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CAPITAL MARKETS IN THAILAND

by

Alek A. Rozental

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INTRODUCTION

The market for long-term funds is, in Thailand, a highly imperfect one. This situation is not unique to Thailand and indeed is not confined to the developing countries. In fact, in very few countries in the world can it be said that there exist institutions and instruments which are fully adequate to finance the needs of industry (including the construction and transportation industries) on terms which are acceptable to both borrowers and lenders.¹ But it is in the less developed countries where the need for provision of long-term capital to industry is more acute and immediate, and where the scope for improvement is perhaps greater.²

In most of the developing countries borrowers and lenders deal with each other directly, if indeed they are not the same person. The "liquidity gap," where rewards to savers are substantially below costs to

¹See, for example, Sidney E. Rolfe, Capital Markets in Atlantic Economic Relationships (Boulogne-sur-Seine, France: The Atlantic Institute, 1967).

²There is a vast literature making the case for the improvement of capital market institutions and instruments in developing countries which are anxious to loosen the saving-investment constraint and to speed up the rate of growth. See Edward Nevin, Capital Funds in Underdeveloped Countries (London: St. Martin's Press, 1961), particularly Chapters 4 and 5 and the sources cited therein.

borrowers, is especially large in the capital market.³ This means that both the level and the composition of long-term investment is far below the optimum. Projects with a high positive marginal product are not undertaken and entrepreneurial and managerial skills are deflected into real estate, trade, and packaging and distribution of consumer goods.

In Thailand, in addition to the widespread imperfections of capital markets touched upon in the preceding paragraphs, there are other peculiarities due to the past history of the Kingdom. There is, first of all, a paucity of institutional arrangements and a corresponding shortage of financial instruments. Compared with, say, Indonesia or the Philippines, there is rather a small number of specialized institutions dealing with long-term finance. This is strikingly true in the public sector. Apart from the Bank for Agriculture and Agricultural Cooperatives, there is the Government Savings Bank, the Loan Office for Small Industries Development and the Government Provident Fund. With one exception, that of

³See Tibor Scitovsky, Welfare and Competition (Chicago, 1951), pp. 220-26, and Alek A. Rozental, 'Internal Financing of Economic Development,' in American Journal of Economics and Sociology (August 1958). In Thailand, it will be recalled, the entrepreneur wishing to borrow for his small scale manufacturing firm will have to pay at least 15 percent per annum, with modal rate in excess of 20 percent, if indeed he can borrow at all. The rates quoted are those from the organized financial markets. On the other hand, the saver gets a maximum return of 7 percent on fixed deposits held for more than one year.

LOSID, none of these institutions are specifically designed for developmental finance, are for the most part very recent in origin, and dispose of very limited funds, the supply of which is not likely to increase in the near future.⁴ In the private sector the dearth of capital market institutions is even more pronounced. Only the Industrial Finance Corporation of Thailand can be said to have the provision of long-term finance as its main task, and, so far, the scope of its operations remains a very limited one. Thai life insurance companies are yet to play a role in long-term financing and this applies with even greater force to pension and provident funds. Thailand has no building societies, no comprehensive welfare schemes,

⁴All these institutions of the public sector are discussed in this paper except for the Bank for Agriculture which was referred to in "Financing Rural Households in Thailand." In addition, there has been in operation since 1953 a Housing Bank in the Ministry of Finance which uses public funds to buy land and construct dwellings for lower income groups in the metropolitan area. Some 60 million baht were used for this purpose since 1953. Its resources come from the budget and from the Government Savings Bank. Its total assets show a decline in recent years, from some 150 million baht in 1965 to 125 million at the end of 1967. The government also operates municipal pawnshops alongside private ones. In 1967, there were some 150 pawnshops in operation of which 90 were privately operated but licensed by central or local government. In 1967, all pawnshops accepted pledges to the value of 147 million baht, about triple the level of 1959. The resources of government pawnshops are not, as yet, available for developmental finance. Their profits are low and they have no significant accumulation of reserves. Those operated by the private sector are chiefly ancillary to other interests of their owners, many of whom graduate into commercial banking.

no national compulsory insurance schemes, a stock market which is still in its infancy, and a complete lack of any institutions and instruments for equity finance. In brief, unlike its money market which is relatively sophisticated, the Thai capital market appears to be much more primitive than would seem to be warranted by the country's stage of economic growth. The succeeding sections give a brief discussion of the institutions and instruments in that market.

I. THE GOVERNMENT SAVINGS BANK

Next to commercial banks, the Government Savings Bank (GSB) is by far the most important collector of household savings in Thailand and, when measured in terms of its assets, the most important component of the Thai capital market. On the other hand, the Government Savings Bank makes available the bulk of its resources to the government, participates very little in the provision of funds for long-term finance, and makes very little contribution to the private sector. In brief, while the Savings Bank is a very large financial institution, its importance as a developmental financial intermediary is much more limited and is not likely to increase in the future. For these reasons the discussion of the Government Savings Bank will not be a full one but will focus instead on those aspects of the Bank's operations which have special relevance to mobilization of voluntary savings.¹

The Government Savings Bank came into operation in 1946 under the Government Savings Bank Act. It replaced the Postal Savings Bank System which was set up in 1913, and it still uses a number of country post offices

¹This discussion and the statistical data relating thereto are based on information obtained from the Government Savings Bank and from other sources, published or not, which were available. For additional details see: Government Savings Bank, Annual Reports, 1963, 1964, and 1965. The Savings Bank Act, Royal Decrees and Ministerial Regulations (Bangkok: 1965); R. Amatayakul and K. A. Pandit, "Financial Institutions in Thailand," IMF Staff Papers (December 1961); Henry Houston, Report of the UN Adviser on the Government Savings Bank (Bangkok: 1964), mimeo; and Direk Raibin, Savings and Statistics, M.A. thesis, National Institute of Development Administration, Bangkok, 1965 (mimeo, in Thai).

as its agencies or branches. The Savings Bank, in addition to performing the standard functions of a savings institution, i.e., accepting savings deposits from individuals and groups, is also engaged in a rather bewildering array of other activities which include some commercial banking functions, selling of insurance, issuance of bonds, and others. The Bank is managed by a board of directors who have prior approval on any major transaction of the Bank and all of whom are appointed by the Minister of Finance.

In its 20 years of operations the Savings Bank has been remarkably successful in attracting small savings. Its deposits have been growing at an annual compound rate of more than 15 per cent since 1962, a rate of growth exceeded only by that of fixed deposits at the commercial banks. At the end of 1966, total assets of the Government Savings Bank were 4,300 million baht, and some 3.5 million baht of its liabilities were in savings deposits (see Tables I and II).²

What makes the record of the Bank a remarkable one, however, is the fact that even though its deposits are only about one-fourth of those held at the commercial banks, they represent an aggregate of very small amounts saved by individuals, many of whom are in the lower income groups and many of whom reside in the villages. At the end of 1966, the number of depositors at the Government Savings Bank was nearly 6 million compared to slightly over 1 million at the end of 1947.

²Government Savings Bonds and Premium Savings Bonds are essentially a form of savings liability. They are issued by the Savings Bank and are subject to withdrawal on demand. They represent household savings and are claims against the Bank analogous to savings deposits.

Table I
Government Savings Bank
Assets
(in millions of baht)

End of Period	CASH			LOANS AND OVERDRAFTS					Bills Dis- counted	Thai Government Securities	Other Assets	Total Assets or Liabilities
	Notes & Coins	Balances at Banks Bank of Thailand		Total	Private	Government	Banks	Total				
1956	13	20	35	68	137	281	169	587	97	56	77	885
1957	15	37	48	100	136	328	169	633	113	125	91	1,062
1958	18	21	75	114	165	368	165	698	112	169	115	1,298
1959	19	22	103	144	198	356	266	820	86	267	139	1,456
1960	24	18	145	187	159	403	257	819	113	440	157	1,716
1961	25	30	163	218	158	390	256	804	103	646	178	1,949
1962	35	18	170	223	224	368	248	840	71	940	201	2,275
1963	36	9	149	194	165	368	235	768	43	1,324	218	2,547
1964	36	20	152	208	142	336	210	688	13	1,752	272	2,933
1965	40	34	160	234	137	250	192	579	11	2,405	281	3,510
1966	46	37	148	232	139	65	171	375	12	3,456	238	4,313

Source: See text.

Table II
Government Savings Bank
Liabilities
(in millions of baht)

End of Period	PRIVATE SECTOR DEPCISITS			Government Demand Deposits	Bank Demand Deposits	Government Savings Bonds and Premium Savings Bonds	Insurance	Other Liabilities	Capital Accounts	
	Savings Deposits	Other Deposits Demand	Time							Total
1956	657	59	2	718	20	1	71	5	65	5
1957	779	69	1	849	15	2	87	6	85	18
1958	843	93	1	937	20	1	105	7	100	38
1959	888	144	1	1,033	14	-	134	7	215	53
1960	1,057	187	23	1,267	12	2	168	7	192	68
1961	1,232	186	2	1,420	8	6	214	9	214	78
1962	1,387	156	9	1,552	5	14	302	10	297	95
1963	1,531	179	13	1,723	5	7	431	13	255	113
1964	1,683	185	16	1,884	5	8	591	15	290	140
1965	2,031	176	29	2,236	12	8	713	17	351	173
1966	2,573	183	29	2,785	15	9	846	20	428	209

Source: See text.

To be able to tap the savings of 6 million individuals in a country of some 30 million is no mean achievement, particularly in view of the fact that throughout most of its existence the rates of interest paid by the GSB were considerably below those obtainable elsewhere.³ It would seem that, in attracting small savings, availability of saving outlets and an aggressive marketing policy are of prime importance. The GSB has some 300 branches and agencies outside the metropolitan areas, compared with 50 branches in the Bangkok-Thonburi region, and its country deposits exceed those gathered from the metropolitan area by some 50 per cent.⁴ In addition, the Savings Bank resorts to such devices as mobile vans sent to remote villages, children's savings plans, and others. Even so, in the opinion of qualified observers, the potential for mobilizing small savings through the efforts of the GSB is far from being exhausted.⁵

³These rates differ according to the type of deposit and have undergone many changes over time. The highest rate currently payable is 5 per cent, which compares with the 7 per cent maximum rate of commercial bank deposits held for 12 months or longer. The rate on demand deposits is now 3 per cent; on savings deposits, 5 per cent; and 1 per cent on premium savings bonds, which, however, have an added lottery feature.

⁴Many of the "countryside depositors" are not members of rural households. Available data suggest, however, that at least a quarter of all deposits originate from rural households. GSB depositors indicate their occupation when making a deposit. In 1964, about 20 per cent of deposits came from farmers and fishermen, and it is reasonable to assume that at least an additional 5 per cent came from those classed as soldiers, rentiers, and others. It is estimated that, in contrast to the six million depositors in the GSB, the number of those entrusting their savings to the commercial banks is less than 400,000.

⁵Apart from internal administrative improvements, it would seem that GSB success in attracting small savings could be further enhanced by abandoning a number of functions which are either marginal or inappropriate to a savings

As seen in Table III, the asset composition of the GSB has changed considerably over time. In 1956, two-thirds of total assets consisted of loans and overdrafts. Ten years later these assets shrank to less than 9 per cent of the total, while government securities rose from less than 7 per cent to 80 per cent of total assets. Bills discounted, which in 1956 were a significant component of total assets, drastically diminished in importance by 1966 and currently constitute less than one-quarter of 1 per cent of all assets. In the 10-year period, while total assets increased about five fold, government securities rose over sixty fold (Table V).

There were also significant changes in the composition and the pattern of growth of the Savings Bank liabilities. Savings deposits decreased in relative importance, but savings bonds and premium savings bonds became a higher proportion of total assets (Tables IV and VI). These bonds, together with capital and reserves, show a rate of growth which is a multiple of the rate of all liabilities.

As indicated in Table VII, the premium savings bonds, which contain a lottery feature, have grown faster than the composite liability of savings

⁵(Continued) institution, such as selling travelers checks, endowment insurance, educational annuities, or discounting bills of exchange. These functions drain personnel resources, are a net loss administratively and financially, and/or could be performed more efficiently by other financial institutions. Moreover, it seems that by changing the emphasis on the type of liability marketed to the small saver, the total volume of small savings could be considerably increased.

Table III
Government Savings Bank
Assets
(percentage distribution)

End of Period	CASH			LOANS AND OVERDRAFTS				Bills Dis- counted	Thai Government Securities	Other Assets	Total Assets or Liabilitie	
	Notes & Coins	Balances at Banks Bank of Thailand	Others Total	Private	Government Banks	Total						
1956	1.47	2.26	3.96	7.68	15.48	31.75	19.10	66.33	10.96	6.32	8.70	100
1957	1.41	3.48	4.52	9.42	12.81	30.89	15.82	59.61	10.64	11.77	8.57	100
1958	1.49	1.74	6.21	9.44	13.66	30.46	13.66	57.78	9.27	13.99	9.52	100
1959	1.31	1.51	7.07	9.89	13.60	24.45	18.27	56.32	5.91	18.34	9.55	100
1960	1.40	1.05	8.45	10.90	9.27	23.48	14.98	47.73	6.59	25.64	9.15	100
1961	1.28	1.54	8.36	11.19	8.11	20.01	13.13	41.25	5.28	33.15	9.13	100
1962	1.54	0.79	7.47	9.80	9.85	16.18	10.90	36.92	3.12	41.32	8.84	100
1963	1.41	0.35	5.85	7.62	6.48	14.45	9.23	30.15	1.69	51.98	8.56	100
1964	1.23	0.68	5.18	7.09	4.84	11.46	7.16	23.46	0.44	59.73	9.27	100
1965	1.34	0.97	4.56	6.67	3.90	7.12	5.47	16.50	0.31	68.52	8.01	100
1966	1.08	0.86	3.43	5.37	3.23	1.50	3.96	8.69	0.27	80.15	5.52	100

Source: See text.

Table IV

Government Savings Bank
Liabilities
(percentage distribution)

End of Period	PRIVATE SECTOR DEPOSITS			Total	Government Demand Deposits	Bank Demand Deposits	Government Savings Bonds and Premium Savings Bonds	Insurance	Other Liabilities	Capital Accounts
	Savings Deposits	Other Deposits Demand	Time							
1956	74.24	6.67	0.23	81.13	2.26	0.11	8.02	0.56	7.34	0.56
1957	73.35	6.50	0.09	79.94	1.41	0.19	8.19	0.56	8.00	1.69
1958	69.78	7.70	0.08	77.57	1.66	0.08	8.69	0.58	8.28	3.15
1959	60.99	9.89	0.07	70.95	0.96	--	9.20	0.48	14.77	3.64
1960	61.60	10.90	1.34	73.83	0.70	0.12	9.79	0.41	11.19	3.96
1961	63.21	9.54	0.10	72.86	0.41	0.31	10.98	0.46	10.98	4.02
1962	60.97	6.86	0.40	68.22	0.22	0.62	13.27	0.44	13.05	4.18
1963	60.11	7.03	0.51	67.65	0.20	0.27	16.92	0.51	10.01	4.44
1964	57.38	6.31	0.55	64.23	0.17	0.27	20.15	0.51	9.89	4.77
1965	57.86	5.01	0.83	63.70	0.34	0.23	20.31	0.48	10.00	4.93
1966	59.65	4.24	0.68	64.57	0.35	0.20	19.62	0.47	9.93	4.86

Source: See text.

Table V

**Government Savings Bank
Index of Assets
(1956=100)**

End of Period	CASH			LOANS AND OVERDRAFTS					Bills Dis- counted	Thai Govern- ment Securities	Other Assets	Total Assets or Li- abilities
	Notes & Coins	Balance at Banks Bank of Thailand	Others	Total	Private	Government	Banks	Total				
1956	100	100	100	100	100	100	100	100	100	100	100	100
1957	115.38	185.0	137.14	147.06	99.27	116.73	100	107.84	116.49	223.21	118.18	120.0
1958	138.46	105.0	214.29	167.65	120.44	130.96	97.63	118.91	115.46	301.79	149.35	136.50
1959	146.15	110.0	294.29	211.76	144.53	126.69	157.40	139.69	88.66	476.79	180.52	164.52
1960	184.62	90.0	414.29	275.00	116.06	143.42	152.07	139.52	116.49	785.71	203.90	193.90
1961	192.31	150.0	465.71	320.59	115.33	138.79	151.48	136.97	106.19	1153.57	231.17	220.23
1962	269.23	90.0	485.71	327.94	163.50	130.96	146.75	143.10	73.20	1678.57	261.04	257.06
1963	276.92	45.0	425.71	285.29	120.44	130.96	139.05	130.83	44.33	2364.29	283.12	287.80
1964	276.92	100.0	434.29	305.88	103.65	119.57	124.26	117.21	13.40	3128.57	353.25	331.41
1965	307.69	170.0	457.14	344.12	100.00	88.97	113.61	98.64	11.34	4294.64	364.94	396.61
1966	356.92	186.5	422.86	340.74	101.61	23.06	101.12	63.87	11.86	6172.14	309.22	487.30

Source: See text.

Table VI

Government Savings Bank
Index of Liabilities
(1956=100)

Private Sector Deposits			Total	Government	Bank	Government		Other	Capital
Savings	Other Deposits	Demand		Demand	Savings Bonds	Insurance	Liabilities		
Deposits	Demand	Time	Deposits	Deposits	and Premium	Savings Bonds			
100	100	100	100	100	100	100	100	100	100
118.57	116.95	50.0	118.25	75.0	200.0	122.54	120.0	130.77	360.0
128.31	157.62	50.0	130.50	100.0	100.0	147.89	140.0	153.85	760.0
135.16	244.07	50.0	143.87	70.0	--	188.73	140.0	330.77	1060.0
160.88	316.95	1150.0	176.46	60.0	200.0	236.62	140.0	295.38	1360.0
187.52	315.25	100.0	197.77	40.0	600.0	301.41	180.0	329.23	1560.0
211.11	264.41	450.0	216.16	25.0	1400.0	425.35	200.0	456.92	1900.0
233.03	303.39	650.0	239.97	25.0	700.0	607.04	260.0	392.31	2260.0
256.16	313.56	800.0	262.40	25.0	800.0	832.39	300.0	446.15	2800.0
309.13	298.31	1450.0	311.42	60.0	800.0	1004.23	340.0	540.00	3460.0
391.55	310.17	1465.0	387.86	74.5	860.0	1191.55	408.0	659.08	4190.0

See text.

Table VII

Government Savings Bank
Percentage Distribution of Deposits, by Type

Year	SAVINGS DIVISION			BANKING DIVISION	
	Demand	Fixed	Lottery	Current	Time
(Dec.)					
1957	61.0	15.9	8.3	8.4	0.1
1958	56.6	17.7	9.1	10.0	0.1
1959	52.7	19.0	10.4	12.7	0.1
1960	53.9	17.5	10.6	13.6	1.6
1961	55.8	17.1	11.9	11.9	0.1
1962	54.4	17.3	14.8	9.1	0.4
1963	51.7	16.4	18.3	8.5	0.6
1964	49.5	15.6	22.2	7.7	0.6
1965	43.6	22.0	22.5	6.3	0.9
1966	39.5	27.8	21.8	5.4	0.8

Source: See text.

bonds and premium savings bonds together, suggesting that the rate of growth of the latter was greater than that of the former.⁶

The fact that lottery bonds grew much faster than any other liability to depositors is of great significance for mobilization of voluntary savings in Thailand. The contractual interest rate on these bonds is only 1 per cent per annum compared to 3, 4, or 5 per cent payable, within the period, on savings deposits, banking deposits, and ordinary savings bonds.⁷ The attraction of lottery bonds must be sought in their mystique and in the lure of a high pay-off rather than in their intrinsic superiority over other savings instruments. The total cost to the Savings Bank of the interest payments on these bonds is 3 per cent, which is below the return payable on other deposits. This amount, however, instead of being evenly distributed to all bondholders, is paid only to those fortunate enough to draw the lucky lots at periodic drawings. The inference is strong that the

⁶It was not possible to obtain the absolute figures for ordinary bonds and lottery bonds separately. In 1966, the composite of bonds accounted for less than 20 per cent of all liabilities, but savings bonds endowed with the lottery feature amounted to 22 per cent. Other information confirms the intelligence that, except for the capital account, lottery bonds grew faster than any other liability of the GSB.

⁷The principal difference between savings deposits and fixed deposits at the banking department of GSB was in the acceptable ceiling on deposits. Savings deposits had a much lower ceiling because they were meant principally for the small saver. Demand deposits in the banking department paid a rate of return ranking from 2 to 3 per cent per annum but had legal advantage over checking accounts in that they could be drawn upon more quickly than the demand deposits at the commercial banks which yield little or no interest. As seen in Tables IV and VI, however, in spite of a high rate of increase over time these deposits at the GSB have not increased very much either absolutely or in relation to other liabilities.

small saver in Thailand is not so much interested in small differentials in the rate of return at the margin as he is in the prospects of a large windfall, when such windfall is accompanied by little or no risk of the loss of principal.⁸

There are reasons to believe that, even though the appeal of the lottery bonds has quickly become apparent to the directors of the GSB, less than a full effort has been directed to the promotion and marketing of this type of instrument. The reasons for this are complex and not entirely clear. In part, they relate to the reluctance to weaken the acceptance of other types of deposits and, in part, to the suspicion that large-scale marketing of this type of security may interfere with the proceeds from the National Lottery.

Be that as it may, the experience of the Government Savings Bank has demonstrated that small savings can be successfully tapped by an institution which, first of all, provides widespread and convenient outlets to the savers and, secondly, provides savings instruments which appeal to their prejudices, imagination, and preferences.

But the success of the GSB in attracting small savings has not been paralleled by an effort to channel these savings into developmental priorities. The blame for this can hardly attach to the management of the

⁸These lottery bonds have the added attractive feature that their holders may hope to win several times during the currency of the bond. Moreover, this feature induces savers to hold their bonds to maturity in the hope of being lucky the next time a drawing is held.

Bank. As a government institution it was increasingly called upon to provide funds to the government and, of late, primarily to provide a market for government securities. As shown in Table VIII, loans have been decreasing in recent years, and less and less of the reduced volume has been channelled to the private sector for developmental purposes. In 1958 loans classified as being those to the private sector were estimated at some 112 million baht. This modest total shrank to 10 million baht by the end of 1964.⁹ In any event, as seen in Table III, loans are now a minor component of total assets of the Government Savings Bank.

⁹These estimates are from Direk Rabin, op. cit. The total of loans differs slightly from those given in Table VIII.

Table VIII
Government Savings Bank--Breakdown of Loans by Purpose
(Thousands of Baht)

Categories of Loans	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Housing	97,456	108,484	113,080	122,730	131,561	132,086	132,429	119,382	104,838	102,557
Educational	5,649	5,390	4,738	4,161	3,490	2,748	1,804	2,121	1,314	1,012
Employee Welfare	169	492	315	501	366	467	461	317	163	13
Public Welfare	224,360	248,429	251,371	250,053	245,253	238,322	235,193	206,732	142,413	2,008
Co-operatives	113,650	110,000	112,050	103,875	103,275	95,725	84,682	72,315	60,338	47,440
Transportation	69,427	71,336	71,042	72,053	56,612	46,815	45,415	28,570	10,809	7,374
Industry	60,500	89,665	99,526	100,066	90,412	140,861	95,447	73,301	58,000	17,497
Oil Distribution	--	--	--	370	8,063	9,890	--	--	--	--
Hotels	--	--	--	33,000	30,000	25,000	14,000	10,000	7,000	-151
Pawn Shops	--	--	--	12,000	12,000	12,063	7,584	8,040	8,578	7,324
Ship Repair	--	--	--	3,015	236	248	77	407	-345	-1,668
Banking	--	--	--	98,874	98,874	98,874	98,574	91,254	90,150	84,998
Broadcasting	--	--	--	--	1,600	1,100	1,100	1,000	750	300
Lottery	--	--	--	16,956	21,150	33,819	49,274	73,474	91,775	102,710
Family Annuity	--	--	--	1,141	1,331	1,618	2,043	2,523	2,823	3,197
Educational Annuity	--	--	--	--	--	--	--	--	100	325
Others	61,852	63,823	167,944	--	--	--	--	--	--	--
Total	633,063	697,619	820,066	818,795	804,223	839,636	768,083	689,436	578,706	374,936

Source: See text.

II. THE LOAN OFFICE FOR SMALL INDUSTRIES DEVELOPMENT

The Loan Office for Small Industries Development (LOSID) was established within the Ministry of Industry in 1964 to assist small-scale enterprise in obtaining finance on reasonable terms. It is the first deliberate governmental attempt to use public funds for the purpose of channelling private savings into developmental priorities.¹

The loan program to small industries is administered jointly with the Krung Thai Bank, the only deposit institution entirely controlled by the government.² LOSID is responsible for the technical and economic evaluation of loan applications while the Krung Thai Bank appraises the collateral and handles the procedural aspects. The credit risk is assumed by the bank. The loan fund resources come from budgetary appropriations and from contributions of the bank deposited to the special account.³ The bank charges

¹The Industrial Finance Corporation is an institution of the private sector. The Bank for Agriculture and Cooperatives has functions other than developmental finance and had not become fully operative until 1967. In the past, the Thai government has attempted to promote developmental projects through direct operation of industrial and commercial enterprises, but LOSID remains the first institution of the public sector designed to promote development through financing, without control, of private enterprises.

²Initially two commercial banks cooperated with LOSID, only one of which was government controlled. In 1965 these two banks merged into the Krung Thai Bank.

³The government matches the amounts earmarked by the bank for LOSID purposes. (See Table IX.) Statistical information in this section was compiled from the data obtained from LOSID and from interviews with its principal personnel.

Table IX
LOSID--Sources of Funds
(in millions of baht)

Year	Budget	Krung Thai Bank	Amount Available *
1964	10	5	10
1965	20	10	20
1966	25	15	30
1967	30	25	50

*Amount Available differs from the sum of the two preceding columns because a part of budgetary appropriations is kept at the Ministry of Finance and the amount released does not exceed the contribution of Krung Thai Bank.

Table X
LOSID--Loan History, 1964-1967
(amounts in millions of baht)

Year	Applied for No. Amount	Approved No. Amount	Disbursed Amount	Outstanding Amount (end of period)
1964	121 36	12 2	1.3	1.3
1965	123 39	49 11	9.3	10.5
1966	131 45	70 16	11.0	19.9
1967	153 44	88 22	n. a.	n. a.

Source for both tables: See text.

9 per cent on the loans under the program and pays the Loan Office 3 per cent of the monies contributed by the Ministry of Finance. Thus the bank obtains a 15 per cent gross return on the loan disbursements.

The deliberate, developmental character of the loan program lies in its emphasis on manufacturing facilities and on confining the financial assistance to "promotable industries."⁴

In 1966, over 80 per cent of all loans were made to manufacturing enterprises. Up to the end of 1967, 219 loans were approved, with the average size of the loan at about 200,000 baht (Table X).

While LOSID grants loans for working capital purposes, an effort has been made to stress loans for plant and equipment. As seen in Table XI, the proportion of loans made for working capital has decreased from nearly half in 1964 to less than one-fourth in 1967.

As shown in Tables IX and X, only about one-half of available resources were actually committed. But this hardly suggests that the supply of lendable funds is greater than the demand for them. Only a fraction of loan applications pass muster and, even more importantly, there are good

⁴In addition to manufacturing and service industries (mainly repair shops), handicrafts and cottage industries are also eligible. But a long list of enterprises is excluded, among them state enterprises, industries assisted from other sources, hotels, tourist agencies, transport, distilleries and breweries, tobacco factories, slaughter houses, printing presses, soap factories, spinneries, food preservatives, plywood, cement factories, pharmaceuticals (except those processing local materials), batteries and dry cell factories, cold storage plants, paper mills, automobile assembly plants, and the film industry. No enterprise with a capital of over two million baht is eligible, and no loan can be made for more than 500,000 baht. The applicant must supply at least 50 per cent of equity in the project, and he must provide a property collateral.

Table XI

**LOSID--Distribution of Approved Loans, by Purpose
(amounts in millions of baht)**

Purpose	1964		1965		1966		1967	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Working Capital	1.2	49.5	4.3	38.8	5.4	34.4	5.2	23.3
Acquisition of Land	.2	7.6	.4	3.4	.3	.3	1.4	6.5
Construction	.4	14.7	1.9	17.3	3.0	18.9	5.2	23.4
Plant Equipment	.6	26.1	4.3	28.6	6.3	40.4	9.4	42.4
Other	-	2.1	.2	1.9	.6	4.0	1.0	4.4
Total	2.4	100	11.0	100	15.7	100	22.2	100

Table XII

LOSID--Status of Approved Loan Projects

	1964	1965	1966	1967
Number of Loans Approved	12	49	70	88
Satisfactory Progress	6	41	63	85
Progress not entirely satisfactory	-	5	2	3
Unsatisfactory	6	3	5	-

Source for both tables: See text.

reasons to believe that the number of applicants is but a very small part of those who could usefully avail themselves of this facility. In addition to the usual impediments of lack of knowledge, the inability to prepare an acceptable proposal, the reluctance to disclose information or to deal with a governmental institution, there is the requirement that a property collateral be offered, which, more often than not, means land. For a variety of reasons, some of which have been discussed earlier, the insistence on land collateral is a serious obstacle to sound finance of manufacturing enterprise. Moreover, the financing facilities offered by LOSID are exclusively contractual in character. Loans are granted for periods of from three to ten years with, usually, one year of grace. Although the interest rate charged is below the market rate, the obligation to pay interest and amortize the principal before the enterprise shows any earnings is a serious deterrent to many would-be applicants. Finally, according to the managers of LOSID, the very limited scope of operations, circumscribed as they are by budgetary limitations, means that the facility is ignored or disregarded by many who otherwise could benefit from the program.⁵

There can be little question that provision of financial assistance to small-scale manufacturing enterprise, of the type being promoted by LOSID, should have high priority among the developmental goals of the country. As

⁵The management makes every effort to propagate the cause of LOSID and is particularly anxious to reach enterprises outside the metropolitan area. It initiated the "changwad program" under which one or more LOSID officers visit outlying provinces and try to canvass would-be applicants. In 40 changwads (provinces) at least one loan has been made.

shown elsewhere, this is the very type of enterprise that encounters the greatest difficulty in obtaining finance, pays the highest rate for the limited amount it can obtain, and is subject to the most onerous terms in general.⁶ But LOSID's scale and scope of operations would need to be considerably expanded if it were to make a significant contribution. Its record to date is a good one. As seen in Table XII, only about 10 per cent of its loans have gone sour.⁷ It pursues a vigorous follow-up program and, in general, its leaders have an awareness of the needs and the means of meeting them. It is those who run the affairs of LOSID who feel that the office should make itself independent of the government budget and should try to obtain funds from the market at large. To do so, it may have to revise its present loan policy. More particularly, there seems to be less need to charge a rate of interest below the market than to extend the duration of the loan and to extend the grace period. There is no particular reason why LOSID should subsidize the provision of working capital at the expense of commercial banks, but there are good reasons for it to charge more for genuinely long-term capital and so, in turn, attract savings to that purpose.

⁶See Alek A. Rozental, "Financing Thai Business Enterprise" (Field Work Report #21; Washington, D. C.: Center for Development Planning, National Planning Association, September 1967).

⁷The 3 per cent return on budgetary funds which accounts to LOSID is now apparently adequate to cover its operating expenses. After deficits in 1964 and 1965, the return on the loan portfolio exceeded its costs by about one-third.

III. THE INDUSTRIAL FINANCE CORPORATION OF THAILAND

Of all the institutions of the Thai capital market the Industrial Finance Corporation of Thailand (IFCT) is perhaps the most interesting from a developmental standpoint. This is so for a number of reasons. IFCT is the first, if not the only, financial institution deliberately set up to "assist in the establishment, expansion or modernization of private industrial enterprises" and to "encourage the participation of private capital, both internal and external, in such enterprises."¹ Unlike other publicly-sponsored institutions in the Thai capital market, IFCT is to operate predominantly in the private sector, under private management, and relying primarily on private funds.² Under its statutes and regulations the Corporation has a broad operational latitude and can engage in all forms of financing, with or without collateral, on contractual or on equity basis, directly or indirectly. Because of its scope and also because of its origins, IFCT has had relatively easy access to foreign venture capital and to foreign long-term loans. Finally, even though its performance to date has fallen somewhat short of expectations, IFCT has the potential, either alone or in

¹ Kingdom of Thailand, Industrial Finance Corporation of Thailand Act (1959), Section 11.

² Under the Act, IFCT cannot finance firms where more than 10 per cent of capital stock is owned by government.

conjunction with a sister institution, to play an important part in financing the industrial development of Thailand.³

The IFCT came into existence in 1959 when it replaced the Industrial Bank set up in 1952. The Industrial Bank, which was a creature of the public sector and whose directors were all appointed by the Cabinet, proved a failure.⁴ On its liquidation, some 14 million baht of its assets were converted into an interest-free loan to the IFCT, whose own capital was authorized at 100 million baht, of which 30 million was paid in by the end of 1966.⁵

³This potential, however, is not likely to be modified unless recourse is had to new and as yet untried modes of operation and financing and unless IFCT works in much closer cooperation with other bodies concerned with industrialization of the country. Until 1966, for example, for over six years of its existence, there were no formal channels of communication between the IFCT and the Board of Investments, the official body entrusted with the task of stimulating industrial investment via such incentives as tax and customs exemptions. In 1966 the Managing Director of the IFCT was made a member of the Board of Investments.

⁴See Chamlong Tohtong, "Practice and Problems of IFCT," Bangkok Bank Monthly Review (February 1964), p. 48.

⁵In mid-1967, 20 million baht worth of shares were offered for subscription to stockholders. In spite of some problems in selling the offered shares, it is expected that all 20 million will be taken up.

The IFCT is controlled by a Board of Directors which, at the time of writing, consists of eight men elected by the stockholders and one, usually the chairman, appointed by the government. Much of the actual operation of the Corporation is, however, performed by the staff under a General Manager appointed by the Directors. In recent years the Corporation has also evolved the practice of an Executive Committee, composed of five members of the Board of Directors who have the power to make decisions within certain limits.⁶

Even though it was intended that IFCT act as a catalyst to generate private capital financing of a medium- and long-term nature to Thai industry, throughout its entire history the Corporation has been forced to fall back on public funds to carry out its functions. In addition to a long-term, interest free loan of 15 million dollars obtained from U. S. counterpart aid funds, IFCT secured a 20 million baht loan from the Thai government in 1962, another loan of 30 million in 1965, and yet another of 20 million in 1967. Even so, its resources, particularly those in local currency, proved inadequate to meet the demand for finance, and at the

⁶In addition to the general provisions of the Act of 1959, as amended in 1962 and 1963, the operational policies of IFCT are regulated by a set of provisions prescribed by the Board. These relate to the proportions that the various forms of finance provided by the Corporation should bear to new worth, to capital, or to some other benchmark. The Executive Committee can decide on financing which does not exceed 50 per cent of these limits.

time of writing IFCT was preparing a scheme where it would sell up to 150 million baht worth of debentures to the Bank of Thailand, with the first tranche of 30 million to be sold during the fiscal year 1967-68.⁷

In addition to baht loans, IFCT obtained two loans from foreign sources. In 1963 it negotiated a loan agreement with the German Kreditanstalt fur Wiederaufbau for 11 million marks (about 54 million baht equivalent), and in 1964 it obtained a credit of 2.5 million dollars (about 50 million baht equivalent) from the International Bank for Reconstruction and Development. These two lines of credit were to be used up before December, 1968, and April, 1967, respectively. The loan agreement with the World Bank was terminated in 1967, with slightly over one million dollars of the credit unspent.⁸

IFCT borrowing history up to the end of 1966 is summarized in Table XIII. The table gives the amounts available for lending rather than the actual amount borrowed as the sums available under the various loan agreements were not necessarily drawn in the year in which an agreement was signed. These drawings, for the years 1964-66, are more accurately reflected in the comparative balance sheets given in Table XIV.⁹

⁷The 15 million dollar loan from the International Cooperation Administration, a U. S. aid agency, was for 30 years. The Thai Government loan of 20 million baht in 1962 was for a period of 50 years, with no interest payable for the first 20 years, 3 per cent payable in the next 20 years, and 5 per cent on the remainder of the currency of the loan. The 1965 loan of 30 million was for 15 years at 6 per cent per annum. The exact terms of the 1967 loan of 20 million baht were not available at the time of writing. The terms of the governmental loans are important insofar as they determine the amount of so-called "quasi-equity" of the Corporation, i.e., the part of its funding which can be added to the paid-in capital and reserve (stockholders equity) in calculating the various proportions which limit the operational latitude of the IFCT.

Table XIII

IFCT-Summary of Lendable Funds

		1960	1961	1962	1963	1964	1965	1966
Core Capital (paid-up) authorized capital (Bt. 100,000,000)		6,100,000	6,100,000	6,100,000	18,687,000	30,000,000	30,000,000	30,000,000
Reserves		0	1,700,000	2,550,000	3,550,000	4,850,000	6,500,000	8,330,000
Drawings:								
Baht currency		28,126,691	23,126,691	48,126,691	48,661,184	48,732,684	78,802,684	78,857,684
Foreign Currency (in baht equivalent)		0	0	0	55,000,000	105,000,000	105,000,000	105,000,000
TOTAL FUNDS	Baht	34,226,691	35,926,691	56,776,691	125,898,184	188,582,684	220,302,684	222,187,684
Baht Currency Funds		100%	100%	100%	56.31%	44.32%	52.34%	52.74%
Foreign Currency Funds		0%	0%	0%	43.69%	55.68%	47.66%	47.26%
TOTAL FUNDS		100%	100%	100%	100%	100%	100%	100%

Source: See text.

Table XIV
Industrial Finance Corporation of Thailand
Development of Balance Sheet
December 31, 1964-1966
(in thousand baht)

	December 31		
	1964 (baht)	1965 (baht)	1966 (baht)
Assets			
Cash	193	54	491
Call Loans	---	--	6,000
Time Deposits	33,000	44,800	---
Thai Government Securities	7,679	2,260	2,180
Accrued Income from Loans Investment and Deposits	1,522	2,738	3,655
Prepaid Expenses	8	8	14
Sundry Debtors and Debit Balance	84	375	1,963
	42,487	50,235	14,283
Loans and Equity Investment:			
Loans	40,559	64,208	131,405
Equity Investment	1,500	1,500	1,500
	42,059	65,708	132,905
Property and Equipment (at cost less depreciation)	2,203	2,460	5,396
Total Assets	baht 86,749	118,403	152,584
Acceptance-Guarantee	baht 790	7,562	905

Table XIV
(continued)
Industrial Finance Corporation of Thailand
Development of Balance Sheet
December 31, 1964-1966
(in thousand baht)

	December 31		
	1964	1965	1966
Liabilities			
Accrued Expenses	212	486	1,075
Staff Provident Fund	232	289	475
Sundry Creditors and Credit	8	16	29
Unpaid Dividend	8	8	8
Proposed Dividend	1,341	1,800	2,100
	1,800	2,598	3,687
Long-term Debentures:			
Loan from ICA	15,000	15,000	15,000
Loan from Thai Government	33,733	49,803	58,858
Loan from Kreditanstalt fur Wiederaufbau	1,352	8,189	16,289
Loan from IBRD	1,352	6,297	20,391
	50,085	79,288	110,537
Capital Shares:			
Authorized Capital (100,000 shares at 100 baht each). 100,000			
Issued Capital (30,000 shares at 1,000 baht each fully paid)	30,000	30,000	30,000
Returned Earnings	4,850	6,500	8,330
Special Reserve	15	16	30
Unappropriated	34,865	36,516	38,360
Equity of Shareholders	86,749	118,403	152,584
Total Liabilities	86,749	118,403	152,584
Acceptance and Guarantees on behalf of Customers	baht baht 790	7,562	905

Source: See text.

As indicated in the balance sheets (see Table XIV), loans extended to industrial borrowers rose sharply between 1964 and 1966, with over 130 million baht outstanding at the end of 1966 compared with the 40 million baht outstanding three years earlier. In fact, as shown in Table XV, it was not until 1966 that the volume of loans made by the Corporation showed a sharp increase from the rather low levels of the earlier years. Of the total amount of loans made to the end of 1966, those committed in 1966 account for nearly one hundred million baht, with the remaining 108 million baht accumulating over six years.¹⁰

⁸These loans were for 15 years and carried a 5.5 per cent interest charge. At the beginning of 1960, IFCT was granted a line of credit from the Asian Development Bank of five million dollars. Details of this transaction were not available at the time of writing.

⁹The bulk of the statistical information given in the paper has been obtained from the records, published and unpublished, of the IFCT. Additional information was obtained from interviews and other sources, some of which are indicated.

¹⁰Approved loans are those approved in principle by the Board. Committed loans are those where signed agreements between the parties have been completed. Disbursed loans are when funds have been released, and loans outstanding are the balances due on loans committed.

Table XV

Industrial Finance Corporation of Thailand Loan History--1960-1966

Year	Approved Amount (million baht)	No.	Committed Amount (million baht)	No.	Disbursed (million baht)	Outstanding (million baht)
1960	2,000	1	2,000	1	2,000	2,000
1961	11,300	8	9,800	7	6,000	8,000
1962	21,800	16	11,400	11	12,004	19,754
1963	33,555	15	18,300	13	13,879	31,212
1964	48,128	11	19,105	6	13,347	40,559
1965	32,680	13	47,498	12	32,434	64,208
1966	103,407	32	99,450	29	77,088	131,405
Total	252,870	96	207,553	79	156,725	---

Source: See text.

While the volume of loans has shown a sharp increase in recent years, financing on an equity basis has remained nil. This is so even though regulations have provided, from the very outset, for a broad range of equity participation by the Corporation, including direct purchase of shares, underwriting, and other forms of equity participation.¹¹ Although local currency resources have proved inadequate to meet the demand for loans, foreign currency funds obtained from the two foreign institutions have not yet been used to the full. This is somewhat surprising inasmuch as industrial establishments in Thailand may be expected to require a good deal of imported equipment. There is a good deal of evidence, however, that borrowers, even when they require imported capital goods, often choose to borrow local currency and to purchase the needed equipment from a dealer on the spot rather than import the equipment themselves. This practice meant that the meagre baht resources of the IFCT were unnecessarily depleted while the lenders of foreign exchange found the rate of utilization of the line of credit they provided to have been exasperatingly slow.¹²

¹¹The 1.5 million baht equity investment shown in the balance sheet (see Table XIV) was not a deliberate equity participation but more in the nature of liquidation of a bad debt. The equity was dissolved in 1967 by a sale of the assets. In 1966 and 1967 there was a substantial increase in the volume of loans and advances at the commercial banks guaranteed by the IFCT. The volume of the turnover is not reflected in the annual balances outstanding. It appears that these guarantees were several times their volume of the earlier years even though the total still remains less than 25 million baht. The growth of guarantee business appears to be a means to stretch the baht resources of the IFCT a little farther, but it does imply a loss of potential revenue. IFCT charges 12 per cent per annum on a guarantee out of which the commercial bank collects about 11 per cent. This compares with the straight loan rate of 9 per cent charged by IFCT on baht loans.

The shortage of local funds now emerges as the principal operating problem of the IFCT. From slow beginnings in the early years, when the supply of these funds exceeded demand, the Corporation now faces a continuing problem of finding new means of financing industrial enterprise. It is reluctant to seek additional funds from public sources, and, indeed, it does not find it too easy to obtain such funds. The terms at which government funds have been provided in recent years have become stiffer both in terms of length of loan and in terms of the interest cost. Devices such as the sale of debentures to the Bank of Thailand encounter a number of legal obstacles and in any event do not appear to be the proper means of replenishing the funds of an institution which was created to tap private, voluntary savings.

One way to relieve the pressure on scarce baht resources would be to increase the utilization of foreign exchange funds. As suggested above, these funds have not been utilized fully in the past and their supply seems to be assured by the willingness of various foreign institutions to provide a line of credit.¹³

¹²IFCT has benefited from the encouragement and advice of the International Finance Corporation, a subsidiary of the World Bank. IFC acquired 4,000 shares of the 30,000 shares of IFCT capital stock, and the World Bank provided a line of credit in 1964. One reason for the dissatisfaction of these organizations with the operating practices of the IFCT was the slow drawing of the line of credit. In April of 1967 the credit was terminated.

¹³In 1960, the first full year of its operations, IFCT signed only one loan agreement for two million baht, and it was disbursed in the same year. In 1961, six million baht was disbursed out of somewhat less than 10 million committed to seven borrowers. Up to that time the corporation had dispersed some 29 million baht in long-term loans (15 million from ICA and about 14 million of the assets of the Industrial Bank) plus some 8 million of capital and reserves. It was in 1962, with over

As seen in Table XVI, of the 94 loan agreements signed up to mid-1967, only 11 were made in foreign currency even though the annual interest charge on these loans is 7.5 per cent compared with the standard 9 per cent on baht loans. However, IFCT does not assume the exchange risk on its foreign currency loans and, in fact, charges a fee of 1.5 per cent for insurance against exchange risk, which it farms out to commercial banks.¹⁴ This practice not only eliminates the interest differential incentive to borrow foreign exchange but has the effect of discouraging such borrowing. The industrial borrower prefers to buy his import requirements locally so as to avoid complicated and sometimes costly import procedures and requirements. There seems to be little reason for not assuming exchange risk by the IFCT under the circumstances prevailing in Thailand, and there seems to be a great need to simplify import procedures for industrial borrowers.¹⁵

¹³(Continued) 11 million baht in additional loans committed, that IFCT had to borrow 20 million baht from the government even though at that time only 6 million of its authorized 100 million capital was paid in. In the last two years of operation (1966-67) there was a drastic fall in the proportion of the volume of loan applications to approvals. From 43 per cent in 1966 this proportion fell to 19 per cent in 1967.

¹⁴IFCT itself pays a fee of one-quarter of 1 per cent to the government to insure itself against exchange fluctuations.

¹⁵The management of the IFCT is aware of the need to do something about the exchange risk and to simplify the import procedures. A number of possibilities are being explored. One possibility would be to eliminate the letter of credit procedure and to pay the exporter directly against shipping documents out of funds available abroad.

Table XVI

Industrial Finance Corporation of Thailand--Selected Loan Characteristics

Total Loans Committed up to September 30, 1967

1) Number of Loans	94
2) Amount of Loan (baht)	261,465,000

These loans can be classified into several categories as follows:

a) Classification According to Rate of Interest.

Description	Interest Rate Per Annum			Total
	7 1/2%	8%	9%	
No. of Loans	9	2	83	94
Amount of Loan (baht)	53,923,000	6,450,000	201,092,000	261,465,000

b) Classification According to Term.

Description	Medium Term (not over five years)	Long Term (over five years)	Total
No. of Loans	44	50	94
Amount of Loan	63,397,000	197,068,000	261,465,000

Table XVI
(continued)

Industrial Finance Corporation of Thailand--Selected Loan Characteristics

c) Classification According to Currency.							
Description	Local	KFW Loan	IBRD	Total			
No. of Loans	83	7	4	94			
Amount	201,092,000	38,645,000	21,728,000	261,465,000			
d) Classification According to Size.							
Description	Sizes of Loan				Total		
	Bt. 500,000- 1,000,000	Bt. 1,000,001- 5,000,000	Bt. 5,000,001- 10,000,000	Bt. 10,000,001- above			
No. of Loans	39	37	15	3	94		
Amount of Loans (baht)	24,480,000	32,123,000	104,082,000	50,780,000	261,465,000		
e) Classification According to Region.							
Description	Greater Bangkok	Central	Eastern	North- eastern	Northern	Southern	Total
No. of Loans	54	12	3	14	6	5	94
Amount of Loan (baht)	187,520,000	21,070,000	1,400,000	33,870,000	6,645,000	10,960,000	261,465,000

Source: See text.

But measures to increase the utilization of foreign exchange funds will not take the IFCT very far.¹⁶ While these funds are currently more readily available than baht finance, their total availability will remain limited. IFCT must find ways and means to replenish its local currency resources and to do so without recurrent resort to public funds.

Viewed against the total volume of bank financing of manufacturing activity, let alone as a proportion of total value added in manufacture, the volume of finance provided by the IFCT is puny indeed. In 1966, value added in manufacturing was about 12,000 million baht, and the volume of bank loans and advances designated as made to manufactures was in the neighborhood of 1,600 million baht. Against this, the IFCT is expected to provide, at best, some 100 million baht annually to industrial undertakings.

As Table XVII shows, of the approximately 220 million baht in industrial credit provided by IFCT from its inception up to September 1967, over 150 million came from borrowed funds. To continue its operations at the present level, let alone to expand substantially its activities, IFCT must explore other means of financing its operations. The Corporation has

¹⁶Another important reason for the relatively feeble demand for IFCT foreign exchange funds is that many of the borrowers, particularly the larger ones, are in one way or another associated with foreign firms. In many cases these variously disguised foreign joint ventures find means of obtaining import components of their product outside the normal import procedures. Moreover, IFCT has only limited direction in making loans out of foreign lines of credit. In general, for loans in excess of one million baht, the prior approval of the foreign lender has to be obtained.

Table XVII

The Industrial Finance Corporation of Thailand
 Cumulative Sources and Uses of Funds
 from Inception until September 30, 1967
 (in thousand baht)

SOURCES			USES		
Share Capital		40,257	Loans Disbursement--Local	160,171	
Borrowed--AID		15,000	IBRD	21,726	
Government		83,858	KFW	38,324	220,221
IBRD		20,768	Reserves		9,198
KFW		36,669	Dividend Payment 1960-66		6,416
Loan Repayment--Local	35,882		Expenses 1960-66	19,625	
IBRD	940		Sept. 1967	7,246	26,871
KFW	1,655	38,477	Cash and Other Balance	27,117	
Interest Income 1960-66	21,155		Minus Reserves	9,198	17,919
Sept. 1967	9,495	30,650			
Income from Investment					280,624
1960-66	12,539				
Sept. 1967	707	13,245			
Other Income 1960-66	707				
Sept. 1967	107	814			
Profit from Sale of Land		868			
		<u>280,624</u>			

Source: See text.

recently broadened the self-imposed constraints on its activities. Previously, the debt incurred by IFCT could not exceed three times its equity (including quasi-equity). This was raised to six times its equity in 1967, thus enabling the Corporation to borrow additionally at least 500 million baht.¹⁷ Similarly, the limit of IFCT commitment to any single enterprise was raised from 15 to 20 per cent of its equity. More importantly, in 1967 the IFCT Board consented to set aside only 30 per cent of annual earnings as reserves, instead of 50 per cent, so as to enable the Corporation to pay a higher dividend to its stockholders. The first of these steps does not, in itself, provide any additional resources, but it opens the door to the employment of such devices as sale of debentures.¹⁸ The second of these measures may actually increase the drain on baht resources as it would enable the Corporation to make larger loans. The third measure does, however, address itself to one of the major impediments

¹⁷The exact figure is difficult to come by. The sum of capital accounts and quasi-equity was, at mid-1967, about 130 million baht, but there was some doubt whether all items classed as semi-equity would qualify.

¹⁸Other limits on the operational freedom of the IFCT were also revised. Thus equity participation of IFCT in any single enterprise was increased from 10 to 15 per cent of its new worth. Other limitations remained unchanged. These include the provisions that no loans under 500,000 baht be made and that financing provided by the IFCT be confined to medium- and long-term. The exclusion of short-term and working capital finance from the purview of the IFCT is not provided for specifically in the Act, however; and some opponents of the IFCT insist that the Corporation did, in fact, make some loans, the proceeds of which, in whole or in part, were used by the borrowers for working capital.

to the ability of the IFCT to raise additional capital in the private financial markets. Up to 1966 the IFCT paid 5 or 6 per cent to its stockholders. The rate of dividends was raised to 7 per cent in 1966, and the proposed debentures are to carry a 7 per cent coupon. This is the rate of return that conservative investors get from fixed bank deposits. Moreover, the interest income on IFCT stock is taxable while bank interest is tax exempt. Thus, neither the stock of the Corporation nor its debentures are likely to be enthusiastically received in the private market.¹⁹ It would seem that within its current operational structure and policies the ability of the IFCT to raise substantial amounts of capital from private domestic sources will continue to be severely limited. In part, and perhaps in largest part, this is due to the availability of more attractive investment outlets in the private financial markets. But to some extent, which is difficult to gauge with precision, the limitation is a result of the fact that the IFCT is not exactly beloved by the financial community in Thailand, even though it is the financial and primarily the banking community which owns the capital stock of the corporation and whose creature the IFCT formally remains. Rightly or wrongly, there is a strong feeling abroad that, in some instances, the IFCT competes unfairly with the commercial banks either by granting funds on more favorable terms or by performing activities which it was not meant to perform.

¹⁹One source of public funds which could be tapped by the IFCT in preference to budgetary loans may be the large amounts of government provident funds which currently earn no interest at all.

Irrespective of the extent to which these allegations are justified, they have to be contended with.²⁰ While it may be very difficult, if not impossible, for the IFCT to insure that its funds are not used for working capital purposes, the provision of which is the province of the commercial banks,²¹ there appears to be little justification for the IFCT to grant loans below the lowest alternative market rate. The lowest rate for bank accommodation is currently 10 per cent per annum (except for certain loans given for foreign trade), and there is little a priori reason for IFCT to make industrial loans at 9 per cent. The effect is not only to provide a subsidy (so far mainly borne by the taxpayers) but also to give an incentive to large, well established undertakings to seek subsidized funds when they could perfectly well pay the market rate and still prosper. Equalizing the maximum IFCT rate with the minimum banking rate would also

²⁰ One indication of the prevailing sentiments was given by the response of Thai banks to the 20 million baht of additional stock offered to existing stockholders in 1967. Thai banks took up much less of the issue than they were entitled to, and the regulations regarding the relative proportions held by local and foreign interests had to be changed substantially as a result.

²¹ IFCT has elaborate procedures and regulations which determine whether a loan will be disbursed. Once the funds have been disbursed, however, the IFCT seems to have few sanctions at its disposal in the event proceeds are not used exactly as intended. It can call in the loan, of course, but this is a drastic step which can be employed only very occasionally. The IFCT does have a "follow up division," but beyond occasional visits to the plant site there is little it can do in case of deviations from the loan agreement.

eliminate much of the banking circle's resentment against "unfair competition" of the IFCT.²²

In any event, if IFCT is ever to raise funds through issue of its own securities to private investors, it will have to offer at least one or perhaps two basic points above the rate payable on time deposits. It would hardly be possible, however, for IFCT to operate if it were to pay 9 per cent and earn no more than that on its loans. But liberalizing its operating provisions and increasing the interest charges is not likely to make a major difference to the scale of financing done by the IFCT in the future.²³

Even with a 9 per cent coupon the issue of an entity which cannot possibly earn more than 9 or 10 per cent on its equity will never become very attractive to private investors. Ultimately, the IFCT must look to equity finance as a way out of its impasse. By financing enterprise on an equity participation basis, the IFCT (or some related sister institution) could, in principle at least, obtain a return which would appear attractive to some investors willing to take risks. By selling its holdings from time to time and by revolving its portfolio, the Corporation could

²²The level of interest to be charged by such a quasi-public institution as IFCT is, of course, a much more complex issue than as presented here. It appears that the German lenders are sympathetic to the position that IFCT should charge below the market rate. IFC, on the other hand, feels very strongly that IFCT charges are too low. It would seem that the ADB loan was made at a rate in excess of 7 per cent. Thus IFCT may be forced to raise its lending rate in the future.

²³To the extent that the borrowers tend to be, increasingly, the bigger and better established firms, there is the danger that a portion of IFCT finance will merely change the pattern of supply of lendable funds rather than increase its volume.

replenish its funds without recourse to the fisc. IFCT is aware of these possibilities and is exploring them. Whether the exploration of equity financing should be entrusted to the IFCT as it is presently organized, or whether this function should be given to some other entity, is a separate question. IFCT has the powers to undertake the activities required or contemplated in the equity market. The question is whether its name or reputation have not been associated for too long with a certain kind of financing and with a certain approach which might prove to be a psychological obstacle to its undertaking drastically different functions.

On the other hand, IFCT has acquired a good deal of managerial acumen, technical expertise, and valuable experience. It pioneered and continues to pioneer in project evaluation and in loan appraisal based on the success of the project rather than on the status of the borrower. The possibilities of equity participation in industrial finance in Thailand will be discussed fully in a forthcoming paper.²⁴

²⁴The loss experience of the corporation has been quite good to date. As of September 1967, only three loans to the aggregate amount of 1.2 million baht were overdue for more than six months.

IFCT leads in accepting collateral other than land (even though it suffers, together with other lenders, from lack of firm legal provisions in the Thai code for chattel mortgage) and in assigning to that collateral a reasonable ratio with respect to the loan amount.

IV. LIFE INSURANCE COMPANIES

In most of the developed countries and in quite a number of the developing ones life insurance institutions are among the most important financial intermediaries. Even in the Far East, where the insurance habit and the formation of contractual saving institutions has lagged behind, say, Latin America, life insurance companies account for a substantial proportion of the financial assets of households in the Philippines and in Japan. As shown in Table XVIII, however, Thailand ranks well near the bottom of the list of Far Eastern countries in this respect.¹

Life insurance in Thailand is of minor importance as an outlet for household financial savings and of even lesser importance as a provider of long-term capital funds. Indeed, judged by quantitative criteria alone, there would have been little point in devoting considerable research effort to life insurance were it not for the fact that life insurance has demonstrated its importance in financial intermediation elsewhere and that, even in Thailand, it is capable of a not insignificant contribution to capital formation.

¹Table XVIII refers to a period, several years ago, for which relevant and comparable data were available. Life insurance is measured by net premiums. In Table XIX selected indicators for several countries have been compiled for 1960 and 1965 which, although not pertaining directly to the distribution of household savings, do nevertheless suggest that life insurance in Thailand has remained a minor component of the financial markets.

Table XVIII**"Saving" Through Life Insurance, Selected Far East Countries,
1955-1959**

Country	Life Insurance as % of Gross Household Saving	Gross Household Saving as % of Disposable Income
Malaya	7.6	11.0
Japan	10.3	17.3
South Korea	0.6	8.6
Philippines	14.7	9.7
India	3.1	6.3
Thailand (1960)	0.5	12.3

Source: Based on United Nations, Economic Bulletin for Asia and the Far East, Vol. XIII, No. 3 (New York: 1962).

Table XIX
Life Insurance in Thailand, the United States, and Three Developing Asian Nations,
1960 and 1965, Selected Indicators

	U.S.		Taiwan		Philippines		Thailand		Korea	
	1960	1965	1960	1965	1960	1965	1960	1965	1960	1965
GNP per capita (\$)	2,810	3,500	147	225	149	161	100	124	83	102
Cost of Living Index	100	107	100	112	100	126	100	107	100	204
Sum Insured/GNP	1.41	1.60	.016	.037	.18	.20	.044	.063	.046	.083
<u>Life Insurance Assets</u> GNP	.24	.23	.0025	.0074			.0072	.0061	.002	.005
<u>Life Insurance Assets</u> Commercial Bank Deposits	.65	.58	.026	.032			.063	.033	.034	.082
Premiums/GNP	.024	.024					.0015	.0023	.0017	.0028

Sources: International Monetary Fund, International Financial Statistics 1967; U. S. Institute of Life Insurance, Life Insurance Fact Book 1967; Government of Thailand, Report on Insurance Business in Thailand, 1965; Bank of China, Taiwan Financial Statistics Monthly (May 1967); Bank of Korea, Economic Statistics Yearbook, 1965.

The advantages of life insurance as a financial intermediary have often been cited and discussed, and there is no need to repeat them at length here. In brief, the contractual character of life insurance claims and assets make it possible to provide long-term funds to deficit saving and to enhance both the flow and the composition of household savings.²

Thus, the very fact that, in Thailand, life insurance currently plays such a small part in financing capital formation and in mobilizing voluntary saving, warrants a study of these institutions, first, in order to determine some of the reasons for their laggard performance to date, and, second, to gauge their likely contribution in the future.

No attempt will be made to give a full analysis of the life insurance industry in Thailand. Instead, certain salient features of life insurance in the Kingdom will be discussed, particularly as they bear on the problems of financing economic development.³

²For a convenient summary of the advantages of life insurance for capital markets and economic growth in general, see: United Nations, ECAFE, Economic Bulletin for Asia and the Far East, Vol. XIII, No. 3 (New York: United Nations, 1962); and Organization of Economic Cooperation and Development, Capital Markets Study, General Report (Paris: OECD, 1967).

³Very little is available in readily accessible form about life insurance in Thailand. The very few printed works on Thai financial structure contain only very brief paragraphs on life insurance. The annual report of the Insurance Commissioner of Thailand includes some statistical information which is several years out of date, not always reliable, and which requires considerable processing before it can be used at all. There is rumored to exist an industry study of life insurance published around 1964 or 1965; but if such a study does indeed exist, it remains extremely well hidden. Authoritative representatives of life insurance companies deny its existence. There is a 1959 report on life insurance in Thailand prepared for the Technical Assistance Programme of the United Nations which deals mainly with the administrative and managerial practices of Thai life

Life insurance companies operating in Thailand have had a short but checkered career.⁴ Business on any significant scale did not start until the early 1950s, but the public's acceptance of the newly available services was uneven and, on occasion, rudely shaken by disturbances within the industry. The greatest of these shocks to public confidence occurred in 1964 when one of the largest of the life insurance companies then in existence failed and was liquidated. But even prior to this there were both events and rumors which put into question not only the veracity of the agents and the competence of the managers but the integrity of the corporate owners as well. Of the 12 companies now operating, only three or four are considered to be at all sound and three of these account for 60 per cent of total life insurance assets of some 500 million baht. Many of the smaller companies are undercapitalized, are operated by owner-managers whose main interests often lie elsewhere, and/or are little more than devices to obtain cheap working capital for businesses unrelated to the insurance operations.

³(Continued) insurance companies. The report remains on the restricted list. The data and information given in the text have been culled from a variety of sources, written and verbal, but the bulk of the data were derived from a study of life insurance business in Thailand conducted by Mr. Richard Sandler in 1967 under the supervision of the writer. This study included an extensive series of interviews with most of the life insurance companies operating in Thailand and an analysis of the responses to a comprehensive questionnaire submitted as a part of these series of interviews. For a variety of reasons Mr. Sandler's study cannot be said to be fully comprehensive nor are the data entirely reliable, but its findings do represent the best available intelligence on the subject.

⁴Casualty insurance, which accounts for some 40 per cent of total corporate insurance assets in Thailand, will not be discussed in this paper inasmuch as casualty (insurance) is regarded more in the nature of a business service than financial intermediation.

This state of affairs emerged largely as a consequence of the fact that from 1949 until 1967 the life insurance industry in Thailand was only very loosely regulated, if at all. The industry was subject to an administrative set of rules called "Conditions Governing Life Insurance" with vaguely defined legal powers which stipulated a minimum paid-in capital, a deposit with the Insurance Comptroller, and annual financial reports which were seldom audited. The right to inspect the companies was hardly ever exercised.

Yet, as seen from Table XX, life insurance companies did increase the scale of their operations between 1960 and 1966 in terms of the number of offices outside the metropolitan area, the number of agents, and the quantity of staff. At the same time, data contained in Table XXI suggest that the intercompany competitive effort was not paralleled by enhanced efficiency. Thus, quadrupling of the number of agents between 1960 and 1966 led to slightly more than doubling of the premiums in the same period. Similarly, the tripling of the office staff increased the number of policyholders by a factor of two. The expansion of facilities has not, as yet, been able to capitalize on the economies of scale which are inherent in a financial business.⁵

⁵Net premiums are those paid in less amounts paid out to reinsurers. Amount insured is a less significant index of growth because of the rather high rate of lapsation and surrenders prevailing in Thailand. It is uncertain to what extent the increased number of policyholders represents an increase in the number of separate households covered, or an increase in the number of persons insured within the households. The reserve fund figure is particularly unreliable in Thailand because until 1967 the life insurance companies were permitted to set aside 65 per cent of their gross earnings even though their operating expenses averaged over 40 per cent. Some

Table XX**Life Insurance Companies in Thailand
Growth of Offices, Agents, and Home Office Staff
1960 and 1966**

Name of Company	Offices up-country		Agents		Staff	
	1960	1966	1960	1966	1960	1966
Southeast	13	18	496	494	173	301
Thai Prasit	11	11	690	1,126		
Ocean	10	58		2,974	44	612
Muang Thai	14	20	114	249	17	48
Ayudhya						
Oriental	15	15			55	52
Siam Life	0	0	521	2,726	23	33
Thai Life	5	10	120	180	28	40
Thai Sreshtakich	0	0			2	2
International						
American Insurance Association			314	1,299	25	79
China Underwriters		9	30	104	5	11
Total*	68	141	2,285	9,152	372	1,178

Source: See text.

*Based on incomplete information.

Table XXI**Life Insurance Companies in Thailand--Selected Indicators,
1955-1965
(thousand baht)**

Year	Net Premiums	Amount Insured	Number of Policy- Holders	Reserve Fund	Total Assets
1955	75,850	1,956,499	146,997	193,629	239,421
1956	71,964	1,916,943	140,913	225,541	276,418
1957	76,131	2,052,557	154,770	263,666	315,661
1958	77,030	2,161,061	166,633	290,127	349,550
1959	79,962	2,198,635	195,685	314,284	379,688
1960	84,822	2,422,325	221,999	328,110	392,873
1961	98,636	2,599,547	219,638	325,256	373,100
1962	112,586	3,121,766	254,155	333,483	425,299
1963	132,348	3,691,467	299,755	366,836	427,631
1964	154,615	3,940,829	306,888	356,923	429,232
1965	185,743	5,002,815	391,138	430,129	487,651

Source: See text.

These three factors, the inefficiency of most life insurance companies, the lack of public confidence in the business, and the loose character of supervision, were jointly responsible for holding back the industry to a very minor role in Thai financial markets. Table XXII shows that from 1957 to 1965 the relative importance of life insurance in financial saving flows declined quite considerably, from nearly 5 per cent at the beginning of the period to less than 1.5 per cent at the end of it. If anything, the data in Table XXII overstate the relative share of life insurance saving flows, because the table omits a substantial amount of savings flowing through various pension and provident funds and other intermediaries whose importance has probably increased substantially over the last decade.⁶

If the record of the life insurance industry in attracting household savings was a poor one, its performance on the supply side of the schedule of investable funds was even less impressive. In Table XXIII the distribution of industry assets is given for 1961 and 1965. Although the exactness of the percentages may be open to doubt, the orders of magnitude are probably not

⁵(Continued) companies required over 60 per cent of gross earnings to operate. (Most companies found it profitable to set aside to reserves the full amount allowed, for tax advantages.) The total assets differ from the reserve fund by the amount of capital.

⁶Table XXII gives data for provident funds of the Bank of Thailand only. As will be seen in the next section, there exist large provident funds in both the public and private sectors. An indeterminate but positive quantity of household savings flow through other financial intermediaries, which include both those whose existence is known, such as mutual funds and the rotating credit societies, and others whose existence is only suspected.

TABLE XXII

Financial Saving Flows in Thailand--Annual Changes in Private Holdings of
Selected Financial Assets, 1957-1965

Changes in Financial Savings

Year	Cash		Demand Deposits		Government Savings Bank Liabilities		Commercial Banks Time Deposits		Government Securities		Life Insurance Fund		Provident Funds of Thailand		TOTAL
	in mil. of baht	as % of total	in mil. of baht	as % of total	in mil. of baht	as % of total	in mil. of baht	as % of total	in mil. of baht	as % of total	in mil. of baht	as % of total	in mil. of baht	as % of total	
1955	318.5	41.55	237.0	30.92	89.1	11.62	33.4	4.36	38.2	4.98	2.9	0.38	766.6		
1956	323.9	51.17	-18.0	2.84	183.2	28.94	38.3	6.05	27.0	4.27	3.6	0.57	633.0		
1957	350.4	38.10	74.0	8.05	152.9	16.62	77.6	8.44	23.6	2.57	4.5	0.49	919.7		
1958	754.8	45.59	225.0	13.59	251.1	15.17	141.9	8.57	13.8	0.83	5.1	0.31	1655.7		
1959	541.0	29.05	200.0	10.74	459.6	24.68	174.5	9.37	-2.8	-0.15	22.3	1.20	1862.4		
1960	-43.8	-2.12	250.0	12.11	1654.7	80.15	115.9	5.61	8.2	0.40	17.8	0.86	2064.5		
1961	647.3	27.37	277.0	11.71	1113.0	47.06	150.1	6.35	33.3	1.41	5.9	0.25	2365.0		
1962	368.6	12.72	336.8	11.62	1361.3	46.96	306.2	10.56	20.1	0.69	14.8	0.51	2898.9		
1963	632.4	21.32	461.2	15.55	792.5	26.72	145.6	4.91	43.2	1.46	--	--	2965.8		

See text.

Table XXIII

Life Insurance Companies in Thailand--Percent
Distribution of Assets, 1961 and 1965

	1961	1965
Government Bonds	4.9%	6.2%
Policy loans	29.6	23.2
	{ 49.5	{ 35.1
Other Loans	19.9	11.9
Other Investments	0.7	1.6
Stocks and Shares	7.4	5.4
Cash in Hand	1.0	0.5
Cash in Banks	6.6	11.3
Accts. Receivable, etc.	4.4	8.3
Sundry Debtors	8.9	8.3
Buildings	6.2	15.9
Equipment	5.5	2.8
Head Office A/C	4.4	4.7
	<u>100.0</u>	<u>100.0</u>

Source: Reports of the Thai Insurance Division, 1961 and 1965.
Modified for 1965 in the light of information supplied by
companies.

far from the mark. An analysis of these assets reveals that very little of household savings is being channelled by Thai life insurance companies into long-term financing of industry. The portfolio of stocks and shares represents mainly the holdings of stocks in companies in which the insurance business is a subsidiary or an adjunct. There is very little portfolio investment in equities, and very few, if any, of the stocks are purchased through the stock market. Between 1961 and 1965 the most pronounced change in the composition of life insurance assets took place in real estate investments, and there is reason to believe that the 16 per cent shown for 1965 substantially understates the investment in buildings.⁷ Both in 1961 and in 1965 the greatest proportion of total assets was in policy loans. These loans are granted to policyholders on demand, mainly to provide for consumption needs and occasionally to forestall lapsation. They represent a contingent claim on the disposable funds of the Thai life insurance companies. The decrease in the relative size of this type of asset is to be welcomed as it provides management with greater latitude in the use of its funds.⁸

⁷The supervisory agencies frown on investment in real estate, in general, and severely restrict it in the case of foreign-controlled companies. There are two such companies operating in Thailand, one of which is the largest in the industry.

⁸Policy loans yield 8 per cent per annum, which is above the estimated 5 per cent return on all assets. This is a very low rate of return in a country where commercial bank deposits yield up to 7 per cent and the average cost of bank loans is probably about 12 per cent.

Loans, other than policy loans, may appear, at first blush, to include loans to industry and perhaps also term loans. In fact, however, many of these are short-term warehouse loans given against merchandise collateral at rates of interest ranging between 3 and 4 per cent per month. Allegedly, they also include loans made to influential persons without security but at a high rate of interest, and the decline in the relative importance of "other loans" is said to reflect the growing concern of the life insurance companies with the unsecured nature of some of these assets. For comparison purposes, Table XXIV gives the distribution of the assets of U. S. life insurance companies.⁹

In spite of the rather dismal record to date, there are reasons to believe that the life insurance industry in Thailand faces a brighter future and that its importance as a collector of household savings and as a purveyor of industrial finance could be enhanced substantially. These reasons are of two kinds. First, there are forces which are not confined to Thailand but which augur well for the future of life insurance, and, second, there are special circumstances in the Kingdom which tend to accentuate these forces.

⁹It must be borne in mind that most U. S. insurance companies are limited by state laws as to the proportion of equities in their total portfolios. The proportion of equities is much higher in the United Kingdom.

Table XXIV

Percentage Distribution of Assets of U. S. Life
Insurance Companies, 1961 and 1965

	1961	1965
U. S. Government Bonds	4.9	3.2
Foreign Government Securities	.3	.6
State, Provincial, and Local Securities	4.0	3.4
Railroad Bonds	2.8	2.1
Public Utility Bonds	13.4	10.7
Industrial Bonds	22.6	24.2
Stocks	4.9	5.7
Mortgages	34.9	37.8
Real Estate	3.2	3.0
Policy Loans	4.5	4.8
Miscellaneous	4.5	4.5
TOTAL	<u>100.0</u>	<u>100.0</u>

Source: Institute of Life Insurance, 1967 Life Insurance Fact Book,
New York, 1968, p. 63.

In most of the developing countries mortality rates can be expected to fall more precipitously than in those countries which have already achieved a high level of medical care and public health. The rates of growth of insurance purchases are bound to be higher in countries which start from a low base and where income, urbanization, and educational trends all point to a greater interest in life insurance in the future. Whether alone or in conjunction with the spread of other contractual forms of savings, life insurance must benefit from the growth of social security schemes which, in the Far Eastern countries, lag considerably behind those of Europe and Latin America.

In Thailand, moreover, the mortality tables currently used already overstate existing mortality rates, and there is relatively less competition for household savings in the Kingdom than in many of the surrounding countries. The past managerial record is capable of rapid and substantial improvement, and the supervisory authorities have finally awakened to the need for a more vigorous regulation of the industry.¹⁰ Most importantly, the predominant form of life insurance policy in Thailand is the endowment type which enables the insurance companies to assume the

¹⁰At the time of writing the detailed provisions of the Insurance Act of 1967 were still awaiting interpretation by Ministerial decrees. The Act does, however, stiffen capital and deposit requirements and, in addition, imposes control over premium rates, agent commissions, the allocation of premiums to reserves, and the composition of assets. Most importantly, the Act institutionalizes a system of periodic inspection and audit of the activities of the life insurance companies.

intermediation role much more confidently.¹¹ Not only is the management of funds easier under the known schedules of liabilities prevailing under endowment policies, but such policies contain a greater proportion of saving than do term insurance policies.¹²

One recent development in the operations of Thai life insurance companies merits attention. In addition to the competitive struggle to establish offices in provincial cities, which raised the number of such offices from 68 in 1961 to 141 in 1965, there have been attempts to sell life insurance directly to rural households.¹³

¹¹ Seventy-eight per cent of policies in force are of the endowment type, and they account for 65 per cent of the sum insured. These policies are issued for a period of from 10 to 20 years.

¹² The emphasis on endowment policies--with their accumulation of savings over the life of the policy rather than, as is the case with term insurance, over the last few years of the policy--is at least in part due to the reluctance of Thai insurance executives to sell policies on the basis that families are protected and safeguarded against the risk of death. These latter two aspects are the ones usually emphasized in the United States and the United Kingdom. In Southeast Asia it is considered bad form to mention the possibility of death to the prospective purchaser of an insurance policy; instead, savings aspects of a policy are stressed (the Chinese word for insurance translates as "man-long-life").

¹³ One reason why life insurance is believed to be capable of increasing the ratio of voluntary saving to disposable income of households is that unlike commercial banks, for example, life insurance companies can aggressively seek savings, can approach potential savers directly, and can "sell" the concept of periodic and contractual savings to those hitherto consuming most of their money income.

One company, in particular, has been quite successful in selling life insurance policies to farmers and others generally regarded as being in a poor market, and it now sells three-fourths of its policies in the countryside. In 1965 it collected 47 million baht in premiums, the highest amount in Thailand, and about nine times its volume of 1960. The company issues small policies which require only about 20 to 30 baht in monthly premium payments. Although the program is still in its experimental stage, is subject to high lapsation rates, and is rather expensive to run, the company is satisfied with its progress to date and its potential for the future.¹⁴

Granted that the Thai life insurance business is capable of accelerated growth in the future, what is its potential within, say, 10 to 15 years?¹⁵ If premium payments of between 4 and 5 per cent of disposable income are considered to be the maximum that a household would be willing to put into insurance, the number of policies in force could quadruple or quintuple. To the extent that the growth in life insurance assets is increasingly directed into long-term financing, at the end of, say, 10 years, the Thai life insurance industry could provide between 100 and 200 million

¹⁴The GSB has also been selling life insurance which requires very small monthly payments. The bank requires life insurance to be attached to its housing loans, but it is also selling life, disability, and endowment policies to its clients.

¹⁵So far the Thai life insurance industry has not had to contend with the inflation which has retarded the growth of life insurance business in a number of countries. Yet, as shown in Table XIX, inflation need not be a deterrent. In Korea, despite the doubling of the price level between 1960 and 1965, life insurance assets as a proportion of GNP more than doubled.

baht annually to the capital market.¹⁶ This compares with the 1600 million baht supplied annually by commercial banks to "manufacturing." The insurance contribution, however, would be in addition to the 100 million or so currently provided annually by the IFCT. Even this modest contribution to the flow of investable funds cannot be taken for granted. To achieve it, the life insurance business will have to overcome a number of shortcomings and obstacles, some of which lie within the industry itself (and have to do with management and the integrity of both owners and agents) and some of which have to do with the legal and institutional setting within which the life insurance business operates in Thailand. Of these latter obstacles, perhaps the most serious is the tax treatment accorded life insurance premiums, which appear to be discriminated against vis-a-vis commercial bank deposits.¹⁷

¹⁶ At present, the average annual premium payments are about 475 baht, with 13,000 baht as the mean value of the sum insured. Inasmuch as the best prospects for expansion of the life insurance market lie among the lower income groups, some 1,500,000 households could pay a maximum of 300 baht a year so as not to exceed the 4 or 5 per cent stipulated. Increases in income over time will increase the number of eligible households, but insurance cannot be expected to be the only outlet for incremental savings. In the United States the ratio of premiums to disposable personal income (which is lower than household income) is about 4 per cent.

¹⁷ Life insurance companies pay a business tax of 2.5 per cent on premiums while commercial banks do not pay taxes on deposits. In a number of countries premium payments are exempt from the individual income tax, and in yet others contractual savers receive, in addition, a cash bonus (i.e., Germany). Exemption of premiums from individual income has been suggested for Thailand.

It is not likely, therefore, that even a great increase in the industry's efficiency and appeal will produce major additions to the flow of investable funds in the foreseeable future. In a number of developing countries the importance of life insurance in the capital markets derives not so much from voluntary purchases of life insurance by households as it does from the tie-in of insurance with various pension and provident fund schemes and, particularly, from the compulsory character of much of the insurance protection sold.¹⁸

Given the circumstances prevailing in Thailand, the introduction of compulsory elements into contractual savings is not likely to advance very far in the near future.¹⁹

¹⁸ See United Nations, ECAFE, Economic Bulletin for Asia and the Far East, pp. 5-10.

¹⁹ Some elements of compulsion do exist, however, with respect to provident funds. See the next section.

V. EMPLOYEE BENEFIT FUNDS

The various kinds of employee funds under which a stated sum of money is periodically set aside to provide benefits to an employee upon his retirement, death, or resignation are, throughout most of the world, among the fastest growing vehicles for financial savings of households. Even so, it was somewhat of a surprise to discover that this holds true for Thailand as well, a country where contractual forms of saving are in their infancy, where a social security system is well-nigh non-existent, and where there are relatively few large-scale employee organizations.¹ Yet, at the end of 1966, the liabilities of the various provident and pension funds operating in Thailand aggregated at least 1,410 million baht, and the available data indicate a compound annual rate of growth of more than 10 per cent.²

As shown in Table XXV, the employee benefit funds in Thailand are predominantly provident funds with pension funds accounting for less than 30 of the 124 funds whose existence could be ascertained. In terms of total

¹A developed social security system could be considered to be competitive with contractual saving although a recent comprehensive study concluded that this need not be so. See Organization of Economic Cooperation and Development, Capital Market Study, General Report (Paris: OECD, 1967), p. 13.

²There is absolutely no information available on employee benefit funds in the private sector. Data on those in the public sector are held in widely scattered departments and have never before been collated or aggregated. The information given in this section is the first known attempt to present reasonably comprehensive data on this subject. The data were obtained by Mr. Richard Sandler and Mr. Sommode Phasee. They derive from a series of

Table XXV

Employee Benefit Funds in Thailand*
(Liabilities)
(millions of baht)

Type of Fund	1960	1964	1965	1966
Provident Funds-Government	335	492	551	615
Provident Funds-State				
Enterprises	268	407	463	524
Provident Funds-Private	52	114	135	163
Pension Funds-State				
Enterprises	15	46	52	56
Pension Funds-Private	19	39	44	51
TOTAL	689	1,098	1,245	1,410

Source: See text.

***Does not include non-funded government pension payments which amounted to 143 million baht in 1960, 242 million in 1964, 273 million in 1965, and 296 million in 1966.**

liabilities, the most important are the Official Provident Funds of the government with 615 million baht. These are followed by the provident and pension funds of the various State enterprises (with the State Railway Fund accounting for some 326 million baht of the 600 million in this category), and the numerous funds in the private sector totaling, at the end of 1966, less than 120 million baht in liabilities.

Even more surprising than the discovery that employee benefit funds are quite significant mobilizers of saving in Thailand is the finding that the bulk of the household savings which flow into these funds is of a compulsory nature.³ The government's Official Provident Fund was established in 1950.⁴ Currently 4 per cent of a civil servant's salary is deducted each

²(Continued) interviews, from a mail questionnaire covering over 200 establishments, and from other sources. For a variety of reasons, of which the termination of the field work phase of this research project was the principal one, the results are incomplete and subject to the usual caution about reliability.

³Two-thirds of the funds deduct a fixed proportion of the employee's salary every month. The compulsory nature of the employee's contribution is, however, somewhat different from the compulsory saving which results from taxation or inflation. This consideration plus the fact that two-thirds of the funds are based on voluntary payments justify a brief discussion of these funds in a study which purports to concentrate on voluntary savings flows.

⁴A provident fund is one where benefits are cumulated over a number of years and paid out to the employee on his termination of employment. It differs from pension funds mainly in that the benefits paid out cannot exceed the accumulation in the fund, whereas the aggregate of annuities paid a retiring employee until he dies can exceed the accumulation under a pension scheme. In addition to its provident fund, the Thai government does maintain a pension scheme, but the latter is not funded, does not require any contribution from the civil servant, and is financed out of current revenues. In 1966 the payment of pensions out of the regular budget amounted to nearly 300 million baht. Most of the pension schemes run by the State enterprises are similarly unfunded, but almost every one of the pension schemes administered by large corporations are self-insured, funded schemes of the type which predominate in the United States and the United Kingdom.

month and deposited in the fund. The contribution of the government consists of interest payments of 5 per cent.⁵

The provident funds of State enterprises⁶ and private companies pay accumulated benefits upon retirement, death, or resignation of the employee; but, unlike the Official Provident Fund, they match the employee's salary deduction in addition to the interest on the cumulative balance. Typically, the monthly salary deduction is 5 per cent of salary, but the matching contribution is frequently calibrated so as to provide an incentive to the employee to stay on the job longer. Conversely, in the event an employee quits before a minimum number of years (usually 10) on the job, his benefits will be less than the full accumulation of salary deductions and matching contributions plus interest.⁷

⁵For some unexplained reason these interest contributions are not shown explicitly in the accounts of the Official Provident Fund. They are deducted from the Fund's balance, however, when the employee retires and collects his benefits in lump sum. Under the pension plan, the employee is given an option of a lump sum payment or an annuity payment. Retirement, hence, pension entitlement, is contingent upon the completion of a minimum of 10 years of service. Under provident fund provisions, however, the civil servant is entitled to receive his accumulation whenever he leaves the government employe.

⁶State enterprises are "mixed" corporations controlled by the government but managed outside the civil service system. They run the public utilities and monopolies in Thailand.

⁷Interest is usually fixed arbitrarily. The company contribution is often graduated with the length of service so as to provide an additional inducement to longer employment.

Pension plans of private corporations (only one funded plan is operated by State enterprise) are financed in a variety of ways, none of which bear any relation to actuarial expectations.⁸

There is little doubt that employee benefit funds will grow in the future, although it is not certain that the rate of growth of the last five or six years will be maintained. In the public sector, the increase in the number of civil servants and the expected increase in their average compensation is bound to increase the total liabilities quite sharply in the near future.⁹ In the private sector, the formation of funds is still in its initial stages and the aggregate of liabilities may be expected to grow pari passu with the adoption of employer benefit funds by other businesses and the further expansion of those firms which already operate such funds.¹⁰

⁸These include the setting up of a special fund out of capital and annual appropriations, allocation of a share of profits, and so on. Typically, pension rights are accumulated after a minimum of 25 years with the company.

⁹The pay increase for civil servants has been long delayed. Moreover, the 1967 revision of the provisions governing the administration of the Official Provident Funds had the effect of substantially increasing the average monthly payroll deduction. Prior to 1967, the scale of deductions ranged from 1 to 4 per cent of salaries rather than, as at present, 4 per cent across the board.

¹⁰At present, only about one-third of the labor force (in establishments with more than 10 workers) in the metropolitan area is covered by employee benefit funds. Even so, it is doubtful that future accumulation of liabilities in the private sector will match the rate achieved in the past 10 years. The biggest undertakings are already operating provident and pension funds, and the base for future growth is already quite large.

Even so, it is unlikely that, under the conditions prevailing in the country, the flow of financial saving through employee benefit funds will exceed 200 million baht annually over the next few years.¹¹

But this modest forecast could be revised upward quite substantially were the conditions under which employee benefit funds operate to change. At the present time the funds are confined to larger employers who alone have the resources, financial and managerial, to administer funds which are not insured, which have no actuarial provisions for outpayments, and where the assets are frequently comingled with those of the operating company. To a large extent the employee benefit funds, particularly those in the private sector, represent an effort of the sponsor to reduce costly turnover of personnel and, if need be, to pay to that end out of the company profit or capital. A large spurt in the liabilities of provident and pension funds could come about only through their institutionalization; i.e., through some form of social insurance or through another device which ties in the contractual and compulsory elements of the funds to life insurance operations.¹²

¹¹In the last two or three years the annual increase in total liabilities has been about 200 million baht. However, a substantial proportion of this increase, in fact, about 40 per cent, represents employee contributions, only a small fraction of which would become financial savings of households were these contributions replaced by salary increases. On the other hand, the data collected understate the scope of employee benefit funds. Thus, in addition to those funds whose existence is not known, there are provident funds of local and municipal employees, which, however, are quite small.

¹²Proposals for a fairly comprehensive social insurance scheme have been debated in Thailand since at least 1954. A recent proposal would provide benefits in case of sickness, maternity, death, and permanent disability, but none for old age. Medical care would be provided free. The scheme is

Neither of these schemes is likely to become operative in the near future. The most immediate and most direct steps which could be taken to increase the flow of household savings to employee benefit funds are those which provide tax benefits and/or remove disincentives.¹³

Employee benefit funds can be expected to contribute to long-term finance to an extent even greater than life insurance. Their payments are more predictable and their receipts more stable than those of life insurance companies. Yet, in Thailand, the employee benefit funds perform rather poorly as financial intermediaries. The largest of them, the Official Provident Fund, simply holds its balances at the Treasury where they earn no interest and where there are no provisions whatsoever for their investment.¹⁴

¹²(Continued) to be financed by employee, employer, and government contributions and is to be administered by a bureau under the Ministry of the Interior. See "Social Insurance Planning in Thailand," unpublished report prepared by the Ministry of the Interior, Social Security Division (Bangkok, 1965).

¹³At present employee contributions are not exempt and benefits are taxed at graduated income tax rates when received in lump sum. Employers can deduct actual payments but not annual contributions. In a country where large-scale units are only beginning to form and where the labor force is young both in chronological age and in time of employment, annual contributions are much larger than annual benefit payments.

¹⁴In the past, these balances were occasionally employed to make special purpose loans to other government departments and, in some cases, to individuals. This policy was discontinued several years ago with the outstanding loan balance at less than 100 discontinuing these loans.

Inasmuch as current Treasury balances are already rather large relative to budget deficits, there seems little reason why the balances belonging to the Official Provident Fund could not be more productively employed. A number of suggestions and proposals have been informally advanced to that end.¹⁵

Table XXVI shows the asset distribution of employee benefit funds in Thailand, other than the Official Provident Fund, for four recent years. While the portfolios are quite diversified, only a small fraction of the resources of these funds find their way to the capital market. The one item which may connote the provision of long-term capital to the market, "shares in other companies," more likely than not, represents the purchase of the stock of parent or related companies. About the only item which can be said to represent genuine provision of capital to industry at large is the minuscule amount held in the Thai Investment Fund, a mutual investment

¹⁵The simplest of these would be to use Official Provident Fund balances to purchase government securities. Even though the interest return on such an investment would equal the cost to the government, the government, to the extent it needs to borrow, would save on its total interest bill. Other suggestions include support of the IFCT and the support of new financial institutions. These proposals will be discussed in a forthcoming paper. In Malaya the entire official provident fund is held in government securities. In the Philippines, only 9 per cent of the official fund is held in government securities, with an additional 15 per cent held in corporate securities, 13 per cent in personal loans, and so on. See Franco Reviglio, "Social Security: A Means of Savings Mobilization for Economic Development," IMF Staff Papers, July 1967, pp. 353-355. For the asset distribution and portfolio policy of various U. S. fiduciary and trust funds, see Alek A. Rozental, Investment Policy of Minnesota Trust Funds, Minneapolis, 1955.

Table XXVI

Employee Benefit Funds in Thai Private and State Enterprises, Asset Distribution
(millions of baht)

	1960		1964		1965		1966	
	Amount	%	Amount	%	Amount	%	Amount	%
Cash	3,623	1.02	4,409	.73	1,261	.18	3,109	.39
Government Bonds	124,772	35.15	285,734	47.13	322,929	46.54	351,374	45.15
Fixed Bank Deposits	119,983	33.80	166,170	27.41	165,390	23.83	181,910	22.86
Other Bank Deposits	31,278	8.81	14,189	2.34	15,577	2.24	20,638	2.59
Shares in Other Companies	12,000	3.38	-	-	26,475	3.81	50,000	6.28
Shares in Own Stock	-	-	-	-	12,500	1.80	12,500	1.57
Loans to Employees	19,628	5.53	28,881	4.76	33,884	4.88	38,751	4.87
Loans to Owners	743	.21	1,564	.26	1,682	.24	4,283	.54
Thai Investment Fund	-	-	10	.0016	60	.0086	191	.0239
Premium Savings Certificates	-	-	30	.0049	33	.0047	41	.0051
Land and Equipment	-	-	2,072	.34	2,072	.30	2,072	.25
Sundry Accounts	-	-	141	.02	131	.0188	140	.0175
Not specified	42,906	12.09	103,072	17.00	111,907	16.13	130,866	16.44
TOTAL	354,933	100	606,272	100	693,901	100	795,875	100

Source: See Text.

fund with a portfolio consisting of stocks of corporations listed on the Bangkok Stock Exchange. As far as is known, only one of the 124 employee benefit funds in operation includes units of the TIF among its assets. Yet, the provision of risk capital to industry at large may well be the most rewarding and the most productive use of the growing resources of the employee benefit funds.¹⁶

¹⁶A fuller discussion of this possibility will be found in the forthcoming paper referred to in the preceding footnote.

VI. THE STOCK MARKET

The market for corporate securities in Thailand consists of three segments: the Bangkok Stock Exchange, the mutual investment companies, and "independent" security dealers. It is a narrow and thin market without any official supervision and regulation, with little reliable information available to the public at large, and with a limited appeal.

The Bangkok Stock Exchange opened in July 1963 with six members and five corporations listed on its board. At the time of writing, the number of members has increased to over 40, and the number of corporations whose securities are traded approximates 30.¹ One of the member-brokers does about 80 per cent of the Stock Exchange business, and several of the members are nominees of the listed corporations.²

¹The corporate sector in Thailand is not treated separately in national income accounts nor is there any precise information available on its size and composition. Since 1956 the Department of Commercial Registration has been publishing figures on new registrations, but the total up to that time has never been compiled. From published and other information it would appear that there are at least 4,000 corporations (limited companies) in Thailand with an average paid-in capital of one million baht.

²About one-fourth of the members are domiciled abroad. A resident member pays a 5,000 baht membership fee and undertakes to do a minimum of 300,000 baht of business annually. The great attraction of membership is that transactions among members are exempt from the brokerage fee of 1.25 per cent which the public pays both on the sale and on the purchase of a listed security. Thus a member can collect a commission of 3 per cent on a given transaction on the exchange without paying any fees himself.

It is estimated that of the one-half million shares traded annually, more than 50 per cent are traded among the members themselves. Even so, the annual turnover amounts to about 2 per cent of the value of listed securities, compared with the 15 per cent on the New York Stock Exchange.³

Of the 30 securities listed, only about one-half appear to be traded at all, and among these only very few can be said to be truly available for "at market" orders. The number of buyers has exceeded the number of sellers ever since the opening of the Bangkok Stock Exchange, and the listing of a stock at a given price is no guarantee that that stock is, in fact, available, let alone at the listed price.

Table XXVII gives the available information on those listed corporations whose stock has been traded on the Bangkok Stock Exchange in recent years.⁴ The securities of the Siam Cement Group (Numbers 12 through 14) are those which come closest to having a truly national market even though it is occasionally very difficult to buy the common stock of the parent company, the Siam Cement Corporation.

³See Bangkok Bank, Monthly Review (September 1965), p. 231.

⁴The listing requirements include those of a minimum capital of one million baht, transferability of shares, and publication of semi-annual financial statements. While it is possible that stocks of corporations other than those indicated in Table XXVII were traded on the Bangkok Stock Exchange, they were not included either because there was no record of such transactions or because there was no accessible financial statement of the corporation. Data given in this section are based on the records of the Bangkok Stock Exchange to the extent that these were made available to the writer.

TABLE XXVII

Bangkok Stock Exchange, Selected Characteristics of Listed Corporations
(in million baht)

Name and Date Incorporated	Nature of Business*	Capital Authorized	Paid up & Issued	Reserves			Net Profit		
				1964	1965	1966	1964	1965	1966
Bangkok Investment Co., Ltd. (1961)	AFI	10	7.5	.2	.7	1.6	.6	1.2	1.7
Commercial Credit Corporation, Ltd. (1964)	ACFCAP	4	4.0		.1	.5		.3	1.0
Construction Material Marketing Company, Ltd. (1962)	SCC	60	60.0	15.2	18.5	23.8	12.2	14.1	16.0
Concrete Products & Aggregate Company, Ltd. (1952)	PC	36	24.0	6.9	12.0	18.6	7.2	8.6	9.8
Dumex Limited (1959)	MPh	25	25.0	4.0	1.4	.4	2.2	2.6	1.9
Industrial Finance Corporation of Thailand (1959)	LIT	100	30.0	4.9	6.5	8.3	2.5	3.5	3.9
Jolaprathan Cement Company, Ltd. (1956)	SLCT	40	40.0	25.0	34.7	49.0	14.4	16.1	21.8
Kamasuta Corporation, Ltd. (1952)	DSFAT	12	7.5	.5	2.1	3.0	2.4	2.7	.8

- *AFI - Automobile finance and insurance.
ACFCAP - Automobile and other consumer goods finance, commercial accounts factoring.
SEC - Sales agents for the Siam Cement Group of Companies.
PC - Prestressed concrete, concrete pipes, concrete blocks, ready mixed concrete, etc.
MPh - Manufacture of pharmaceuticals and allied products. Majority interest held by East Asiatic Company.
LIT - Loans to small- and medium-sized industries in Thailand.
SLCT - Second largest cement company in Thailand.
DSFAT - Distribution and service, Fiat automobiles and trucks.

TABLE XXVII (Continued)

Name and Date Incorporated	Nature of Business*	Capital Authorized	Paid up & Issued	Reserves			Net Profit		
				1964	1965	1966	1964	1965	1966
National Enterprise Co., Ltd. (1963)	BMD	6	5.0	.3	.9	1.3	.8	1.3	1.0
North Star Company, Ltd. (1956)	BDFW	5	5.0	1.1	.5		.6	.5	
Sumsuk Company, Ltd. (1953)	PCBD	30	22.5	3.8	7.1	10.7	2.6	6.1	13.2
Siam Cement Company, Ltd. (1931)	LCPC	240	204.8	115.0	132.6	170.4	44.8	47.0	50.0
Siam Fibre Cement Co., Ltd. (1938)	MC	120	89.7	46.1	62.7	77.6	25.9	27.2	34.9
Siam Industrial Credit Co., Ltd. (1966)	SSC	60	60.0			2.8			2.8
Thai Danu Bank (1945)		25	19.9	19.5	23.2	28.0	4.6	6.2	8.3
Bangkok Drying & Silo Co., Ltd. (1963)	ASM	12	12	.3			.6		

- *BMD - Brunswick Bowling and MacGregor Golf Distributors. Bowling and restaurant operators.
 BDFW - Bottle and distribute Polaris Water.
 PCBD - Pepsi-Cola bottlers and distributor.
 LCPC - Leading cement company in Thailand and largest public company.
 MC - Manufacture of asbestos cement roofing, siding, and pipe.
 SSC - Serves Siam Cement in matters of finance, share registration, electronic data processing, etc.
 ASM - Automated drying and storage of maize.

As shown in Table XXVIII, the securities traded on the Bangkok Stock Exchange are characterized by a rather low level of price-earning ratios, and there are no great variations in selling prices over the period covered. The number of buyers may exceed that of sellers, but the buyers have not been willing, by and large, to pay speculative prices for the listed stocks.

The thinness of the market is brought out in Table XXIX. In 1966, the most popular stock was traded only 66 days, and the amount of stock traded was less than 2 per cent of the total stock issued. Nor is it clear that the trend in trading is upward even though the total volume of shares has increased considerably from the 70,000 traded in 1962. The increase in trading volume seems to have been due principally to the addition of other securities to the board.

In brief, the Bangkok Stock Exchange is more in the nature of a private club than a truly national market. This, together with the lack of any official control over its activities, causes some of the large issuers to by-pass its facilities and to limit its importance in the process of financial intermediation.⁵

It would seem that in order to gain a greater degree of acceptance and popularity it would be useful for the Bangkok Stock Exchange to bind itself by a limited number of regulations, perhaps administered by the Bank of Thailand, which would assure those who prefer to stay outside the

⁵ For a recent discussion of the role of stock exchanges in the process of capital formation see: David William, "The Growth of Capital and Securities Markets," Finance and Development (September 1966).

Table XXVIII

Bangkok Stock Exchange, Selected Characteristics of
Listed Corporations

Corporation	Earned Per Share (baht)			Dividends Per Share (baht)			Market Price Range (baht)			Price-Earning Ratio (End of Year)		
	1964	1965	1966	1964	1965	1966	1964	1965	1966	1964	1965	1966
1	11.87	19.57	22.06	10.75	11.0	17.0	100-115	105-120	105-120	9.10	5.52	5.67
2		16.09	24.05		12.0	15.0		100-105	105-107		6.5	4.4
3	20.29	23.51	26.72	15.00	18.0	18.0	100-215	193-200	190-205	9.96	8.29	7.67
4	50.30	35.91	40.88	12.50	15.0	15.0	123-265	240-290	240-315	4.27	6.58	7.71
5	44.94	51.09	37.01	-	-	-	430-460	460-470	470-480	9.79	9.20	14.46
6	83.66	115.04	131.46	44.69	60.0	70.0	1060-1060	1060-1060	1060-1060	12.67	9.21	8.06
7	179.63	202.47	271.96	75.00	75.0	75.0	730-835	775-775	800-800	4.31	3.83	2.94
8	31.37	35.07	10.47	-	-	15.0	63-105	100-105	105-115	2.87	2.99	12.42
9	34.64	24.89	16.51	10.0	20.0	10.0	-	120-120	110-120	2.88	4.32	6.97
10	15.74	10.59	-	-	12.0	-	100-100	100-110	-	6.4	10.4	-
11	17.30	40.86	58.62	14.0	22.5	30.0	1000-1125	1335-1500	134-210	6.5	3.79	4.86
12	25.96	26.66	27.80	18.0	18.0	18.0	230-285	230-260	240-320	9.44	9.6	10.07
13	54.02	39.96	38.88	18.0	18.0	18.0	265-410	285-300	265-290	8.89	7.13	6.94
14	-	-	4.7	-	-	-	-	-	107-125			31.9
15	46.23	32.12	41.59	15.0	14.0	16.0	210-210	200-210	200-235	4.54	6.23	6.37
16	56.57			25.0			1050-1200	1250-1300	1000-1250	22.10	-	-

Source: See text

Table XXIX

Bangkok Stock Exchange, Selected Characteristics of Listed Corporations

Corporation	Number of Days Traded			Shares Traded as % of Shares Issued		
	1964	1965	1966	1964	1965	1966
1	16	21	19	5.9	9.4	7.77
2		2	11		3.75	17.85
3	20	25	28	1.74	2.92	1.2
4	38	25	23	4.58	1.95	5.06
5	4	7	13	0.56	0.58	1.5
6		1			.001	
7	7	5	1	0.26	1.09	.06
8	3	17	14	0.67	4.68	3.72
9		11	27		11.02	11.55
10	2	3	9	0.67	5.93	11.82
11		5	2		0.07	2.42
12	41	55	66	0.88	0.96	1.48
13	30	48	21	0.61	1.19	.98
14			16			6.38
15	1	1	2	0.05	0.78	0.12
16	8	3	2	8.25	2.46	0.5

Source: See text.

Exchange that such practices as "cash sales," "insider trading," and "rigging of the market" will be either prevented or severely punished.⁶

Of the three mutual investment companies operating in Thailand, only one makes available information, however sketchy, relating to its performance.⁷ The Thai Investment Fund, managed by an American venture corporation, is the only one of these funds whose modus operandi comes close to that of a U. S. investment company or a British unit trust. It is an open-ended investment company which began its operations in 1963 and whose units are quoted on the Bangkok Stock Exchange.⁸

Tables XXX through XXXII summarize the available information regarding the performance of the TIF. The number of units outstanding have

⁶While there is no hard evidence that such abuses have ever taken place on the Bangkok Stock Exchange, a number of institutional and private investors have expressed some uneasiness and forebodings. Several cited instances of manipulation which allegedly took place. On the other hand, the fact that both the price dispersions and the price-earning ratios are generally within a modest range suggests that the market has hardly been in the throes of feverish speculation.

⁷The other two, the National Mutual Fund and the Bangkok Mutual Fund, appear to be related by managerial and other ties. No record of their operations was available, and indeed it is not clear whether the National Fund ever operated at all, at least in public. In spite of their names, these two funds appear to be primarily devices to garner individual savings into contractual plans, the return on which exceeds that available at the commercial banks, with the leverage gain accruing to the managers.

⁸Initial capital was 5 million baht. Units are sold in minimum denominations of 1,000 baht. In addition to brokerage fees, a 3 per cent management fee is charged to purchasers.

Table XXX

Thai Investment Fund, Selected Operational Indicators

	1963	1964	1965	1966	1967*
Number of Units Sold	73,490	119,015	154,990	189,364	243,616
Number of Units Redeemed	--	49,012	72,947	116,425	166,635
Number of Units Outstanding	73,490	70,003	82,043	72,939	76,981
Number of Unit Holders	5	32	67	101	146
Average Holding per Unit Holder	14,698	2,188	1,225	722	527

Source: Compiled from data made available by the Thai Investment Fund.

***Three quarters only.**

Table XXXI**Thai Investment Funds, Selected Performance Indicators**

	1963	1964	1965	1966	1967
Total Assets (thousand baht)	9,399	10,724	15,239	14,462	17,206
Total Income (thousand baht)	706	631	786	949	646
Income as Percent of Asset	7.51	5.88	5.16	6.56	3.75
Income and Capital Appreciation/Unit (baht)	172.42	41.67	44.28	21.93	29.65
Management Fee as Percent of Assets	1.51	1.85	1.82	2.03	1.46
Management Fee as Percent of Income	20.11	31.38	35.37	30.87	39.01
Distributed Income/Unit (baht)	8.47	5.91	6.73	8.49	5.0
Distributed Income as % of Average Price	--	3.80	3.74	4.37	2.25

Source: See Table XXX.

Table XXXII**Thai Investment Fund, Unit Price and Asset Values**

	Bid	Asked	Asset Value
1964: Fourth Quarter	154.49	156.42	153.195
1965: First Quarter	164.52	166.57	
Second Quarter	181.65	183.92	
Third Quarter	183.90	186.20	
Fourth Quarter	185.76	188.07	
1966: First Quarter	187.56	189.91	
Second Quarter	194.30	196.73	
Third Quarter	193.13	195.54	
Fourth Quarter	197.66	200.13	198.28
1967: First Quarter	216.94	219.65	
Second Quarter	221.60	224.37	
Third Quarter	223.35	226.14	223.509

Source: Compiled from data made available by the Bangkok Stock Exchange.

remained fairly constant because of a rather high rate of redemptions. The number of accounts is less than 150, which, though a considerable increase from the initial five, is still very low given the fact that TIF has been in operation for several years and the return on money invested, as shown in Table XXXI, has been in excess of 20 per cent per annum. This high rate of return, however, was due chiefly to the high level of realized capital gains, with the return from dividends and interest below that available from fixed deposits at commercial banks. It would seem that TIF's appeal was chiefly to a limited group of investors who through their contacts, knowledge, and sophistication were able to take advantage of capital appreciation of the Fund's assets. The managers of the fund find it much easier to sell units to foreigners than to the Thais but do not appear to have made a major effort to expand substantially their market.

The last segment of the Thai stock market includes at least one major commercial bank and a few independent dealers in securities who have no direct connection with the Stock Exchange.⁹ Moreover, a number of large corporations, often subsidiaries or affiliates of major foreign corporations, prefer to distribute their securities to the public outside the Stock Exchange, either via direct mail selling or through the underwriting and marketing facilities of some other intermediary. The Bangkok Bank Limited

⁹The commercial bank is represented on the Bangkok Stock Exchange but prefers to go into underwriting and distribution on its own.

is particularly active in underwriting and distributing securities of this type. Its Investment and Trust Division provides a secondary market for such securities by offering to repurchase them at any time, at a nominal discount. So far, such repurchase agreements have been confined to corporate bonds and preferred, but the bank also sells and buys stocks for its own portfolio.

There are reasons to believe that provision of long-term capital through the sale of units to the public at large is capable of reaching a much larger market than appears at present.¹⁰ But to reach such a large market the framework, legal and financial, in which the units are to be sold will have to be drastically different from the one in which TIF operates.¹¹

¹⁰ Even though the Stock Exchange deals mainly in transfers of existing securities, it still facilitates long-term finance by reducing the need for corporate liquidity. New issues contribute more directly to capital formation, and a few of such issues were offered on the Bangkok Stock Exchange through the device of preemptive rights. In the same category are direct distribution and underwriting.

¹¹ A tentative outline of such a framework will be given in a forthcoming paper. One current obstacle to the operation of TIF is the fact that the Thai commercial code does not recognize a mutual fund company as distinct from any other company. Hence, the special income tax provisions which apply to such institutions in, say, the United States are not operative in Thailand; e.g., TIF has to pay income tax on its full earnings whether distributed or not. On the other hand, there is no capital gains tax in Thailand.