



1. Project Data:		Date Posted : 02/09/2001	
PROJ ID: P058536		Appraisal	Actual
Project Name: Thailand - Second Economic and Financial Adjustment Loan (EFAL II)	Project Costs (US\$M)	600	600
Country: Thailand	Loan/Credit (US\$M)	600	600
Sector(s): Macro/Non-Trade	Cofinancing (US\$M)	0	0
L/C Number: L4447			
	Board Approval (FY)		99
Partners involved :	Closing Date	10/31/1999	10/31/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
2. Project Objectives and Components			
a. Objectives			
The ICR states the objectives as to continue to support reform in the financial and corporate sectors, but focus more on strengthening the competitive foundations of the economy, while also supporting the Government of Thailand 's proposed fiscal stimulus, especially programs that shore up social protection .			
b. Components			
Five components made the loan, and the conditions for each were :			
1. Macroeconomic and Fiscal . The Borrower (Kingdom of Thailand): (a) committed to adopt a program of public expenditures in an aggregate amount of 1% of GDP, of which about 40% are allocated to expenditures to protect the poor (Loan Agreement, Schedule 3, paragraph 1); and (b) adopted a program to make more credit available to corporate entities carrying out government contracts (LA, Sch. 3, par 2).			
2. Financial Sector Restructuring . This component had two conditions: (a) The financial sector restructuring authority (FRA) had to complete a third round of auction of core financial assets and formulate an action plan to deal with residual assets (LA, Sch. 3, par. 3); and (b) Bank of Thailand had to approve a time bound action plan to consolidate 12 finance companies, and a plan to recapitalize the consolidated Krung Thai Bank (LA, Sch. 3, par. 4)-			
3. Corporate Restructuring . The Borrower agreed to: (a) take measures to strengthen the legislative and institutional framework for corporate restructuring and for secure lending (LA, Sch. 3, par. 5 and 7); and (b) put into effect measures to strengthen the enabling environment for corporate restructuring (LA, Sch. 3, par. 6).			
4. Competitiveness . The Borrower agreed that the Cabinet of Ministers would : (a) approve a framework to 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; and (c) make the Institute of Certified Accountants and Auditors of Thailand an independent self -regulatory professional body (LA, Sch. 3, par. 8).			
5. Poverty and Social Protection . The Borrower agreed to: (a) appoint the Council of Social Ministers, to develop and implement a coherent social policy (LA, Sch. 3, par. 9).; (b) establish revised contributions to the old-age fund and the family allowance fund of the Social Security Office (LA, Sch. 3, par. 10); (c) adopt and make public revised criteria for its public workfare programs and prepared plans to monitor and evaluate it (LA, Sch. 3, par. 11).; and (d) adopt under the enhanced public expenditures program a policy of increased coverage for cash transfers for needy families and poor elderly and for program of transfers in kind (LA, Sch. 3, par. 12).			
c. Comments on Project Cost, Financing and Dates			
The project was a one tranche loan of \$ 600 million which disbursed and closed without delays			
3. Achievement of Relevant Objectives:			
The loan achieved its objective of supporting the Government's program of fiscal stimulus, especially its social protection programs. It achieved partially its objectives for corporate and financial sector restructuring .			
4. Significant Outcomes/Impacts:			
The most significant outcomes were: (a) financing of the Government's proposed fiscal stimulus package and social protection programs; and (b) changing legislation and approving frameworks to streamline institutions .			
While the legal reforms have been approved, substantial problems in the corporate and financial sectors remain .			

One aim of the reforms was to make it easier for borrowers and lenders to agree on terms to solve their problems without recourse to government money. But three years after the crisis started the governmental purchase of non-performing loans from the financial system has still not been resolved.

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

Financial Sector Restructuring. The Government approved a plan to recapitalize the consolidated Krung Thai Bank, but the financing plan is insufficient to cover bank losses or fund an asset management company for KTB (LA, Sch. 3, par. 4).

Corporate Restructuring. Although legislation aimed at encouraging corporate restructuring has been approved, the legislation still protects debtors, who must consent to a workout (LA, Sch. 3, par. 5b).

Competitiveness (Financial accountability, privatization and corporate governance). Cabinet of Ministers has not approved framework to streamline the institutional framework for setting accounting and auditing standards and regulating the profession. Cabinet did not submit to Parliament by July 31, 1999, the draft legislation to improve the competitiveness of the economy.

Social protection programs. In terms of targeting, social programs have not always been successful in identifying and helping the poor. One drawback of implementing the safety net programs was to have induced a proliferation of social funds which often targeted the same markets. Also, the poverty impact of most of the programs is thought to be low.

Complexity of program. In comments on the ICR, the Government considered the reform program as extremely complex, stretching Government resources to the limit. Breaking up conditions for Board and letter of development policy required laborious preparations and negotiations when Government resources were stretched to the limit. The broad coverage of the policy matrix tended to detract from clarity and overburdened the capacity of the Fiscal Policy Office.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	1. The plan to recapitalize Krung Thai Bank is inadequate to cover its losses and fund an asset management company. 2. Legislation on bankruptcy law leaves a bias in favor of the debtor, making it difficult to agree to a debt workout. 3. The Borrower did not adopt a program to make more credit available to corporate entities carrying out government contracts; 4. The Government did not carry out all the amendments to the bankruptcy and foreclosure laws as the Bank requested (See ICR's comments in page 5 on corporate restructuring)
Institutional Dev.:	Substantial	Modest	Legislation on bankruptcy law leaves a bias in favor of debtor, making it difficult to agree to a debt workout Social programs did not always identify and help the poor, and the safety net programs induced a proliferation of funds which often targeted the same markets.
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Unsatisfactory	

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

7. Lessons of Broad Applicability:

a. During a crisis, a reform program has to be designed with the purpose of handling the crisis. Excessive conditions stretch the Government's implementing capacity to its limit, and force the Borrower to follow equally on conditions that have different degrees of importance for the success of the program.

b. When an institution has limited capacity for poverty targeting and limited time to start up the program, the simplest decentralized program may be the most effective. Untargeted programs that require community participation may be more effective in protecting the poor than programs which aim at a better targeting but which are more difficult to manage

8. Assessment Recommended? Yes No

Why? The loan should be audited as part of a cluster of the adjustment loans extended to Thailand during the crisis, in order to apply the lessons from this experience to designing loans for countries in similar circumstances .

9. Comments on Quality of ICR:

A good ICR should be self-contained, in that it informs properly about the project objectives, the instruments used to achieve its objectives and actual implementation of the loan agreements . The ICR misses these conditions. First, the ICR fails to explain well what the loan was about and what problems each loan component intended to solve . Second, the ICR neither states the conditions that had to be met for each loan component nor relates these conditions to outcomes . Third, the ICR does not make clear what it intends to evaluate of the loan : the Loan Agreement, the policy matrix or the letter of development policy . Fourth, the ICR left out relevant information to evaluate the loan, such as whether all legal covenants were met . For example, comparing the relevant legal covenants to the achievements listed in the ICR suggests that the conditions specified in paragraphs 2, 4 and 5b. of Schedule 3 of the Loan Agreement were not met. Nonetheless, this conclusion can be found nowhere in the ICR itself. Fifth, the ICR discusses many actions taken by the Government which, it appears, went beyond meeting legal covenants; if that is the case, the ICR should have signaled it . Sixth, the ICR makes little use of extensive comments received from stakeholders on project strength and shortcomings . Seventh, the ICR is very hard to follow, there are few transitions and changes in topic are abrupt . Last, the intensive learning mission took place, as it is clear from annexes 8A and 8B, but the preface erroneously states that the mission did not take place .