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Appraisal of Industrial Finance Corporation of Thailand

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CURRENCY EQUIVALENTS

Until July 14, 1973: US\$1 = Bt. 20.8

From July 15, 1973 : US\$1 = Bt. 20.0

Bt. 1 = US\$0.05

Bt. 1 million = US\$50,000

Bt. 1 billion = US\$50 million

ABBREVIATIONS

AsDB	Asian Development Bank
BOI	Board of Investment
BOT	Bank of Thailand
KfW	Kreditanstalt für Wiederaufbau
NESDB	National Economic and Social Development Board
SIFO	Small Industries Finance Office
USAID	United States Agency for International Development

APPRAISAL OF
INDUSTRIAL FINANCE CORPORATION OF THAILAND

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This report is based on the findings of a mission consisting of Messrs. Zamir Hasan, Bjorn Hansen and Rainer Ullmann, which visited Thailand in September 1973, and a follow-up mission consisting of Bjorn Hansen, which visited Thailand in March 1974.

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Organization Chart as of March 1, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

BASIC DATA

1. Year of Establishment: 1959

2. Ownership (December 31, 1973)

	<u>Number of Shares</u> (Par Value Bt. 1000)	<u>Percentage of Total</u>
Domestic	78,725	52.5
Public Sector	(24,592)	(16.4)
Private Sector	(54,133)	(36.1)
IFC	8,000	5.3
Other Foreign	<u>63,275</u>	<u>42.2</u>
	<u>150,000</u>	<u>100.0</u>

3. Bank Group Financing

(a) IFC Investment in IFCT's Share Capital

<u>Investment</u> <u>No.</u>	<u>Approved</u>	<u>Number of</u> <u>shares</u>	<u>Cost per</u> <u>share</u> (US\$)	<u>Total Investment</u> <u>at Cost</u> (US\$)
71-TH	3/10/64	4,000	48.28	193,108
185-TH	12/22/70	4,000	47.85	191,388
Held by IFC at March 31, '74		<u>8,000</u>	<u>48.07</u>	<u>384,496</u>

(b) IBRD Loan Status as of March 31, 1974
(in US\$ '000)

<u>Loan No.</u>	<u>Date</u> <u>Signed</u>	<u>Rate of</u> <u>Interest</u>	<u>Net</u> <u>Amount</u>	<u>Author-</u> <u>ized</u>	<u>Dis-</u> <u>bursed</u>	<u>Out-</u> <u>standing</u>
370-TH	3/11/64	Variable	1,045 ^{1/}	1,045	1,045	0

4. Operations (in Bt. million)

(a) Loans

Approvals:

	<u>1960-1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Total</u>
Local Currency	312.2	93.9	56.4	87.4	550.0
Foreign Currency	273.9	130.6	120.3	182.3	707.0
Total:	<u>586.1</u>	<u>224.5</u>	<u>176.7</u>	<u>269.7</u>	<u>1,257.0</u>

Commitments:

Local Currency	309.0	66.7	67.7	22.5	465.9
Foreign Currency	259.7	116.8	136.3	128.7	641.5
Total:	<u>568.7</u>	<u>183.5</u>	<u>204.0</u>	<u>151.2</u>	<u>1,107.4</u>

^{1/} Approved loan amount was \$2.5 million.

	<u>1960-1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Total</u>
<u>Disbursements:</u>					
Local Currency	293.6	71.5	48.0	32.6	445.7
Foreign Currency	<u>207.5</u>	<u>85.8</u>	<u>137.1</u>	<u>63.5</u>	<u>494.0</u>
Total:	<u>501.1</u>	<u>157.3</u>	<u>185.1</u>	<u>96.1</u>	<u>939.7</u>

(b) Equity Investments

Acquisition of portfolio	0.3	-	0.1	0.4
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5. Financial Performance

(in Bt. million)

Year Ended December 31	<u>1971</u>	<u>1972</u>	<u>1973</u>
(a) Total assets	582.0	697.9	768.7
of which loan and equity portfolios	(464.0)	(586.4)	(601.1)
Long-term debt	425.0	527.6	533.8
of which Government	(81.1)	(79.6)	(77.9)
of which foreign currency borrowings	(227.2)	(234.4)	(206.5)
Equity	131.3	144.1	205.2
Long-term debt/equity (times)	3.8	4.1	2.9
(b) Earnings before interest, provisions and tax <u>1/</u> as % of average total assets	8.1	7.8	7.5
Profit after tax and provisions as % of average equity	12.6	15.8	12.2
Reserves and provisions as % of loan portfolio	8.5	8.9	10.4
Financial expenses as % of average total assets	4.3	4.4	4.6
Administrative expenses as % of average total assets	1.5	1.5	1.5
(c) Book value as % of par value	131.3	144.1	136.8
Dividend as % of par value	9.0	9.0	9.0
Dividend pay-out ratio	62.9	41.4	48.8

1/ IFCT is tax-exempt

APPRAISAL OF

INDUSTRIAL FINANCE CORPORATION OF THAILAND

SUMMARY

- i. Thailand's economy recovered in 1973, after a slow-down which started in 1969. Owing to improvements in the terms of trade for key exports, the overall balance of payments showed a surplus in 1972 and 1973 compared with deficits from 1969 to 1971. Total fixed investment increased by 5% in real terms in 1973 after decreases in 1971 and 1972. The oil crisis has been a problem of prices rather than of supply. Improved export earnings on Thailand's major export commodities are, however, likely to offset, for the next two years or so, the higher oil bill.
- ii. With a share in GDP at current factor cost of about 14%, manufacturing is the second largest sector in the economy after agriculture, and has averaged a growth of 10% per annum over the period 1967 to 1973. Consumer goods industries, which are mainly small size and family owned, dominate the industrial sector, which is concentrated in and around the greater Bangkok area. Thailand has few quantitative restrictions on imports, but many consumer goods and intermediary products are protected by tariffs of up to 40-60%. Some industries are competitive in world markets, and manufactured exports increased sharply between 1970 and 1973. The Government seeks to encourage, by an incentive scheme administered by BOI, the growth of export-oriented and labor-intensive industries and the reduction of regional disparities.
- iii. Institutional finance in Thailand is dominated by the commercial banks. Their lending policies are not venturesome and they base their lending on collateral rather than on the merits of projects. Commercial banks and suppliers' credits are, besides IFCT, the only major sources of finance for industrial investment. Finance companies, investment banks and the capital market provide only limited finance to the manufacturing sector and as with the commercial banks, mainly to large enterprises in the Bangkok area. The Small Industries Finance Office makes term-loans to small industrial enterprises, but on a modest scale.
- iv. IFCT is the only specialized institution that provides term-loans to the industrial sector. Its lending rate is 10-1/2% or 1% below the prime rate of the commercial banks. IFCT would lose business if it raised its lending rate, because the commercial banks have minimal disclosure requirements and because suppliers' credits are offered at 7 to 8%. However, the Bank of Thailand is presently engaged in a dialogue with the IMF over the interest rate structure in Thailand, and IFCT's lending rate of 10-1/2% should be viewed in connection with this larger dialogue. IFCT has assured the Bank that it will keep its lending rate under frequent review to ensure that it is appropriate on financial and economic grounds.
- v. IFCT, a largely privately owned institution established in 1959, played a modest role in the sixties, but during the last three years it has been able to increase its volume of business considerably, in both relative and absolute terms. In relation to loans by commercial banks, IFCT's total

outstanding loans to the manufacturing sector rose from 4% in 1965 to 8% in 1968 and to 11% in 1973. Its influence on project formulation now permeates directly some 10-15% of Thailand's investments in the manufacturing sector and, indirectly, more.

vi. IFCT's loan operations are well diversified in various industrial branches and, although it has financed some large projects over the last three years, the majority of its loans are for small- and medium-sized enterprises. Its loan operations reflect the geographical distribution of Thailand's industries and are concentrated in the greater Bangkok and Central regions. Sixty percent of IFCT's portfolio is accounted for by new ventures, nearly half of which were undertaken by new entrants in the manufacturing field. The economic rate of return shown by a sample of fourteen IFCT financed projects (14% of the total number) is satisfactory.

vii. Mr. Sommai Hoontrakool, former General Manager of IFCT and more recently Deputy Finance Minister, returned to IFCT as its Chairman in December 1973. The present General Manager, Dr. Prayoon Kanchanadul, formerly a civil servant, succeeded Mr. Sommai Hoontrakool in November 1972. The vacant post of Deputy General Manager was filled in March 1974. IFCT has three foreign advisors. Their initial two year terms, which would have expired in 1974, have recently been extended for one more year.

viii. While the middle management is competent and the general quality of staff is good, there is room for upgrading. IFCT's management realizes this, is looking for an experienced economist and has already hired a senior engineer. It has also expressed its desire for the Bank Group's advice and cooperation in improving its operations through staff training and the upgrading of appraisal techniques.

ix. IFCT's portfolio is satisfactory, and its overall financial position is sound. Its capital structure has been strengthened by a Bt. 50 million share capital increase completed in September 1973. IFCT's financial structure, profitability and debt service ability are expected to remain satisfactory.

x. IFCT expects to commit Bt. 2,472 million during 1974 to 1978 in loans and equity investments; Bt. 684 million in domestic currency and Bt. 1,788 million equivalent in foreign exchange. Considering the level of approvals in 1971-73 and IFCT's pipeline of projects, the forecast appears realistic and should be within IFCT's reach. IFCT's local currency resources are sufficient to undertake the baht commitments it has projected. For imports, IFCT estimates that it will need foreign currency resources of about US\$33.5 million to meet its commitment during the period mid-1974 to mid-1976. Loans amounting to about US\$14 million will involve Japanese procurement and therefore could be financed from the tied Special Yen and Japan Ex-Im Bank loans available to IFCT. Resources needed for untied procurement for the same period are estimated at about US\$19 million. Some US\$7 million of this amount will be provided by the existing and a new KfW loan, the only untied funds now at IFCT's disposal. IFCT will therefore need additional untied foreign resources of about US\$12 million. A Bank loan of US\$12 million would fill this remaining gap.

xi. IFCT expects to play a more important role over the next five years than in the past in areas which are considered important for the economic and social development of Thailand. It will continue to lend to and assist in the planning and financing of some large-scale ventures, particularly those of national importance. The promotion of smaller projects, especially agro-business projects located in the provinces, is high on IFCT's priority list, and it also plans to increase its equity financing. The overall cost of IFCT's resources is expected to be low enough to provide a margin sufficient to compensate IFCT for the higher risks and administrative costs involved in the more venturesome policies contemplated, while still enabling it to earn a reasonable profit. IFCT intends to strengthen its management and staff, to improve its procedures and operations including the economic appraisal of projects, and to undertake more promotional work. It expects to have a close, beneficial relationship with the Bank.

xii. With IFCT there is considerable scope for the Bank's traditional role of institution building. The Bank should be prepared to assist IFCT to the extent possible, through close supervision involving somewhat more frequent supervision missions than usual, detailed reviews of sub-project appraisals, support in programs for staff training and recruitment of advisors, when necessary, and continuing advice on IFCT's work programs. The proposed loan would be not only a means of meeting a part of IFCT's capital requirements but also, through its administration, a means of assisting IFCT to implement its objectives.

xiii. A Bank loan of US\$12 million is recommended to enable IFCT to meet a part of IFCT's foreign currency needs for import of machinery and equipment under sub-projects financed by it during the period mid-74 to mid-76. The terms of the loan should be those usually applied for Bank loans to development finance companies, including the standard commitment charge. IFCT has requested a debt/equity ratio of 6.0:1, debt being defined as total long-term debt including subordinated Government loans. For the reasons given in para 3.22 this ratio is reasonable and is recommended. An initial free limit of US\$500,000 is proposed subject to an aggregate free limit of 25% of the proposed loan. The US\$500,000 limit should assure that about 75% (by amount) of the loans would require prior approval by the Bank.

APPRAISAL OF

INDUSTRIAL FINANCE CORPORATION OF THAILAND

I. INTRODUCTION

1.01 This report appraises the Industrial Finance Corporation of Thailand (IFCT), a private development finance company, for a proposed Bank loan of \$12 million to support private industrial investment in Thailand. This would be the second Bank loan to IFCT; the first loan for \$2.5 million was made in 1964.

1.02 IFCT was established in 1959 for the purpose of promoting private industrial development in Thailand. The World Bank Group helped re-organize the institution in 1963 and in the process the Bank made a loan of US\$2.5 million and IFC took up 4,000 (US\$193,108) of an issue of 30,000 shares in March 1964. IFCT's operations fluctuated considerably both because of management problems and because of the reluctance of potential borrowers to assume the foreign exchange risk, and only US\$1.045 million of the Bank loan was utilized; this amount has since been fully repaid. Since 1970, IFCT's performance has improved and there are good prospects for further improvement. The economic and financial environment is described in Annex 1.

II. INSTITUTIONAL ASPECTS

Objectives and Policies

2.01 Objectives. IFCT was established by a legislative Act, which has been amended from time to time. IFCT's main objectives, as set out in the Act, are to assist in the establishment, expansion or modernization of private industrial enterprises and to encourage the participation of private capital, both internal and external, in such enterprises. Industrial enterprises, as defined in the Act, include those engaged in "the manufacture, processing and repair of goods, mining, generation and distribution of electricity or other kinds of power, transportation, tourist industry, construction and land improvement and commercial agriculture".

2.02 The Act authorizes IFCT to provide finance in the form of long- or medium-term loans with or without security, buy, sell and underwrite shares and securities, issue guarantees, manage investments, provide technical assistance and borrow funds in Thailand and abroad. It may, in short, undertake the normal range of activities of a development finance company. In the future, IFCT plans to be more active in financing sectors or projects which in the past have received insufficient attention from financial institutions in Thailand: (i) financing relatively small projects; (ii) financing projects outside the Metropolitan Bangkok area; (iii) financing projects in fields such as agro-business and mining; (iv) promoting projects

which require considerable work and expertise; and (v) investment in equity (paras 4.03 to 4.05).

2.03 Operating Policies. IFCT's Statement of Operating Policies is similar to those adopted by most of the development finance companies associated with the World Bank Group. It contains the usual guidelines for conducting the day-to-day operations of the company on sound and prudent lines, and for maintaining a healthy financial position. The policy statement was last amended in July 1973, mainly for the purpose of redefining its borrowing limit by excluding Government subordinated loans from its borrowing base, with an increase in permissible indebtedness from 3.5 to 6 times its net worth. The statement which is shown in Annex 2 is acceptable to the Bank except for the wording in the last sentence of para 6 which has the effect of valuing foreign exchange liabilities at the rate prevailing at the time they were contracted instead of at the current rate. Also, when the foreign exchange risk agreement (para 3.10) becomes effective, a consequential change will be needed in the wording of para 14. IFCT has undertaken to make the necessary changes.

Ownership

2.04 IFCT's initial share capital of Bt. 6.1 million has been increased four times and now amounts to Bt. 150 million; the latest increase, Bt. 50 million, was completed in September 1973. IFC now holds Bt. 8 million (US\$384,496) which is 5.3% of the total. A list of shareholders is shown in Annex 3. Holdings of foreign shareholders (including IFC) amount to 47.5% of the total, holdings of local and foreign banks amount to 73%, of insurance companies to 6%, of investment companies to 5% and of other institutions and individuals to 16%. The latest share capital increase reduced commercial banks' shareholdings from 83% to 73%. The holding of the only Government-owned shareholder, the Krung Thai Bank, increased slightly from 14.5 to 16.4%.

Organization, Management and Staff

2.05 Organizational Structure. IFCT's internal structure was reorganized in 1971. The work is now divided among three departments: the Projects Department, the Operations Department and the Administration Department. The Projects Department is responsible for appraisal of projects; the Operations Department handles all supervision, research and resource planning; and the Administration Department handles accounting, personnel and legal affairs. The reorganization has streamlined the overall division of labor within the institution. The lines of authority are clearly drawn and the present structure is appropriate to IFCT's needs. IFCT's organization chart is attached.

2.06 IFCT has no branches or regional offices. In view of the emphasis which IFCT intends to place on financing projects in the less-developed regions (para 4.04), IFCT is now studying plans for establishing three representative offices at regional centres.

2.07 Board of Directors. IFCT's Board comprises nine members including the Chairman and the General Manager. The Chairman since 1970, Mr. Renoo Suvarnsit, the Secretary General of National Economic and Social Development Board (NESDB), resigned from IFCT's Board in November 1973. Mr. Sommai Hoontrakool was nominated by the Government to succeed him as a member of the Board and he was elected Chairman with effect from December 3, 1973. Mr. Sommai, able and widely respected, had a long career in the Bank of Thailand before becoming IFCT's Managing Director from July 1970 until October 1972. More recently he was the Deputy Finance Minister. IFCT can expect to continue to receive vigorous leadership from its Chairman. Dr. Prayoon Kanchanadul, IFCT's General Manager, is an ex-officio Director. Six of the remaining seven Directors are commercial bankers, reflecting the predominance of commercial banks among IFCT's shareholders. The Board as of December 31, 1973 is shown in Annex 4. The Board usually meets once every month, and besides deciding on policy and other important matters it has the final say in most of IFCT's loan and investment proposals (see paragraph 2.08).

2.08 Executive Committee. The Executive Committee was set up in December 1972 following an amendment of the IFCT Act. The Committee has four members: the Chairman, General Manager and two representatives of the commercial banks (one foreign and one local). The Executive Committee meets routinely every week and is authorized to approve loans not exceeding 5% of IFCT's net worth (about Bt. 10 million). The Committee acts as a screening body for larger loans prior to their presentation to the Board.

2.09 Management. The present General Manager, Dr. Prayoon Kanchanadul, succeeded Mr. Sommai in November 1972. Dr. Prayoon, a career civil servant, was the Under-Secretary of State for Economic Affairs until his retirement in September 1972. He is receptive to advice, and eager to improve IFCT's operations. Dr. Prayoon's contract expires in November 1974 but is renewable. IFCT had no Deputy General Manager until March 1, 1974 when Mr. Waree Bhongsvej, until then Director and Assistant to the Governor, Bank of Thailand, was engaged to fill the vacancy. Mr. Bhongsvej has had substantial banking experience and his employment should help IFCT in its efforts to expand its operations and promotional work (para 3.35).

2.10 Staff. IFCT's staff at the departmental level is reasonably competent, and capable of learning new and improved techniques. The senior staff was strengthened by the employment of a senior engineer, Mr. Chamras Chayabongse, in November 1973, but IFCT still needs an experienced economist, for whom the management is presently screening potential candidates.

2.11 IFCT has three foreign advisors: Mr. Sunit Gupta, a Bank staff member on leave of absence, as Financial Advisor; Mr. L. Buescher, Economic Advisor, and Mr. H. Oermann as Engineering Advisor. The initial two-year term of office of Mr. Gupta, who is serving IFCT under UNDP's auspices, expires in April 1974, but will be extended for one more year. The services of Messrs. Buescher and Oermann are provided by the Federal Republic of Germany under a technical aid program. Their initial two-year terms expire in mid-1974 but have been extended for one more year.

2.12 As of December 31, 1973, IFCT had 122 staff members, of whom 65 were professionals. Although the staff turnover has been relatively high

in the recent past, IFCT has been able to retain its senior and more experienced staff members. The turnover was high among newly appointed staff, many of whom decided to undertake further studies or were attracted by higher positions offered by other financial institutions. The general quality of IFCT's staff is good; with proper motivation and training opportunities the staff has potential for further improvement. The staff is generally sufficient in number to deal with a higher level of activities, although, as already noted, some additional selective recruitment is necessary.

Procedures

2.13 Appraisal. IFCT's appraisal standards have improved considerably during the last two years or so and, although some weaknesses remain, are now of generally satisfactory quality. The three foreign advisors have made a valuable contribution, and the reorganization of 1971 has also helped to raise IFCT's general efficiency.

2.14 The financial and technical parts of appraisals cover all major aspects although the depth of evaluation and analysis could be improved. The weakest parts of IFCT's project appraisal work are the coverage of marketing and economic aspects. Because statistics on prices and supply are usually not available and because IFCT's clients are normally not among the sophisticated entrepreneurs who are able to undertake detailed market studies themselves, or who can afford to hire consultants to undertake such studies, a thorough and systematic analysis by IFCT is of particular importance. Although IFCT's capability in regard to market analysis has improved, greater depth is required in its appraisal of market conditions. As for the economic aspects, emphasis is put on partial indicators (value added/output, capital/output, capital/employment, employment creation, balance of payments effects), while no systematic attempt has so far been made to calculate the effective rates of protection or the economic rates of return (ERR) as an element in decision-making. The management realizes that IFCT's market and economic analyses need strengthening and, as already noted, plans to recruit a senior economist. To improve its decision-making process, IFCT has agreed to calculate the ERR for all projects which will receive IFCT finance of Bt 10 million or more. For other projects which are large (fixed assets of Bt. 30 mill or more), but where IFCT finance will be less than Bt 10 mill., IFCT will also calculate the ERR.

2.15 All loan applications go through an initial screening which determines, usually within one to two weeks, whether IFCT will go ahead with a full appraisal. If approved, a team of three (a financial analyst, an engineer and an economist) works simultaneously on the application and prepares an appraisal report. Depending upon the type of the project and its stage of preparation it may take as little as three weeks to prepare the first draft; but usually not all necessary information is readily available, and it takes an average of three months to prepare a full appraisal. This is a reasonable period if IFCT is to maintain relatively high appraisal standards, but it does leave it at a competitive disadvantage towards a commercial bank that bases a lending decision mainly on an assessment of credit standing and collateral security. Before submission to the

Executive Committee, all loan proposals are considered by an Investment Committee, ^{1/} which contributes materially to improving the loan presentations.

2.16 Supervision. Considerable effort has gone into strengthening IFCT's supervision procedures and staff, after serious arrears developed in 1970. To improve the situation, IFCT initially concentrated its efforts on the problem projects, but has since been able to expand systematic supervision to all projects. A constant difficulty in effective supervision is the reluctance of many clients to disclose information to IFCT. Regular project visits have improved data collection and early detection of problems. All projects in operation are now visited at least once a year by a financial analyst. If a client defaults, project supervision is intensified. Projects at the implementation stage are visited every three months, or before each disbursement, by an engineer and a financial analyst. The present follow-up staff (twelve persons) is adequate to deal with the projects under implementation and in operation.

2.17 Feed-back of information from the follow-up work to the project appraisal staff is presently limited to the transmission of supervision reports to the Project Department. IFCT is planning to increase the use made of follow-up data by undertaking cross-section analyses of several supervision reports for the purpose of comparing, among other matters, actual results with those forecast.

2.18 Procurement and Disbursement. IFCT has well-formulated procurement procedures. It requires, in all appropriate cases, that its clients obtain quotations from at least three suppliers. These quotations are carefully checked by the Engineering Division and compared with other projects using similar machinery. IFCT has found that the sponsors in general make good choices; in only a few cases has it been necessary, after advice from IFCT, to change a supplier. IFCT's procurement procedures appear to ensure that suitable machinery is purchased at reasonable prices.

2.19 IFCT's disbursement procedures ensure that the clients first provide their part of the financing. IFCT's disbursements are made in stages and only after checking the physical progress of the project and the relevant documentation. These include invoices, receipts, etc. in the case of domestic loans, and letters of credit and bills of lading in the case of foreign currency loans. IFCT's disbursement procedures appear to be satisfactory.

Relations with the Government and the Business Community

2.20 IFCT has good relations with the Government, which for many years has taken a benevolent and often actively helpful interest in IFCT's affairs. Close links and mutual understanding were facilitated in the past by

^{1/} The Investment Committee comprises the General Manager, the Managers of the Operations and the Project Departments, the three Division Chiefs of the Operations Department and the Division Chief in charge of follow-up.

Mr. Renoo's dual role as Chairman of IFCT's Board of Directors and Secretary-General of NESDB, and more recently by Dr. Prayoon's connections in Government circles and his seat on BOI. Cordial relations with the Government should continue with Mr. Sommai as IFCT's Chairman. At the working level, exchanges of views and information between the Government and IFCT are frequent.

2.21 The Government is important to IFCT as a guarantor and supplier or channel of funds and as the author of the industrial policies and priorities in accordance with which IFCT has to operate. Current Government plans envisage an expanding role for IFCT in developing export-oriented and agro-based industries, in promoting regional development and in developing a capital market in Thailand. There is no indication that the Government unduly influences IFCT's individual investment decisions.

2.22 Several commercial banks are shareholders of IFCT and their nominees are members of IFCT's Board of Directors. The operations of IFCT and those of some banks and finance companies are complementary and there are prospects of joint financing in appropriate cases. IFCT's relations with some other banks, on the other hand, have been somewhat strained by what IFCT has regarded on occasions as unfair competition.

2.23 Most well-established industrialists have long-standing relations with the commercial banks and seldom look to IFCT for financing. Many not so well established entrepreneurs, however, seek and appreciate IFCT's assistance. The fact that during the last couple of years IFCT has been active in attempts to promote a few large projects which required substantial expertise and experience, has increased IFCT's prestige among the business community. The former Managing Director of IFCT, now back as its Chairman, and the present Financial Advisor are very active in matters relating to the capital market, some of the credit for which has brushed off on IFCT. But to the business and banking communities in general, IFCT probably still appears to be a relatively small institution, although one with professional, ethical and developmental standards and objectives that deserve respect.

III. OPERATIONS, FINANCIAL PERFORMANCE AND ECONOMIC IMPACT

Loan Operations

3.01 General. IFCT's lending operations through December 31, 1973 are shown in Annex 5. Since its inception IFCT has approved 210 loans amounting to Bt. 1,257 million, committed Bt. 1,107 million (204 loans) and disbursed Bt. 940 million. Year-to-year fluctuations have been considerable, reflecting not only the current investment climate but also IFCT's earlier management problems. The trend of business has been upward since 1970, with approvals during the last 3 years greater than total approvals for the period 1960-70. The higher levels of approvals in 1971 (Bt. 224 million), 1972 (Bt. 177 million) and 1973 (Bt. 270 million) were helped by the attractiveness of the Special Yen loan ^{1/} and the involvement of IFCT in a few fairly large projects.

^{1/} The Special Yen loan, which derives from Japanese reparations payments, is disbursed in Yen, but is repaid in Baht at the rate of exchange prevailing at the date of commitment.

3.02 Of the loans committed up to December 31, 1973, 58% derived from foreign currency resources. This percentage has been higher since 1971 (65%), because of the Special Yen loan which accounted for about 70% of IFCT's foreign currency commitments during this period. The proportion of foreign currency loans would undoubtedly have been higher in earlier years but for the foreign exchange risk problem (see para 3.10).

3.03 Size of Commitments. The distribution of loan commitments by size, duration and geographical distribution is shown in Annex 6. The minimum size of IFCT's loans is Bt. 1 million (US\$50,000); the upper limit is prescribed in IFCT's policy statement and now amounts to roughly Bt. 50 million (US\$2.5 million).

3.04 The average size of IFCT's commitments has been increasing; during the last three years it amounted to about Bt. 10 million (US\$500,000),^{1/} about 50% larger than the average size during the preceding three years. While before 1971 there was no loan of over Bt. 20 million (US\$1.0 million), IFCT has committed seven loans of over Bt. 20 million since then. Nevertheless, more than half of IFCT's financing has been for medium- and small-size enterprises: 52% of the number of loans committed since the end of 1970 were below Bt. 6 million (US\$300,000) each, and 37% were relatively small loans below Bt. 4 million (US\$200,000) each.

3.05 Duration of Loans. On a cumulative basis the majority of IFCT loan commitments averaged 5.6 years by the end of 1970. This average has been the same during the last two to three years although the structure of maturities has changed slightly; while by the end of 1970 loans with maturities of 4.1 to 8 years accounted for 71% of cumulative commitments, they made up 88% of commitments in the years 1971 to 1973. IFCT has not extended any loans for less than two years nor for more than ten years since December 1970.

3.06 Geographic Distribution. IFCT's operations, reflecting the geographical distribution of Thailand's industry, are concentrated in the Greater Bangkok area and the Central region. Of all loans committed, 86% by value (76% by number) are for projects located in Bangkok and the surrounding provinces. IFCT's management intends to make a deliberate effort (para 3.35) to expand IFCT's services beyond the Central region.

3.07 Industrial Distribution. IFCT's loan commitments by industrial sector are shown in Annex 7. IFCT's commitments during the last three years are well diversified among the four large groups of consumer, intermediate, capital and miscellaneous goods industries, each group accounting for no more than 33% of the total: Consumer goods industries accounted for 31% (Bt. 165 million) mainly because of a sharp increase in loans to food and textiles industries; intermediate goods industries accounted for 33% where investments in non-metallic minerals industries (mainly ceramics and cement) accounted for 17%; capital and miscellaneous goods industries made up 15% and 21% respectively with metal products and transport showing the fastest growth.

^{1/} Excluding seven loans of over Bt. 20 million, the average would be Bt. 6.4 million (US\$320,000).

3.08 New versus Expansion Projects. Of the 99 projects ^{1/} in IFCT's portfolio as of December 31, 1972, 41 were expansion projects, while 58 were new ventures, 46 of them in the manufacturing sector. Seven of these 46 projects were undertaken by companies that already had operations in the same field. Of the remaining 39 new ventures, including nine joint ventures with foreign enterprises, 17 were undertaken by entrepreneurs with experience as traders, bankers and businessmen, and two by persons with no previous experience in business or industry. Thus, 22 or 48% of the new industrial ventures were undertaken by new entrants into the manufacturing field.

Equity Investments and Guarantees

3.09 Until recently IFCT held shares in only one company (Bt. 250,000). In 1972-73, however, IFCT approved three equity investments totalling Bt. 11.7 mill. As of December 31, 1973, total guarantees amounted to Bt. 58 million for four companies. The guarantees, all extended before 1972 to existing clients of IFCT, were for various purposes such as guaranteeing an issue of debentures, guaranteeing suppliers' credits and bank overdrafts. Whereas equity investments are likely to increase considerably in the future, guarantees are expected to remain at about the present level.

Foreign Exchange Risk

3.10 As a policy, IFCT does not carry the foreign exchange risk but passes it on to its sub-borrowers. This has adversely affected IFCT's lending in foreign exchange as sub-borrowers are reluctant to assume the exchange risk and prefer to borrow Baht resources which are freely convertible. In March 1974, the Ministry of Finance and IFCT agreed to enter into a foreign exchange risk agreement (shown in Annex 9), the main features of which are: (i) IFCT shall pay into a "Claim Account" in the name of the Ministry of Finance 1/4% p.a. of its outstanding foreign debt; (ii) IFCT shall set aside to a Provision for Exchange Risk 1% p.a. of its outstanding debt; (iii) if a net loss occurs owing to a realignment of currencies, the loss shall be charged: first, against the Provision for Exchange Risk (up to 75% of the balance of that Provision), and secondly, the balance if any, against the Claim Account; (iv) in the event that the loss exceeds the sum of the charges so made, the Ministry of Finance shall reimburse IFCT the amount of the excess; and (v) IFCT shall repay the Ministry of Finance this reimbursement at the rate of Bt. one million p.a., irrespective of the number of such reimbursements made to IFCT by the Ministry of Finance. The agreement would not relieve IFCT of possible costs as a result of currency realignments, but would make it possible for IFCT to meet the costs in an orderly and

^{1/} Undertaken by 91 companies.

manageable way. ^{1/} The total expenses to IFCT under the agreement are precisely determinable and not unduly burdensome in relation to IFCT's expected earnings. The Bank has reviewed the agreement and found it acceptable.

Interest Rates

3.11 IFCT's lending rate is 10-1/2% for domestic loans and 9-1/2% for foreign currency loans with the borrower assuming the foreign exchange risk. When the foreign exchange risk agreement (para 3.10) has become effective, IFCT will raise its foreign currency lending rate by 1% to 10-1/2%. IFCT's lending rate of 10-1/2% appears low compared with the recently increased prime lending rate of the commercial banks of 11-1/2%. However, commercial bank lending is based on superficial appraisals, and disclosure requirements are minimal. This places IFCT under a competitive disadvantage. Moreover, the commercial banks' minimum lending rate of 11-1/2% is not determined by the play of market forces, but is established by the Inter-Bank Agreement (see also para 25, Annex 1) and helps keep lending rates too far above deposit rates. More importantly, suppliers' credits are freely available at 7-8% interest. Because of the relative short term nature of suppliers' credits, heavy reliance by Thai entrepreneurs on suppliers' credits is not welcomed owing to its adverse effects on the balance of payments.

3.12 IFCT increasingly perceives its own role as one primarily of development rather than of profit-maximization. It is unlikely to need to raise local resources for the next few years, and in any event the currently distorted interest rate structure makes it virtually impossible to raise such funds by public borrowing. Thailand's interest rate structure was studied by the IMF in 1973 and its report and recommendations are scheduled to be discussed by the Bank of Thailand in the summer of 1974. Subsequent changes in the general interest rate structure are possible, and IFCT has assured the Bank that it will keep its lending rates under frequent review to ensure that it is appropriate on financial and economic grounds. In these circumstances, its proposed lending rate of 10-1/2% for foreign exchange and baht loans appears appropriate.

Resources

3.13 IFCT's total resources (net of repayments) amounted to Bt. 985 million (US\$49.3 million) at December 31, 1973; local resources made up Bt. 378 million or 38% of the total, foreign resources Bt. 607 million (US\$30.4 million) or 62%. Details of IFCT's resources are shown in Annex 10.

^{1/} The fact that IFCT would not have to pass on the foreign exchange risk to its clients will affect its income in two ways. First, IFCT's foreign currency lending rate will be raised 1% to 10-1/2% (the net "fee" would in effect therefore be only 1/4%) and secondly, IFCT's foreign currency lending is likely to increase substantially without a corresponding increase in its expenses. If IFCT were to make a repayment of Bt. 1 million in 1976, when its outstanding foreign debt is projected to amount to about Bt. 1,100 million, the Bt. 1 million repayment would correspond to 0.09% of the outstanding foreign debt; this means that the total net cost to IFCT would be 0.34% (the fee of 0.25% plus 0.09%) of the outstanding foreign debt in that year. The maximum annual repayment of Bt. 1 million would have only a relatively insignificant effect on IFCT's profitability, cash flow and debt service coverage.

3.14 Local Resources. IFCT's local resources as of December 31, 1973 were as follows (in Bt. million):

	<u>Amount</u>		<u>Percentage</u>
Share capital	150.0		39.7
Retained earnings	<u>55.2</u>	205.2	<u>14.6</u> 54.3
Government loans (net of repayments)		92.9	24.6
Debentures		<u>80.0</u>	<u>21.1</u>
		<u>378.1</u>	<u>100.0</u>

The maturity of the Government loans ranges from 15 to 50 years and the interest rate from nil to 6-1/2% p.a.; the weighted average rate of interest is 3.7%. Government loans amounting to Bt. 68.9 million are subordinated to share capital. The Government has not extended any loans to IFCT since 1967. The debentures, guaranteed by the Government, were issued in 1968 at 7% p.a. with 10 years maturity. On December 31, 1973, IFCT had Bt. 149 million in local resources available for disbursement against which it had undisbursed commitments of Bt. 34 million, leaving Bt. 115 million available for commitment.

3.15 A loan agreement between the Government and IFCT has been drafted and is expected to be signed soon under which IFCT is likely to receive about Bt. 50 million from PL-480 counterpart funds. ^{1/} The funds will be repaid to the Government over 40 years and will be available to IFCT at a concessional rate of 2% for financing agro-business and forestry projects. Only 3% of IFCT's spread will be treated as income; the balance will be set aside as a provision to meet possible portfolio losses in view of the uncertainties attending projects of the types expected to be financed.

3.16 The debentures issued by IFCT in 1968 were guaranteed by the Government and taken up mostly by the Bank of Thailand. For all practical purposes, therefore, IFCT's resource mobilization has been confined to periodic increases in its equity. IFCT has been unable to raise loan funds from the public because of the interest rate structure in Thailand. As commercial banks pay 8% interest tax free on 12 months deposits and Government bonds yield 7-1/2% - 8-1/2% tax free, IFCT would have had to offer rates of interest higher than its lending rate of 10-1/2%, and accept a negative spread on the borrowed funds. As mentioned in para 3.12, the Bank of Thailand is presently, in consultation with IMF, reviewing the interest rate structure in Thailand and IFCT has assured the Bank that it will hold the appropriateness of its lending rates under frequent review.

^{1/} The initial amount was for a total of Bt. 300 million, Bt. 150 million in each of the years 1973 and 1974. IFCT will, however, receive only Bt. 50 million for 1973 as the commodity shipments which give rise to the counterpart funds were lower in that year than expected. The outlook for 1974 is gloomy since cotton and tobacco shipments are not moving and IFCT is unlikely to receive any counterpart funds with respect to 1974.

3.17 Foreign Currency Resources. IFCT's foreign currency resources as of December 31, 1973 were as follows:

	<u>Amount</u>		<u>Percentage</u>
	<u>Bt. Million</u>	<u>US\$ Million</u>	
KfW (net of repayments)	123	6.1	20.1
AsDB (net of repayments)	229	11.5	37.8
Special Yen loan	234	11.7	38.5
Danish Government loan	21	1.1	3.6
	<u>607</u>	<u>30.4</u>	<u>100.0</u>

IFCT has received three loans from KfW totalling Bt. 195 million equivalent. As of December 31, 1973, two of the loans were fully committed; the third loan of Bt. 75 million equivalent (US\$3.8 million), signed in August 1973, was almost entirely uncommitted. By agreement, the proceeds will be used to finance projects which will create employment, improve Thailand's balance of payments and contribute to balanced regional economic growth. Only small- and medium-scale projects will be financed out of the loan. Of the two loans from AsDB totalling Bt. 298 million equivalent, Bt. 5.6 million equivalent (US\$0.3 million) was still available for commitment as of December 31, 1973; the interest rate is 6-7/8% and repayments are linked to IFCT's own collections. The Danish credit, provided to finance two specific projects, is fully committed. It is interest-free to IFCT but, of the interest received by it, only 3% is allowed to be treated as income, the balance being transferred to reserves. The Special Yen loan represents part of Japanese war reparations payments to Thailand and, although it is drawn in yen, the repayments are to be made in baht to the Bank of Thailand. The interest rate on the Special Yen loan is 7% and repayments are tied to IFCT's own collections. On December 31, 1973, IFCT had Bt. 227 million equivalent (US\$11.4 million) foreign resources available for disbursement against which it had undisbursed commitments of Bt. 134 million equivalent, leaving Bt. 93 million equivalent (US\$4.7 million) available for commitment.

3.18 In January 1974, IFCT obtained from the Japan Ex-Im Bank a loan of ¥ 10,000 million (about US\$36 million). The credit is tied and carries interest at 5.25%. It has a maturity of 20 years.

Financial Position and Profitability

3.19 IFCT's balance sheets as of December 31, 1969-73 are shown in Annex 12. Total assets increased by 92% to Bt. 769 million during the 4 year period ended December 31, 1973. The loan portfolio increased by 87% to Bt. 601 million during the same period and accounted for 78% of total assets as of December 31, 1973; foreign currency loans amounted to 62% of the loan portfolio. The equity portfolio amounted only to Bt. 350,000 on December 31, 1973. The increase in portfolio during the four-year period was financed mainly by draw-downs on the two AsDB loans and the Special Yen loan and by the 1971 and 1973 share capital increases each of Bt. 50 million.

3.20 Quality of Portfolio. Two and a half year ago, IFCT's arrears position had become serious, and about a fifth of the portfolio had been affected by defaults. The arrears position has since been improved significantly. As of December 31, 1973, total principal and interest in arrears amounted to Bt. 12.7 million or 2.1% of total loans outstanding, compared with 4.7% and 5.7% respectively on June 30 of 1972 and 1971. Principal of loans affected by arrears (Bt. 64.4 million) as a percentage of total loan portfolio was 10.6% on December 31, 1973 compared with 22.4% on June 30, 1971. This improvement was brought about by close management attention, frequent project visits particularly to problem projects (four times or more a year), legal actions taken against some delinquent clients and the charging of higher penalty interest (up to 5-1/2% above the normal rate of interest). IFCT has also made use of rescheduling where the situation warranted it. Annex 11 gives an analysis of IFCT's arrears, which are now reasonably satisfactory.

3.21 A detailed analysis of IFCT's portfolio undertaken as of December 31, 1973 showed that eighteen projects of IFCT's loan portfolio of 85 had some problems. However, except in the case of eight projects, the problems were of a temporary nature and caused no threat to the viability of the projects. The eight projects with serious problems had an outstanding balance of Bt. 20.1 million. Most of IFCT's loans are, however, adequately secured and IFCT estimates that its probable losses on these projects will not amount to more than Bt. 3.2 million. In addition, on outstanding guarantees of Bt. 57.6 million, IFCT expects to lose not more than Bt. 4.2 million. No losses are expected on the small equity portfolio of Bt. 350,000. Against these estimated losses totalling Bt. 7.4 million, IFCT has made provisions of Bt. 8.2 million. IFCT's portfolio is now sound and provisions appear adequate.

3.22 Debt/Equity Ratio. IFCT's long-term liabilities (including guarantees) increased by 79% to Bt. 601 million during the 4 years ended December 31, 1973. Its equity increased by 193% to Bt. 205 million during the same period. The total long-term debt/equity ratio was 2.9:1 on December 31, 1973. If subordinated Government loans were included in equity, the ratio would be 1.9:1. IFCT's policy statement was amended in July 1973 to provide for a maximum total long-term debt/equity ratio of 6.0:1. The same borrowing limit, namely six times equity is incorporated in the draft agreement for the proposed Bank loan. This limit is justified by the quality of IFCT's management and its sound portfolio. Moreover, according to IFCT's forecasts, debt service coverage will not be lower than 1.48, in 1976. The debt/equity ratio is expected to increase to 6.5 in 1977, when IFCT intends to consider increasing its share capital by Bt. 50 mill. Such increase would keep the debt/equity ratio within the recommended limit throughout the forecast period.

3.23 Reserves. IFCT's reserves (Bt. 54.8 million) and unappropriated earnings (Bt. 0.4 million) totalled Bt. 55.2 million or 8.3% of the portfolio (including outstanding guarantees) as of December 31, 1973; reserves, unappropriated earnings, and provisions for doubtful loans amounted to 9.4% of the portfolio. Reserves and retained earnings have increased by 109% since January 1, 1971, and are satisfactory.

3.24 IFCT's shares are quoted on the Bangkok Stock Exchange, but trading is negligible and changes in shareholdings minimal; the market price of Bt. 1,015 (Bt. 1,000 par) on March 27, 1974 is therefore not necessarily indicative of the real value. Book value per share was Bt. 1,368 on December 31, 1973.

3.25 Profitability. Income statements for 1969 through 1973 are shown in Annex 13. Gross income has more than doubled over the past four years, whereas expenses increased at a slightly slower pace, resulting in a 1973 net income of Bt. 21.3 million - 130% higher than that of 1969, but 2% lower than that of 1972. The slight decrease in net income from 1972 to 1973 is due to a narrowing of the interest spread from 3.9% to 3.4%; average income from term loans decreased from 9.9% in 1972 to 9.7% in 1973, owing to the relatively higher increase in foreign currency lending (at 9-1/2%) than in local currency lending (at 10-1/2%), and the average cost of term debt increased from 6.0% to 6.3%. Provisions for doubtful loans are not made as a fixed percentage of loan portfolio; they are determined on the basis of a review of each loan. The provision for 1971 was Bt. 6.2 million and that for 1972 and 1973 nil, contributing to a substantial increase in 1972 and 1973 net income over that of 1971. Administrative expenses, while increasing in absolute terms, have remained constant as a percentage of total assets (1.5).

3.26 Net income as a percentage of average assets grew from 2.6 in 1969 to 2.9 in 1973, but, due to the 1971 and 1973 share capital increases, fell as a percentage of net worth from 13.2 to 10.4 during the same period. There has been no increase in the 9% dividend since 1970. The 9% dividend resulted in a pay-out ratio of 48.8% in 1973.

3.27 Audit. IFCT's 1973 accounts were audited and certified without qualification by the SGV-Na Thailand & Co., a firm acceptable to the Bank. The audit report was, and IFCT has agreed to continue to provide it, in the form required of its dnc clients by the Bank.

Economic Impact of IFCT Operations

3.28 An attempt is made in this section to assess the economic impact of IFCT's operations. In the absence of complete data this assessment is admittedly not precise but it does give some idea of the importance of IFCT as a specialized financial institution and of how its operations look from a broader economic rather than purely financial point of view.

3.29 IFCT is the only specialized institution in Thailand providing long-term finance to the private industrial sector. Its annual lending volume is small in absolute terms. Its share in private industrial investment is about 3-4% but because IFCT finances, on an average, only about 30% of the total project cost, its influence (generally thought beneficial) on project formulation reaches some 10-15% of Thailand's investment in the manufacturing sector. Moreover, IFCT's relative importance as an institutional source of finance for the private manufacturing sector has been increasing. IFCT's total outstanding advances in relation to commercial banks' advances to the manufacturing sector

increased from 4% in 1965 to 8% in 1968 and to 11% in 1973. 1/ It should be added that IFCT's project appraisal methods and standards are well regarded by the financial and business communities and are treated as models. The influence of IFCT's operations in this respect and in the formulation of projects may well be more far-reaching than the statistics above indicate.

3.30 22 of the 91 companies in IFCT's portfolio were established by entrepreneurs new to the manufacturing sector, and to that extent IFCT's financing has helped to broaden the entrepreneurial base in the country. Nineteen companies are joint ventures with foreign enterprises, while 39 (in total 64 percent of its projects) have technical cooperation arrangements with foreign companies and are, therefore, importing capital and/or new technical skills and know-how into Thailand.

3.31 Up to 1971 the incremental output amounting to Bt. 1,900 million of IFCT-financed projects was produced with an approximate capital outlay of Bt. 3,300 million. This gives a capital/output ratio of 1.7 as compared to an estimated national average for industry of about 2.0. The projects financed during 1972 and 1973 are estimated to have a capital/output ratio of about 1.5. 2/

3.32 Since IFCT's inception in 1959, projects it has financed have created approximately 39,000 jobs, of which about 30,000 in the manufacturing sector account for about 11 percent of total incremental employment in manufacturing. The projects that were financed by IFCT during 1972 and the first half of 1973 are expected to create over 5,000 jobs at a cost of little over Bt. 100,000 (US\$5,000) per job.

3.33 The impact of IFCT-financed projects on Thailand's export performance is very difficult to assess because relevant data are not available. 3/ Before 1970, in line with Government policies, IFCT financed mainly import-substituting projects. With the shift in industrial development policies since then, IFCT has increasingly supported export-oriented projects which since 1970 have numbered 21 or close to one-third of all approved projects. Six of those 21 projects produce for exports only. Most of the projects for which data are available are based on local raw materials and account for about 10 percent of exports in their respective sectors.

3.34 Promotion. During the last year, IFCT became more active in identifying projects in "new" industrial branches and under-developed areas, with a view to promoting and financing such projects. For example, during

1/ Statistics are not available on the lending volume of investment banks and finance companies; even after direct enquiries an estimate of their lending to the manufacturing sector could not be obtained.

2/ This figure is probably on the low side as it is based on the estimates contained in appraisal reports that show output figures under full capacity operation.

3/ Many of the exporting clients have established separate sales companies for which data could not be collected.

the first nine months of 1973, a study group of IFCT's Planning and Research Division has produced seven reports analyzing the potential for establishing projects in various industrial branches; the respective fields of these studies are prescribed by management. At least two of the studies are likely to result in IFCT-financed projects. Also during 1973, an IFCT team visited the North-East Region to survey, in cooperation with NESDB, possibilities for setting up agro-industrial projects; further study tours are to follow at regular intervals. Presently, IFCT is working jointly with IFC on the promotion of a large pulp project.

3.35 IFCT plans in the future to increase its promotional activities especially in respect of relatively small projects, those located outside the greater Bangkok area and in the field of agro-business. The activities include the preparation of feasibility studies of possible projects based on local raw materials of the less developed areas, arranging meetings with upcountry business communities and IFCT's senior staff, and the opening of representative offices at regional centres.

3.36 Economic Rates of Return on IFCT financed projects. Up to now IFCT has not used the ERR concept in its project evaluation process. However, at the specific request of, and together with, the appraisal mission it did calculate financial and economic rates of return for a sample of 14 projects. ^{1/} The outcome of the exercise, showing the sample-range of both estimated financial and economic rates of return, is given below:

<u>Percentage Range</u>	<u>FRR</u>	<u>ERR</u>
0 - 9.9	1	2
10 - 19.9	6	7
20 and more	7	5

Only two projects showed an ERR of less than 10 percent while five projects had an ERR of 20% or more. Moreover, six projects had a higher ERR than FRR. On a simple average, ERR (29 percent) was higher than FRR (23 percent). On a weighted average, ERR and FRR were 13% and 15% respectively. Excluding one very large steel project, the weighted averages were 16% and 23%. The two projects that had an ERR of below 10 percent, namely 2 percent and 3 percent, are both engaged in the production of plastic materials which are heavily protected. On the other hand, four of the five projects that showed ERR of above 20 percent are using local raw materials (wood, bamboo grass, rubber) that account for a high proportion in total production costs. All these results should be taken as indicating orders of magnitude only, because of the many approximations that were necessary. By the same

^{1/} The sample represents IFCT's loan operations reasonably well, as 4 projects are from each of the consumer goods and capital goods industries groups and 6 from the intermediate goods sector. However, within each group the sampling was guided more by data availability than by scientific method. Thus the sample is biased towards larger, better-run enterprises. It does not include any of IFCT's 21 problem projects. Five projects had not started operations; for these projects estimates given in the appraisal were used.

token, some of the ERR values are probably understated because adjustment could not be made for construction costs, transport, handling charges, etc.

3.37 As already stated, IFCT appraisals do not yet use the ERR calculation. The fairly good results that the sample study showed do not, therefore, establish a causal relationship. It should be noted however that four of the five more successful projects (as measured by ERR) in the sample were approved in 1972 and 1973.

IV. PROSPECTS

General Outlook

4.01 The outlook for the Thai economy is generally good, although inflation and the oil-related problems introduce an element of uncertainty. The external trade position has, however, improved and looks favorable for the next couple of years. Domestic demand has improved with a consequent increase in manufacturing production and private investment. Uncertainties prevailing are apparently causing some hesitation on the part of foreign investors, while many local entrepreneurs are more confident and seem determined to go ahead with their investment plans. The emphasis of the Third Plan is on agriculture, but private manufacturing continues to be important. Growth of manufacturing in the past was led by import-substituting industries, but the emphasis in the Third Plan is (correctly) on export-oriented industries. To promote economic growth in the rural areas and to reduce income disparities, Government policies also emphasize the development of agro-based and labor-intensive industries located in the less-developed areas.

4.02 The expected high level of investment (if realized) in the private manufacturing sector during the remaining period of the Third Plan will naturally mean an increase in the demand for term finance. The sources of finance for industrial enterprises in Thailand depend upon the size and the nature of projects. Large industrial enterprises have relatively easy access to commercial bank credit and foreign suppliers' credits. Smaller enterprises rely mostly on internal cash generation and the unorganized money market. Smaller projects, those to be located in outlying regions, and those sponsored by relatively unknown entrepreneurs, find it difficult to secure all the institutional finance needed.

IFCT Strategy

4.03 For the last ten years, IFCT has operated in a financial environment dominated by the commercial banks. It has not been able to compete effectively with commercial banks for the easy and secure business of financing projects sponsored by well-established entrepreneurs in and around the Bangkok area. The reasons are principally two: first, IFCT did not have the influence and contacts of the commercial banks; secondly, the well-established entrepreneurs could get the money faster from the commercial banks and with less disclosure of information as long as they could provide adequate security. Also, IFCT considered that too much emphasis on financing such projects would be contrary to its stated

development orientation. On the other hand, IFCT has not been very aggressive in seeking new business.

4.04 For the future, IFCT plans to follow a strategy which would involve (a) financing smaller projects in the Greater Bangkok area unlikely to interest the commercial banks, (b) financing a few large projects that are complex, include promotional elements and require the assembly of a group of sponsors (possibly involving foreign financial and technical collaboration), (c) financing (possibly first promoting) projects which are located in less developed regions, particularly agro-business projects, (d) increased equity investment, and (e) to the extent possible, competing more aggressively with the commercial banks.

4.05 The above mentioned strategy appears in general to be sound. Implementing it successfully will not be easy. IFCT is not under-estimating the difficulties, and has already begun to equip itself for the task. The operations mentioned in (a), (c) and (d) will cause IFCT's expenses to increase, but its resource-mix is such (see paras 3.15 and 3.17) that the overall cost of resources will be relatively low, enabling it to meet higher expenses and still set aside provisions and reserves appropriate to the risks undertaken. There has also been significant progress in strengthening management and staff, as already noted. Moreover, IFCT hopes to benefit by a close working relationship with the Bank during the life of the proposed loan.

Business Forecasts

4.06 IFCT's operational forecasts for the period 1974-1978 are given in Annex 14. Commitments are summarized below (in Bt. million):

	<u>Local</u>		<u>Foreign</u>	<u>Grand</u>
	<u>Loans</u>	<u>Equity</u>	<u>Loans</u>	<u>Total</u>
1972 (actual)	68	-	136	204
1973 (actual)	23	-	128	151
1974	87	47	388	522
1975	80	30	310	420
1976	90	40	335	465
1977	95	50	365	510
1978	105	60	390	555

The sudden jump in 1974 commitments, and subsequent decline, need explanation. First, approvals amounting to Bt. 161 million had not become commitments before the end of 1973 but should do so in 1974, and an additional Bt. 470 million are expected to be approved during 1974 with most reaching the commitment stage in the same year. Secondly, IFCT has been working on a few large projects for some time and some are expected to reach commitment in 1974. Thirdly, the Government has approved a significant increase in hotel capacity, and IFCT expects to commit about Bt. 55 million on hotel

projects 1/ in 1974. In subsequent years, IFCT's commitments are expected to fluctuate less.

4.07 On the basis of estimated project costs expected to be committed in 1974, IFCT estimates that the domestic:foreign currency mix in its loan commitments will be 25:75. In subsequent years, IFCT expects the domestic currency commitments gradually to increase and to reach 30:70 by 1978 as IFCT becomes more involved in agro-business and projects in less developed regions. This appears reasonable. Equity investments will all be in domestic currency. Based on IFCT's pipeline of projects, which amounted to about Bt. 600 million at the end of March 1974, the overall level of estimated commitments shown in para 4.06 above appears realistic and should be attainable.

Resource Needs

4.08 Foreign Currency. IFCT's foreign currency resources available for commitment amounted to US\$4.7 million (Bt. 93 million) as of December 31, 1973, but have since been augmented by the tied Japan Ex-Im Bank loan of about US\$36 million (para 3.18), bringing the total uncommitted foreign exchange resources to US\$40.7 million. IFCT expects to commit US\$9.8 million in the first half of 1974 reducing uncommitted resources to US\$30.9 million. IFCT's commitments during the period mid-1974 to mid-1976^{2/} are expected to total US\$33.5 million. On the basis of its pipeline of projects, an analysis of sources of procurement for its own projects and for Thailand's capital goods imports for the manufacturing sector, IFCT estimates that, on an average, about 40% of the commitments, or about US\$14 million, would involve procurement from Japan and, therefore, could be financed from the tied Japanese loans. This leaves about US\$19 million to be committed for procurement from sources other than Japan. About US\$7 million is likely to be for smaller projects to be financed out of the existing KfW loan and another KfW loan of about US\$7 million which IFCT expects to obtain in the course of the 2-1/2 year period, both of which will be restricted to financing projects not involving more than US\$400,000 each. IFCT will, therefore, need additional untied foreign currency resources of about US\$12 million. A Bank loan of US\$12 million would meet IFCT's needs for these additional untied resources during the period mid-1974 to mid-1976.

4.09 Local Currency. IFCT's local currency resources available for commitment amounted to Bt. 115 million as of December 31, 1973, but are likely to be augmented by Bt. 50 million from PL 480 counterpart funds (para 3.15), bringing total uncommitted local currency resources to Bt. 165 million. These resources will be augmented through loan collections, net of repayments, of Bt. 149 million and internal cash generation of about Bt. 135 million during 1974-76, making Bt. 449 million available for commitment during the period. Although the PL 480 funds of Bt. 50 million can be used only for agro-business projects, these and other baht resources are sufficient to meet IFCT's projected loan commitments, Bt. 257 million, and equity commitments, Bt. 117 million, in total Bt. 374 million through 1976.

1/ This estimate is based on IFCT's pipeline of projects at the end of March 1974.

2/ 1976 commitments are assumed to be divided equally in the first and second half of the year.

Financial Projections

4.10 Projected balance sheets through 1978 are given in Annex 15. IFCT's assets are projected to increase rapidly by an average of 31% annually from Bt. 769 million in 1973 to Bt. 2,341 million in 1978, primarily because of expanded lending. The loan portfolio, after deduction of provisions, is expected to more than double from Bt. 601 million in 1973 to Bt. 1,837 million in 1978 and the equity portfolio to increase from virtually nil to Bt. 223 million. Reserves and provisions as a percentage of the total portfolio are expected to decrease from 9.4% in 1973 to 7.7% in 1976, but then to increase to 8.3% in 1978. The total debt-equity ratio will increase from 2.9:1 on December 31, 1973 to 6.5:1 on December 31, 1977. As mentioned in para 3.22, at such time IFCT intends to consider increasing its share capital by Bt. 50 million. Such an increase would keep the debt/equity ratio within the recommended limit of 6:1 throughout the forecast period.

4.11 Projected income statements through 1978 are given in Annex 16. Net income ^{1/} is expected to increase from Bt. 21 million in 1973 to Bt. 39 million in 1978 or by about 17% annually, a lower growth rate than that of the last few years (para 3.25) and also considerably lower than the expected rate of increase of business. The lower growth rate arises partly because the return on equity investments is estimated to be low in the initial years, and partly because IFCT's income estimates are somewhat conservative. The average income from term loans is forecast to increase from 9.7% in 1973 to 9.9% in 1978. The average cost of term debt is forecast to decrease from 6.3% in 1973 to 5.5% in 1978 so that the interest spread will increase from 3.4% in 1973 to 4.4% in 1978. This higher interest spread is, however, offset by the 1-1/4% "fee" on outstanding foreign debt relating to the foreign exchange risk agreement (para 3.10). The concessionary funds at the disposal of IFCT will therefore not result in a relatively higher net income. Net income as a percentage of average assets is forecast to decrease from 2.9% in 1973 to 1.8% in 1978 and as a percentage of average net worth from 12.1% in 1973 to 11.3% in 1976, but then to increase to 13.9% in 1978. The dividend which was 9% in 1973, is projected to be 9.5% in 1974 and 10% from 1975 onwards. The dividend pay-out ratio will be at its highest, 57%, in 1975, but will decrease thereafter to 39% in 1978. Administrative expenses are forecast to increase by 119% from 1973 to 1978, but to decrease as a percentage of total average assets from 1.5% in 1973 to 1.1% in 1978.

4.12 Projected cash flow statements through 1977 are given in Annex 17. These and the projected income statements indicate that IFCT will have a satisfactory debt service coverage not lower than 1.48 throughout the forecast period. Assuming IFCT's overall capital structure remains sound,

^{1/} 4.5% of the interest to KfW on its third and fourth loans is to be set aside to a special fund and is not included in net income. The net interest under the Danish and USAID loans, not to be distributed as dividend, 6-1/2% and 5-1/2% respectively, is included in net income from which the corresponding amounts are allocated to a special reserve fund.

the debt service cover should remain satisfactory throughout the period of the proposed Bank loan. A schedule of estimated disbursements of the proposed Bank loan is shown in Annex 18.

V. CONCLUSIONS AND RECOMMENDATIONS

5.01 IFCT, established in 1959, played a modest role in the sixties, but during the last three years it has increased its volume of business considerably, primarily because of better management of the company. More recently, management has been further strengthened and management and staff is now generally competent. IFCT should be able to carry out its intentions of further expanding its operations and increasing its promotional activities, especially in respect of projects located outside the greater Bangkok area and in the field of agro-business.

5.02 IFCT's organizational structure is suitable to its needs. Its organizational procedures are generally satisfactory, although some upgrading of marketing and economic appraisals is needed. Loan operations are well diversified in various industrial branches, the majority of its loans being for small and medium-sized enterprises. The economic rate of return shown by a sample of projects is satisfactory.

5.03 IFCT's overall financial position is sound. Its portfolio is satisfactory and provisions appear adequate. Its financial structure, profitability and debt service ability are expected to remain satisfactory.

5.04 IFCT is creditworthy, and is suitable for a second Bank loan. IFCT will need about US\$33 million for the period mid-1974 to mid-1976 for financing imports. US\$14 million is expected to involve procurement from Japan and, therefore, could be financed from the tied Japanese loans. About US\$7 million is likely to be financed out of an existing and a prospective KfW loan. A Bank loan of US\$12 million would fill the remaining gap.

5.05 For the second Bank loan, a free limit of US\$500,000 with an aggregate limit of 25% of the loan is recommended. This will ensure that the Bank receives for prior approval about three-quarters, by amount, of the proposed loan.

5.06 IFCT has requested a debt/equity ratio of 6:1 (making no distinction between conventional loans and subordinated loans). For the reasons given in paragraph 3.22, a contractual limit of 6:1 is appropriate and is recommended.

5.07 A Bank loan to IFCT of US\$12 million is recommended. The proposed loan should be on the terms and conditions, including the standard commitment charge, usual for development finance companies.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Environment and Industrial Finance

Overall Economic Development

1. For a detailed review of the economic situation, reference is invited to the latest Economic Report on Thailand, 82a-TH, March 2, 1973.

2. Gross domestic product (GDP) is estimated to have grown in real terms by about 9% in 1973, but only by 3% in 1972 compared with an average growth rate of 8% during the sixties and about 6% during 1970-71. The main reasons for the slowdown after 1969 were lower export prices for major commodities in 1970-71, a decline in the growth of investment in 1971-72 and a drought in 1972, which caused agricultural production to decline. Private investment, after a decline of 3.5% in 1971, increased slightly in 1972, whereas public investment declined substantially so that total fixed investment in current prices dropped by about 11% in 1972.

3. Factors that caused this economic slowdown have since reversed. For example, the 1973 winter harvest was good and world prices for rice, sugar, maize, rubber and tin have risen. Thus, starting in 1971, Thailand's foreign trade situation improved and the overall balance of payments position showed a surplus for 1972 and 1973 compared with deficits for the three previous years. Also, total fixed investment increased by 5% in real terms in 1973. Private fixed investment, which accounted for about 70% of gross investment in 1972, increased by 11% in real terms in 1973.

4. The energy crisis has in regard to Thailand been a problem of prices rather than of short supply. An adverse balance of payments effect is, however, not expected since the prices of a number of Thailand's major export commodities have increased to the extent that improved export earnings for the next two years or so are likely to offset the higher oil bill. The rate of inflation has increased. Whereas the consumer price index rose by a yearly average of about 2% during 1967-71, it increased by 4% in 1972 and 12% in 1973. The GNP deflator rose by 7% in 1972 and nearly 10% in 1973.

The Industrial Sector

5. The growth rate of manufacturing production has been fairly steady for the last few years and has averaged about 10% during the period 1967-73, increasing its share in GDP at current factor cost from 11.6% in 1960 to 14.2% in 1972. Manufacturing is now the largest sector after agriculture measured by contribution to real GDP.

6. The industrial sector is characterized by a large number of consumer goods, mainly food processing, industries. According to a 1968 industrial census, consumer goods enterprises numbered 31,000 (or 69%)

out of 45,000 registered manufacturing enterprises; intermediate goods enterprises numbered 5,000 (or 11%) and capital goods enterprises 7,000 (or 16%). By 1973 the number of registered firms had increased to 63,000. In terms of value added, consumer goods industries continue to be the most important industrial group, although their share of total value added in manufacturing industry decreased from 58.3% in 1968 to 56.0% in 1970; intermediate goods industries increased their share slightly from 26.7% to 27.0% and capital goods industries from 6.5% to 7.7%. This trend seems to have continued during the period 1971-73.

7. The large majority of enterprises are small and family-owned. According to the 1968 industrial census, 99% of total registered units employed fewer than 100 persons each, and 90% of the firms registered during the period 1967-71 (11,500) had capital holdings of less than one million baht. This small size of firms has often prevented the introduction of modern management techniques and made it difficult for them to compete with imports, whereas the close family ownership has been detrimental to merger of firms into larger units. The entry into the industrial sector of a new generation of Thais, many educated abroad, and Government incentives may change the pattern of ownership gradually, but it is likely to be a slow process.

8. Employment figures for 1972 suggest that manufacturing industries employed about one million persons or 5.7% of the estimated labor force of 17.5 million. There is a ready supply of cheap labor in Thailand, but a shortage of semi-skilled and especially of skilled labor. Some open unemployment in Bangkok of about 100,000 or fewer developed during the economic slowdown in 1971, but the situation has since improved. There is no widespread industrial unemployment.

9. Most industries, especially the larger, modern ones, are located in and around Bangkok. It is estimated that 75% of industrial output originates in Bangkok and the Central Region. Industries in the rural areas are mainly primary processing industries such as rice milling, sugar and sawmills. One common problem for many industries has been underutilization of capacity, for some due to irregular supply of local raw materials and for others overcapacity in relation to domestic demand. More recently, however, domestic demand has picked up and some industries have been successful in turning to exports.

10. Thailand has few quantitative restrictions on imports, whereas import duty is imposed on most imported products. In 1973, duties on imports for certain categories, based on the receipts as a percentage of total imports for the same categories, were on an average basis 25% for consumer goods, 18% for intermediate products and raw materials and 13% for capital goods. These figures, as averages, are indicative only; nominal import duties for some products range between 40% and 60%. However, there are not sufficient data available to undertake a reasonably comprehensive assessment of the impact of effective protection, although the level of protection does not appear to have

led to gross distortions in prices and consequently to inefficient use of resources in the manufacturing sector. For the Government to assess and review existing protection and to develop comprehensive policies for the future, necessary data will have to be collected. The Government has agreed to collect the necessary data and, with the Bank's assistance, have it reviewed in time for the visit of a Bank industrial mission planned for the fall of 1974.

11. Increase in world demand and prices, and domestic price stability before 1973 have made some industries competitive on world markets and stimulated industrial exports. Thus, industrial exports increased from about US\$40 million in 1969 to about US\$290 million in 1973 (about 19% of total commodity exports in 1973). Industries which have been successful in turning to exports include cement, steel and other construction materials, clothing and cotton fabrics. Some industries based on local raw materials such as canned food have also been able to increase exports.

12. Higher domestic demand and better export opportunities for certain industries, causing higher capacity utilization in most industrial branches, have stimulated private investment. One indication of the future investment level is the applications which have been granted promotional privileges by the Board of Investment (BOI). In 1973 these numbered 115 with projected investment of Bt. 7,765 million compared with 70 with projected investment of Bt. 4,079 million in 1972. Figures from the first two months of 1974 suggest that investment interest may be lower in 1974 than in 1973, but higher than in 1972.

Government Policies

13. The main objectives of the third Five-Year Plan are to promote economic and social development, while maintaining price and external stability. The economic growth target for the Plan period is 7%. Private investment is projected to grow by an average annual rate of 7.3% and to contribute 63% of total investment. The Plan projects an average 8% annual growth rate in value added for the manufacturing sector. Preliminary estimates indicate that the growth rates of value added in 1972 and 1973 exceeded the target. The shift towards non-traditional industries is expected to continue so that, during the Plan period, value added in consumer goods industries is projected to increase by only 26%, while that in intermediate goods and capital goods industries is projected to increase by 44% and 61% respectively.

14. To encourage private industrial investment, the Government provides a number of incentives through the issuance of promotion certificates by BOI. An amendment to the Promotion of Industrial Investment Act in October 1972 has given BOI additional powers to grant incentives for projects that would create employment, use domestic raw materials, be export-oriented, and be located in less-developed areas. Also, in order to broaden the ownership of industries, promoted enterprises now have to be organized in the form of a limited company or cooperative. The Government's attitude towards foreign investment continues to be liberal, but has become more selective in regard to the types of industry encouraged and increasingly insistent on Thai majority ownership.

15. A promotion certificate may provide exemption from import duties and business taxes on imported capital goods and from income tax for 3 to 8 years. New enterprises, subject to justification of needs, may be given protection in the form of an import ban, increased import duties and/or imposition of a surcharge (for a period of no longer than one year at a time) on foreign competitive products. In order to encourage exports, BOI may provide exemption from (i) export duties and business taxes on products exported, (ii) import duties and business taxes on raw and other materials used for the production of export goods, and (iii) business taxes for the supplier or producer of domestic raw materials.

16. To reduce regional income disparities and ease urban congestion in the Bangkok area, BOI may grant further benefits to industries located in designated areas outside the Bangkok provincial region. Potential industries have been identified for the less-developed areas and in order to promote the development of the Northeast region the Government is considering setting up a special development corporation; a body (with IFCT representation) is presently considering the form and objectives of such a corporation. The most promising possibilities in the Northeast region relate to increased agriculture processing and the establishment of consumer goods industries to supply the region's 13 million people. Industrial development of the less-developed regions will however depend to a large extent on how incentives are used, and the implementation of the Government's plans to expand and improve infrastructure and to create industrial estates. An industrial estates authority was established in late 1972 and feasibility studies for possible locations of such estates are being undertaken.

17. Government incentives as amended in 1972 (para 14) have undoubtedly encouraged increased investment, but it is difficult at this time to measure their impact, as the investment climate at the same time improved for other reasons. It is also too early to determine whether incentives and other Government efforts particularly aimed at increasing manufacturing's contribution to regional development and employment generation are effective. A Bank industrial sector mission is scheduled to look into industrial policies and incentives in the second half of 1974.

Industrial Finance

18. Commercial Banks. Commercial banks account for about 75% of assets of financial institutions in Thailand and are the largest institutional source of industrial finance. Their main supply of funds are deposits which increased by 49% to Bt. 58 billion over the two-year period ended December 31, 1973. Time deposits accounted for 70% of total deposits. The banks lend in local currency and the main forms of lending are loans and overdrafts (Bt. 33 billion), most of which are on a short-term basis. Overdrafts are, however, normally renewed each year if the relationship has been satisfactory to the bank and therefore often become in effect medium- or long-term credit. Outstanding loans and overdrafts to the manufacturing sector increased by Bt. 0.9 billion or 20% to Bt. 5.2 billion from December 1971 to September 30, 1973, and accounted for 17% of total outstanding loans and overdrafts.

19. The commercial banks have a comfortable 5-7% interest margin between their borrowing and lending rates and are assured of good profits without seeking to reduce excess liquidity by more aggressive lending to, for example, small enterprises. Their lending policies are not venturesome. Moreover, their appraisals are superficial and disclosure requirements minimal as their lending is based on collateral rather than on the merits of projects.

20. Finance Companies and Investment Banks. Several finance companies and investment banks, some of them joint ventures between local and foreign banks, have been established in the last few years. The business activities of finance companies have expanded rapidly and their assets are estimated at about Bt. 5 billion at the end of 1973. Legislation, giving the Bank of Thailand powers to license and regulate the activities of finance companies, was passed in 1973; about 150 finance companies have applied for licenses. Regulations prescribing liquidity ratios and maximum rates of interest are yet to be issued. Most of the companies engage only in short-term money market operations and in such activities as installment credit and accounts receivable financing. A few investment banks have, however, underwritten several bond and share issues for which they are trying to create a secondary market. A few of them also extend term loans, although still on a limited scale. At least two of the biggest investment banks have reasonable appraisal standards, but their activities including underwriting business have so far been limited to large enterprises.

21. Suppliers' Credits. Suppliers' credits are often preferred over other financing due to their seemingly attractive terms in the form of low rates of interest, and they provide some competition to the banking system. Their importance has, however, decreased during 1971-73. The inflow of such credits to the private sector amounted to US\$150 million (Bt. 3,000 million) in 1970, but decreased to US\$67 million (Bt. 1,300 million) in 1973; about 50% of the latter amount (Bt. 780 million) was for imports of machinery and parts, the remaining amount being mainly for cars, buses, etc.

22. SIFO. The Small Industries Finance Office (SIFO) of the Department of Industrial Promotion, Ministry of Finance, extends long- and medium-term loans of less than Bt. 1 million (US\$50,000) to industries in the private sector. It lends in local currency and receives its funds from the Government through annual budget allocations and from the Krung Thai Bank, a Government commercial bank, in the proportion of 1 to 3. Its lending, which is undertaken in collaboration with the Krung Thai Bank, has been modest, and loans outstanding amounted to Bt. 75.3 million at the end of 1971. Loans approved in 1973 amounted to about Bt. 16 million (US\$0.8 million).

23. IFCT. IFCT is the only institution in Thailand which specializes in extending medium- and long-term loans to private industrial enterprises. The minimum size of IFCT's loans is Bt. 1 million; since this is SIFO's loan ceiling, IFCT refers loan applicants to SIFO if the size of the required loan is less than Bt. 1 million, and SIFO reciprocates. In the sixties,

IFCT operated on a modest scale, but during the past three years it has been able substantially to increase its volume of business. Outstanding loan portfolio amounted to Bt. 601 million on December 31, 1973 and approvals in 1972 and 1973 to Bt. 177 million and Bt. 270 million (para 3.01). The Government attaches particular importance to the role that, for practical purposes, only IFCT is prepared to play in providing finance to projects in less-developed areas. From a small base, IFCT has increased its activities over the past three years and plans, in future, to be more active in financing small agro-based projects outside the Bangkok area (para 4.04).

24. The Capital Market. Thailand does not have a well-developed stock or bond market. The Bangkok Stock Exchange founded in 1962 has been relatively inactive and virtually no trading takes place on a day-to-day basis. There are several reasons: (i) very few good companies are listed, and many of them are closely held by families; (ii) deposits with commercial banks offer very attractive (tax-free) returns; and (iii) life insurance business and other forms of contractual savings are quite limited in Thailand, so that there are no significant institutional investments. In 1969, the Bank of Thailand (BOT) commissioned a study of the stock market. The report recommended the establishment of a new stock exchange along with several reforms to provide incentives for private companies to go public. The report was well received and a committee ^{1/} was formed in September 1970 to lay the groundwork for the establishment of a securities exchange. Legislation for the new exchange has been approved by the Cabinet, but the incentives reform, needed to conduce to the successful working of the exchange, would require changes in the revenue code; these changes have not yet been approved. Under the circumstances, it is uncertain whether the new exchange will start functioning until late summer 1974.

Interest Rates

25. The maximum rates of interest of commercial banks, on deposits 8% and on loans 15%, are determined by the Bank of Thailand (BOT). The minimum lending rate of 11-1/2% (increased from 10-1/2% in January 1974) is prescribed by the commercial banks which act as a cartel through the Inter-Bank Agreement of the Thai Bankers Association; this minimum lending rate has resulted in large margins for the commercial banks. ^{2/} Government bonds yield 7-1/2% to 8-1/2%. Interest income from commercial bank deposits, Government 7-1/2% savings bonds and 8-1/2% loan bonds are tax exempt and therefore at a strong competitive advantage over other types of investment. Investment banks and finance companies are only marginally involved in financing industrial investment. Their interest rates are not regulated,

^{1/} This committee was chaired by the former Managing Director, the present Chairman, of IFCT.

^{2/} The average interest rate on deposits was 5.4% in 1971 and the spread between the average interest rate on loans and that on deposits was about 6%; this spread is believed to have remained unchanged.

but of course adapted to those of the commercial banks. They raise funds through the issuance of promissory notes: 12 months notes carry 9% interest. Their lending rates vary from 11% to 24% per annum. The coupon rate on bond issues by large, well-known enterprises, fully guaranteed by a commercial bank, runs at about 11% to 12%. The lending rate in the unorganized market varies from 15% to 60% per annum. Export bills and bills arising from the purchase of agricultural products, which can be rediscounted at BOT, are charged 7%. The terms of suppliers' credits during the last year or so have been about 7 to 8% interest and an amortization period of 2 to 5 years with a short or no grace period. Suppliers' credits are likely to gain in importance during 1974 partly due to tighter liquidity and higher lending rates of the commercial banks. SIFO's lending rate is 9%. IFCT's lending rate of 10-1/2% is discussed in paras 3.11 and 3.12 of the appraisal report.

26. The interest rate structure in Thailand is distorted primarily for two reasons: one, commercial bank deposits and Government bonds are tax-free; and two, the minimum lending rate of commercial banks is prescribed by the Inter-Bank Agreement and not determined by the play of market forces. BOT is presently reviewing the interest rate structure in Thailand on the basis of a study conducted by IMF in 1973. This study argues that the prescribed minimum lending rate should be abolished, that there is a good case for abolition of tax exemption on bank deposits and Government bonds, and that market forces should be allowed to play a greater role in influencing interest rates. BOT has established a committee to evaluate the IMF study. The committee is soon to finish its evaluation, and discussions with IMF are scheduled for the summer of 1974. There is, therefore, hope that corrective action will be taken in the near future. The GDP deflator in Thailand rose nearly 10% in 1973. A recent Bank mission to Thailand expects the deflator to increase by about 10% in 1974, but thereafter to increase at a substantial lower rate. There is every reason to believe that the inflationary trends will be taken into account by the Bank of Thailand in its review of the interest rate structure.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Statement of Operating Policies

(Adopted by the Board of Directors on November 15, 1962 and amended on December 23, 1963, February 7, 1966, May 1, 1967 and July 4, 1973)

1. IFCT is an investment institution designed to assist in the expansion of industry in Thailand. To this end, it will pursue an aggressive policy to promote, finance and otherwise assist private industry.
2. IFCT will invest in enterprises which are expected to make a contribution to the economic development of Thailand.
3. It will make its investment decisions only on the basis of sound investment criteria and standards.
4. Subject to such criteria, it will select projects on as broad a geographical basis as possible.
5. IFCT Articles empower it to provide finance in any form it considers appropriate to its clients and in its own interest. IFCT will, as appropriate, make use of the entire range of forms of investment. It will give particular attention to its clients' needs for equity financing and will provide such equity to the extent consistent with sound financial practice.
6. It will not incur any debt in excess of six times its equity, (equity is defined as paid-in share capital plus reserves plus retained earnings) determined in accordance with sound accounting practices. Debt in foreign currency will be valued in Baht based on its par value with the borrowed foreign currencies on the date of conclusion of the loan agreement. ^{1/}
7. It will diversify its financing (except for temporary investment of liquid funds in short-term securities) among different types of industries and different types of financing.
 - a. It will not normally commit to any single enterprise (in whatever form) an amount greater than 25% of its equity as defined in paragraph 6.
 - b. It will not commit to any single enterprise in the form of equity more than 10% of its equity as defined in paragraph 6.
 - c. The total of its equity investments will not exceed its equity.
 - d. It will not normally make a loan of less than Baht 1,000,000.

^{1/} IFCT has agreed to change the second sentence of para. 6 to read as follows: "Debt in foreign currency will be valued in Baht using the par value, set at the time each valuation is made, with the borrowed foreign currencies", or similar wording. This change will be effected at IFCT's Board meeting in April or May 1974.

8. It will not seek to take a controlling interest in an enterprise or any other interest which would give it primary responsibility for management of an enterprise; and it will not take up more than 25% of the shares of any single enterprise. Notwithstanding the foregoing limitation, in any case of jeopardy, it may take such action as it thinks fit to protect its investment.

9. It will conduct its operations in such manner as to assist in the growth of a capital market in Thailand and to improve facilities for marketing shares and securities, and will revolve its own portfolio whenever it can do so on satisfactory terms. In selling an investment, it will pay due regard not only to its own interests, but also to the interests of other participants in such investment, and to the interests of the others who have directly invested in the enterprise in which it has invested.

10. It will finance undertakings which are soundly managed and which appear, on careful economic, financial and engineering investigation, to be economically viable; and it will carefully watch the operation of the enterprises it finances and it will promptly make available to them constructive and remedial advice wherever requisite.

11. To build and strengthen its own management and staff as well as to assist clients in the formulation and execution of their projects, it will rapidly build an effective organization and develop an adequate staff, including financial and economic analysis, engineering, accountancy and legal services.

12. In accordance with normal business practice, IFCT will endeavour to obtain adequate security for the loans it provides. However, its decisions to invest will be based on its judgement regarding the prospective profitability of its clients' enterprises.

13. It will levy charges for its loan financing and services which, together with earnings on investment, will allow the accumulation of resources and the payment to its shareholders, in due course, of a satisfactory return on their investment. It will build and maintain reserves consistent with sound financial practice; these will include reserves for bad debts and investments and, in addition, legal reserve to strengthen its equity. To this end, it will set aside at least 30% of its annual profits consisting of (a) 25% as reserves for bad debts and investments until such reserves have been built up to 20% of its loan and investment portfolio and (b) 5% as legal reserve until it has been built up to 10% of the paid-in capital.

14. IFCT will not carry the foreign exchange risk on external borrowings, which it must repay in foreign exchange. It will pass that

risk to its clients or find other suitable means to cover it. ^{1/}

15. The Board of Directors will use its best efforts to prevent any one person or company, or group of affiliated persons or companies from gaining effective control of IFCT.

^{1/} IFCT has agreed to change the wording of para. 14 as follows: "The foreign exchange risk on IFCT's external borrowings, which IFCT must repay in foreign exchange, will be covered:

- a. For Government guaranteed and qualifying non-Government guaranteed loans, under the foreign exchange risk agreement between IFCT and the Ministry of Finance dated _____, or
- b. In case the foreign exchange risk is not covered by the said agreement, IFCT will pass that risk to its clients or will find other suitable means to cover it".

(The foreign exchange risk agreement is expected to be signed in April 1974.) This change will be effected at IFCT's Board meeting in April or May 1974.

Regional Project Department
Asia Regional Office
April 9, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

List of Shareholders as of

December 31, 1973

<u>Foreign Shareholders</u>	<u>No. of Shares</u>	<u>Percentage of Total</u>
International Finance Corporation	<u>8,000</u>	5.3
<u>USA</u>		
Manufacturers Hanover International Fin. Corp.	5,499	
Bank of America	3,127	
Chase Manhattan Bank	2,691	
Chase Manhattan Overseas Banking Corp.	2,040	
Wells Fargo Bank International Corp.	1,833	
United California Bank International	<u>1,833</u>	
	<u>17,023</u>	11.3
<u>Japan</u>		
The Mitsui Bank Ltd.	4,907	
The Bank of Tokyo	4,906	
The Fuji Bank Ltd.	<u>2,000</u>	
	<u>11,813</u>	7.9
<u>United Kingdom</u>		
The Hongkong & Shanghai Banking Corp.	4,702	
The Chartered Bank	<u>3,916</u>	
	<u>8,618</u>	5.7
<u>Germany</u>		
Deutsche Bank A.G.	4,398	
Deutsche Gesellschaft f. Wirtschaftliche Zusammenarbeit	3,500	
Commerzbank Aktiengesellschaft	<u>3,000</u>	
	<u>10,898</u>	7.3
<u>Malaysia</u>		
United Malayan Banking Corp. Ltd.	<u>4,509</u>	3.0
<u>France</u>		
Banque de l'Indochine	2,671	
Banque Francaise du Commerce Exterieur	<u>1,000</u>	
	<u>3,671</u>	2.5

Regional Project Department
Asia Regional Office
April 8, 1974.

<u>Foreign Shareholders</u> (continued)	<u>No. of Shares</u>	<u>Percentage of Total</u>
<u>India</u>		
Indian Overseas Bank	<u>1,500</u>	1.0
<u>Taiwan</u>		
The International Comm. Bank of China China Underwriters Life & General Ins. Co. Ltd.	1,291 <u>1,000</u> <u>2,291</u>	1.5
Other small foreign shareholders	<u>2,952</u>	<u>2.0</u>
Total Foreign	<u>71,275</u>	<u>47.5</u>
<u>Local Shareholders</u>		
Krung Thai Bank Ltd.	24,592	
Bangkok Bank Ltd.	13,031	
The Bangkok Bank of Commerce Ltd.	3,768	
The Bank of Asia for Industry and Commerce Ltd.	2,550	
The Asia Trust Bank Ltd.	2,500	
The Bank of Ayudhya Ltd.	2,024	
The South-East Insurance Co. Ltd.	2,000	
Bureau of Crown Property	2,000	
The Bangkok Insurance Co. Ltd.	1,500	
The Thai Farmers Bank Ltd.	1,500	
The Thai Danu Bank Ltd.	1,488	
Bangkok Metropolitan Bank Ltd.	1,488	
The Siam City Bank Ltd.	1,436	
Mr. Chow Chowkwanym	1,010	
Mr. Jootee Boonsong	1,000	
The Union Bank of Bangkok Ltd.	1,000	
The Union Insurance Co. Ltd.	1,000	
Bangkok Nomura International Security Co.	1,000	
Shareholders holding less than 1,000 shares each	<u>13,838</u>	
Total Domestic	<u>78,725</u>	<u>52.5</u>
Grand Total	<u>150,000</u>	<u>100.0</u>

<u>Distribution of Shareholders</u>	<u>No. of Shares</u>	<u>Percentage of Total</u>
<u>Banks</u>	<u>109,684</u>	<u>73.1</u>
Domestic	58,028	
Foreign, with office in Thailand	<u>38,592</u>	64.4
Foreign, without office in Thailand	13,064	8.7
<u>Insurance Companies</u>	<u>8,650</u>	<u>5.8</u>
Domestic	7,150	
Foreign, with office in Thailand	1,500	
<u>Investment Companies</u>	<u>7,504</u>	<u>5.0</u>
Domestic	1,525	
Foreign, with office in Thailand	<u>480</u>	1.3
Foreign, without office in Thailand	5,499	3.7
<u>Other Companies</u>	<u>9,477</u>	<u>6.3</u>
Domestic	5,602	
Foreign, with office in Thailand	<u>271</u>	3.9
Foreign, without office in Thailand	3,604	2.4
<u>IFC</u>	<u>8,000</u>	<u>5.3</u>
<u>Individuals</u>	<u>6,685</u>	<u>4.5</u>
Domestic	6,420	
Foreign	265	
<u>Total</u>	<u>150,000</u>	<u>100.0</u>
Domestic	78,725	52.5
(of which Government-owned Krung Thai Bank Ltd.)	(24,592)	(16.4)
Foreign	71,275	47.5
(of which located in Thailand)	(41,108)	(27.4)

Regional Project Department
Asia Regional Office
April 8, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILANDBoard of Directors as of December 31, 1973

<u>DIRECTORS</u>		<u>DATE OF ELECTION</u>
Somma Hoontrakool*	Chairman, IFCT	December 3, 1973
Prayoon Kanchanadul*	General Manager, IFCT	November 7, 1972
Somboon Nandhabiwat	Manager Foreign Department The Laem Thong Bank, Ltd.	May 28, 1970
K. Wada*	General Manager The Bank of Tokyo, Ltd. (Bangkok Branch)	December 13, 1972
W.C.L. Brown	Manager The Chartered Bank, Ltd. (Bangkok Branch)	December 13, 1972
P.M. Ryan	Manager The Hongkong and Shanghai Banking Corporation (Bangkok Branch)	December 13, 1972
Chai Sophonpanich	Deputy Managing Director Bangkok Insurance Co., Ltd.	April 2, 1973
Thienchai Srivichit*	Assistant General Manager Krung Thai Bank, Ltd.	April 4, 1973
Bancha Lamsam	President The Thai Farmers Bank Ltd.	April 4, 1973

OBSERVER

Kraisri Chatikavani	Ministry of Finance, Fiscal Policy Officer
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* Members of Executive Committee

Regional Project Department
Asia Regional Office
April 9, 1974

THE INDUSTRIAL FINANCE CORPORATION OF THAILAND

Loan Approvals, Commitments and Disbursements,

1970 through 1973 and Cumulative to December 31, 1973
(million bahts)

	<u>Cumulative</u>		<u>1970</u>		<u>1971</u>		<u>1972</u>		<u>1973</u>		<u>Cumulative</u>	
	<u>Dec. 31, 1969</u>		<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>Dec. 31, 1973</u>	
<u>Approvals</u> ^{1/}												
<u>Loans</u>												
Domestic Currency	292.37			19.86		93.92		56.43		87.41		549.99
Special Yen	-			-		89.96		82.12		55.55		227.63
Foreign Currency	214.79			59.10		40.60		38.17		126.74		479.40
(US\$ equivalent)	(10.33)			(2.85)		(1.95)		(1.84)		(6.34)		(23.31)
Total	<u>143</u>	<u>507.16</u>	<u>9</u>	<u>78.96</u>	<u>24</u>	<u>224.48</u>	<u>18</u>	<u>176.72</u>	<u>16</u>	<u>269.70</u>	<u>210</u>	<u>1,257.02</u>
<u>Equity Participations</u>												
Domestic Currency	<u>1</u>	<u>0.25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>0.18</u>	<u>2</u>	<u>11.50</u>	<u>4</u>	<u>11.93</u>
<u>Commitments</u> ^{1/}												
<u>Loans</u>												
Domestic Currency	280.30			28.73		66.67		67.70		22.52		465.92
Special Yen	-			-		69.91		93.67		47.82		211.40
Foreign Currency	201.99			57.73		46.89		42.58		80.88		430.07
(US\$ equivalent)	(9.71)			(2.77)		(2.25)		(2.05)		(4.03)		(20.81)
Total	<u>141</u>	<u>482.29</u>	<u>9</u>	<u>86.46</u>	<u>22</u>	<u>183.47</u>	<u>19</u>	<u>203.95</u>	<u>13</u>	<u>151.22</u>	<u>204</u>	<u>1,107.39</u>
<u>Equity Participations</u>												
Domestic Currency	<u>1</u>	<u>0.25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>0.18</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>0.43</u>
<u>Disbursements</u>												
<u>Loans</u>												
Domestic Currency	266.09			27.47		71.53		48.00		32.64		445.73
Special Yen	-			-		22.00		97.61		45.81		165.42
Foreign Currency	161.62			45.88		63.81		39.52		17.72		328.55
(US\$ equivalent)	(7.77)			(2.77)		(3.07)		(1.90)		(0.87)		(15.81)
Total	<u>427.71</u>	<u>427.71</u>	<u>73.35</u>	<u>73.35</u>	<u>157.34</u>	<u>157.34</u>	<u>185.13</u>	<u>185.13</u>	<u>96.17</u>	<u>96.17</u>	<u>939.70</u>	<u>939.70</u>
<u>Equity Participations</u>												
Domestic Currency	<u>0.25</u>	<u>0.25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.10</u>	<u>0.10</u>	<u>-</u>	<u>-</u>	<u>0.35</u>	<u>0.35</u>

^{1/} Figures represent net approvals and commitments in each year after cancellations and withdrawals.

Regional Project Department
Asia Regional Office
April 8, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Analysis of Loan Commitments by Size, Duration and Geographical Distribution
1970-73 and Cumulative to December 31, 1973

(million bahts)

Size	<u>Cumulative to</u> <u>Dec. 31, 1970</u>			1971			1972			1973			<u>Cumulative to</u> <u>Dec. 31, 1973</u>		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
Up to 2 million baht	82	89.15	15.7	3	3.23	1.8	2	2.88	1.4	2	2.34	1.6	89	97.60	8.8
2.1 to 4 "	20	58.62	10.3	5	15.04	8.2	5	13.50	8.4	3	9.87	6.5	33	97.03	8.7
4.1 to 6 "	18	89.64	15.8	4	17.15	9.3	2	10.26	4.9	2	10.61	7.0	26	127.66	11.5
6.1 to 10 "	19	157.71	27.7	4	31.67	17.3	3	21.20	10.2	2	19.45	12.9	28	230.03	20.7
10.1 to 20 "	11	173.63	30.5	3	37.60	20.5	5	84.22	40.5	2	21.79	14.4	21	317.24	28.6
Over 20 "	-	-	-	3	78.78	42.9	2	71.89	34.6	2	87.16	57.6	7	237.83	21.7
TOTAL	150	568.75	100	22	183.47	100	19	203.95	100	13	151.22	100	204	1,107.39	100
Duration															
Up to 2 years	1	2.00	0.4	-	-	-	-	-	-	-	-	-	1	2.00	0.2
2.1 to 4 "	28	33.11	5.8	4	7.48	4.1	2	4.18	2.0	1	5.64	3.7	35	50.41	4.6
4.1 to 6 "	65	189.75	33.3	12	100.42	54.7	7	49.15	25.5	10	96.11	63.6	94	435.43	39.3
6.1 to 8 "	42	213.79	37.6	6	75.57	41.2	8	104.00	50.1	2	49.47	32.7	58	442.83	40.0
8.1 to 10 "	12	95.44	16.8	-	-	-	2	46.62	22.4	-	-	-	14	142.06	12.8
Over 10 "	2	34.66	6.1	-	-	-	-	-	-	-	-	-	2	34.66	3.1
TOTAL	150	568.75	100	22	183.47	100	19	203.95	100	13	151.22	100	204	1,107.39	100
Geographical Distribution															
Greater Bangkok ^{1/}	78	293.47	51.6	11	66.67	36.4	14	130.84	64.2	4	61.81	40.9	107	552.79	49.9
Central	32	173.79	30.6	8	98.18	53.5	4	53.11	26.0	5	73.88	48.9	49	398.96	36.1
East	5	22.40	3.9	1	2.24	1.2	1	20.00	9.8	2	13.19	8.7	9	57.83	5.2
North East	15	39.07	6.9	-	-	-	-	-	-	1	1.15	0.7	16	40.22	3.6
North	11	23.31	4.1	2	16.38	8.9	-	-	-	1	1.19	0.8	14	40.88	3.7
South	9	16.71	2.9	-	-	-	-	-	-	-	-	-	9	16.71	1.5
TOTAL	150	568.75	100	22	183.47	100	19	203.95	100	13	151.22	100	204	1,107.39	100

^{1/} Greater Bangkok includes Bangkok, Thonburi, Nontaburi, Samutprakarn

Regional Project Department
Asia Regional Office
April 9, 1974

Annex 6

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Loan Commitments by Industry, 1970-1973 and Cumulative to December 31, 1973
(million bahts)

	Cumulative			1971			1972			1973			Cumulative		
	Dec. 31, 1970			No. Amount %			No. Amount %			No. Amount %			Dec. 31, 1973		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
I. Customer Goods Industries															
Food	12	60.3	10.6	1	12.3	6.8	2	50.0	24.5	4	24.2	16.0	19	146.8	13.3
Tobacco	9	19.1	3.4	-	-	-	-	-	-	-	-	-	9	19.1	1.7
Textiles	26	33.9	5.9	2	13.0	7.1	2	7.4	3.6	2	53.8	35.6	32	108.1	9.8
Furniture & Fixtures	-	-	-	1	4.3	2.4	-	-	-	-	-	-	1	4.3	0.4
Printing and Publishing	1	6.9	1.2	-	-	-	-	-	-	-	-	-	1	6.9	0.6
Sub Total	<u>48</u>	<u>120.2</u>	<u>21.1</u>	<u>4</u>	<u>29.6</u>	<u>16.3</u>	<u>4</u>	<u>57.4</u>	<u>28.1</u>	<u>6</u>	<u>78.0</u>	<u>51.6</u>	<u>62</u>	<u>285.2</u>	<u>25.8</u>
II. Intermediate Goods Industries															
Wood and Cork	5	6.8	1.2	2	8.2	4.5	2	8.2	4.0	1	3.4	2.3	10	26.6	2.4
Paper & Paper Products	7	61.2	10.8	-	-	-	1	3.1	1.5	-	-	-	8	64.3	5.8
Rubber & Rubber Products	4	7.0	1.2	1	2.1	1.2	-	-	-	-	-	-	5	9.1	0.8
Chemicals	16	38.3	6.7	2	13.1	7.2	3	8.7	4.3	1	38.4	25.4	22	98.5	8.9
Non-Metallic Minerals	12	85.1	14.9	5	69.4	38.2	1	6.8	3.3	3	17.9	11.8	21	179.2	16.2
Petroleum Products	1	0.8	0.2	-	-	-	-	-	-	-	-	-	1	0.8	0.1
Sub Total	<u>45</u>	<u>199.2</u>	<u>35.0</u>	<u>10</u>	<u>92.8</u>	<u>51.1</u>	<u>7</u>	<u>26.8</u>	<u>13.1</u>	<u>5</u>	<u>59.7</u>	<u>39.5</u>	<u>67</u>	<u>378.5</u>	<u>34.2</u>
III. Capital Goods Industries															
Basic Metals	3	29.7	5.2	-	-	-	-	-	-	-	-	-	3	29.7	2.7
Metal Products	11	47.0	8.3	1	7.5	4.1	2	59.1	29.0	1	4.0	2.6	15	117.6	10.6
Machinery, except Elect. Mach.	1	2.0	0.3	1	2.2	1.2	-	-	-	-	-	-	2	4.2	0.4
Electrical Machinery	11	32.4	5.7	3	6.8	2.7	-	-	-	-	-	-	14	39.2	3.5
Transport Equipment	4	5.1	0.9	-	-	-	-	-	-	-	-	-	4	5.1	0.4
Sub Total	<u>30</u>	<u>116.2</u>	<u>20.4</u>	<u>5</u>	<u>16.5</u>	<u>8.0</u>	<u>2</u>	<u>59.1</u>	<u>29.0</u>	<u>1</u>	<u>4.0</u>	<u>2.6</u>	<u>38</u>	<u>195.8</u>	<u>17.6</u>
IV. Miscellaneous Industries															
Ocean & Coastal Water Fishing	-	-	-	-	-	-	1	15.2	7.5	-	-	-	1	15.2	1.4
Hotel	9	53.3	9.4	1	12.7	7.0	-	-	-	-	-	-	10	66.0	6.0
Transport, etc.	7	49.2	8.7	1	23.2	12.8	4	42.4	20.8	-	-	-	12	114.8	10.3
Construction	2	7.9	1.4	-	-	-	-	-	-	1	9.5	6.3	3	17.4	1.6
Stone Quarrying, Clay & Sand															
Pit Mining	1	1.1	0.2	1	8.7	4.8	-	-	-	-	-	-	2	9.8	0.9
Mining	6	9.5	1.7	-	-	-	-	-	-	-	-	-	6	9.5	0.8
Miscellaneous Manufacturing	2	12.1	2.1	-	-	-	1	3.1	1.5	-	-	-	3	15.2	1.4
Sub Total	<u>27</u>	<u>133.1</u>	<u>23.5</u>	<u>3</u>	<u>44.6</u>	<u>24.6</u>	<u>6</u>	<u>60.7</u>	<u>29.8</u>	<u>1</u>	<u>9.5</u>	<u>6.3</u>	<u>37</u>	<u>247.9</u>	<u>22.4</u>
Total	<u>150</u>	<u>568.7</u>	<u>100</u>	<u>22</u>	<u>183.5</u>	<u>100</u>	<u>19</u>	<u>204.0</u>	<u>100</u>	<u>13</u>	<u>151.2</u>	<u>100</u>	<u>204</u>	<u>1,107.4</u>	<u>100</u>

Regional Project Department
Asia Regional Office
April 9, 1974

THE INDUSTRIAL FINANCE CORPORATION OF THAILANDInterest Rates and Charges as of December 31, 1973
(Per Annum)

	<u>Local Currency</u>	<u>Foreign Currency</u> ^{1/}
<u>Interest Rates</u>	10.5%	9.5%
<u>Commitment Charges</u>	3/4%	3/4%
<u>Penalty Charges</u>		
<u>Interest Payments (default)</u>	11.0%	10.3%
<u>Commitment Charges (default)</u>	15.0%	15.0%
<u>Principal Payments</u>		
1st default	11.5%	10.5%
2nd "	12.5%	11.5%
3rd "	13.5%	12.5%
4th "	14.5%	13.5%
5th "	15.0%	14.5%
6th "	15.0%	15.0%
<u>Guarantee Fee</u>	1%	1%

^{1/} IFCT agreed during negotiations to raise the foreign currency lending rate to 10¹/₂%, when the foreign exchange risk agreement becomes effective (the agreement is expected to be signed in April 1974).

Regional Project Department
Asia Regional Office
April 8, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Foreign Exchange Risk Agreement between the
Industrial Finance Corporation of Thailand
and the Ministry of Finance 1/

Pursuant to Section 25 of the Industrial Finance Corporation of Thailand Act B.E. 2502 (1959) as amended by the NEC Announcement No. 233 concerning the consequences of the loss and profit resulting from the change in Baht value in relation to foreign currencies secured as loans to the Corporation from foreign lending sources, an Arrangement has been concluded by the Corporation and the Ministry of Finance as follows:

1. The Arrangement between the Industrial Finance Corporation of Thailand and the Ministry of Finance dated October 15, 1963 shall be repealed and replaced by the present Arrangement.
2. The loan for which the Ministry of Finance is required to bear the consequences of the change in Baht value in relation to foreign currencies secured as loans to the Corporation from foreign lending sources shall be that loan from a foreign source for which the Corporation requests the Ministry of Finance to bear the consequences of the change in Baht value in relation to foreign currencies under 10., and shall be that portion of the loan that is disbursed by the foreign lending source so that the indebtedness of the Corporation remains outstanding.
3. The amount disbursed to the Corporation as under 2. shall include interest, commitment charge, commission fee normally payable by the Corporation, and any other sum of money pertaining to the loan in foreign currencies.
4. For accepting the consequences of the change in Baht value in relation to foreign currencies as under 2., the Corporation shall pay to the Claim Account of the Ministry of Finance at the rate of 1/4% of the outstanding loan amount for each loan covered under 2., plus the yearly interest and commitment charge payable by the Corporation to the lending source.

The Ministry of Finance shall entrust to the Corporation the Claim Account of the Ministry of Finance so that the Corporation may out of it provide for the loss incurred under 8.C. and for this the Corporation shall at each year-end pay into this Claim Account an interest on the balance total of this Claim Account at the rate of 6% per annum.

In the event that this Arrangement is repealed and no other Arrangement is entered into, or in the event that the Corporation decides to liquidate its business, the fund available under this Claim Account

1/ The Agreement is expected to be signed in April 1974.

of the Ministry of Finance shall be delivered up as the Kingdom's revenue.

5. For each loan covered under 2., the Corporation shall set aside a sum of no less than 1% per annum of the loan that remains outstanding to the foreign lending source plus the yearly interest and commitment charge payable by the Corporation to the lending source, and this sum shall constitute the Provision for Exchange Risk.

The rate of the sum to be set aside for the Provision for Exchange Risk as under the above Paragraph may be modified when the financial situation requires and Parties of this Arrangement agree to the modification.

6. For each loan covered under 2., the Corporation shall keep a record and a Provision for Exchange Risk Account.

After a loan has been paid off, any available balance of the Provision for Exchange Risk Account on that loan shall be transferred over to IFCT General Reserve.

7. Calculation of the amount to be put into the Claim Account under 4., and the Provision for Exchange Risk under 5., shall be worked out at the end of each month on the basis of the loan that remains outstanding to the foreign lending source on the last day of the month plus that month's interest and commitment charge payable by the Corporation to the lending source.

Conversion of foreign currencies into Baht shall be made at par value or, if this is not available, the average selling rate of commercial banks as compiled by the Bank of Thailand shall apply.

8. A. The loss or profit resulting from the change in Baht value in relation to foreign currencies shall be based on the rate of exchange prevailing on the date IFCT sells for Baht the foreign currency drawings from foreign currency loans against the rate of exchange prevailing on the date IFCT buys against Baht the foreign currency required to effect repayment of the loan-drawings and/or payment of interest and commitment charge thereon. Repayments shall be made in the order of the drawings made from the loans.

B. Any profit arising from the change in Baht value in relation to foreign currencies shall be paid into the Exchange Risk Profit Account to set off the loss under C. (i).

C. When a loss is incurred by the change in Baht value in relation to foreign currencies, the following measures shall be adopted:-

(i) The loss shall be deducted from the Exchange Risk Profit Account under B.

(ii) If the loss is not thus covered, the uncovered amount shall be deducted from the Provision for Exchange Risk under 5. to such an extent that it will not reduce that account below 25% of the balance at that time.

(iii) In the event that the loss still is not covered, it shall be deducted from IFCT General Reserve but deduction in this case shall not be in an amount greater than that transferred to IFCT General Reserve from the Provision for Exchange Risk Account under the second Paragraph of 6.

(iv) If the loss is still not covered, it shall be deducted from the Claim Account of the Ministry of Finance under 4.

(v) In the event that the loss is not covered after measures (i) to (iv) have been taken, the Corporation shall pay off the deficit amount and shall be reimbursed by the Ministry of Finance at the proper time.

The Corporation shall immediately inform the Ministry of Finance after it has taken this action.

9. After the Ministry of Finance has made the reimbursement under 8.C.(v), IFCT shall pay, in addition to the amount payable under 4., a yearly fee at the rate of Baht one million per annum, irrespective of the number of reimbursements made by the Ministry of Finance. Payment in this connection shall commence with the year following payment made by the Ministry of Finance under 8.C.(v) until the total sum paid out as fees equals to the payment made by the Ministry of Finance.

In the event that the Corporation liquidates its business before the full amount expended by the Ministry of Finance under 8.C.(v) can be paid off, the residual amount of Provision for Exchange Risk Account shall be utilized to pay the Ministry of Finance an amount not greater than that paid out under 8.C.(v).

10. The Ministry of Finance shall assume responsibility to the foreign lending sources concerned over the consequences of the loss and profit resulting from the change in Baht value in relation to foreign currencies for all loans contracted by the Corporation against payment of which the Ministry of Finance provides guarantee. Loans not covered by the Ministry of Finance's guarantee shall be given a case-by-case consideration.

11. A detailed account on every loan outstanding to the foreign lending source under 2. as of June 30 and December 31 of each year shall be prepared and submitted by the Corporation to the Ministry of Finance within fifteen days of the aforementioned dates.

The Corporation shall furnish any other documents relevant to the above to the Ministry of Finance when the latter requires.

12. The above Arrangement may be modified to meet the expediency and need of each case. Any modification duly confirmed in writing by the Parties shall become binding forthwith.

Regional Projects Department
Asia Regional Office
April 8, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

ANNEX 10

Resources as of December 31, 1973

	Amount ('000)		Repayments		Interest Rate Paid by IFCT	Remarks
	Bt. or Bt. equivalent	US\$ or US\$ equivalent	Term	Grace Period		
<u>Local Currency</u>						
Share Capital	150,000	7,500				
Reserves and Surplus	<u>55,235</u>	<u>2,762</u>				
	205,235	10,262				
<u>From the Thai Government:</u>						
1st Loan ^{1/}	15,000	750	30 yrs. from April 1960 Fixed amortization schedule w/yearly repayments	15 yrs.	Interest free	Subordinated to paid-in share capital in event of liquidation (Quasi-equity).
2nd Loan	20,000	1,000	50 yrs. from November 1962 Fixed amortization schedule w/yearly repayments	30 yrs.	1st 20 yrs. interest free, next 20 yrs. 3% p.a., last 10 yrs. 5% p.a.	Subordinated to paid-in share capital in event of liquidation (Quasi-equity).
3rd Loan ^{2/}	13,851	693	50 yrs. from December 1962 Fixed amortization schedule w/yearly repayments	30 yrs.	Interest free	Subordinated to paid-in share capital in event of liquidation (Quasi-equity).
4th Loan ^{1/}	30,000	1,500	15 yrs. from September 1965 Fixed amortization schedule w/half yearly repayments	2-1/2 yrs.	6% per annum	
5th Loan	20,000	1,000	30 yrs. from April 1967 Fixed amortization schedule w/yearly repayments	14 yrs.	6% per annum	Subordinated to paid-in share capital in event of liquidation (Quasi-equity).
<u>Debentures:</u>						
1st Issue	30,000	1,500	10 yrs. from April 1968 Repayment/interest guaranteed by Government		7% p.a. A guarantee fee of 0.5% to be paid to Ministry of Finance in 10 yearly instalments	Redeemable any time before 10 years at IFCT's option.
2nd Issue	50,000	2,500	10 yrs. from October 1968 Repayment/interest guaranteed by Government		7% p.a. A guarantee fee of 0.5% to be paid to Ministry of Finance in 10 yearly instalments	Redeemable any time before 10 years at IFCT's option.
Sub-total	<u>384,086</u>	<u>19,205</u>				
<u>Foreign Currency</u>						
KfW 1st loan	82,427	4,121	15 yrs. from December 1963. Repayments linked to IFCT's collections.	2 1/2 yrs.	5-1/2% p.a.	Loan for DM 11 million. Closed: nothing available for commitment.
KfW 2nd Loan ^{3/}	37,280	1,864	20 yrs. from January 31, 1969 with fixed amortization schedule commencing June 1974	5 yrs.	5-1/4% p.a.	Loan for DM 4,975 million. Nothing available for commitment.
KfW 3rd Loan	74,934	3,747	30 yrs. from August 30, 1973 with fixed amortization schedule commencing December 31, 1983	10 yrs.	6.5% p.a.	IFCT collections may be used for relending in foreign or domestic currency
AsDB 1st Loan ^{4/}	98,239	4,912	15 yrs. from April 1968. Linked to projects' amortization schedules	2 yrs.	6-7/8% p.a.	Nothing available for commitment
AsDB 2nd Loan	200,000	10,000	15 yrs. from April 1970. Linked to projects' amortization schedules	2 yrs.	6-7/8% p.a.	US\$ 277,596.38 available for commitment at Dec. 31, 1973.
Special Yen Loan ^{5/}	244,307	12,215	Repayments are linked to IFCT's collections		7% p.a., with guarantee fee of 0.5% on acceptance of P/N to Ministry of Finance	To be utilized for payment of imports from Japan. ¥ 80 million available as at Dec. 31, 1973
Danish Kroner Loan	20,694	1,035	24 yrs. from February 1972 Fixed amortization schedule, semi-annual repayments commencing September 1, 1978	6-1/2 yrs.	Interest-free under the provision that out of IFCT's total earnings, only 3% will be taken as income, the remainder will be set aside as reserves	Nothing available for commitment.
Sub-total	<u>757,881</u>	<u>37,894</u>				
Total Resources	<u>1,141,967</u>	<u>57,099</u>				

^{1/} From US counterpart funds.

^{2/} Proceeds of the liquidation of IFCT's predecessor, the Industrial Bank of Thailand

^{3/} Net of Loan Agreement of DM 5 million.

^{4/} Net of Loan Agreement of US\$ 5 million

^{5/} Special Yen Loan of ¥ 3,600,000,000 (computed at the committed rate average approx. ¥ 100 = Bt. 6.786), authorized by the Thai Government through the Bank of Thailand on March 2, 1971. This loan is disbursed in Yen, but has to be repaid in Baht at the rate of exchange prevailing at the date of commitment.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Analysis of Arrears

(Amounts in thousand baht)

1. Trend in Arrears

<u>Month</u>	<u>Principal & Interest in Arrears</u>	<u>Principal of Loans in Arrears</u>	<u>Arrears as % of Total Loan Portfolio</u>	<u>Principal of Loans in Arrears as % of Total Loan Portfolio</u>
June 30, 1971	21,653.8	85,476.6	5.7	22.4
" 30, 1972	24,601.8	73,447.5	4.7	14.0
" 30, 1973	10,649.5	60,394.3	1.8	10.1
Dec. 31, 1973	12,688.8	64,400.6	2.1	10.6

2. Arrears Position as of December 31, 1973

Age of Arrears

0-3 months	2,615.3	25,226.1	0.4	4.1
3-6 months	324.4	318.4	0.1	0.1
6-12 months	911.7	4,937.8	0.1	0.8
12-18 months	4,962.5	26,206.5	0.8	4.3
18-24 months	2,229.3	5,858.9	0.4	1.0
Over 24 months	1,645.6	1,852.9	0.3	0.3
	<u>12,688.8</u>	<u>64,400.6</u>	<u>2.1</u>	<u>10.6</u>

Regional Project Department
Asia Regional Office
April 9, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Summarized Balance Sheets as of December 31, 1969-1973

(thousand baht)

ASSETS	December 31				
	1969	1970	1971	1972	1973
	(-----Audited-----)				
<u>Current Assets</u>					
Cash	798	3,047	3,496	2,297	1,710
Deposits	62,200	42,000	89,150	74,500	118,530
Government securities	1,160	1,160	1,160	1,160	1,160
Accrued income	9,126	14,999	17,234	26,128	19,376
Sundry debtors	620	477	499	414	1,407
Prepaid expenses	22	20	23	140	74
	<u>73,926</u>	<u>61,703</u>	<u>111,562</u>	<u>104,639</u>	<u>142,257</u>
<u>Loans</u>					
Domestic currency	174,994	176,911	216,655	228,871	228,961
Foreign currency	145,111	196,423	255,558	365,771	380,348
Less: provision for doubtful loans	(300)	(2,000)	(8,200)	(8,200)	(8,200)
	<u>319,805</u>	<u>371,334</u>	<u>464,013</u>	<u>586,442</u>	<u>601,109</u>
<u>Equity Investments</u>	250	250	250	250	350
<u>Property & Equipment (net)</u>	5,979	6,000	6,181	6,546	25,014
Total Assets	<u>399,960</u>	<u>439,287</u>	<u>582,006</u>	<u>697,877</u>	<u>768,730</u>
<u>LIABILITIES AND EQUITY</u>					
<u>Current Liabilities</u>					
Accrued expenses	5,256	5,675	10,847	14,103	9,983
Sundry creditors	1,288	2,860	4,918	1,309	7,133
Staff provident fund	1,095	1,349	1,592	1,715	2,189
Unpaid dividend	8	10	11	12	6
Proposed dividend	4,250	4,500	8,249	9,000	10,368
	<u>11,897</u>	<u>14,394</u>	<u>25,617</u>	<u>26,139</u>	<u>29,679</u>
<u>Long-Term Debt</u>					
<u>Foreign Currency:</u>					
KFW	60,458	63,359	66,385	54,450	47,925
IBRD	9,672	4,105	541	-	-
AsDB	69,770	103,788	160,258	178,291	153,356
Danish Government Credit	-	-	-	1,631	5,261
<u>Local Currency:</u>					
Special Yen Loan	-	-	21,809	118,672	154,394
Government loans	83,080	82,210	81,051	79,600	77,880
AID	15,000	15,000	15,000	15,000	15,000
Debentures	80,000	80,000	80,000	80,000	80,000
	<u>317,980</u>	<u>348,462</u>	<u>425,014</u>	<u>527,674</u>	<u>533,816</u>
<u>Equity</u>					
Paid-in capital	50,000	50,000	100,000	100,000	150,000
Retained earnings:					
Appropriated to reserves	19,887	26,181	31,040	43,756	54,827
Unappropriated	196	250	305	338	408
	<u>70,083</u>	<u>76,431</u>	<u>131,345</u>	<u>144,094</u>	<u>205,235</u>
Total Liabilities and Equity	<u>399,960</u>	<u>439,287</u>	<u>582,006</u>	<u>697,877</u>	<u>768,730</u>
Contingent Liabilities (guarantees)	<u>17,350</u>	<u>94,425</u>	<u>74,105</u>	<u>59,000</u>	<u>67,444</u>
Current ratio	6.2	4.3	4.4	4.0	4.8
Long-term debt/equity	4.8	5.8	3.8	4.1	2.9
Long-term conventional debt/ equity plus quasi equity	2.0	2.6	2.1	2.4	1.9
Reserves and provisions as % of portfolios, including guarantees	6.0	6.1	7.3	8.0	9.4

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Summarized Income Statements for 1969 through 1973
(thousand baht)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Income</u>	(-----	Audited	-----)
Interest and charges on loans	24,367	31,587	38,192	52,651	58,434
Interest on temporary investments and deposits	5,418	6,454	10,708	7,492	8,052
Others	155	189	260	69	39
Total income	<u>29,940</u>	<u>38,230</u>	<u>49,160</u>	<u>60,212</u>	<u>66,525</u>
<u>Expenses</u>					
Interest on indebtedness	14,230	18,418	22,004	28,392	33,622
Administrative and general	5,911	6,986	7,509	9,607	10,922
Depreciation of property and equipment	265	283	324	430	523
Provision for foreign currency revaluations	-	-	-	36	59
Loss on foreign exchange	-	-	-	-	139
Provision for doubtful loans	300	1,700	6,200	-	-
Total expenses	<u>20,706</u>	<u>27,387</u>	<u>36,037</u>	<u>38,465</u>	<u>45,265</u>
<u>Net Income 1/</u>	<u>9,234</u>	<u>10,843</u>	<u>13,123</u>	<u>21,747</u>	<u>21,260</u>
Profit (loss) on sale of assets	11	4	41	2	(21)
Retained earnings brought forward	114	196	250	305	338
Total	<u>9,359</u>	<u>11,043</u>	<u>13,414</u>	<u>22,054</u>	<u>21,577</u>
<u>Profit Allocation</u>					
Dividend	4,250	4,500	8,249	9,000	10,368
General reserve	2,130	3,038	900	6,100	4,400
Legal reserve	463	543	660	1,100	1,100
Provision for possible loan loss	2,320	2,712	3,300	5,500	5,031
Reserve set aside from interest earned on Danish Government loan	-	-	-	16	270
Retained earnings carried forward	196	250	305	338	408
Total	<u>9,359</u>	<u>11,043</u>	<u>13,414</u>	<u>22,054</u>	<u>21,577</u>
<u>Ratios</u>					
Net income/average assets (%)	2.6	2.6	2.6	3.4	2.9
Net income/year-end share capital (%)	18.5	21.7	13.1	21.7	14.1
Average income from term loans	8.5	9.1	9.1	9.9	9.7
Average cost of term debt	5.0	5.5	5.7	6.0	6.3
Interest spread	3.5	3.6	3.4	3.9	3.4

1/ IFCT is tax-exempted.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Projected Approvals, Commitments and Disbursements, 1974-1978

(million baht)

Year ending December 31	<u>1973</u> (Actual)	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
<u>Approvals</u>						
Foreign currency loans	182	360	310	340	370	400
Local currency loans	<u>87</u>	<u>75</u>	<u>80</u>	<u>90</u>	<u>100</u>	<u>110</u>
Sub-total	269	435	390	430	470	510
Equity investments	<u>12</u>	<u>35</u>	<u>30</u>	<u>40</u>	<u>50</u>	<u>60</u>
Total approvals	<u>281</u>	<u>470</u>	<u>420</u>	<u>470</u>	<u>520</u>	<u>570</u>
<u>Commitments</u>						
Foreign currency loans	128	388	310	335	365	390
Local currency loans	<u>23</u>	<u>87</u>	<u>80</u>	<u>90</u>	<u>95</u>	<u>105</u>
Sub-total	151	475	390	425	460	495
Equity investments	-	<u>47</u>	<u>30</u>	<u>40</u>	<u>50</u>	<u>60</u>
Total commitments	<u>151</u>	<u>522</u>	<u>420</u>	<u>465</u>	<u>510</u>	<u>555</u>
<u>Disbursements</u>						
Foreign currency loans	63	377	300	325	350	375
Local currency loans	<u>33</u>	<u>101</u>	<u>75</u>	<u>85</u>	<u>95</u>	<u>100</u>
Sub-total	96	478	375	410	445	475
Equity investments	-	<u>47</u>	<u>30</u>	<u>40</u>	<u>50</u>	<u>60</u>
Total disbursements	<u>96</u>	<u>525</u>	<u>405</u>	<u>450</u>	<u>495</u>	<u>535</u>

Regional Projects Department
Asia Regional Office
April 9, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Projected Balance Sheets, 1974-1978
(million baht)

	December 31					
	1973 (Actual)	1974	1975	1976	1977	1978
ASSETS						
Current Assets						
Cash, revolving funds, and short-term deposits	120.24	92.91	87.96	96.06	120.25	158.97
Thai Government's securities	1.16	1.16	1.16	1.16	1.16	1.16
Receivable, accrued income, etc.	20.86	43.34	53.88	64.24	74.64	84.31
	<u>142.26</u>	<u>137.41</u>	<u>143.00</u>	<u>161.46</u>	<u>196.05</u>	<u>244.44</u>
Outstanding Loans and Investments						
Foreign currency loans	380.35	684.63	896.65	1,092.93	1,279.15	1,453.87
Domestic currency loans	228.96	276.45	298.13	331.52	375.76	415.59
Less: Provision for doubtful loans	(8.20)	(15.24)	(19.91)	(24.50)	(29.11)	(33.40)
Equity investments	0.35	47.35	77.35	117.35	167.35	227.35
Less: Provision for doubtful investment	-	(0.94)	(1.54)	(2.34)	(3.34)	(4.54)
	<u>601.46</u>	<u>992.25</u>	<u>1,250.68</u>	<u>1,574.96</u>	<u>1,789.81</u>	<u>2,058.87</u>
Fixed Assets	<u>25.01</u>	<u>32.48</u>	<u>42.27</u>	<u>39.95</u>	<u>39.07</u>	<u>37.48</u>
Total assets	<u>768.73</u>	<u>1,162.14</u>	<u>1,435.95</u>	<u>1,716.37</u>	<u>2,024.93</u>	<u>2,340.79</u>
LIABILITIES AND EQUITY						
Current Liabilities						
Dividend payable	10.37	14.25	15.00	15.00	15.00	15.00
Account payable and other current liabilities	19.31	11.60	16.61	20.38	23.93	27.16
	<u>29.68</u>	<u>25.85</u>	<u>31.61</u>	<u>35.38</u>	<u>38.93</u>	<u>42.16</u>
Long-Term Debt						
Foreign currency	360.94	695.60	944.18	1,194.52	1,463.99	1,729.31
Local currency	172.88	220.89	218.04	213.39	208.54	203.51
	<u>533.82</u>	<u>916.49</u>	<u>1,162.22</u>	<u>1,407.91</u>	<u>1,672.53</u>	<u>1,932.82</u>
Provision for foreign exchange risk (including Govt. claim account)	-	1.45	6.44	15.57	28.66	45.29
Special fund ^{1/}	-	0.81	4.10	10.87	20.21	30.29
Equity						
Share capital	150.00	150.00	150.00	150.00	150.00	150.00
Reserves	54.82	67.00	80.91	95.83	113.64	139.08
Unappropriated surplus	0.41	0.54	0.67	0.81	0.96	1.15
	<u>205.23</u>	<u>217.54</u>	<u>231.58</u>	<u>246.64</u>	<u>264.60</u>	<u>290.23</u>
Total Liabilities & Equity	<u>768.73</u>	<u>1,162.14</u>	<u>1,435.95</u>	<u>1,716.37</u>	<u>2,024.93</u>	<u>2,340.79</u>
Contingent liabilities	67.44	58.76	57.42	56.30	57.42	57.50
Long-term debt/equity	2.9	4.5	5.3	5.9	6.5	6.9
Reserves and provision as % of year-end portfolio (loans, investments and guarantees)	9.4%	7.8%	7.8%	7.7%	7.8%	8.3%

^{1/} Portion of interest under KfW 3rd and 4th loans to be utilized for: 1. Coverage of foreign exchange and credit risks; 2. Studies and promotional activities which will increase social and economic benefits of investments; and 3. Measures contributing to improve IFCT's project work.

Regional Projects Department
Asia Regional Office
April 9, 1974

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Projected Statements of Income, 1974-78

(million baht)

Year ending December 31	1973 (Actual)	1974	1975	1976	1977	1978
Income:						
Interest on loans	55.98	81.80	104.52	127.38	151.15	175.08
Fines, commitment charge and guarantee fees	2.45	1.72	1.64	2.14	2.21	3.01
Dividend income	-	-	-	2.35	3.85	6.79
Income from deposits	7.97	9.45	7.16	6.31	5.67	7.78
Income from Government bonds	0.08	0.08	0.08	0.08	0.08	0.08
Other income	0.04	0.57	2.36	1.75	1.97	2.19
Total Income	<u>66.52</u>	<u>93.62</u>	<u>115.76</u>	<u>140.01</u>	<u>164.93</u>	<u>194.93</u>
Expenses:						
Interest and commitment charge on borrowings	33.62	43.00	58.72	70.08	82.89	98.37
Salaries and other personnel expenses	8.57	12.10	14.07	15.69	17.56	19.59
Other administrative and general expenses	2.35	2.13	2.29	3.90	4.11	4.31
Depreciation of property and equipment	0.52	1.03	0.86	1.95	1.85	1.74
Provision for doubtful loans and investments	-	7.98	5.27	5.39	5.61	5.49
Provision for the special fund (KfW interest) ^{1/}	-	0.81	3.29	6.77	9.34	10.08
Provision for foreign exchange risk	0.06	1.16	3.99	7.30	10.47	13.30
Government fees on foreign exchange risk (Claim Account)	-	0.29	1.00	1.83	2.62	3.33
Loss on sale of assets and loss on foreign exchange	0.4	-	-	-	-	-
Total Expenses	<u>45.26</u>	<u>68.50</u>	<u>89.49</u>	<u>112.91</u>	<u>134.45</u>	<u>156.21</u>
Net Profit	<u>21.26</u>	<u>25.12</u>	<u>26.27</u>	<u>27.10</u>	<u>30.48</u>	<u>38.72</u>
Appropriations:						
Dividend	10.37	14.25	15.00	15.00	15.00	15.00
Reserves and unappropriated surplus	10.89	10.87	11.27	12.10	15.48	23.72
Total Appropriations	<u>21.26</u>	<u>25.12</u>	<u>26.27</u>	<u>27.10</u>	<u>30.48</u>	<u>38.72</u>
Ratios						
Rate of dividend (%)	9.0	9.5	10.0	10.0	10.0	10.0
Dividend pay-out ratio (%)	48.8	56.7	57.1	55.4	49.2	38.7
Net income/average assets (%)	2.9	2.6	2.0	1.7	1.6	1.8
Net income/average net worth (%)	12.1	11.8	11.7	11.3	11.9	13.9
Administrative expense/average assets (%)	1.5	1.5	1.3	1.2	1.2	1.1

^{1/} Portion of interest under KfW loans to be used for special purposes (see footnote to Annex 15).

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Projected Cash Flow Statements, 1974-78

(million baht)

Year ending December 31	<u>1973</u> (Actual)	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
<u>Sources</u>						
Profit before tax	21.24	25.12	26.27	27.10	30.48	38.72
Add-back non-cash charges (depreciation, etc.)	<u>4.38</u>	<u>12.71</u>	<u>17.18</u>	<u>26.20</u>	<u>32.37</u>	<u>35.85</u>
Cash generation from operations	<u>25.62</u>	<u>37.83</u>	<u>43.45</u>	<u>53.30</u>	<u>62.85</u>	<u>74.57</u>
Increase in share capital	50.00	-	-	-	-	-
Drawn-down:						
Foreign currency borrowings	63.53	405.30	333.00	363.00	392.00	406.00
PL 480 Loan	-	50.00	-	-	-	-
Loan collections:						
Against domestic currency loans	33.35	53.51	53.32	51.61	50.76	60.17
Against foreign currency loans	48.16	65.49	77.41	109.24	136.53	163.37
Against foreign currency loans (revolving funds)	-	<u>7.23</u>	<u>10.57</u>	<u>19.48</u>	<u>27.25</u>	<u>36.91</u>
	<u>195.04</u>	<u>581.53</u>	<u>474.30</u>	<u>543.33</u>	<u>606.54</u>	<u>666.45</u>
	<u>220.66</u>	<u>619.36</u>	<u>517.75</u>	<u>596.63</u>	<u>669.39</u>	<u>741.02</u>
<u>Uses</u>						
Increase in fixed assets (decrease)	18.93	8.50	10.65	(0.37)	0.97	0.15
Disbursement of loans:						
Domestic currency	32.65	101.00	64.71	61.79	43.63	15.87
Foreign currency	63.53	377.00	300.00	325.00	350.00	375.00
Revolving funds	-	-	10.29	23.21	51.37	84.13
Equity investments - local currency	0.10	47.00	30.00	40.00	50.00	60.00
Repayments:						
Against domestic currency borrowings (Thai Government)	1.72	1.99	2.85	4.65	4.85	5.03
Against foreign currency borrowings	55.63	70.64	84.42	112.66	122.53	140.68
Increase in receivable, accrued income, etc. (decrease)	(2.18)	22.48	10.54	10.36	10.40	9.67
Decrease in payable deferred items, etc. (increase)	(2.16)	7.71	(5.01)	(3.77)	(3.55)	(3.23)
Payment of tax	9.00	10.37	14.25	15.00	15.00	15.00
Payment of dividend	<u>177.22</u>	<u>646.69</u>	<u>522.70</u>	<u>588.53</u>	<u>645.20</u>	<u>702.30</u>
Opening balance of cash and short- term deposits	76.80	120.24	92.91	87.96	96.06	120.25
Cash surplus (deficit)	<u>43.44</u>	<u>(27.33)</u>	<u>(4.95)</u>	<u>8.10</u>	<u>24.19</u>	<u>38.72</u>
Ending balance of cash and short- term deposits	<u>120.24</u>	<u>92.91</u>	<u>87.96</u>	<u>96.06</u>	<u>120.25</u>	<u>158.97</u>
Debt service coverage ^{1/}	1.50	1.68	1.54	1.48	1.56	1.63

^{1/} Debt service coverage is calculated as: (Net profit + interest on borrowings + loan collections)/(interest on borrowings + loan repayments)

INDUSTRIAL FINANCE CORPORATION OF THAILANDEstimated Disbursement Schedule for the Proposed Loan

		(US\$1,000)
1974	July -September	150
	October-December	<u>300</u>
	Sub Total	<u>450</u>
1975	January-March	750
	April -June	1,050
	July -September	1,200
	October-December	<u>1,275</u>
	Sub-Total	<u>4,275</u>
1976	January-March	1,350
	April -June	1,425
	July -September	1,425
	October-December	<u>1,050</u>
	Sub Total	<u>5,250</u>
1977	January-March	750
	April -June	525
	July -September	300
	October-December	<u>225</u>
	Sub Total	<u>1,800</u>
1978	January-March	150
	April -June	<u>75</u>
	Sub Total	<u>225</u>
	TOTAL	<u>12,000</u>

Regional Department
Area Regional Office
April 9, 1974

**INDUSTRIAL FINANCE CORPORATION OF THAILAND
ORGANIZATION CHART AS OF MARCH 1, 1974**

