Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 19244

IMPLEMENTATION COMPLETION REPORT

THE KINGDOM OF THAILAND

ECONOMIC AND FINANCIAL ADJUSTMENT LOAN
Loan No. 43720-TH

July 26, 1999

Poverty Reduction and Economic Management Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

Currency Unit = Baht (B)
US$1.00 = B36.9
(June 15, 1999)

GOVERNMENT FISCAL YEAR

October 1 - September 30

ACRONYMS AND ABBREVIATIONS

ADB	-	Asian Development Bank
AMC	-	Asset Management Corporation
BOT	-	Bank of Thailand
CAS	-	Country Assistance Strategy
EFAL	-	Economic and Financial Adjustment Loan
FCRL	-	Finance Companies Restructuring Loan
FIDF	-	Financial Institutions Development Fund
FRA	-	Financial Restructuring Authority
FSIAP	-	Financial Sector Implementation Assistance Project
GOT	-	Government of Thailand
ICR	-	Implementation Completion Report
IMF	-	International Monetary Fund
LOI	-	Letter of Intent
MOC	-	Ministry of Commerce
MOF	-	Ministry of Finance
QAG	-	Quality Assurance Group
SBA	-	Stand-By Arrangement
SET	-	Stock Exchange of Thailand
SEC	-	Securities and Exchange Commission
SFO	-	Special Financial Operations
TA	-	Technical Assistance

Vice President	Jean-Michel Severino, EAP
Country Director	Jayasankar Shivakumar, EACTQ
Sector Manager	Homi Kharas, EASPR
Task Manager	Ijaz Nabi, Lead Economist, EASPR

FOR OFFICIAL USE ONLY

IMPLEMENTATION COMPLETION REPORT

THE KINGDOM OF THAILAND

ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

Loan No. 43720-TH

PREFACE

CONTENTS

ANNEXES

A. Borrower contribution to the ICR
B. Status of Policy Agreements as of December, 1998

IMPLEMENTATION COMPLETION REPORT

THE KINGDOM OF THAILAND

ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

Loan No. 43720-TH

Preface

The Economic and Financial Adjustment Loan to the Kingdom of Thailand in the amount of US$400 million equivalent was approved on July 9, 1998, signed on July 13, 1998, and made effective on July 22, 1998. The loan was fully disbursed the day of effectiveness. The loan closed on December 31, 1998, which was the original closing date.

This Implementation Completion Report (ICR) was prepared by Richard Carroll as a desk task, based on interviews with staff and materials from the project file. Mr. Jayasankar Shivakumar was the Country Director for Thailand and had overall responsibility for monitoring and updating the policy matrix for the adjustment lending program (Annex B). Messrs. Pedro Alba (ECSTE), Michel Cardona (SFO), Eric Haythorne (LEGPS), Stefan Koeberle (EACTF-Resident Mission) William Mako (PSDCR), Behdad Nowroozi (EAPCO), and Tom Tsui (EACTQ) provided comments. Mr. Ijaz Nabi (EASPR-Task Manager for the loan) reviewed the report.

IMPLEMENTATION COMPLETION REPORT

THE KINGDOM OF THAILAND

ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

Loan No. 43720-TH

Evaluation Summary[1]

Project Origin and Objectives

1. The Thai economic crisis began in July 1997. The Finance Companies Restructuring Loan (FCRL-$350 million) was the first phase of the Bank's expanded structural adjustment lending program to deal with the crisis and supported the resolution of suspended finance companies (FCs) and committed the Government to comprehensive reform of the financial sector over the next two years. A Financial Sector Implementation Assistance Project (FSIAP-Loan 4233-TH) had already been approved by the Board in September 1997. The Economic Financial Adjustment Loan (EFAL I-$400 million) followed the FCRL, was approved by the Board on July 9, 1998, signed on July 13, 1998, and became effective and was disbursed on July 22, 1998.

2. The objectives of EFAL I were to support the Government of Thailand's (GOT) program to restore growth by: (a) deepening structural reform in the financial sector; and (b) facilitating corporate revival. Much of the Government's program of structural reforms, including resolution of FCs, and improving the supervisory framework and the insolvency regime, was initiated prior to Board presentation. EFAL I is fully consistent with the Country Assistance Strategy (CAS) for Thailand which was presented to the Board on June 18, 1998. Annex B summarizes the status of specific policy reforms as of December 1998.

Implementation Experience and Results

Overview

3. EFAL I was prepared in close cooperation with the International Monetary Fund (IMF), as part of the IMF coordinated $17.2 billion total support package under the Tokyo Pledge agreed to in August, 1997. With the disbursement of EFAL I, half of the Bank's pledge had been disbursed. Leading up to EFAL I, monetary and fiscal measures helped achieve some stability. The Baht appreciated from 53 to 40 per US$ during January-June 1998. Inflation increased to a little over 10 percent, far less than anticipated. EFAL I was designed to consolidate this beginning of stabilization, deepen structural reforms, and expand reforms to the corporate sector.

---

[1] The Implementation Completion Report (ICR) for the Economic and Financial Adjustment Loan (EFAL I) covers policies and events in Thailand relating to the loan beginning with EFAL I preparation (April 1998) and extending to the end of 1998 (before approval of the Economic and Financial Adjustment Loan-EFAL II).

EFAL I had five major components: (a) macroeconomic and fiscal; (b) financial sector restructuring, which included FC resolution; (c) legal reforms regarding bankruptcies, reorganizations, secured lending, and commercial legislation and contract enforcement; (d) financial accountability and corporate governance; and (e) public enterprise reform and privatization.

Summary of Reforms

4. GOT made significant progress on all major fronts associated with EFAL I as the following summary of fulfilled Board conditions from the EFAL I policy matrix and other actions show.

Macroeconomic and Fiscal

- Satisfactory progress in implementing the macroeconomic program (announced May 19, 1998)
- Make credit available to exporters using transparent eligibility criteria

Financial Sector Restructuring

- Adopt and implement plan to sell core assets of FCs taken over by FRA
- Measures taken to make Asset Management (AMC) fully operational including increase of authorized capital, approval of internal policies and procedures, setting up an MIS for asset management and disposition, and approval of bidding methodology and asset valuation procedures for FCs taken over by FRA.
- Recapitalize FCs (and banks) based on Memoranda of Understanding (MOUs) which were based on new loan classification and provisioning rules. First MOUs signed in July/August.
- June 1998: First sale of core financial assets. Earned 48 percent of principal.
- BOT launched due diligence program to assess financial condition of four intervened banks.
- BOT adopted a time-bound program to develop its institutional capacity to supervise banks and FCs

Legal Reform

- Cabinet approved further revisions to the amended Bankruptcy Act to facilitate corporate bankruptcies and liquidations (which were enacted after EFAL II approval). Revisions included additional protection to creditors who lend to distressed entities and rules governing the denomination of foreign debt.
- GOT submitted a time-bound plan of legislative changes necessary to accelerate the process of foreclosing on collateral. Mortgage foreclosures could take in the range of 4 to

6 years to carry out. Foreclosure law may be viewed as a prelude to a modern system of secured lending.

Corporate Sector

Governance and Financial Accountability

- GOT adopted a time-bound program to establish an independent organization for setting accounting standards consistent with international best practices by December 31, 1998.
- GOT adopted a time-bound program to review and strengthen the role and functions of the Institute of Certified Accountants and Auditors of Thailand (ICAAT) to become an independent self-regulatory professional body consistent with international best practices by December 31, 1998
- GOT took initial steps to improve accounting and auditing standards and practicies by requiring that financial statements of companies and financial institutions with over B1 billion in assets be prepared and audited in accordance with international best practices beginning in 1999
- GOT strengthened ICAAT and prepared draft legislation that provided for establishment of an independent accounting standards-setting body.

Corporate Debt Restructuring

5. Under EFAL I, the Bank gained a clearer picture of the magnitude of corporate problems and helped establish how restructuring could take place. GOT passed bankruptcy and foreclosure laws prior to EFAL I, which included foreclosure on debtors. Stricter revisions were needed that imposed London rules. These rules were approved by the cabinet prior to the Board date for EFAL I.

- Establishment of a working group by MOF to advise on corporate debt and equity restructuring

6. It was difficult to achieve major gains in actual restructuring until strong, enforced bankruptcy and foreclosure laws were in place. This meant that creditors would have to have recourse in the courts with time limits on the various stages of resolution. The framework for these measures was set up under EFAL I. The Corporate Debt Restructuring Advisory Committee (CDRAC) developed a framework for corporate debt restructuring through voluntary workouts with a time span of 6 to 8 months. Through the end of 1998, CDRAC identified 351 priority cases, developing Bangkok rule principles for workouts. The other major accomplishment under corporate restructuring was MOF's creation of a tax working group which drafted temporary tax relief for debt restructuring. Financial institutions could take losses (January 1, 1998-December 31, 1999), without the debtors having to pay taxes on the amount owed.

Public Enterprise Reform/Privatization

- Cabinet approved the draft Corporatization Law to enable State-owned enterprises to convert into corporatized companies.

7. *In summary*, the objectives of EFAL I were largely accomplished by the closing date of December 31, 1998. The performance of EFAL I is part of a broader, longer-term series of efforts to return the Thai economy to the path of sustainable growth.

Bank Performance

8. The Bank was able to continue its rapid intervention in the Thai crisis and deliver balance of payments assistance. The Bank, with the Government and other donors, further developed specific aspects of stabilization and structural reform over a two-year period. Major observations of Bank performance include the following: (a) the rapid follow-up of EFAL I was appropriate for Thailand's general reform and liquidity needs, but somewhat too rapid for the financial sector reforms; (b) the Bank improved its understanding of the depth of the crisis; (c) the Bank improved its preparation and implementation of the loan; (d) the Bank carried out a large program of much needed TA; (e) initially, the Bank followed closely the Fund prescription for the Thai crisis, including the tight fiscal stance, which the Fund subsequently loosened; (f) the Bank and the Fund did not fully agree on the use of TA to assess the remaining financial institutions, but were in close agreement on the bankruptcy and foreclosure laws; (g) the FRA mandate should have been broader; and (h) although it was activated late in the process, the AMC finally played a role in asset sales.

Future Operations

9. The second Economic and Financial Adjustment Loan (EFAL II) was the immediate follow-up operation, effective March 1999. EFAL II supports Government efforts to deepen structural reform in the financial and corporate sectors, to strengthen the competitive foundations of the economy and to pursue fiscal stimulus, especially through programs for social protection. EFAL II gained leverage for additional BOP assistance as the Japanese provided $600 million of parallel financing. The fourth and final planned loan of the two-year structural adjustment program will incorporate all of the elements of the previous three loans and add measures to improve the competitiveness of Thai corporations. The Bank may exceed its original pledge of $1.5 billion to assist Thailand with crisis management and structural reforms.

Lessons Learned

10. Some of the lessons learned from FCRL continued to apply under EFAL I (see ICR for Finance Companies Restructuring Loan). The major new lessons from EFAL I are:

- **A good counterpart can be created**. The corporate reform program needed a strong counterpart. CRDAC was formed and developed a framework to do workouts for 351 troubled corporations. In addition, "whether" a working group is formed is not as important as "how" a

working group is formed. The precursor to CDRAC mainly debated the relevant issues. It was the actual establishment of the CDRAC office that created an operationally effective counterpart (supported by TA).

- **The importance of maximizing reform commitments at the peak of a crisis**. Opportunity for reform is often great when a crisis is at its peak. EFAL I might have achieved more if deeper and broader reforms had been agreed before the Thai crisis had eased.

- **Why Governments might carry through unpopular reforms**. Certainly, the loan funds attached to reforms are an incentive, but even large loans are usually small when compared to the economic reallocations caused by reforms. One reason why unpopular reforms are implemented is that there is a core of people in the country involved in preparing and articulating the reforms (if there is true government ownership of the program), who have come to understand the economic logic behind the reforms and become a force for reform within the country. An example is the gradually increasing Thai acceptance of the foreclosure principle, which may run counter to long established cultural values.

- **Drafting legislation benefits from broad participation**. When legislation is prepared stakeholders should be involved in order to communicate their priorities. In EFAL I, it proved very useful to involve private sector law firms in the areas of bankruptcy and foreclosure early in the drafting stage. The legislation was able to reflect the priorities of debtors and creditors, which were the clients of these law firms. Under the Thai constitution, once a law is drafted, laws must be submitted for a public hearing to elicit the concerns of stakeholders and the general public.

- **Currency declines do not automatically dictate a tight fiscal stance**. A currency decline may have a demand depressing wealth effect. In a regional crisis, the export response from the currency decline may also be dampened, further diminishing aggregate demand. Still, import demand may be reduced substantially, yielding a significant current account surplus. In this scenario, tight fiscal policy would further restrict demand, when stimulative policies are needed, such as social safety net transfer payments that increase the budget deficit.

- **The Bank's deliberations with the IMF**. If the Bank would like to be in a stronger position in the macro policy discussion, then some economists will have to have sufficient time to focus on general macroeconomic issues. Bank economists tend to be heavily occupied with operational issues to be on an equal footing with IMF economists and be able to fully professionally judge and offer amendments to the IMF's program.

- **Pressing TA requirements call for flexible and shorter procurement processes** (e.g., one week as opposed to three months). The SFO concept, with its flexible budget, proved effective in this regard during EFAL I.

IMPLEMENTATION COMPLETION REPORT

THE KINGDOM OF THAILAND

ECONOMIC AND FINANCIAL ADJUSTMENT LOAN

Loan No. 43720-TH

PROJECT IMPLEMENTATION ASSESSMENT

A. Project Objectives and Description

1. In a continuing effort to address the Thai financial crisis, the Bank funded a $400 million Economic and Financial Adjustment Loan (EFAL I) which was approved by the Board on July 9, 1998, signed on July 13, 1998, and became effective on July 22, 1998. It was disbursed in a single tranche on the day of effectiveness. EFAL I followed the $350 million single tranche Finance Companies Restructuring Loan (FCRL), effective December 1997. The FCRL was the first phase of the Bank's expanded structural adjustment lending program in Thailand and supported the resolution of suspended finance companies (FCs) and committed the Government to comprehensive reform of the financial sector over the next two years. A Financial Sector Implementation Assistance Project (FSIAP-Loan 4233-TH) had already been approved by the Board in September 1997. The FSIAP financed technical assistance to the Thai authorities during the adjustment operations and remains under implementation.

Objectives

2. The objectives of EFAL I were to support the Government of Thailand's (GOT) program to restore growth by: (a) deepening structural reform in the financial sector; and (b) facilitating corporate revival. The Government's program of structural reforms was specified in the Government's Letter of Development Policy which was signed by the Minister of Finance (see President's report P-7240-TH, June 16, 1998, Schedule 1). Many of the reforms, including resolution of FCs, and improving the supervisory framework and the insolvency regime were initiated prior to Board presentation. EFAL I is fully consistent with the Country Assistance Strategy (CAS) for Thailand which was presented to the Board on June 18, 1998. Because the policy actions supported by EFAL I were completed, the Government met the conditions to justify continued expanded Bank lending of US$1.5 billion ($750 million remaining) for the two-year emergency period. (This total may be revised upward.) Annex B summarizes the status of specific policy reforms as of December 1998.

Background

3. Like the FCRL, EFAL I was prepared in close cooperation with the International Monetary Fund (IMF), as part of the IMF coordinated $17.2 billion total support package under the Tokyo Pledge agreed to in August, 1997. Consistent with the frontloading strategy, three fourths of the IMF share had been disbursed by June 1998. With the disbursement of EFAL I,

half of the Bank's pledge had been disbursed. Details of the IMF/Bank coordinated efforts are found below.

4. Since FCRL and leading up to EFAL I, monetary and fiscal measures helped achieve some stability. The Baht appreciated from 53 to 40 per US$ during January-June 1998. Inflation increased to a little over 10 percent, far less than anticipated. EFAL I was designed to consolidate this beginning of stabilization, deepen structural reforms, and expand reforms to the corporate sector.

Description

5. EFAL I continued the reform program begun under FCRL, and added measures to revive the corporate sector and reform public enterprises. This broader scope recognized that Thailand's crisis extended into the real sector. EFAL I had five major components: (a) macroeconomic and fiscal; (b) financial sector restructuring, which included FC resolution; (c) legal reforms regarding bankruptcies, reorganizations, secured lending, and commercial legislation and contract enforcement; (d) financial accountability and corporate governance; and (e) public enterprise reform and privatization. The agreed division of labor between the Bank and the IMF was that the IMF would focus on the macroeconomic and fiscal component of the program, as well as on recapitalizing commercial banks, while the Bank would deal with the resolution framework for finance companies (FCs), and strengthening the supervision and regulatory framework for the entire system. The IMF and the Bank worked together on corporate restructuring, reform of the legal framework and corporate governance.

6. EFAL I provided $400 million to GOT's reform program described in the Letter of Development Policy and was disbursed against expenditures except those specified in Schedule 1 of the Loan Agreement. EFAL I was designed to lay the ground for two further adjustment operations that would continue financial and corporate reform and strengthen the competitive environment.

B. Achievement of Objectives

Recent Macroeconomic Performance

7. Macroeconomic indicators were mixed after loan effectiveness. There were several positive signs, but also clear indications that the crisis was deep. GDP was estimated to have fallen by 8 percent in 1998. Unemployment rose to over 5 percent in 1998, compared with 0.9 percent in 1997. Compounding this decline was the regional slump, led by the recession in Japan. Thai export prices fell 13.8 percent, which more than offset volume growth of 8.1 percent for an overall decline in export value of 6.8 percent in 1998. Country risk measures (the spread of the 10-year Yankee bond over comparable U.S. debt) were volatile, but recently settled at the same level as at the beginning of 1998. The current account surplus was estimated at almost 14 percent of GDP, but most of this surplus was driven by the sharp reduction in import volumes. Several indicators suggest that the economy may have bottomed out. The exchange rate remained stable at B41-42/US$ until September, then appreciated to B36-38/US$ in the first quarter of 1999. Money market interest rates fell from 18 to 3 percent and lending rates from

15.4 to 11 percent by January 1999. Demand and supply indicators suggest a leveling off, with GDP predicted to grow slightly in 1999. There was another positive signal from the market that Thailand was recovering when the private sector purchased a sovereign bond floated by the Energy Generation Authority of Thailand (EGAT) for $300 million at 285 basis points above LIBOR. The Bank supported the transaction with a guarantee of principal at maturity (at ten years or the bullet point). The Bank also guaranteed one, and only one, six-month coupon payment should EGAT experience short-term financial difficulties.

Table 1 Selected Economic Indicators

	1995 Actual	1996 Actual	1997 Actual	1998 Estimate	1999 Projection
Real GDP growth (%)	8.8	5.5	-0.4	-8.0	1.0
Consumption	7.1	6.7	0.1	-11.4	0.6
Gross fixed investment	11.2	6.0	-16.0	-28.7	-2.0
CPI inflation (average, %)	5.8	5.9	5.6	8.1	1.9
Saving and Investment (% of GDP)					
Gross domestic investment	41.6	41.7	35.0	25.4	26.6
Gross national saving	33.3	33.7	32.9	37.6	35.6
Balance of payments ($ billions)					
Exports, f.o.b.	55.7	54.7	56.7	52.8	55.0
Imports, c.i.f.	70.4	70.8	61.3	40.8	45.0
Current account balance	-13.2	-14.4	-3.0	13.8	10.5
Capital account balance (private)	20.8	19.5	-9.1	-9.6	-3.9
Gross Official Reserves	36.9	38.7	27.0	29.6	36.0

Sources: World Bank, IMF

Summary of Actions

8. GOT made significant progress on all major fronts associated with EFAL I as the following summary of fulfilled Board conditions from the EFAL I policy matrix and other actions show.

Macroeconomic and Fiscal

9. In general, Thailand achieved important macroeconomic objectives, which include:

- Satisfactory progress in implementing the macroeconomic program (announced May 19, 1998)
- Make credit available to exporters using transparent eligibility criteria

Financial Sector Restructuring

Resolution of Closed Finance Companies

- Adopt and implement plan to sell core assets of FCs taken over by FRA
- Measures taken to make Asset Management (AMC) fully operational including increase of authorized capital, approval of internal policies and procedures, setting up an MIS for asset management and disposition, and approval of bidding methodology and asset valuation procedures for FCs taken over by FRA.
- Recapitalize FCs (and banks) based on Memoranda of Understanding (MOUs) which were based on new loan classification and provisioning rules. First MOUs signed in July/August.
- June 1998: First sale of core financial assets. Earned 48 percent of principal.

Safety and Soundness of the Financial Sector

- BOT launched due diligence program to assess financial condition of four intervened banks.
- BOT adopted a time-bound program to develop its institutional capacity to supervise banks and FCs

Legal Reform

10. The Thai authorities had been working on a revision to the bankruptcy law for about 12 years when a revision providing for court administered corporate reorganization was submitted to Parliament in September 1997 (enacted in April 1998). Previously, the only option for insolvent corporate debtors was liquidation. EFAL I supported further improvements in legal reform.

- Cabinet approved further revisions to the amended Bankruptcy Act to facilitate corporate bankruptcies and liquidations (which were enacted after EFAL II approval). Revisions included additional protection to creditors who lend to distressed entities and rules governing the denomination of foreign debt.
- GOT submitted a time-bound plan of legislative changes necessary to accelerate the process of foreclosing on collateral. Mortgage foreclosures could take in the range of 4 to 6 years to carry out. Foreclosure law may be viewed as a prelude to a modern system of secured lending.

Corporate Sector

Governance and Financial Accountability

11. The main accomplishment of this component was to take steps toward improving the reliability of corporate financial reporting and disclosures. These steps helped restore market confidence. GOT made strong commitments in this area (see below), which included a number of measures to rationalize the institutional framework for setting accounting and auditing standards, and ensuring compliance. GOT also committed to strengthening the financial

oversight of boards of directors and shareholders' rights, essentially through conducting reviews of the duties of boards, accountability of directors and management, and shareholders' rights. GOT also reviewed the institutional framework for enforcing laws and regulations governing public companies, including the roles and responsibilities of the Stock Exchange of Thailand (SET), the Securities and Exchange Commission (SEC) and the Ministry of Commerce (MOC). The reviews led to legislative recommendations for improving minority shareholders' rights, increasing accountability of officers and directors, imposing sanctions for breach of duties by directors and officers of public companies, and increasing effectiveness of enforcement. These recommendations are to be supported under EFAL II.

- GOT adopted a time-bound program to establish an independent organization for setting accounting standards consistent with international best practices by December 31, 1998.
- GOT adopted a time-bound program to review and strengthen the role and functions of the Institute of Certified Accountants and Auditors of Thailand (ICAAT) to become an independent self-regulatory professional body consistent with international best practices by December 31, 1998
- GOT took initial steps to improve accounting and auditing standards and practicies by requiring that financial statements of companies and financial institutions with over B1 billion in assets be prepared and audited in accordance with international best practices beginning in 1999
- GOT strengthened ICAAT and prepared draft legislation that provided for establishment of an independent accounting standards-setting body.

Corporate Debt Restructuring

12. Under EFAL I, the Bank gained a clearer picture of the magnitude of corporate problems and helped establish how restructuring could take place. GOT chose a voluntary approach to restructuring motivated by "as strong desire to rely on market-mediated mechanisms as much as possible." For any approach to work, a legal framework had to be in place. As discussed, GOT passed bankruptcy and foreclosure laws prior to EFAL I, which included foreclosure on debtors. Stricter revisions were needed that imposed London rules. These rules were approved by the cabinet prior to the Board date for EFAL I.

- Establishment of a working group by MOF to advise on corporate debt and equity restructuring

13. It was difficult to achieve major gains in actual restructuring until strong, enforced bankruptcy and foreclosure laws were in place. This meant that creditors would have to have recourse in the courts with time limits on the various stages of resolution. The framework for these measures was set up under EFAL I. The MOF established a working group to provide advice on corporate debt and equity restructuring under the name of the Corporate Debt Restructuring Advisory Committee (CDRAC). CDRAC is chaired by the Chairman of the BOT and has representatives from debtor and creditor associations in Thailand. CDRAC developed a framework for corporate debt restructuring through voluntary workouts with a time span of 6 to 8 months. Through the end of 1998, CDRAC identified 351 priority cases, developing Bangkok rule principles for workouts, establishing a timeline for workouts, and slotting the 351 cases into

this timeline. Also by the end of 1998, B157 billion had been restructured, compared with an overall caseload of B650 billion.

14. To support corporate restructuring, the BOT set up a monitoring unit to identify the most complex debt restructuring cases. In January 1999, the BOT established a CDRAC office which developed contracts to bind debtors and creditors to meet Bangkok rule timelines. Work outs are backed by selective bankruptcy filings. GOT also supported the inter-creditor agreement, which commits parties to a time-bound plan for corporate debt restructuring. (The companion debtor-creditor agreement on debt restructuring is also being signed). The other major accomplishment under corporate restructuring was MOF's creation of a tax working group which drafted temporary tax relief for debt restructuring. Financial institutions could take losses (January 1, 1998-December 31, 1999), without the debtors having to pay taxes on the amount owed.

Public Enterprise Reform/Privatization

- Cabinet approved the draft Corporatization Law to enable State-owned enterprises to convert into corporatized companies.

15. In summary, the objectives of EFAL I were largely accomplished by the closing date of December 31, 1998. The performance of EFAL I should also be viewed as part of a broader longer-term series of efforts to return the Thai economy to the path of sustainable growth. EFAL I was the second loan in a series of four planned loans dealing with major aspects of the crisis and supported many of the measures laid out in the Government's LDP from the previous FCRL. The third loan, the Economic and Financial Adjustment Loan II (EFAL II), expands to include measures to ease the impact of adjustment on the poor and unemployed. The fourth loan will expand further to incorporate measures to improve the competitiveness of Thai corporations.

C. Implementation Record and Major Factors Affecting the Project

16. EFAL I was a continuation of the adjustment program begun under FCRL and was prepared shortly after FCRL approval in order to maintain the momentum of the reform process. EFAL I faced additional challenges to implementation. First, with the partial easing of the crisis, reform urgency was not as great as under FCRL, although GOT's reform commitment remained strong. Second, EFAL I broadened the scope of the program begun under FCRL, had to carry out some of the more difficult measures laid out under LDP from FCRL, and went deeper into financial sector reforms. EFAL I was prepared also on a fairly tight timetable, though not as accelerated as under FCRL. Substantive preparation was during April-May 1998 and EFAL I was negotiated in June 1998. No Board conditions were waived and the entire $400 million principal was disbursed in a single tranche on the same day. The closing date for EFAL I was December 31, 1998.

17. **Factors not generally subject to Government's control**. Although its compliance with loan conditions was good, macroeconomic variables did not respond as well as expected immediately after loan effectiveness due to external factors. The regional nature of the crisis dampened the export response that would normally come with substantial currency depreciation.

There was a perceptible increase in political resistance during 1998. For example, assets sales were also not popular with the public as the perception arose that Thailand's assets were auctioned off at bargain basement prices to wealthy interests and foreigners. Another negative external factor was the emergence of the Brazilian crisis that delayed the EGAT bond issue.

18. The continuity of government from FCRL through EFAL I was generally an advantage to implementation. The checks and balances that characterized the coalition government were both an advantage and a disadvantage. On one hand, through checks and balances, a broad consensus on reforms was reached. On the other, reforms were slowed down as in the cases of the bankruptcy and foreclosure laws (which were planned for October 1998, but did not happen until March 1999).

19. **Factors generally subject to Government control**. Measures within the Government's control were laid out in the Letter of Development Policy. The substantial progress made with respect to those factors is detailed in Section B. above. This progress can be attributed largely to the reform commitment by the GOT and concerted efforts by the donors. The government economic team continued to make substantive contributions to the policy dialogue and, thus, established ownership of the reform program.

20. On the negative side, there was some resistance reform attributed to the easing of the crisis and some degree of "creeping complacency" before full implementation of the reform program. Both the bankruptcy and foreclosure laws were difficult measures to pass. While reform measures went through the lower house of Parliament fairly smoothly, conflicts of interest arose with members of the upper house (Senate), who owned some of the bad assets affected by the pending legislation. Delay in resolving some of the troubled entities might have allowed time for asset value would recover.

21. **Factors generally subject to implementing agency control**. Both the BOT and MOF performed well and were committed to reform. The Minister of Finance, in particular, was a strong supporter of the reforms. Implementation capacity at the BOT was somewhat stronger than at MOF, but there was some pockets resistance to reforms in mid-level management. BOT's capacity was also strained to deal with both crisis management and structural reforms. BOT's and MOF's coordination on the technical level could be improved, especially in the exchange of financial information, which was often inconsistent. The Auditor General of Thailand performed well as coordinator of the corporate governance component, which required coordination of many institutions, including SEC, SET, MOC, ICAAT, MOF, and BOT.

D. Project Sustainability

22. The sustainability of the overall program including the reforms implemented under EFAL I is enhanced by continued assistance of the FSIAP through funding for technical support for the resolution of troubled finance companies and development of improved financial regulatory and supervisory capacity. A second TA focussing on corporate restructuring will also promote reforms in that area (planned for August 1999). The Special Financial Operations (SFO) unit was fully established after FCRL (February 1998), and continued to conduct a substantial TA

program in the financial sector. Critical to the success of structural reforms was having both the funding and a permanent team to manage the TA.

23. Sustainability of the EFAL I program as a whole is promoted because most of the reform measures are in place and are mutually reinforcing. Despite some obstacles in legal reform and slow progress in corporate restructuring, overall progress in implementing the objectives of EFAL I was satisfactory. Future planned operations (see section H.) support a continued process of stabilization and reform that will include deeper corporate sector reforms, mitigation of the social side affects of adjustment, and address competitiveness issues. EFAL II supported the vast majority of the LDP commitments from EFAL I, that had not yet been implemented. Future operations will be valuable in counteracting any complacency that develops as the economy improves.

E. Bank Performance

24. This section reviews the major issues of Bank performance on the basis of what was a reasonable standard at the time as well as what would have been the best course in retrospect. Overall, the Bank actions to lessen the impact of the crisis and solve the underlying causes were successful.

- The rapid follow-up of EFAL I was appropriate for Thailand's general reform and liquidity needs, but somewhat too rapid for the financial sector reforms.

  Thailand needed further liquidity infusions and to launch a broader reform program that included corporate restructuring. The broadening of the program argued for a quick follow-up. However, the financial reforms needed more time to mature for the adjustment lending to afford much reform leverage. For example, no targets could be added for auctions because the deadline under FCRL for completing auctions was already ambitious. Second, the recapitalization process took time and no MOUs could be drafted in time for EFAL I. However, the Bank and the IMF agreed that MOUs would not be necessary until mid-August 1998. Financial sector reforms relied to a greater extent on the LDP and gained greater leverage from the IMF's quarterly review which followed.

- The Bank improved its understanding of the depth of the crisis

  The Bank, and the IMF, first diagnosed the crisis as a purely financial crisis that could be stemmed within the financial sector, thus focussing on the symptom rather than the root cause. The early prescription was to resolve troubled financial intermediaries and stabilize the currency. Expansion to the corporate sector under EFAL I and broader use of fiscal policy tools was more appropriate to the true nature of the crisis.

- The Bank improved its preparation and implementation of the loan

  EFAL I was more organized and orderly than FCRL. Also, SFO had been set up and was able to organize its own TA program from the start of the loan.

- The Bank carried out a large program of much needed TA

  SFO's main activities were in the form of TA geared toward FC resolution, capacity building in the supervisory, regulatory and accounting areas of financial sector reforms, and diagnostic reviews of most of the remaining FCs (February to December 1998). In addition, the FSIAP TA had been under implementation since the end of 1997. The TA was essential to drafting a meaningful bankruptcy law, drafting MOUs for FC recapitalizations, and for intervening in troubled financial institutions. TA was also funded through grants (PHRD, IDF), which helped to strengthen capacity at BOT and ICAAT and establish an independent accounting body.

- Initially, the Bank followed closely the Fund prescription for the Thai crisis, including the tight fiscal stance, which the Fund subsequently loosened

  As was traditional, the Bank followed the IMF's lead and prescriptions on macro policy, but not without a free discussion of ideas at the working level. Although there was disagreement on the fiscal stance, it would have been difficult to go to the Bank Board with a different macroeconomic scenario. The IMF's tight fiscal stance had been based on the belief that the external demand (exports) would pick up much of the decline in domestic demand (as the result of a substantial depreciation of the Bhat). Instead, export value did not increase, in large part because of the regional drag, weak demand from Japan, and exports from other crisis countries that maintained their relative competitiveness with Thailand.

  In addition to the dampened export response, the recession was much deeper than the IMF had foreseen. As the IMF recognized the depth of the recession, it loosened its fiscal stance. As the 1998 growth projections for the Thai economy were constantly revised downwards, the target budget deficit climbed. The IMF also became increasingly accommodating of social safety nets.

- The Bank and the Fund did not fully agree on the use of TA to assess the remaining financial institutions, but were in close agreement on the bankruptcy and foreclosure laws

  The Fund did not support TA that would provide examiner consultants to banks, which the Bank felt was necessary because it was estimated that about 40 percent of the loans of the banking sector were classified as non-performing. The Fund was concerned that that type of TA would undermine the credibility of Thai banks. On bankruptcy and foreclosure, the IMF had done some early preparatory work and included these areas in its Letter of Intent (LOI). From early 1998 onward, the Bank and the Fund worked closely with Thai authorities to improve the insolvency system.

- The FRA mandate should have been broader

  As with FCRL, EFAL I implementation would have benefited from a broader mandate for the FRA that would have included: dealing with additional FCs beyond the original 56; authority to do loan workouts that would have reduced non-performing loans (NPLs); and enhanced the sale price of financial assets; and managing assets. The

broader mandate might have helped reduce the period during which the assets were suspended and returned them sooner to the economy.

- Although it was activated late in the process, the AMC finally played a role in asset sales

  The June auction was successful, as the AMC did not need to purchase assets. The December 1998 auction was not as successful, with only 40 percent of loans sold and at only $0.25 on the dollar. (Although, the December loans were of lower quality than the assets sold in June). A new auction was carried out in March 1999 and most assets were sold to AMC which was to do loan workouts.

25. In summary, the Bank was able to continue its rapid intervention in the Thai crisis and deliver balance of payments assistance. The Bank, with the Government and other donors, further developed specific aspects of stabilization and structural reform over a two-year period supported by large, single tranche operations. The Bank consistently held its position that a Government plan for effective financial restructuring and macro-economic stabilization were essential conditions for Board presentation of EFAL I and closely monitored the measures in the policy matrix.

F. Borrower Performance

26. As measured by its commitment to implement specific structural reforms under EFAL I, Government performance is considered satisfactory. The Government committed to a detailed timetable of actions in its Letter of Development Policy at the time of the previous loan, FCRL, and accomplished almost all of its policy reforms specified under the objectives of the loan. Performance was especially good in the continued resolution of the FCs, establishing a framework for corporate workouts, and generally halting the economic slide, if not actually contributing to a turn around.

27. However, there also appeared to be some increase in political resistance during 1998. The resistance was probably a reflection of the increasing depth of the reforms, as well as reform complacency spawned by a premature sense of recovery, and opposition from members of the Thai upper house. These factors created obstacles to reform progress as shown by the difficulty of passing both the bankruptcy and foreclosure laws.

28. BOT, on behalf of the Government, maintained the accounts for the EFAL I in accordance with sound accounting practices. It was agreed that the program would be audited within four months of Bank request. Government compliance with legal covenants under EFAL I was considered satisfactory.

G. Assessment of Outcome

29. The overall performance and outcome of the EFAL I was satisfactory, as the vast majority of specific policy measures, and therefore the major objectives of the loan, were achieved and assessed to be sustainable. This rating is consistent with the rating by EASPR of

meeting development objectives (Project Status Report) at project close (Satisfactory). Because it was not an investment operation, calculation of benefits in terms of net present value and economic rates of return is not applicable.

H. Future Operations

30. The second Economic and Financial Adjustment Loan (EFAL II) was the immediate follow-up operation, effective March 1999. EFAL II supports Government efforts to deepen structural reform in the financial and corporate sectors, to strengthen the competitive foundations of the economy and to pursue fiscal stimulus, especially through programs for social protection. EFAL II gained leverage for additional BOP assistance as the Japanese provided $600 million of parallel financing. The fourth and final planned loan of the two-year structural adjustment program will incorporate all of the elements of the previous three loans and add measures to improve the competitiveness of Thai corporations. The Bank may exceed its original pledge of $1.5 billion to assist Thailand with crisis management and structural reforms.

I. Key Lessons Learned

31. Some of the lessons learned from FCRL continued to apply under EFAL I, such as the importance to program success of a qualified counterpart, of close and intensive TA, and the relative merits of single vs. double tranche operations (see ICR for Finance Companies Restructuring Loan). The major new lessons from EFAL I are:

- **A good counterpart can be created**. The corporate reform program needed a strong counterpart. CRDAC was formed and developed a framework to do workouts for 351 troubled corporations. In addition, "whether" a working group is formed is not as important as "how" a working group is formed. The precursor to CDRAC mainly debated the relevant issues. It was the actual establishment of the CDRAC office that created an operationally effective counterpart (supported by TA).

- **The importance of maximizing reform commitments at the peak of a crisis**. Opportunity for reform is often great when a crisis is at its peak. EFAL I might have achieved more if deeper and broader reforms had been agreed before the Thai crisis had eased.

- **Why Governments might carry through unpopular reforms**. Certainly, the loan funds attached to reforms are an incentive, but even large loans are usually small when compared to the economic reallocations caused by reforms. One reason why unpopular reforms are implemented is that there is a core of people in the country involved in preparing and articulating the reforms (if there is true government ownership of the program), who have come to understand the economic logic behind the reforms and become a force for reform within the country. An example is the gradually increasing Thai acceptance of the foreclosure principle, which may run counter to long established cultural values.

- **Drafting legislation benefits from broad participation**. When legislation is prepared stakeholders should be involved in order to communicate their priorities. In EFAL I, it proved

very useful to involve private sector law firms in the areas of bankruptcy and foreclosure early in the drafting stage. The legislation was able to reflect the priorities of debtors and creditors, which were the clients of these law firms. Under the Thai constitution, once a law is drafted, laws must be submitted for a public hearing to elicit the concerns of stakeholders and the general public.

- **Currency declines do not automatically dictate a tight fiscal stance**. A currency decline may have a demand depressing wealth effect. In a regional crisis, the export response from the currency decline may also be dampened, further diminishing aggregate demand. Still, import demand may be reduced substantially, yielding a significant current account surplus. In this scenario, tight fiscal policy would further restrict demand, when stimulative policies are needed, such as social safety net transfer payments that increase the budget deficit.

- **The Bank's deliberations with the IMF**. If the Bank would like to be in a stronger position in the macro policy discussion, then some economists will have to have sufficient time to focus on general macroeconomic issues. Bank economists tend to be heavily occupied with operational issues to be on an equal footing with IMF economists and be able to fully professionally judge and offer amendments to the IMF's program.

- **Pressing TA requirements call for flexible and shorter procurement processes** (e.g., one week as opposed to three months). The SFO concept, with its flexible budget, proved effective in this regard during EFAL I.

Part II. Statistical Tables

Table 1: Summary of Assessments

A. Achievement of Objectives	Substantial (✓)	Partial (✓)	Negligible (✓)	Not applicable (✓)
Macro Policies	☐	☒	☐	☐
Sector Policies	☐	☒	☐	☐
Financial Objectives	☐	☐	☐	☒
Institutional Development	☐	☒	☐	☐
Physical Objectives	☐	☐	☐	☒
Poverty Reduction	☐	☒	☐	☐
Gender Issues	☐	☐	☐	☒
Other Social Objectives	☐	☒	☐	☐
Environmental Objectives	☐	☐	☐	☒
Public Sector Management	☐	☒	☐	☐
Private Sector Development	☐	☐	☐	☒
Other (specify)	☐	☐	☐	☐

B. Project Sustainability	Likely (✓)	Unlikely (✓)	Uncertain (✓)
	☒	☐	☐

C. Bank Performance	Highly Satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Identification	☐	☒	☐
Preparation Assistance	☐	☒	☐
Appraisal	☐	☒	☐
Supervision	☐	☒	☐

(*Continued*)

D. Borrower Performance	Highly Satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Preparation	☐	☒	☐
Implementation	☐	☒	☐
Covenant Compliance	☐	☒	☐
Operation (if applicable)	☐	☐	☐

E. Assessment of Outcome	Highly satisfactory (✓)	Satisfactory (✓)	Unsatisfactory (✓)	Highly unsatisfactory (✓)
	☐	☒	☐	☐

Table 2: Related Bank Loans/Credits

Loan/credit title	Purpose	Year of approval	Status
Preceding operations			
1. Financial Sector Implementation Assistance Project	Provide TA to GOT to develop a program of structural reform in the financial sector	FY 98	Under Implementation
2. Finance Companies Restructuring Project	Provide BOP assistance, resolve troubled finance companies and restore confidence to Thailand's financial sector.	FY98	Closed
Following operations			
1. Economic and Financial Assistance Project II	Deepen financial and corporate sector reforms, improve competition policies and social safety nets.	FY 99	Under Implementation

Table 3: Project Timetable

Steps in Project Cycle	Date Planned	Date Actual/ Latest Estimate
Identification (Executive Project Summary)		
Preparation		4-5/98
Appraisal		6/98
Negotiations		6/98
Letter of Development/Sector Policy (if applicable)		6/98
Board Presentation		7/98
Signing		7/98
Effectiveness		7/98
First Tranche Release (if applicable)		7/98
Loan Closing		12/31/98

Table 4: Disbursements: Cumulative, Estimated and Actual
(US$ millions)

	FY99
Appraisal estimate	400
Actual	400
Actual as % of estimate	100
Date of final disbursement	7/22/98

Table 5: Project Implementation

	Estimated	Actual
I. Key implementation indicators in PAD		
1. For all indicators, see Matrix of Policy Actions-Annex B		

Table 6: Key Indicators for Program Operation

	Estimated	Actual
I. Key operating indicators in PAD		
1. For all indicators, see Matrix of Policy Actions-Annex B		

Table 7: Studies Included in Program

Study	Purpose as defined at appraisal/redefined	Status	Impact of study
1. NO STUDIES			

Table 8.A: Program Costs

Item	Appraisal estimate (US$ millions)			Actual/latest estimates (US$ millions)		
	Local costs	Foreign costs	Total	Local costs	Foreign costs	Total
1.Balance of Payments Assistance		400	400		400	400
Total		400	400		400	400

Table 8B: Program Financing

Item	Appraisal estimate (US$ millions)			Actual/latest estimates (US$ millions)		
	Local costs	Foreign costs	Total	Local costs	Foreign costs	Total
IBRD		400	400		400	400
Total		400	400		400	400

Table 9: Economic Costs and Benefits

NOT APPLICABLE

Table 10: Status of Legal Covenants

Agreement	Section	Covenant Type	Present Status	Original Fulfillment Date	Revised Fulfillment Date	Description of Covenant	Comments
Loan	3.02 (b)	1	C	12/31/98		Audit of Deposit Account	

Covenant types:

1. = Accounts/audits
2. = Financial performance/revenue generation from beneficiaries
3. = Flow and utilization of project funds
4. = Counterpart funding
5. = Management aspects of the project or executing agency
6. = Environmental covenants
7. = Involuntary resettlement
8. = Indigenous people
9. = Monitoring, review, and reporting
10. = Project implementation not covered by categories 1-9
11. = Sectoral or cross-sectoral budgetary or other resource allocation
12. = Sectoral or cross-sectoral policy/ regulatory/institutional action
13. = Other

Present Status:

C = covenant complied with
CD = complied with after delay
CP = complied with partially
NC = not complied with

Table 11: Compliance with Operational Manual Statements

Statement number and title	Describe and comment on lack of compliance
1.	FULL COMPLIANCE

Table 12: Bank Resources: Staff Inputs

	Planned		Revised		Actual	
Stage of project cycle	Weeks	US$	Weeks	US$	Weeks	US$
Preparation	21.0	83.6	12.0	35.2	41.0	142.6
Appraisal			15.5	42.2	20.7	41.6
Negotiations			4.0	11.8	6.3	17.7
Supervision	21.5	57.4	29.5	83.0	28.0	86.7
Completion					3.0	7.5
Total	42.5	141.0	61.0	172.2	99.0	296.1

Table 13: Bank Resources: Missions

Stage of project cycle	Month/ Year	No. of Persons	Days in Field	Specialization[1]	Performance Rating[2] Implem. status	Performance Rating[2] Developm. objectives	Types of Problems[3]
Appraisal through Supervision Completion		15	120	E,F,LEG	S	S	
Total		15	120				

1 – E : Economics, F: Financial, LEG : Legal

ANNEX A

BORROWER'S CONTRIBUTION

The Kingdom of Thailand
Government's Evaluation Report on
Economic and Financial Adjustment Loan (EFAL I)
Loan No. 43720-TH

The objectives of EFAL I were to support the Government's program to restore growth by (1) deepening structural reform in the financial sector; and (2) facilitating corporate revival.

EFAL I was the second of three loans for the Government of Thailand approved by the World Bank in support of the stabilization and structural reform measures announced in the $17.2 billion Tokyo financing package of August 1997. The financing package was a coordinated strategy by multi-lateral and bilateral partners to assist Thailand's efforts at crisis management and recovery.

Background

EFAL I was presented to the World Bank board July 9, 1998, one year after the onset of Thailand's twin financial and currency crises in July 1997. During the first year of the crisis, Thailand's efforts were focused on stabilizing the Baht exchange rate through macroeconomic policy, and restructuring the financial sector. The first year of the crisis also revealed that the structural causes of Thailand's crisis went beyond the financial sector. Thus, the reform agenda represented in EFAL I included issues of corporate governance, corporate debt restructuring, and public enterprise performance.

The economy was beginning to show signs of stability in response to the adjustment program by mid-1998. Significant progress had been made in closing failed financial institutions, establishing mechanisms for sale of their assets, and in building market confidence through an improved prudential and regulatory framework for the remaining financial institutions. However, economic contraction, combined with devaluation of the Baht and liquidity shortages, caused firms across a broad spectrum of economic activity to curtail their economic activity. The steep rise in non-performing loans revealed underlying weaknesses in the governance and financial management of firms. This provided a setting for a broader policy agenda including support for legal reform, tax and institutional support for corporate restructuring, governance and financial accountability, public enterprise reform and privatization.

The funds provided under EFAL I were timely both in terms of the balance of payments support as well as in signaling to the market that a well-financed strategy was in hand to address the root causes of the crisis in the financial, corporate and public enterprise sectors.

Measures supported by the loan

Specifically, the measures taken under EFAL I focused on the following outcomes:

- Maintaining macroeconomic stability and fiscal balance.
- Implement the macro-economic framework developed with the IMF
- Implementing a less contractionary fiscal policy in order to stimulate aggregate demand.

1. Introducing regulatory reforms to encourage corporate restructuring
   - Improved tax treatment of mergers and acquisitions and asset transfers
   - Remove impediments to corporate debt restructuring

2. Resolution of intervened financial institutions
   - Implement the sale of the assets of intervened finance companies
   - Establish the Asset Management Company (AMC) to manage, restructure, collect, and resell assets.
   - Establish Radhanasin Bank to bid on high quality assets.

3. Promoting the safety and soundness of the financial sector
   - Develop a comprehensive framework for financial sector supervision
   - Accounting, external auditing and disclosure standards for financial institutions
   - Establish an explicit deposit protection scheme

4. Providing legislative and institutional frameworks for corporate bankruptcy, reorganization, and secured lending
   - Develop and submit to Parliament improvements to the Bankruptcy Act B.E. 2483
   - Submit to parliament amendments to the Civil and Commercial Code on foreclosure and secured lending

5. Improve corporate governance and financial accountability
   - Rationalize the institutional framework for accounting standards
   - Improvement quality of financial information provided by public corporations through upgraded audit requirements, audit committee oversight
   - Strengthened shareholder rights and enforcement

6. Establish the framework for public enterprise reform

Comments

Structure of the Loan

EFAL I was a single tranche loan that was followed up sequentially, by additional single tranche operations. In light of the need for balance of payments support and rapid disbursement, this was appropriate. The Thai Government views World Bank support as a program of loans, one building upon the other. This flexible programmatic approach allows a focus on economic management issues as the crisis unfolded. However, breaking up loan conditions into Board and Letter of Development Policy components (that were taken up as Board conditions in the next loan) was a mixed blessing. It made for tedious and laborious preparations and negotiations at a time when Government resources were stretched to the limit. But, at the same time it helped maintain a sharp focus on the content and timing of the action that needed to be taken.

Policy Focus and Selectivity

The Policy Matrix of EFAL I covered a broad range of issues and institutions. This tended to distract from clarity and put a heavy burden on the Fiscal Policy Office to coordinate and manage across many government agencies and line ministries. This was consistent, however, with the Authorities' desire to undertake deep and meaningful reforms that addressed the root causes of the crisis.

Conclusion

EFAL I continued the high standard of cooperation initiated with the World Bank under the Finance Companies Restructuring Loan in September 1997, and set the stage for deepening of the reforms under EFAL II. The authorities are appreciative of the hard work that has gone into the structural reform program. The benefits can be seen clearly in the outcomes of macro-economic stability and return of market confidence.

ANNEX B

STATUS OF POLICY AGREEMENTS

DECEMBER 1998

SCHEDULE 2: THE POLICY MATRIX

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
	I. MACROECONOMIC AND FISCAL	
1. Fiscal Stimulus		
Issue: Resumption of economic growth requires providing a fiscal stimulus to the economy. **Objectives:** Increase aggregate demand via expansion of public expenditure programs.	**The Borrower has prepared specific spending projects totaling about one percent (1%) of gross domestic product, and has allocated an amount of about forty percent (40%) of said amount to expenditures to protect the poor, including expenditures on: (a) public workfare, and (b) means-tested cash transfer and in-kind transfer.** **The Borrower has adopted a program to make more credit available to corporate entities carrying out government contracts.**	Maintain an appropriate macroeconomic framework to support a demand stimulus to accelerate recovery.
	II. FINANCIAL SECTOR RESTRUCTURING	
	1. MANAGING PROBLEM INSTITUTIONS	
1. Orderly Resolution of the 56 Closed Finance Companies		
Issue: The FRA needs to finalize the sale of assets of the 56 finance companies. The AMC is expected to take part in the sale as a bidder of last resort, and needs to have capacity to fulfill this role. **Objectives:** Continue showing concrete progress in the resolution of FCs which have been taken over, so as to enhance confidence of the domestic and international markets.	Independent experts of international standing selected by MOF have completed a satisfactory review of the FRA and of the AMC. **The FRA has completed the third round of auction of core financial assets and has formulated an action plan to deal with residual assets.** The FRA has finalized and communicated to creditors the procedures for submitting and adjudicating claims.	Within three months of the purchase of assets from the FRA, the AMC will prepare a plan for the management and ultimate disposition of these assets. As quickly as possible, the FRA will have initiated the process of adjudication of claims to creditors.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
2. Restructuring and recapitalization of the Core Financial Institutions		
Issue: The authorities must continue to take timely action against the weakest financial institutions. **Program**: Continued implementation of loan classification and provisioning standards in line with best international practices, with intervention and resolution of nonviable institutions.	**The BOT has approved:** ▪ **a time-bound plan for the consolidation of the twelve finance companies into KTT, and for the subsequent consolidation of KTT with UBB;** ▪ **a plan for the recapitalization of the consolidated KTB** The Bank of Thailand has signed Memoranda of Understanding with all banks and finance companies needing to raise additional capital through June 1999. BOT will have developed an operational restructuring plan for the combined KTB, which should include steps toward its privatization within two years.	By the second quarter of 1999. • KTT will have completed full integration of the intervened finance companies and UBB, including recapitalization of the combined entity after full provisioning; and • The Government will have completed the operational restructuring and recapitalization of KTB after the full provisioning. By the second quarter of 1999, FBCB license will have been revoked. By the third quarter of 1999, RAB will have been privatized. By the fourth quarter of 1999, winning bids will have been selected for the privatization of BMB and SCIB.
2. STRENGTHENING THE FINANCIAL SECTOR STRUCTURE		
1. Strategy for the future of financial services *(see also 2.3 and 3.1)*		
Issue: The Government needs to address the broader structural problems preventing the financial sector from acting as a prudent and efficient intermediary of savings. **Objectives:** Identify and implement reforms needed to ensure that the financial sector is safe, sound, efficient in pricing and delivering financial services.	The Financial Services Task Force (FSTF) has been established.	By May 31, 1999, the FSTF will have: • Identified, with assistance from the Bank, the issues to be addressed to achieve a sound and efficient financial sector, and • Reviewed the interim report, prepared with assistance from the Bank, on upgrading financial sector policies and infrastructure. By August 31, 1999, the Task Force will submit its final recommendations to the MOF, based on the final report prepared with Bank assistance.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
2. Capital market development		
Issue: The bond market needs to be developed to ensure the successful placement of Government bond issues. **Objectives:** Lay the foundation of a sustainable bond market with sufficient breadth and depth to facilitate the raising of capital by the private sector, facilitate the conduct of monetary policy, and enhance systemic stability and growth.	The Working Group for Domestic Bond Market Development has identified areas that need to be addressed to deepen the government bond market and has established Task Forces to develop recommendations on each identified issue.	The Working Group will take measures to remove possible impediments to private sector purchases of bonds, and will establish an action plan to reform the debt and risk management system of the public sector. BOT will start to develop a comprehensive system integration for automated delivery-versus-payments.
3. Specialized Financial Institutions (SFIs)		
Issue: Preliminary assessments of the financial operations of the SFIs indicate the need to upgrade their risk management capacity and internal controls. **Objectives:** Strengthen the financial operations of the SFIs, which play a major role in the Thai financial system. Evaluate role and mandate of SFIs in view of the current transformations in the financial system.	On-site examinations have been initiated in all SFIs under BOT supervision. BOT has adopted a preliminary action plan to enable it to carry out effectively its new supervisory responsibility over SFIs.	By May 31, 1999, MOF will adopt a time-bound action plan, to strengthen the financial condition and risk management capacity of those SFIs which will be used for enhancing credit expansion By September 30, 1999: ▪ MOF will have confirmed or revised the role and scope of each SFI's activities and their fiscal treatment. ▪ the Borrower will review the capitalization needs of the SFIs based on BOT examinations. ▪ BOT will have adopted a detailed time-bound action plan for the supervision of SFIs. The plan will include deadlines for the preparation and submission of appropriate amendments to the law and the issuance of enhanced prudential rules.
3. ENHANCING THE REGULATORY AND SUPERVISORY REGIME		
1. A comprehensive supervision framework		
Issue: Financial institutions are currently supervised by several agencies. This approach can result in gaps in the supervisory process and inconsistent decisions regarding the supervision of financial functions. **Objectives:** Harmonize prudential regulations and supervision to promote fair competition among different financial institutions and the soundness of the sector.		By June 30, 1999, MOF will have established a Task Force of all supervisory authorities whose purpose is to identify and draft those regulatory changes required to supervise financial conglomerates effectively and ensure consistency in the prudential regulation and supervision of all financial institutions. The Task Force will submit its report and recommendations by December 31, 1999.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
2. Strengthening supervision and regulation of financial institutions		
Issue: Banking supervision needs to be strengthened in terms of both supervisory capacity and legal foundations for the regulation and supervision of financial institutions. Complementing the work of Bank staff, a Steering Committee of international experts is providing its own recommendations on these matters. **Objectives:** Strengthen BOT operations and legal authority to support its mandate of supervision and regulation of financial institutions including authority to take prompt corrective action.	The BOT has completed a review of the draft commercial bank and finance companies laws.	The BOT will complete a review of the draft Law on Central Bank by April 30, 1999. By April 30, 1999, the Borrower will have made public the recommendations of the Steering Committee of international experts, and its intentions with regard to such recommendations. By July 31, 1999, the Cabinet approval will be sought for a new draft Financial Institutions Law (covering banks and finance companies) to strengthen the regulatory framework for financial institutions, including prompt corrective action.
3. Deposit insurance scheme		
Issue and Objectives: Best practice mandates a limited deposit insurance scheme to minimize moral hazard and provide sustainable funding of financial intermediaries.		Draft legislation authorizing a limited-deposit insurance scheme will be submitted to the Cabinet for its approval.
III. CORPORATE RESTRUCTURING		
1. STRENGTHENING THE LEGAL FRAMEWORK		
1. Provide appropriate legislative and institutional frameworks for corporate bankruptcies and reorganizations.		
Issues: The legislative and institutional framework for corporate insolvency needs to be strengthened to facilitate the reorganization of companies and to maximize recovery of distressed assets.	**The Borrower has taken the following measures to strengthen the legislative and institutional frameworks for corporate restructuring: (a) further revisions to the Bankruptcy Act B.E. 2483 (1940), as amended, have been approved by the Lower House of Parliament to facilitate the process of corporate bankruptcy and reorganization; (b) an Act to establish the bankruptcy court and its proceedings has been passed by the Lower House of Parliament; and (c) the Borrower has adopted an action plan to enhance the capacity of the Ministry of Justice to expedite the processing of bankruptcy cases.**	Government will continue its review and updating of the legislative, procedural, and institutional regimes for corporate bankruptcies and reorganizations under the auspices of the Bankruptcy Law Reform Committee with representation from the MOJ, MOF, Attorney General's Department, commercial banking community, private law firms, and others.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
2. Provide appropriate legislative and institutional framework for secured lending.		
Issues: Existing procedures for the enforcement of secured rights by creditors are subject to delay. The types of assets that can legally be used by debtors to secure loans are limited to a narrow group of assets. **Objectives and Program:** Facilitate the provision of credit through a comprehensive legislative regime for secured lending, including suitable procedures to speed up the realization of secured interests.	**The Borrower has taken the following measures to strengthen the legislative and institutional frameworks for secured lending: (a) amendments to the Code of Civil Procedure to expedite the enforcement of security interests have been approved by the Lower House of Parliament; and (b) to facilitate the use and enforcement of security interests and to create new security interests, the Cabinet of Ministers of the Borrower has adopted an action plan to prepare additional draft legislation, including legislation regarding the establishment of an automated modernized registry system.**	In mid-1999 the secured lending bill will be submitted to Cabinet for its approval.
2. STRENGTHENING THE ENABLING ENVIRONMENT		
1. Facilitate information sharing among creditors on debt service performance by individual companies.		
Issues: A lack of information on debt service performance by individual companies increases the reluctance of financial institution creditors to extend credit. **Objectives and Program:** Establishment of a Credit Bureau would improve lending decisions and help limit the access of firms who choose to default on obligations to increased credit.	**The Cabinet has approved the establishment of a Credit Bureau open to all financial institutions and trade creditors.**	By July 31, 1999 draft legislation for the establishment of the Credit Bureau will have been submitted to Parliament. Subject to approval by Parliament, the Credit Bureau, with authority for full exchange of information among participating creditors (e.g. banks, finance companies, trade creditors and branches of foreign banks) shall have been duly established and begun operation.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
2. Facilitate debt/equity conversions and the efficient sale of distressed financial assets.		
Issues: Because of high leverage in the corporate sector, the exchange of non-performing debt for equity will be frequently used as a restructuring instrument. The legal infrastructure for such transactions is incomplete, particularly with respect to the issuance of new shares to retire debt. Financial institutions are restricted from owning more than 10% of the equity of any firm, and from owning property outside of their own headquarters and branches. Furthermore, financial institutions are not prepared to manage and dispose of these assets in a manner consistent with maximizing recovery. The creation of vehicles to acquire and professionally manage distressed assets may considerably improve governance and promote restructuring.	BOT has put into effect a regulation to enable the establishment and operation of private asset management companies,	A Working Group, which consists of public and private sector representation, is reviewing potential impediments to the efficient sale of distressed debt, sale of converted equity, or professional management of converted equity on behalf of financial institutions. If necessary, by May 31, 1999, the Working Group will submit to the Cabinet for its approval amendments to relevant regulations which will facilitate the disposition and effective management of converted equity.
3. Eliminate remaining tax disincentives to corporate restructuring.		
Issue: Consolidation, through mergers and acquisition, is likely to be a common feature of corporate restructuring. Improvements to the tax treatment of mergers and acquisitions may further facilitate industry consolidation and new investment. **Objectives and Program:** The Revenue Code will be amended to eliminate remaining tax disincentives to corporate restructuring. Public and private-sector experts would jointly identify issues and necessary changes to the Revenue Code.	The Working Group on tax impediments to restructuring has been reconvened to consider the need for improvements to the tax treatment of mergers, acquisitions and other restructuring transactions. This Working Group has solicited suggestions from private sector experts.	Based upon its review of recommendations from the Working Group, the Revenue Department will prepare any necessary amendments to the Revenue Code.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
3. SPEEDING THE RESTRUCTURING PROCESS		
1. Provide improved monitoring of progress on corporate restructuring.		
Issue: While the task of corporate restructuring remains appropriately focused in the private sector, the task of monitoring progress in corporate restructuring is appropriately centralized. The monitoring provided by the Corporate Debt Restructuring Advisory Committee and Bank of Thailand to date has been incomplete, irregular, and inadequate to support a comprehensive understanding of the task. **Objectives and Program:** A centralized monitoring system would permit the setting of realistic goals, facilitate an efficient sequencing of corporate restructuring cases in the private sector, identify impediments and bottlenecks for timely resolution, and facilitate information-sharing between creditors on debtor liabilities and debt-service performance.	**The Borrower has put into effect an improved system to monitor progress in corporate restructuring to enable it to revise the estimate of progress in corporate restructuring and provided monthly updates thereof.** CDRAC is supporting improved sequencing of voluntary workouts (e.g. encourage a creditor meeting within 30 days after a loan becomes non-performing) and continues to identify impediments to successful resolution. CDRAC is supporting the enhancement of professional restructuring capacity and public awareness of corporate restructuring through the Thai Bankers Association, Association of Finance Companies, and Federation of Thai Industries. BOT requires creditors to choose to either continue a voluntary restructuring process, court-supervised reorganization, or bankruptcy within 90 days of the initial meeting between lead creditor and debtor.	
2. Develop an efficient mechanism to resolve disputes among financial institution creditors.		
Issue: As negotiations with debtors progress, serious differences among creditors may arise. Interests and sensitivities will differ depending upon whether the financial institution creditor is, for example, secured or unsecured, domestic or foreign, and in a strong or weak financial position. For various reasons, major financial institution creditors are wary of any BOT or other official arbitration of inter-creditor disputes. **Objectives and Program:** A mechanism is needed that can efficiently resolve differences among financial institutions in a workout situation.	**BOT has provided to financial institution creditors a sample arbitration contract to encourage the development of inter-creditor dispute resolution mechanisms and 75% voting thresholds for approval of restructuring plans.**	If creditors are unable to devise a mechanism for facilitating agreement on a restructuring plan, BOT will review options, including the use of its own authority to resolve disputes among financial institution creditors that arise during voluntary corporate workouts.

OBJECTIVES AND PROGRAM	BOARD CONDITIONS IN BOLD	LETTER OF DEVELOPMENT POLICY
3. Develop a clear strategy concerning the position of the Government as a creditor or shareholder of distressed corporates.		
Issue: Through government contracting and through nationalization of financial institutions, the government is a creditor or owner of many firms that are not performing on debt obligations to commercial financial institutions. The existence of obligations to the government should not result in delay of restructuring of obligations to other creditors. **Objectives and Program:** The Government will formulate a strategy for exercising its position as a creditor to encourage and speed corporate restructuring, and to eliminate delays to the process caused by the role of publicly-owned creditors. This strategy may include the supporting of the position of lead creditors in the restructuring process.	The Borrower will encourage state-owned financial institutions to exercise their role as creditor to speed up corporate debt restructuring.	

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
IV. COMPETITIVENESS		
1. FINANCIAL ACCOUNTABILITY AND CORPORATE GOVERNANCE		
1. Rationalize the institutional framework for setting standards and regulating accounting and auditing practices.		
Issue: A private-sector independent organization is not responsible for the formal accounting standard-setting process. Moreover, there are multiple agencies that regulate, supervise, and define reporting requirements. The ICAAT, which develops all accounting and auditing standards, is not fully independent in the standard-setting process and is not a self-regulating national professional body. **Objectives and Program:** Streamline the institutional framework for setting standards and regulating the accounting and auditing profession. Establish an independent standard-setting organization, to be called the Thailand Financial Accounting Standard Board (TFASB) consistent with international best practices. Strengthen the ICAAT's role in standard setting and regulating the profession consistent with international best practices. An independent and self-regulating ICAAT will be responsible for setting auditing standards and regulating the profession.	**The Cabinet of Ministers of the Borrower has approved a framework to: (a) streamline the institutional framework for setting accounting and auditing standards and regulating the profession; (b) establish the Thailand Financial Accounting Standard Board as an independent entity with authority to set accounting standards, with members from the accounting profession, business, government and academia; and (c) make the Institute of Certified Accountants and Auditors of Thailand an independent self-regulatory professional body consistent with international best practices.** The Ministry of Commerce has submitted draft legislation to Cabinet for its approval.	By July 31, 1999, the Cabinet shall submit draft legislation to Parliament.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
2. Improve the quality and reliability of key financial information provided by public corporations to regulators, shareholders, and the general public.		
Issue: Accounting and auditing standards and practices, particularly in the areas of financial statement disclosures, loss recognition, asset classification, marketable securities, debt restructuring and impairment of assets, as well as audit reports, are not consistent with international best practices. **Objectives and Program:** Upgrade accounting and auditing standards to make them consistent with international best practices, and revise relevant laws and regulations as necessary to require that financial statements of public companies be prepared and audited in accordance with such standards beginning with the year 1999.	Improved accounting and auditing standards for listed companies have been adopted, as well as large non-listed public companies, and banks and financial institutions with assets in excess of Baht 1 billion. This includes revision of standards for financial statement disclosures, asset classification, and marketable securities, as well as issuance of new standards for troubled debt restructuring. The plan to improve the quality of audit reports has been implemented for listed companies, non-listed public companies, as well as banks and financial institutions. The implementation included a revised format (proposed by ICAAT) for audit reports, consistent with international best practices. MOC has deleted inactive limited companies from the registration files.	New specific rules on accounting, auditing, and financial disclosures for banks, finance companies and SFIs in line with international best practices will be issued by June 30, 1999.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
3. Strengthen the financial oversight role of the board of directors of corporations by requiring the establishment of audit committees		
Issue: The internal control and the related oversight role of the boards of directors of companies are weak. Audit committees of the boards of directors are non-existent or ineffective. **Objectives and Program:** Strengthen the internal control structure of listed companies, banks, and financial institutions and the related responsibility for oversight of the internal audit function and selection of external auditors.		Based on the review of existing requirements for the audit committees of boards of directors and internal control for listed companies, by April 30, 1999, SET will adopt a time-bound program to implement the improved requirements, including committees' roles and responsibilities, to a level consistent with international best practices.
4. Improve accountability of boards of directors, management, and shareholder rights of public companies		
Issue: Boards of directors of listed companies and financial institutions have not been effective in monitoring corporate management performance. Minority shareholders have not played an active role as monitors of corporate performance. **Objectives and Programs:** Strengthen the effectiveness and monitoring role of boards of directors and enhance shareholder rights.	The Working Group has submitted to MOC its recommendations on appropriate changes to legislation and regulations to improve the appointment process of directors, ensure protection of minority shareholder rights, increase accountability and liability of officers and directors, and impose sanctions in the case of breach of duty.	If necessary, SEC will issue relevant rules and regulations which do not require changes to the legislation. By May 31, 1999 MOC will submit to the Cabinet for its approval necessary changes to the Public Company Act. By April 15, 1999 SET will have revised the guidelines on the code of best practice for listed company directors to a level consistent with international best practices, and will propose an appropriate deadline for the disclosure of compliance or non-compliance with such guidelines to be mandatory under the SET's disclosure requirements.
5. Rationalize the regulatory framework for enforcement of laws and regulations for public companies		
Issue: SEC and SET responsibilities overlap in enforcement of laws and regulations. **Objectives and Programs:** Streamline and strengthen the framework for enforcement of laws and regulations.	SEC has completed the review of the roles and responsibilities of SET, SEC, MOC and MOF in enforcing laws and regulations related to public companies by SEC and submitted its recommendations on such roles and responsibilities to the respective agencies for adoption.	

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
	2. PRIVATIZATION	
1. Regulatory Framework Legislation for Privatization		
Issue: Regulatory institutions in the water, telecom, energy and transportation sectors are required pursuant to privatization. **Objectives and Program:** To protect consumer interests and encourage competition, regulatory bodies will be established to oversee activities in the infrastructure sectors, including water, energy, telecommunications and transportation. Such regulatory bodies will be based on the principle of independence, providing for transparent and non-political procedures for selecting and funding regulators, as well as a process of appeals.		The Government will establish independent regulatory bodies for the infrastructure sectors to protect consumer interests and facilitate competition. Cabinet will approve regulatory legislation for the water and energy sectors. The Government will submit to Parliament for its approval regulatory legislation for the telecommunications sector..
2. Organizational Structure for Privatization; Institutional Capacity Building		
Issue: The Government requires a clear, transparent, and strengthened organizational structure with technical expertise and sufficient staffing at appropriate levels to implement its Master Plan for State Enterprise Reform effectively. **Objectives and Program**: Strengthen the capacity of the State Enterprise Policy Commission and the Office of State Enterprises at the Ministry of Finance by establishing a sub-committee structure in each sector to oversee the implementation of corporatization and privatization strategies at individual enterprises.		The Government will have created an effective organizational structure for overseeing and implementing privatization in each sector. The Government will appoint members of standing committees at the State Enterprise Policy Commission with the responsibility to oversee and implement privatization in each sector, including water, transportation, telecommunications and enterprises in other sectors.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
3. Corporatization Law		
Issue: Privatization of individual public enterprises that have not been incorporated usually requires complex case-by-case legal approvals that lead to delays. **Objective**: A Corporatization Law would establish a clear procedure for initiating the reform, and eventual privatization, of state-owned enterprises. The Corporatization Law allows state-owned enterprises to be converted into corporate entities and wholly or partially divested to private owners. It also establishes a streamlined committee structure under the Prime Ministers' Office and coordinated by the Office of State Enterprises in the Ministry of Finance to oversee corporatization and privatization of individual enterprises in different sectors.	The Corporatization Law has been approved by the Lower House and is being considered by the Senate.	
	3. COMPETITION POLICY AND INVESTMENT INCENTIVES	
1. Competition policy		
Issue: Rapid changes are taking place in financial and real sectors as a result of the crisis and new industry structures are likely to emerge as the economy recovers. New legislation to replace the 1979 Act governing price fixing and anti-competitive practices passed first reading in Parliament on October 14. The new legislation reflects modern competition policies. However, the institutional capacity to enforce the legislation will need to be further strengthened to make legislation fully effective. **Objectives and Programs:** Ensure the establishment of a solid legislative framework and an enhanced institutional capacity to administer it.		Complete program of institutional development to match the changes in the competition legislation.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
2. Investment Incentives.		
Issue: Tax incentives have played an important role in Thailand's investment promotion system for more than three decades. In response to the changing socio-economic environment, the incentive scheme and the role of the BOI need to be assessed by also taking into account the incentive programs offered by other countries as well as Thailand overall tax regime. **Objectives and Programs:** Rationalize Thailand's incentive scheme and enhance the role of the BOI in a broader context encompassing work other than incentive provision.		By July 1, 1999 the BOI shall review the results of the FIAS study on investment incentives offered under the BOI. The BOI will draft a plan for rationalizing Thailand's incentive scheme and the role of the BOI.
V. POVERTY AND SOCIAL PROTECTION		
1. IMPROVE STRATEGIC DESIGN AND CO-ORDINATION OF SOCIAL POLICY		
1. Improve the coordination of social policy		
Issue: A coherent social policy framework requires coordination across multiple core and line ministries. **Objectives and Program:** Strengthen institutional framework for high-level integration of the social policy agenda.	**The Borrower has appointed the Council of Social Ministers (National Social Policy Committee), under the direct leadership of the Prime Minister, to develop and implement a coherent social policy, with NESDB serving as the secretariat for said Council.**	By May 31, 1999 an existing agency or mechanism reporting to the Cabinet as well as to the Council of Social Ministers (the National Social Policy Committee) shall be assigned to develop an action plan to design social protection. The following measures to strengthen the technical capacity of NESDB to perform the social protection secretariat function shall be implemented: (a) assign a strong and effective management team for the technical secretariat; (b) assign personnel with expertise in economic analysis of social policy to staff the technical secretariat; (c) prepare a focused and time-bound workplan to develop concrete options for social policy reform; and (d) identify and implement advanced staff training in critical areas.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
2. Improve the design of the old-age pension and family allowances system		
Issue: (a) The Social Security Act (SSA), as presently enacted, has several flaws in terms of equity, efficiency, and fiscal sustainability, and imposes a severe burden on employers and employees in the present economic context. (b) Savings-based alternatives to pay-as-you-go financing of social security need to be developed to minimize adverse labor market incentives and promote capital market development. **Objectives and Program:** Improve the equity, efficiency, and financial sustainability of the existing old-age pension and family allowances systems, and reduce the burden of employers and employees during the crisis.	**The Borrower has established, through internal administrative decisions, revised contribution rates to the old-age fund and the family allowances fund of the Social Security Office: (a) for the old-age fund, 1% each from the employers and from the employees for a period of 2 years; and (b) for the family allowances fund, 1% from the Government.** The Borrower has appointed a high-level task force with membership from MOF, SEC, MOL, SSO and DPW to evaluate the existing social security system, and develop options for implementing an improved and integrated pension system.	By April 30, 1999 the high level task force will begin a process of consultations of the proposals in a tri-partite setting (labor, industry, and Government). Based on these consultations and the consultants' report scheduled to be completed in October 1999, the task force will submit to the Cabinet its recommendations. By December 31, 1999, the approval of the Cabinet will be sought for an integrated old-age pension system, including the development of a multi-pillar system. On the basis of the Cabinet approval, a detailed action plan to reform the SSO old-age and family allowances schemes with a view to making them more equitable, efficient and financially sustainable will be announced.
2. PROTECTING THE POOR		
1. Increase public expenditures for protecting the poor		
Issue: Fiscal stimulus provides room for expanding public expenditure on antipoverty programs **Objectives and program**: Antipoverty expenditures should be quick-disbursing and administratively simple to implement		
2. Expand provision of public workfare programs		
Issue: The crisis has increased unemployment and underemployment **Objectives and Program:** To provide temporary employment to those seeking work at low wages.	**The Borrower has: (a) adopted and made public revised criteria for its public workfare programs under the enhanced public expenditures program including: (i) unskilled labor intensity of at least 30% on average; (ii) remuneration for unskilled labor set close to applicable rates in rural areas; and (iii) poverty incidence will be a key criterion for the geographic distribution of workfare budget; and (b) prepared plans for monitoring and evaluation of said workfare programs.**	

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
3. Expand means-tested cash and in-kind transfer programs		
Issue: The crisis has hurt vulnerable groups such as the elderly poor and poor families with children. **Objectives and Program:** To protect the well-being of vulnerable groups with adequate and assured income support.	**Under the enhanced public expenditures program, the Borrower has adopted a policy of increased coverage for (i) cash transfer programs for needy families and poor elderly, and (ii) the in-kind transfer programs.**	
3. SOCIAL PROTECTION FOR WORKERS		
1. Strengthen compliance with severance pay provisions		
Issue: Due to liquidity constraints some firms are unable to meet severance payments obligations to laid off workers. **Objectives and Program:** Protect living standards of unemployed workers.		The Borrower will develop a savings-based system for workers not covered by the Social Security System, pursuant to the Labor Protection Act of 1998. By April 30, 1999 the Borrower will have established an employee welfare fund to partially finance unpaid severance claims.
2. Develop cost-effective training and employment services for unemployed		
Issue: International experience shows that active labor market programs may not be cost-effective **Objectives and Program:** Improve the cost-effectiveness of training and employment services for unemployed workers.	The borrower has established a task force with representation from workers, employers and government to design, target, and evaluate cost-effective training and employment services for unemployed workers.	
4. PROTECTING THE ELDERLY		
1. Strengthen voluntary provident funds for private employees		
Issue: The existing provident funds are unsupervised and unregulated. They offer lump sum refunds when employees leave firms, with no portability between jobs and no annuities. **Objectives and Program**: Strengthen the supervision and regulatory structure of voluntary provident funds.		The high-level task force set up to review the Social Security System shall develop robust supervision and regulatory structure for voluntary provident funds and to improve their portability across firms.

Objectives And Program	Board Conditions In Bold	Letter Of Development Policy
2. Strengthen existing administrative structure in SSO		
Issue: The integrity of the SSO database is not adequate to support efficient administration of existing SSO benefits, or extension thereof; **Objectives and Program**: Verify existing data records in SSO to ensure a clean database before instituting additional benefit payments;	The SSO database has been cleaned to ensure data integrity by (a) removing excess records; (b) correcting misrecording of contribution collections; and (c) attaching the 13 digit identifier to each record.	
5. IMPROVE THE INFORMATION BASE FOR MONITORING		
Issue: The crisis has highlighted the need for timely and policy relevant information flows to improve the speed and quality of public policy response so as to mitigate the hardship among the poor, and to improve the monitoring of programs implemented. **Objectives and Programs:** Enhance the policy relevance of the existing household and income survey and labor force surveys.	The Borrower has provided adequate resources to: (a) enable the carrying out in 1999 of a survey to monitor poverty based on a component of the SES, and accelerate turnaround time to 3 months for updating the annual poverty map; (b Increase frequency of LFS to 4 rounds/year, implement appropriate questionnaire improvements and seasonal adjustments, and accelerate analysis turnaround to 3 months.	