of risk management capacity of state-owned financial institutions. The work on this area started almost immediately after the on set of the financial crisis, and while some positive steps were taken, not enough has been done. The use of the state owned institutions to stimulate the economy certainly had some positive impact on growth, but it was done to the exclusion of the private banks and created an unfair competitive advantage for the State Owned Institutions. Today substantial portions of banking assets are in the hands of such institutions.

183. Impact in the area of corporate governance and development of the bond market was positive and is likely to be sustainable. The SEC and the SET have been very active in enforcing the regime and have provided a strong incentive for publicly listed companies to enhance their governance. Policy dialog and discussion between the World Bank and the authorities through the recent CG ROSC have provided useful feedback to the Thai authorities. The IOD, established with the World Bank's support, has been able

to offer its own training and certification program to directors. The institutional development of the bond market has had a strong impact leading to substantial growth in the bond market activities and shows strong signs of sustainability.

184. All of the steps mentioned above have contributed to lessening the vulnerability of the Thai economy to shocks such as that felt with the 1997 crisis. Banking supervision is stronger and institutions are now clearly on notice that they must manage their risks. Bankers take more seriously non-performing loans and now often use the tools of loan workouts to address them, although regretfully the legal system is still not very supportive by providing a speedy resolution. Supervisors are keeping a closer watch on the financial system and its risks. They have taken preemptive action to prevent risks from growing such as addressing consumer credit when it appeared many were taking on much more debt than was manageable. There are strong signs that the lack of diversification of the financial sector as evidenced during the crisis by the concentration of risk in banks is being addressed as evidenced by the growth of the bond market. The financial Master plan and its forward looking implementation also helps to lesson vulnerability, has enhanced structural reform and has contributed very positively to sustainable growth financed through a safer financial sector than the one that existed previously. The increased awareness of the need for financial services outside the cities and the assistance being provided to promote microfinance will help to provide greater access to more citizens. The Thai corporate sector (listed companies) is doing better today, in part because of growth in the economy, but also because of the strengthened role of the SEC, the IOD and the push for increased transparency and corporate governance. Unfortunately, much of this progress has been limited to listed companies while Thailand still has a number of large family controlled businesses which may or may not follow some of the changes. Regretfully resource allocation is still an issue needing attention given the size and role of the State Owned Financial Institutions, and many needed legal reforms have yet to be seen even though great care and attention has been given to drafting revisions and new laws.

185. The government showed considerable commitment in moving forward with the CDP-FC, and the efforts of BOT, MOF, SEC, IOD and others have been significant. All of these government organizations as well as others not specifically mentioned here are to be complimented for their role in the partnership and in the progress seen. Overall much has been accomplished, and Thailand is to be commended for the progress made since the crisis. It is important however, that no one is lulled into a sense of acceptance such that continued efforts are not made. More is needed, and many in Government know the steps that are needed and continue to work on them.

ANNEX I: LIST OF PARTICIPANTS FOR CDP-FC WRAP-UP WORKSHOP ON JUNE 8, 2006

	Name	Last Name	Title	Organization
1	Dr. Naris	Chaiyasoot	Director-General	Fiscal Policy Office
2	Mr. Taweesakdi	Manakul	Director, Specialized Financial Institution Section 3	Fiscal Policy Office
3	Ms. Viparat	Panichkarn	Economist	Fiscal Policy Office
4	Ms. Sukuman	Ladpli	Acting Director, Financing for Development Policy Section.	Fiscal Policy Office
5	Ms. Choraros	Chanurai	Economist	Fiscal Policy Office
6	Mr. Chodechai	Suwanaporn	Director of Financial Policy Section	Fiscal Policy Office
7	Ms. Theerada	Somanand	Legal Officer	Alternative Dispute Resolution Office
8	Ms. Sumethinee	Viriyasitthavat	Legal Officer	Alternative Dispute Resolution Office
9	Mr. Tumnong	Dasri	Director, Corporate Debt Restructuring Advisory Committee Department	Bank of Thailand
10	Dr. Somsajee	Pattamakitsakul	Division Executive	Bank of Thailand
11	Mrs. Suchada	Kirakul	Senior Director, Monetary Policy Group	Bank of Thailand
12	Mrs. Narida	Sreshthaputra	Team Executive, FIDF Management and Debt Restructuring Group	Bank of Thailand
13	Mr. Ardisorn	Pinijkulviwatana	Division Executive, Supervision Group	Bank of Thailand
14	Mrs. Sasiwadee	Nacaskul	Senior Analyst, Financial Markets Operation Group	Bank of Thailand
15	Mr. Kaweevudh	Sumawong	Senior Economist, Monetary Policy Group	Bank of Thailand
16	Ms. Piyanuch	Lothienpratan	Senior Analyst	Bank of Thailand
17	Mr. Atthaphon	Phibunthanaphatthana	Insurance Officer	Department of Insurance
18	Dr. Kanogporn	Narktabtee		Federation of Accounting Professions
19	Mr. Kamonpop	Veerapala	Senior Vice President - Risk Management Department	Government Housing Bank
20	Mr. Niwat	Kanjanaphoomin	Chief Executive Officer	National Credit Bureau
21	Mrs. Sureeporn	Santaraprapavech	Assistant Department Chief	Securities and Exchange Commission

(Continued)

	Name	Last Name	Title	Organization
22	Ms. Chansuda	Raktabutr	Assistant Department Chief	Securities and Exchange Commission
23	Ms. Piyathida	Sumranjitr	Assistant Department Chief	Securities and Exchange Commission
24	Mrs. Sumalee	Bumlunychatudom	Assistant Department Chief	Securities and Exchange Commission
25	Mrs. Sittasri	Nakasiri	Assistant Department Chief	Securities and Exchange Commission
26	Dr. Setthaput	Suthiwart-Narueput	Senior Vice President	Stock Exchange of Thailand
27	Ms. Thananya	Hanumart	Legal Official	The Office of the Council of State
28	Mr. Samma	Kitsin	Acting Director-General	Real Estate Information Center
29	Mr. Ian C.	Porter	Country Director, Thailand	The World Bank
30	Mr. Thomas A	Rose	Program Manager, Financial Sector Group	The World Bank
31	Ms. Alix Ines	Lebec	Consultant	The World Bank
32	Ms. Rachadawan	Pasugswad	Program Assistant	The World Bank
33	Mr. Tinnakorn	Sereenun	Team Assistant	The World Bank

ANNEX II: THE OUTCOMES OF THE FINANCIAL AND CORPORATE COMPETITIVENESS PROGRAM

STRATEGIC OBJECTIVES / END OUTCOMES: Enhance structural reform (both strategy and implementation) to decrease vulnerability, allocate resources to the most productive uses, promote sustainable growth and ensure access to assets and income opportunities for all segments of society.					
INTERMEDIATE OUTCOMES					
1. Strengthen the Financial Sector Strategy and Structure	**2. Enhance Supervision and Regulation**	**3. Improve the Speed and Quality of Corporate Debt Restructuring**	**4. Enhance Intermediation on a Risk Adjusted Basis**	**5. Enhance Corporate Governance**	**6. Develop Capital Markets**
③Strengthen the financial sector strategy and structure ③Improve the depth and efficiency of the financial sector ③Enhance market discipline of deposit taking financial institutions ③Increase access to financial services to SMEs and low-income household	③ Enhance supervision and capacity of supervisors for financial institutions ③ Improve framework to supervise financial conglomerate and better cooperation across regulatory agencies ③ Enhance disclosure by financial institutions	③ Improve speed and quality of corporate restructuring via TAMC ③ Improve the legal regime for credit enforcement ③ Improve out-of-court debt restructuring regime	③ Enhance level playing field between state and private financial institutions ③ Strengthen information infrastructure	③Enhance corporate governance, disclosure, and accountability of Thai firms ③Improve accounting and auditing standards and professionals ③ Strengthen the oversight and the accountability of the board of directors of public companies ③ Strengthen shareholders' right	③Enhance the depth and efficiency of domestic capital market as alternative source ③Improve market liquidity and transparency ③Primary market mechanism strengthened ③The quality of supplies improved ③Efficiency of the trading and the clearing & settlement platforms for securities trading strengthened ③Improve risk management mechanism for market

					players

Diagnosis: While much has been accomplished since the crisis, the competitiveness and financial condition of financial institutions and firms needs to be strengthened.			
Strategic Objective: Enhance structural reform (both strategy and implementation) to decrease vulnerability, allocate resources to the most productive uses, promote sustainable growth and ensure access to assets and income opportunities for all segments of society during this next phase of the recovery.			
Impact	**Long-term consequence of the outcomes, the development changes in society or the economy or environment to which activity contributes**	**Reach / Partners**	**Risks/Potential Obstacles**
MDG+: National (2015): The crisis in 1997 cost the Thai taxpayer 24 percent of GDP and drove 3m people (4.5 percent of population) into poverty. A key cause was non-productive lending/ investment in the financial and corporate sectors. This CDP aims to alleviate poverty by reducing the frequency and cost of future downturns Northeast (2015): Poverty reduction in the NE will be addressed in the financial sector strategy and micro finance components.		• Contribution of all sectors of the society to achieve the goals of the constitution	• Lack of RTG's commitment & leadership • Lack of coordination among line agencies • Change of RTG's priorities
Outcome	**Direct and short-to-medium term effects of outputs on the beneficiaries of the activities supported by the CDP-FC**		
Desired Outcome: Enhance the competitiveness of Thai financial institutions and firms. Intermediate Outcomes: • Strengthen the financial sector strategy and structure. Enhance market discipline via a transition to a limited deposit insurance program from the current blanket guarantee. Increase access to financial services on a risk adjusted basis to SMEs and people in the provinces, as well as urban areas • Enhance supervision and regulation of financial institutions • Develop capital markets as a source of financing and risk management for financial institutions and firms • Improve the speed and quality of corporate restructuring via TAMC and the legal and out of court regimes • Promote new lending and investment on a risk adjusted basis • Enhance corporate governance, disclosure and accountability to stakeholders		• Extensive and regular dialogue between policy makers and private sector participants • Support from government • Support from partners • Coordination among line agencies and the National Competitiveness Committee	• Delay in implementation • Changes in political direction • Lack of integrated approach and poor coordination across line agencies and partners • Resistance to reform from bureaucratic or vested interests

ANNEX III: RESULT SUMMARY AND MONITORING MATRIX

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
1. Strengthen the Financial Sector Strategy and Structure				

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
Technical assistance	• Implement a pilot project under the Financial Sector Master Plan with interested banks to improve infrastructure and capacity to provide financial services to low-income household.	Canceled		The Bank of Thailand (BOT), the Ministry of Finance (MOF), and financial institutions
	• Develop a management information system for the Deposit Insurance Agency (DIA), necessary to implement a measured transition from the current blanket guarantee to a limited government guarantee of deposits in licensed financial institutions.	The project completed.		BOT, the Financial Institution and Development Fund (FIDF)
	• Design the Public Awareness Plan which could bring awareness of the benefits of the deposit insurance system to the public, help them understand the system and maintain their confidence in the financial system which would result in the smooth and successful transition from the blanket to the limited guarantee.	The project is ongoing. The interim report will be submitted in late May 2006. The project is planned to be completed on August 15, 2006.	Completed.	BOT, the Financial Institution and Development Fund (FIDF)
	• Formulate strategy with regard to the financial service liberalization, prepare for trade negotiations in financial services, and disseminate strategy and outcome of the negotiations	Completed.		Fiscal Policy Office, Ministry of Finance
	• A training-the-trainer program for microfinance stakeholders so that they can transfer the knowledge to microfinance intermediaries.	Completed.		Fiscal Policy Office, Ministry of Finance
Workshop and Training	• A conference on "Modernizing our Financial System: Challenges for the New Millennium" in January 2002, which was the initial catalyst for the BOT's effort to draft a Financial Sector Masterplan.	Completed in January 2002.		BOT, MOF
	• Training workshops on the operational tools and the financial model for microfinance stakeholders.	Completed.		Fiscal Policy Office, Ministry of Finance

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
• Workshop on microfinance system in Thailand aims at bringing together experts in microfinance system, including community leaders, people with experiences in microfinance system in Thailand and international experts to share information, experiences and success stories as well as their views on what needed to be done, in systematic and openness manner, to improve the microfinance system in Thailand.		The workshop is planned for June or July 2006. The Fiscal Policy Office is currently looking for experts to deliver the workshop.	Completed.	Fiscal Policy Office, Ministry of Finance
2. Enhance Supervision and Regulation				
Technical assistance • Conduct the quality assurance for the School for Bank Examiners, BOT.		Completed in April 2003.		BOT
• Participate in the Financial Sector Assessment Program[64] (FSAP), including the Basel Core Principles Assessment (BCP) of banking supervisory capacity and practices, and an assessment of securities regulations based on IOSCO standard, the IAIS Principles on insurance supervision, and the payment system.		The participation in an FSAP is planned. The IMF organized the FSAP workshop to inform the private sector, generate a broad buy in, and provide an opportunity for the authorities and market participants to begin dialog with FSAP team.		BOT, MOF, DOI, and SEC
• Assess the current information system and call report readiness according to the new BIS Accord practices		Completed.		Supervision Group, BOT
• Formulation of supervisory review policy, establishment of cross-border cooperation framework and development of the supervisory guidelines and examination manuals on the supervisory review process to be complied with Basel II and international standards, in particularly; of Internal Rating Based Approach (IRB).		Consultant is selected and hired. The project is ongoing and is expected to be completed in June 2006.	Completed.	Supervision Group, BOT
• Assess supervision strategy and capacity of the insurance regulator and develop an action plan for the transition towards solvency-based supervision.		Completed in 2001.		The Department of Insurance (DOI)

[64] The FSAP, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. The program seeks to identify the strengths and vulnerabilities of a country's financial system, to determine how key sources of risk are being managed, to ascertain the sector's developmental and technical assistance needs, and to help prioritize policy responses.

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
• Strengthen legislative framework and capacity of supervisory agencies to implement an effective anti-money laundering (AML)/CFT compliance		Technical assistances needed were identified.	Identify technical assistance program to be supported by the Bank	Anti Money Laundering Office (AMLO) and the BOT
Workshop and Training • Develop and deliver specialist-training courses for BOT's bank examiners in partnership with foreign supervisory agencies.		Eight projects to develop and train BOT instructors and examiners in specialized courses on risk-based supervision of deposit taking institutions were completed in April 2003. These specialized courses were modified and incorporated into existing curriculum of the School for Bank Examiners.		BOT
• Participate by BOT's bank examiners in training courses abroad.		Six projects to train selected instructors abroad were completed in April 2003.		BOT
• Develop additional training courses and workshops in the following areas: **BOT** • Cross-border supervision of financial institutions • E-banking supervision (work attachment with the Monetary Authority of Singapore (MAS)) • Best practices for supervision of non-bank financial institutions (NBFIs) • Credit risk supervision in compliance with the new Capital Accord • Implementation of IAS 39 • Analyzing and validating derivatives pricing and portfolio by supervisors **DOI** • Solvency and risk-based supervision of insurance companies • Corporate Governance workshop for insurance industry.		All the trainings/ workshops listed on the output column were delivered and completed. However, the DOI plans to deliver another workshop in June 2006. The topic of the delivered is yet to be identified.	Completed.	BOT, DOI
3. Improve the Speed and Quality of Corporate and Debt Restructuring				

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
Technical assistance				
• Train TAMC staff in business and debt restructuring		Completed in April 2003.		TAMC
• Prepare TAMC guidelines and procedures for public dissemination (in both Thai and English)		Completed in April 2003.		TAMC
• Enhance public awareness of TAMC through market communication on its strategy, information disclosure using the annual report (both Thai and English), and media campaign		Completed in April 2003.		TAMC
• Economic Law Reform Project • Provide technical support to establish and build institutional capacity of Economic Law Development Institute (ELDI) within the Council of State to coordinate the implementation of a comprehensive economic law reform • Give advice on law reform directions and policy options, support legal researches in three areas (company limited accounting and auditing standards; mergers and acquisitions; and secured lending input into amendments to law; • Increase information dissemination to the public through setting up an electronic legal database and website (Thai and English languages) for potential investors and the public.		Completed in September 2003.		The Economic Law Development Institute (ELDI), The Council of State
• Provide technical support to build institutional capacity of Alternative Dispute Resolution Office (ADRO) within the Office of the Judiciary to administer out-of-court mediation for financial disputes and NPL cases.		Mediation rules, code of conduct, and Standard Operating Manual (collectively called RCM Standards) based on international best practice were developed. The RCM Standards were endorsed by the National Judicial Committee, adopted by the Office of the Judiciary in January 2004, and disseminated through a two-day workshop in February 2004. Market communication strategy and campaign to build public understanding and raise awareness of out-of-court mediation were completed in March 2004. Brochures, posters, advertisements were produced and disseminated through out Thailand.		Alternative Dispute Resolution Office (ADRO), Corporate Debt Restructuring Group (CDRAC), Courts of Justice, Thai Bankers Association

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
• Continue to monitor the progress of CDRAC to facilitate voluntary out of court debt restructuring of distressed assets not transferred to TAMC. These are primarily small-medium-sized loans of private banks, and NPL re-entries. Approached CDRAC to possibly collaborate with TAMC, ADRO and the Courts of Justice to resolve pending cases via out-of-court mediation process.		Facilitate and coordinate the collaboration between CDRAC and other agencies to reach a policy decision and implementation arrangements to accelerate the resolution of distressed assets.	Policy dialogue between TAMC, CDRAC, Courts of Justice and the Alternative Dispute Resolution Office to collaborate on accelerating the resolution of distressed assets that have failed the TAMC and CDRAC processes and are awaiting court judgments.	CDRAC, TAMC, Courts of Justice, the Alternative Dispute Resolution Office
Workshop and Training • Develop a training curriculum for registered mediators in advanced, fundamental mediation skills, financial analysis, debt restructuring, and negotiation skills and other technical aspects of mediating financial disputes and NPL cases • Workshop to disseminate the RCM Standards to the public		The training curriculums were developed and delivery of trainings was completed in November 2003 in all 5 regions of Thailand, including a special session for creditors in Bangkok. Total ADRO 30 mediation trainers and over 400 newly registered mediators were trained. Completed in 2004		ADRO
4. Enhance Intermediation on a Risk Adjusted Basis				
Technical assistance • Provide advisory services to assist Government Housing Bank (GHB) to achieve a better understanding of historical portfolio performance and use the information gained in this exercise to adopt more precise credit underwriting and scoring guidelines.		Completed in 2003.		GHB
• Provide advisory services to the establishment of the Real Estate Information Center (REIC), incubated by GHB		Completed in 2003. Implement the phase III of the REIC. The database structure was designed and prepared and the REIC webpage was launched. REIC was formally established in 2004.		Government Housing Bank
• Strengthen risk management capacity of the largest state bank, Krung Thai Bank (KTB), in two areas: asset & liability management; and credit policy & risk management.		Completed in April 2003.		Krung Thai Bank

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
• Provide expert feedback on the Credit Information Business Act, which was effective in early 2002. The Act has many positive attributes but mandates large fines and criminal penalties against the bureaus or their members for all violations, including negligence. International standards impose criminal violations only for willful and fraudulent acts, such as the disclosure of credit information for unpermitted purposes, in violation of the law.		Completed in 2003. The draft amendments to the Credit Information Business Act was submitted to the Parliament.		The Bankers' Associations, MOF, BOT, the two existing Credit Bureaus
• Assist the SEC within its supervisory authority to design an examination process and develop sample exams for the certification of valuers who can appraise income property		Completed in April 2003. The SEC partially incorporates the valuation methodology into its review of the accreditation of valuation firms, which are permitted to value properties of publicly traded companies.		SEC and the two valuation associations
Workshop and Training • Develop and conduct a pilot professional training course on income property valuation to a selected group of Thai trainers		Completed in April 2003.		SEC, universities, two valuation associations
5. Enhance Corporate Governance				
Technical assistance • TIOD carryout the training program for directors and executives of companies.		More than 1,400 directors have completed this five and a half day certification course.		The Thai Institute of Directors (IOD)
• Develop practical guidelines on the role of audit committees and internal auditors.		Completed		ICAAT
• Develop an accounting Practice Guideline for Thai Small and Medium Enterprises (SMEs) to make better use of financial accounting for decision making and business operations. The guideline focuses on principles of book-keeping, objectives of financial reporting, and use of accounting information for management purposes.		Completed		ICAAT

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
• Develop practical guidelines and interpretation of accounting standards on application of the following standards such as the following: provision for contingent assets and liabilities, disclosure of government assistance, treasury stock, and employee equity compensation benefits, property plant and equipment, troubled debt restructuring, financial instruments, securitization, stock lending and borrowing, related party disclosure, construction contracts, intangible assets, investment property and agriculture.		Completed		ICAAT
Workshop and Training • A half-day Workshop on accounting standards and practice guidelines for 400 accountants and auditors.		Completed		ICAAT
• Develop training materials for the CPE self-study curricular (8hrs per subject) for accountants and auditors consistent with international standards and best practices on many topics, including the following: Accounting for Financial Derivatives; Revenue Recognition for Accounting and Taxation; Accounting for E-Business; Tax Auditing in Practice; and Audit Reporting in Practice.		Completed		ICAAT
• Establish a Certified Management Accountant (CMA) program through training of trainers, including training of approximately 20 participants (trainers) to sit for the examination of the U.S. Institute of Management Accountants and development of a plan to make the program sustainable.		Completed		ICAAT
• Establish a Chief Financial Officer (CFO) accreditation program, including development of a curriculum and common body of knowledge in line with the program of the American Institute of Management Accountants, including development of structure of model examination and CPE to maintain the CFO designation.		Completed		ICAAT

Output	Most immediate results produced by the CDP-FC components	From January 2005 to May 2006	Progress to be achieved within the next 6 months	Key Counterparts / Partners
6. Develop Capital Market				
Technical assistance • Technical advice to remove impediments and to enhance liquidity for derivatives trading in the OTC market		Completed.		BOT and SEC
• Policy recommendations on raising the standards of soundness and risk awareness in the Thai money and foreign exchange markets for better market surveillance, monetary policy implementation and strengthening policy transmission mechanism.		Procurement is pending and consultant is not yet hired. The project is expected to start in June 2006 and completed by end of August 2006.	Completed.	Financial Markets Operation Group, BOT
• Assistance to develop a pricing mechanism for liquid debt instruments and their derivatives of the agencies involved to better understand such pricing mechanism.		Consultant hired and the project is commencing. It is expected to be completed by July 2006.	Completed	Thai BMA, BOT
• Identify impediments to securities borrowing and lending (SBL) and make recommendation to remove those impediments.		Completed in September 2003.		SEC and Thai Securities Depository (TSD)
• Initiatives by the APEC countries to remove impediments to domestic asset backed securitization for Thailand, China and the Philippines. The World Bank is participating on the expert panel.		Recommendations by the Expert Panel were completed in 2003. The Thai Working Group made policy recommendations to the APEC Ministerial in September 2003.		Thai Interagency Working Group, SEC and MOF
Workshop and Training • Develop and deliver a series of education program for institutional investors on fixed income instruments and their derivatives.		Completed.		BOT

Input	Resources provided by the Bank, government and other donors to implement the components identified above	From April 2003 to June 2004	Within the next 12 months	Reaches
By the Bank		PHRD / PHRD Miyazawa Trust Fund ASEM / ASEM II Trust Fund Financial Sector Implementation Assistance Loan (FSIAL)	ASEM II Trust Fund	Collaboration with WBI and CGAP. Engage consultants from Thailand and other countries, including practitioners in foreign regulatory agencies
By the Government		BOT, SEC, MOF budgets and in-kind contributions ADRO budgetary and in-kind contributions	Cash & In-Kind contribution	
By other development partners		Budget support for technical assistance from Kenan Institute Asia, AusAid, USAID, GTZ, FIRST, ADB, IMF, and regulatory agencies		

ANNEX IV: CONTACT MATRIX

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