AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
Batch 67

1. SUBJECT CLASSIFICATION
A. PRIMARY
TEMPORARY
B. SECONDARY

2. TITLE AND SUBTITLE
Finance and development in Thailand,Vol.II: Central banking; financing urban business; capital markets; financial markets

3. AUTHOR(S)
Rozental,A.A.

4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1968	332p.	ARC

7. REFERENCE ORGANIZATION NAME AND ADDRESS
NPA

8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)
(In working paper M-9434)
(Vol.1:Financial markets;financial nexus;financing of rural households;commercial banking;branch banking,359p.:PN-AAE-128)

9. ABSTRACT
(DEVELOPMENT R&D)
(ECONOMICS R&D)

10. CONTROL NUMBER
PN-AAE-129

11. PRICE OF DOCUMENT

12. DESCRIPTORS

13. PROJECT NUMBER

14. CONTRACT NUMBER
Repas-9 Res.

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

Report 129
NPA
AA-100-129

DRAFT OF FINAL REPORT

FINANCE AND DEVELOPMENT IN THAILAND

by

Alek A. Rozental

Volume II

M-9434
December, 1968

CONTENTS

VOLUME I

I. FINANCIAL MARKETS AND DEVELOPMENT PLANNING--A CONCEPTUAL FRAMEWORK

Relevance of Financial Markets	I- 2
Financial Markets in the Saving-Investment Process	I-11
Economic Efficiency	I-21
Development Goals and Priorities	I-24
Prolegomena to the Growth Theory of Dualistic Open Economies	I-28
Organized and Unorganized Financial Markets	I-38
Alternatives to Financial Intermediation--A Digression	I-50
Financial Markets as Vehicle of Economic Growth	I-55

II. THE FINANCIAL NEXUS AND THE THAI ECONOMY

Introduction	II- 1
The Thai Economy--Record of Recent Years	II- 3
The Thai Economy--Prospects	II-10
Monetary Accounts	II-21
Financial Intermediation	II-31
Intersectoral Resource Transfers	II-38
Uses of Funds in Thai Agriculture	II-40
Sources of Funds in Thai Agriculture	II-43
Agricultural Savings and Intersectoral Transfer	II-44
Intersectoral Flow of Funds	II-46

III. FINANCING OF RURAL HOUSEHOLDS

Introduction	III- 1
Financial Markets and Rural Households	III- 2
Agricultural Credit and Mobilization of Voluntary Saving	III- 3
The Market for Lendable Funds in Thai Agriculture	III- 7

Unorganized Markets--Supply III- 10
Unorganized Markets--Demand III- 19
The Terms of Loans III- 31
Repayment Record III- 46
Other Aspects of the Unorganized Markets III- 50
Organized Markets in Agricultural Credit III- 58
The Cooperative Institutions III- 60
Cooperative Credit--Performance and Prospects III- 74
Bank for Agriculture and Cooperatives III- 89
Cooperative Movement and Voluntary Savings III- 92
Government Departments and Rural Credit III- 96
Commercial Banks and Agricultural Credit III- 98
Implications for Developmental Planning III-105

IV. COMMERCIAL BANKING

The Growth of Commercial Banking in Thailand IV- 3
Assets and Liabilities of Commercial Banks IV- 8
Time Series Analysis of the Composition of Commercial Banks' Balance Sheets IV- 23
Time Series Analysis--Commercial Banks' Expansion of Credit IV- 29
Cross-Section Analysis, July 1962 and 1966, for Banks Operating in Thailand IV- 38
Commercial Banks and Unused Capacity IV- 66
The Operational Policies of Thai Commercial Banking IV- 79
Commercial Banking in the Saving-Investment Process IV- 90

V. BRANCH BANKING

The Extent of Branch Banking in Thailand V- 3
Operational Characteristics of Branch Banks V- 9
Thai Branch Banking in the Development Process V- 20
Implications for Development Planning V- 29

VOLUME II

VI. CENTRAL BANKING

Introduction	VI- 1
Assets and Liabilities of the Bank of Thailand	VI- 6
Provision of Credit	VI-21
Rediscount Facilities of the Bank of Thailand	VI-22
Debt Management and the Bank of Thailand	VI-38
Government Bonds	VI-40
Treasury Bills	VI-57
Central Banking and the Financial Nexus	VI-67
Relations with Financial Institutions	VI-68
Central Banking in the Development Process	VI-80

VII. FINANCING URBAN BUSINESS ENTERPRISE

The Nature and Scope of Unorganized Financial Markets in Thailand	VII- 3
Sample Survey of Urban Credit	VII-17
The Scope of the Survey	VII-19
The Composition of the Sample	VII-24
Sources of Initial Capital	VII-38
Sources of Current Funds	VII-48
Terms of Loans	VII-67
Urban Credit Survey and the Unorganized Financial Markets	VII-80

VIII. THE CAPITAL MARKETS

Introduction	VIII- 1
The Government Savings Bank	VIII- 4
The Loan Office for Small Industries Development	VIII-19
The Industrial Finance Corporation of Thailand	VIII-26
Life Insurance Companies	VIII-47
Employee Benefit Funds	VIII-66
The Stock Market	VIII-75

IX. FINANCIAL MARKETS IN THAILAND--CONCLUSIONS AND RECOMMENDATIONS

Summary of Empirical Findings IX- 1
Development Strategy and the Structure of Financial Markets IX-10
Suggestions for Increasing the Efficiency of the Financial Markets IX-12
Suggestions for Channelling Resources into Development Priorities IX-13
Suggestions for Expanding the Scope of Organized Financial Markets IX-15
National Investment Consortium--A Proposal IX-16
Financial Structure and Economic Growth IX-28

APPENDIX: URBAN CREDIT SURVEY QUESTIONNAIRES A1

CHAPTER VI

CENTRAL BANKING

Introduction

Central banks influence the real part of the economy by their decisions affecting savings and investment. These decisions are influenced primarily by the central banks' relations with the commercial banks and, to a lesser extent, by the central banks' dealings with the fisc.[1] In Thailand, at least, the decisions of households to save and of business to invest are, as yet, only marginally affected by the central bank's transactions with financial intermediaries other than the commercial banks.

The way in which the financial intermediaries transfer resources from the surplus to the deficit units is influenced by central banks' changes in reserve requirements, rediscount policy, debt management, and by open market operations and selective credit controls, although the last two control instruments play little part in Thailand.

For practical purposes the central bank will be equated with the Bank of Thailand even though, in law, the Ministry of Finance is the

---

[1]The fact that relations with commercial banks are at the heart of the central bank's influence on the economy is reflected, in this chapter, in frequent references to points touched upon in Chapter IV.

supervisory agency and retains the formal overriding power over many decisions routinely made by the Bank of Thailand.[2]

It is interesting to note that the establishment of a central bank in Thailand followed rather than preceded the development of a lively and

---

[2] One reason why the control of commercial banking is nominally vested in the Ministry of Finance and why the Minister is, in principle, the supervisor of the Bank of Thailand operation is that the Bank of Thailand is a relatively recent institution, established in 1942. Thus, when after some banking failures in the first quarter of the century, the need for some supervisory authority became clear, this task was entrusted to the Minister of Finance under the Commercial Banking Act of 1937. The inflationary pressures during the war and the occupation led to the passage of the Emergency Control Act of 1943, under which powers over all credit institutions were given to the Ministry of Finance rather than to the fledgling Bank of Thailand. Due to circumstances surrounding the establishment of the Bank of Thailand, the Act setting up this institution dealt primarily with the transfer of the note issue from the Treasury, and other functions of the bank were barely outlined in an accompanying Royal Decree (see Bank of Thailand Act, B. E. 2485). There is some difference of opinion regarding the degree of independence that the Bank of Thailand enjoys at present. It would appear that much depends on the Governor and his deputy, who, unlike other members of the Bank's Council, are appointed by the Crown. It would seem that especially since 1962 the effective, operational control of the Bank of Thailand and of commercial credit, in general, has gradually shifted from the Minister of Finance to the Governor of the Bank. This shift was brought about, in part, by the recognition of the integrity and skill of the top management of the Bank of Thailand, partly by the growing complexity of the matters with which it deals and partly by the passage of the Commercial Banking Act of 1962 which gave the Bank of Thailand some instruments of control. Yet, it still remains true that on many significant matters the ultimate decision rests with the Minister of Finance and that he, as a member of the Cabinet, wields political power denied to the Bank of Thailand. See Rak Chareonaksorn, "Control of Commercial Banks in Thailand" (unpublished Master's thesis, Chulalongkorn Univeristy, 1966).

fairly sophisticated commercial banking system and that, unlike many countries to whom the formation of a central bank is one of the appurtenances of a newly acquired independence, Thailand has long resisted the setting up of a central bank merely as a status symbol. This resistence was led by three factions which were not necessarily separate and distinct. The British monetary advisors who long held sway over the financial policies of the country opposed the formation of a central bank since 1890. "Conservatives" at the Treasury argued against the "nationalists" of the 1930s that a central bank would be both superfluous and ineffective inasmuch as the commercial banks were dominated by branches of foreign banks not easily amenable to central control. The branch managers of large foreign banks were also lukewarm to idea of a central bank. Yet the events necessitated the establishment of some institution which could implement the policy of large-scale public works followed in the 1930s, which was one aspect of the anti-Chinese, anti-Western tendencies prevailing in the country under the Pibul Songram regime. In 1939 the Banking Bureau was established. Its primary function was to provide loans to public enterprises, even though, in principle, the Bureau was empowered to perform most central banking functions except that of note issue. In fact, however, beyond performing the fiscal function and beyond some clearing for the existing commercial banks, the Bureau did not attempt to act either as a banker's bank or as the manager of the country's monetary affairs.

The Bureau was a "marriage of political reason and administrative need."[3] It was not until 1942, under the pressure of Japanese occupation authorities and as an alternative to Japanese domination of Thailand's monetary affairs, that the Bank of Thailand at last came into existence.

This sketchy background may help us to understand some aspects of Bank of Thailand policies and operations. From the very outset the Bank was meant to enforce and continue the tradition of financial independence of the country and to safeguard, above all, the integrity of its money at home, if possible, but certainly abroad. The lessons of history as understood by the Thais are clear. A country whose financial affairs are in disorder, whose currency fluctuates wildly in the foreign markets, and one which has difficulty in maintaining payments on its external debt invites the intervention of interested foreign powers and risks its very existence as an independent polity.[4] The circumstances which attended the formation of

---

[3]The quotation is from the memoirs of H. H. Prince Viwat Viwar Chai, first Governor of the Bank of Thailand in Memorial to Prince Viwat Viwar Chai (Bangkok: Bank of Thailand Publication, 1961). For events leading to the establishment of the Bank of Thailand, this is one of the primary sources (in Thai). For other sources see James C. Ingram, Economic Change in Thailand Since 1850 (Stanford: Stanford University Press, 1955), especially pp. 17ff; Paul Sithi-Amnuai, Finance and Banking in Thailand: A Study of the Commercial System 1888-1963 (Bangkok: Thai Watana Panich, 1964), Chapter 3; Ravi Amatayakul and S. R. A. Pandit, "Financial Institutions in Thailand," IMF Staff Papers (December, 1966); and S. Y. Lee, "Currency, Banking and Foreign Exchange of Thailand," Far Eastern Economic Review (October, 1960).

[4]"The chief aim of monetary policy has been to safeguard the international position of the baht and the government seems to have put this aim above such national interests as economic development and stability of prices and income." Ingram, op. cit., p. 17.

the Bank of Thailand did nothing to lessen the emphasis on the importance of maintaining financial integrity in the foreign markets, but they also brought to the fore the importance of maintaining internal price stability in the face of wartime inflation, the demands of the occupation authorities, and, later on, the needs of the Thai government. The point made here is that by tradition, training, and dictates of the times, the Bank of Thailand had to be primarily concerned with the soundness of its currency, and only incidentally and only in recent times could it devote much thought and energy to the control of credit or the structuring of the financial markets toward devloopmental needs.[5]

There can be little question that the Bank of Thailand accomplished what it considered to be its primary task. By 1955 the external value of the currency was well-nigh stabilized and the multiple exchange rate system eliminated. By 1959 the era of large budgetary deficits was pretty well brought to an end; and by the onset of the 1960s the internal price level had shown remarkable stability, the baht was firm in world markets, the country possessed a large stock of foreign exchange reserves, budget deficits were either small or easily manageable, the credit standing abroad was first-rate, and the rate of growth of the economy was more than satisfactory.

---

[5]See T. H. Silcock, "Thai Money: Review Article," Malayan Economic Review (April, 1966).

No small measure of credit must go to the managers of the Bank of Thailand for bringing about this state of affairs and for clearing the decks, as it were, for efforts in the areas of developmental finance and the control of credit.[6]

In this study, oriented as it is towards developmental strategy, no more than a passing tribute can be paid to the excellent performance of the Bank of Thailand in defense of the value of the currency both internally and externally. Inasmuch as the main interest of developmental finance lies in the very areas which were, perforce, somewhat neglected in the past by those at the helm of the Bank of Thailand, the impression of undue criticism may be obtained. It behooves the writer, therefore, to reiterate both his admiration of the way in which the Bank has acquitted itself of its tasks in the past and of his belief that these tasks will have to change their focus in the future.

Assets and Liabilities of the Bank of Thailand

One convenient way to look at the operations of the Bank of Thailand is to consider its balance sheets over a period of time which is long enough to register significant changes in the composition of assets and liabilities but short enough to preserve a modicum of accounting comparability. Tables VI-1 and VI-2 give the baht amounts of the main balance sheet items. Tables VI-3 and VI-4 express these values as percentages of a base year, and Tables VI-5 and VI-6 give the percentage

---

[6]See Chapter II.

Table VI - I
Assets of the Bank of Thailand
(in million baht)

End of Period	Gold and Foreign Exchange			Claims on Government				Claims on Banks						
	Gold	Foreign[1] Exchange	Total	Overdrafts	Balance[2] at Provincial Treasuries	Treasury Bills	Bonds[3]	Total	Loans	Rediscounts	Total	Contribution to IMF	Other Assets	Total Assets or Liabilities
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Dec. 1955	2,246.4	2,452.2	4,698.6	549.8	484.5	3,172.8	1,621.7	5,798.8	3.0	-	3.0	-	5.7	10,566.1
1956	2,246.4	2,799.7	5,046.1	969.7	560.7	3,109.7	1,651.8	6,291.9	-	-	-	-	11.7	11,349.7
1957	2,246.4	3,153.6	5,400.0	1,250.2	413.0	2,966.0	1,925.0	6,554.2	-	-	-	-	15.0	11,969.2
1958	2,246.4	3,056.2	5,302.6	1,412.4	403.7	2,917.7	2,098.0	6,831.8	8.7	-	8.7	-	15.8	12,158.9
1959	2,083.9	3,119.0	5,202.9	1,737.3	614.7	2,941.2	2,037.8	7,334.0	118.1	41.7	159.8	162.5	21.5	12,880.6
1960	2,083.9	3,717.7	5,801.6	-	523.0	2,033.7	2,909.2	5,465.9	130.0	97.2	227.2	162.5	23.1	11,680.3
1961	2,084.1	5,404.5	7,488.6	-	370.0	1,468.8	3,174.7	5,013.5	137.8	86.0	223.8	162.5	21.2	12,909.6
1962	2,084.1	6,791.0	8,875.1	-	403.0	1,348.4	3,299.5	5,050.9	197.0	89.8	286.8	162.5	20.3	14,395.6
1963	2,167.4	8,294.1	10,146.5	-	525.5	180.1	3,267.1	3,972.7	144.8	72.5	217.3	169.0	26.5	14,847.0
1964	2,167.4	9,586.9	11,754.3	-	584.2	356.9	3,237.1	4,178.2	170.5	146.8	317.3	169.0	53.7	16,472.5
1965	2,006.2	11,144.4	13,150.6	-	547.1	482.6	3,201.6	4,231.3	179.4	209.5	388.9	330.2	45.0	18,146.0
1966	1,907.4	14,897.6	16,805.0	-	792.5	451.9	3,075.1	4,319.5	169.6	280.7	450.3	429.0	41.2	22,045.0

[1] Including foreign treasury bills and bonds.

[2] Beginning with June 1963, the series in Column 5 was revised in order to report gross amount of "Balance at Provincial Treasuries" instead of net and the series in Column 15 was reported as notes in circulation outside the Bank of Thailand.

[3] Including Thai Government bonds floated abroad.

Source: Bank of Thailand.

Table VI - 2

Liabilities of the Bank of Thailand
(in million baht)

End of Period	Notes in Circulation[1]	DEPOSITS: Government & Official Entities: in national currency	DEPOSITS: Government & Official Entities: in foreign currency	DEPOSITS: Commercial Banks	DEPOSITS: Other Banks	DEPOSITS: Private Sector: in national currency	DEPOSITS: Private Sector: in foreign currency	DEPOSITS: Counterpart Funds	DEPOSITS: Others	Exchange Difference	Other Liabilities	Capital Accounts
	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Dec. 1955	5,542.6	311.8	13.5	320.8	28.2	122.2	-	118.6	0.1	3,201.5	1.2	845.6
1956	5,803.5	435.3	1.9	338.8	14.1	98.8	-	351.8	6.0	3,178.4	1.3	1,119.8
1957	5,993.3	336.5	57.0	398.4	32.6	92.7	3.9	452.7	91.9	3,163.0	0.3	1,346.9
1958	5,863.5	453.9	14.1	358.7	16.6	34.8	1.3	375.5	230.5	3,163.0	0.4	1,596.6
1959	6,248.5	462.6	11.0	503.9	19.3	142.6	-	451.1	170.0	3,163.0	7.6	1,701.1
1960	6,661.0	986.5	4.1	554.8	20.7	96.5	1.6	434.9	0.1	1,004.3	7.0	1,876.8
1961	7,297.9	1,202.6	19.5	645.4	30.4	154.5	1.7	544.0	0.2	-	8.2	3,035.2
1962	7,413.7	2,038.3	76.8	788.0	18.5	245.8	1.7	565.6	2.1	-	7.2	3,236.9
1963	7,741.0	1,489.5	113.7	1,016.7	9.8	260.3	1.1	483.9	3.1	-	10.3	3,717.6
1964	8,474.1	2,443.0	169.5	1,000.5	26.3	201.3	0.5	382.8	0.7	-	10.0	3,758.8
1965	9,379.1	3,221.5	109.5	1,061.7	34.2	149.2	0.1	162.4	1.1	-	16.7	4,010.5
1966	10,579.6	5,573.0	38.7	1,183.2	37.3	154.2	-	53.2	-	-	22.8	4,412.0

Source: Bank of Thailand.

[1]See Footnote Number 2, Table VI - I.

Table VI - 3
Index of Assets of the Bank of Thailand

End of Period	Gold & Foreign Exc.		Claims on Government				Claims on Banks		Contri-bution to IMF	Other Assets	Total Assets
	Gold	Foreign Exchange	Overdrafts	Balance at Pro-vincial Treasuries	Treasury Bills	Bonds	Loans	Redis-counts			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dec. 1955	100	100	100	100	100	100	100	-	-	100	100
1956	100	114.17	176.37	123.36	98.01	101.86	-	-	-	205.26	108.03
1957	100	128.60	227.39	90.86	93.48	118.70	-	-	-	263.15	113.92
1958	100	124.63	256.89	88.82	91.96	1[illegible].37	290.0	-	-	277.19	115.73
1959	92.76	127.19	315.98	135.24	92.79	125.65	3936.66	100	100	377.19	122.60
1960	92.76	151.60	-	115.07	64.09	179.39	4333.33	233.09	100	405.26	111.17
1961	92.77	220.39	-	81.40	46.29	195.76	4593.33	206.24	100	371.92	122.87
1962	92.77	276.93	-	88.66	42.49	203.45	6565.66	215.35	100	356.14	137.02
1963	96.48	338.23	-	115.62	5.67	201.46	4826.66	173.86	104.00	464.91	141.31
1964	96.48	390.95	-	128.53	11.25	199.61	5683.33	352.04	104.00	942.10	156.78
1965	89.30	454.47	-	120.37	15.21	197.42	5980.00	502.39	203.20	789.47	172.72
1966	84.91	607.52	-	174.37	14.24	189.62	5653.33	673.14	264.00	722.81	209.83

Source: See text.

Table VI - 4
Index of Liabilities of the Bank of Thailand

nd of eriod	Notes in Circu-lation	DEPOSITS								Ex-change dif-ference	Other Liabil-ities	Capital Acc't.	Total Liabilities
		Gov. & Official		Commer-cial Banks	Other Banks	Private Sector		Counter-part Funds	Others				
		in national currency	in foreign currency			in national currency	in foreign currency						
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
ec.1955	100	100	100	100	100	100	-	100	100	100	100	100	100
1956	104.71	139.60	14.07	105.61	50.00	80.35	-	296.62	6,000	99.27	108.33	132.42	108.03
1957	108.13	107.92	422.22	124.19	115.60	75.86	100	381.70	91,900.-	98.79	25.00	159.28	113.92
1958	105.78	145.57	104.44	111.81	58.86	28.47	33.33	316.61	280,500.-	98.79	33.33	188.81	115.73
1959	112.73	148.36	81.48	157.07	68.43	116.68	-	380.35	170,000.-	98.79	633.33	201.17	122.60
1960	120.17	318.03	30.37	172.94	73.40	78.96	41.03	391.98	100.-	31.36	583.33	221.94	111.17
1961	131.12	385.69	144.44	201.18	107.80	126.43	43.59	458.68	200.-	-	683.33	358.94	122.87
1962	133.75	653.72	568.88	245.63	65.60	201.14	43.59	477.74	2,100.-	-	600.00	382.79	137.02
1963	139.66	477.71	842.22	316.92	34.75	213.01	28.20	408.01	3,100.-	-	858.33	439.64	141.31
1964	152.89	785.11	1,255.55	311.87	93.26	164.72	12.82	322.76	700.-	-	833.33	444.51	156.78
1965	169.22	1,033.19	811.11	330.95	121.28	122.09	2.56	136.93	1,100.-	-	1,391.67	474.28	172.72
1966	189.57	1,737.36	286.66	368.83	132.27	126.19	-	44.86	-	-	1,900.00	621.76	209.83

Source: See text.

Table VI-5

Percentage Distribution of the Assets of the Bank of Thailand*

End of Period	Gold & Foreign Exc.		Claims on Government				Claims on Banks		Contri-bution to IMF	Other Assets	Total Assets
	Gold	Foreign Exchange	Over drafts	Balance at Provincial Treasuries	Treasury Bills	Bonds	Loans	Redis-counts			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dec. 1955	21.38	23.34	5.23	4.32	30.20	15.44	0.03	-	-	0.05	100
1956	19.79	24.67	8.54	4.94	27.40	14.55	-	-	-	0.10	100
1957	18.77	26.34	10.45	3.45	24.78	16.08	-	-	-	0.13	100
1958	18.48	25.13	11.61	3.32	24.00	17.26	0.07	-	-	0.13	100
1959	16.17	24.21	13.49	4.77	22.86	15.83	0.92	0.32	1.26	0.17	100
1960	17.84	31.83	-	4.48	17.41	24.91	1.11	0.83	1.39	0.20	100
1961	16.14	41.86	-	2.87	11.38	24.59	1.07	0.67	1.26	0.16	100
1962	14.48	47.17	-	2.80	9.37	22.92	1.37	0.62	1.13	0.14	100
1963	14.60	55.86	-	3.54	1.21	22.00	0.98	0.49	1.14	0.18	100
1964	13.16	58.20	-	3.55	2.17	19.65	1.04	0.89	1.02	0.32	100
1965	11.06	61.42	-	3.01	22.66	17.64	0.99	1.15	1.82	0.25	100
Feb. 1966	10.34	63.83	-	2.68	2.20	16.43	1.35	0.85	1.70	0.62	100
Dec. 1966	8.65	67.58	-	3.59	2.05	13.95	0.77	1.29	1.95	0.19	100

*Details may not add up to total because of rounding.
Source: See text.

Table VI - 6
Percentage Distribution of Liabilities of the Bank of Thailand*

End of Period	Notes in Circulation	Deposits: Gov. & Official Entities in national currency	Deposits: Gov. & Official Entities in foreign currency	Deposits: Commercial Banks	Deposits: Other Banks	Deposits: Private Sector in national currency	Deposits: Private Sector in foreign currency	Counterpart Funds	Others	Exchange difference	Other Liabilities	Capital Acc'ts.	Total Liabilities
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dec. 1955	55.27	2.97	0.13	3.05	0.27	1.16	-	1.13	-	30.47	0.01	8.05	100
1956	51.13	3.83	0.02	2.98	0.12	0.87	-	3.10	0.05	28.00	0.01	9.88	100
1957	50.07	2.81	0.48	3.33	0.27	0.77	0.03	3.78	0.78	26.43	-	11.25	100
1958	48.22	3.73	0.12	2.95	0.14	0.30	0.01	3.09	2.32	26.01	-	13.11	100
1959	48.51	3.60	0.09	3.90	0.15	1.11	-	3.50	1.32	24.56	0.05	13.21	100
1960	57.03	8.46	0.03	4.75	0.18	0.83	0.01	4.00	-	8.60	0.05	16.06	100
1961	56.30	9.32	0.15	5.00	0.24	1.20	0.01	4.21	-	-	0.06	23.51	100
1962	51.50	14.16	0.53	5.47	0.13	1.71	0.01	3.94	0.01	-	0.06	22.49	100
1963	52.14	10.03	0.76	6.85	0.07	1.75	0.01	3.26	0.02	-	0.07	25.04	100
1964	51.44	14.86	1.03	6.07	0.16	1.22	0.03	2.32	-	-	0.06	22.82	100
1965	51.69	17.75	0.60	5.85	0.19	0.82	0.01	0.89	0.01	-	0.09	22.10	100
Feb. 1966	52.45	20.35	0.32	4.18	0.17	0.87	0.01	0.78	-	-	0.09	20.78	100
Dec. 1966	47.95	25.28	0.18	5.37	0.17	0.70	-	0.24	-	-	0.10	20.01	100

*Details may not add up to total because of rounding.
Source: See text.

distribution of assets and liabilities.[7]

During the 12-year period 1955-66, total assets of the Bank of Thailand merely doubled compared with more than a sevenfold increase in the assets of the commercial banks. At the same time, the composition of these assets underwent considerable change. Up to 1959 the bulk of the Bank's assets was divided about equally among gold, foreign exchange, Treasury bills and government overdrafts. By the end of 1966, over two-thirds of the Bank's assets were in the form of gold and foreign exchange, and the holdings of government bonds became second in importance. Government overdrafts disappeared from the balance sheet, and claims on banks and contributions to the IMF made their appearance (see Table VI-3).

The gradual reduction in the proportion of gold to total assets represents the desire and the need to obtain a greater return on foreign assets and was made possible by an increase in Thailand's holdings of other foreign securities as well as by its full membership in the International Monetary Fund. It is also possible that country's growing political and economic ties with the United States have contributed to the policy of reducing holdings of gold and of increasing holdings of securities held in, among other places, the United States.

More important, perhaps, was the elimination of government overdrafts by 1960. These claims on government came into being in 1952, when the

---

[7]All statistical data in this paper were obtained from the Bank of Thailand, either directly from published sources or through the courtesy of responsible officials.

government, taking advantage of the provision of the Bank of Thailand Act, began to borrow from the Bank without security at an annual interest rate of 2 1/2 per cent.[8] By November of 1960 this claim was eliminated, parallel to the improvement of the budgetary position of the country and the determination of the Bank to reduce inflationary forms of finance. The same considerations were operative in the sharp reduction of Treasury bills in the Bank portfolio. In 1955 these amounted to over 30 per cent of total assets, a proportion which fell to some 2 per cent by the end of 1966 (see Table VI-5).

Under the Currency Act of 1958, government bonds designated in local currency could be used as a cover against the note issue, provided that such bonds (and Treasury bills) did not constitute more than 40 per cent of notes issued.[9] However, inasmuch as foreign exchange reserves continued to increase throughout the period, there was little pressure on the Bank to increase significantly its holdings of government bonds. These holdings did increase after 1960, but the increase was temporary; by the end of 1966 the proportion of government bonds to total assets was about the same as it was at the end of 1955.[10]

---

[8]The Act enables the government to borrow up to 25 per cent of ordinary budget expenditures, without collateral, in the form of an overdraft.

[9]IMF subscription and short-term commercial bills rediscounted by the Bank of Thailand can also form a part of the secondary backing of the currency provided that, together with government securities, they do not exceed 40 per cent of the note issue.

[10]The debt management policy of the Bank of Thailand is discussed more fully later.

In terms of the rate of increase over time, loans to commercial banks show the most spectacular growth. This is misleading, however, as it derives from the fact that, in 1955, the total amount of such loans outstanding was very small. The Bank of Thailand did not actively begin its operations of providing liquidity to the commercial banks until 1959, the same year in which it reduced its role in financing government deficits. Employing 1959 as a base year, it can be seen that bank loans grew less than 50 per cent by the end of 1966. More significant was the rate of growth of rediscounts which increased sixfold from 1959, the year they were initiated, until the end of 1966. Even so, claims against commercial banks totalled less than 2 per cent of total assets at the end of 1966 (see Tables VI-3 and VI-5).

The contribution to the IMF did not change to any significant extent until 1965 when it nearly doubled, reflecting the increase in Thai GNP and the Bank's foreign exchange reserves as well as the availability of new quota arrangements under the Compensatory Financing Decision.[11] Other assets include real estate, etc. The sharp increase in 1964 coincides with the construction of branch premises in Haadyai, the only branch of the Bank of Thailand to date.[12]

---

[11] Another reason for the increase in the Thai quota in 1965 was to increase the availability of the sound and convertible baht to other members of the Fund.

[12] The Bank plans construction of a branch in Khonkaen in the Northeast and possibly one in the North.

With respect to liabilities, note issue has increased somewhat less than total liabilities. This reflects both the growing importance of deposits in the money supply and the prevailing price stability throughout most of the period[13] As a percentage of total liabilities, notes in circulation decreased somewhat--from 53 per cent at the beginning of the period to 48 per cent at the end of the 12-year period.

Paralleling the drastic shift in the composition of assets after 1959, the composition of liabilities also show a significant change around the same year. This was due to the disappearance of the Exchange Stabilization Fund, the proceeds of which were used to retire the government overdrafts outstanding, as well as to retire a goodly pronortion of Treasury bills (see Tables VI-4 and VI-6).[14]

The elimination of 30 per cent of total liabilities, consequent to the liquidation of the Exchange Stabilization Fund, created a gap which

---

[13] For historical reasons, touched upon in the preceding section, the Bank is organized into two departments, the Issue Department and the Banking Department. For a time the balance sheets of these two departments were published separately. This somewhat archaic procedure has now given way to a joint balance sheet, published monthly by the Bank of Thailand, even though the official Government Gazette continues to pbulish two separate sets of financial statements.

[14] This account, set up in 1955, was used to maintain the unofficial parity of the baht in foreign markets and thus to dispense with the multiple exchange rate system in operation up to that date. See Andre Mousny, The Economy of Thailand (Bangkok: Social Science Council, 1964) for details.

was filled by the growth of deposits and the growth of the Bank's capital account. Deposits of government and other official entities were 3 per cent of all liabilities in 1955 and more than 25 per cent by the end of 1966. This spectacular growth was due mainly to the very considerable increase in Treasury balances. Compared with the eighteen-fold increase in government balances held in local currency, the less than fourfold increase in commercial bank deposits appears modest indeed. The share of commercial bank deposits rose from slightly over 3 per cent of all liabilities in 1955 to some 5 1/2 per cent by the end of 1966.

Over 90 per cent of total liabilities of the Bank of Thailand at the end of 1966 were composed of notes in circulation, government deposits, and capital accounts. Of the remaining, and leaving aside the commercial banks' balances, no liability exceeded 1 per cent of the total. Private sector deposits represent, in the main, the holdings of various quasi-official bodies and monopolies; e.g., the tobacco monopoly, the state sugar enterprises, and so on. Counterpart funds which, in principle, arise out of the sale of commodities imported under U. S. aid programs are, at present, simply a budgetary designation of Thai funds used to support U.S. funded projects, where the foreign exchange component is imported free by the United States and the Thais provide the local currency.

This rather cursory look at the changing pattern of assets and liabilities of the Bank brings out the crucial significance of the demarkation date which occurred about mid-way through the period when the

Bank began to turn to the commercial banking system and away from financing the government. Moreover, an examination of the tables reveals that the Bank's involvement with the private sector of the economy has not yet reached any significant proportions. Commercial bank deposits at the Bank of Thailand are but a fraction of the total liquid resources of the system, prima facie evidence of the inability of the Bank of Thailand to affect the behavior of the commercial banks by economic pressures alone.[15] The volume of accommodation extended to commercial banks via the Bank of Thailand constitutes a small proportion of the Bank's resources and an even smaller proportion of those of the commercial banks themselves. The balance sheets of the Bank are silent on the holdings, if any, of the obligations of other financial intermediaries or of specialized development institutions.[16]

Two other aspects of the Bank of Thailand's balance sheets are of interest from the standpoint of their influence, potential if not actual, on the pattern of saving and investment. The first of these is the large stock of foreign exchange held as assets of the Bank. In a real sense, the possession of large foreign balances, which yield a return almost certainly

---

[15] The issues relating to control of commercial banks will be discussed more fully later.

[16] At the time of writing the Bank did contemplate acquiring obligations of such institutions; namely, those of the Bank for Agriculture and Agricultural Cooperatives and the Industrial Finance Corporation of Thailand. The form of these obligations was not yet settled, and, the amounts will be token ones, at best.

below the alternative return these resources could earn if employed internally, represents a rent exacted from owners of the savings incorporated in large foreign exchange reserves.[17]

The accumulation of "treasure" has been one of the characteristics of the growth of the Thai economy in the past and helps explain, in part, why the country has not reached a higher level of development in spite of a high rate of voluntary saving, relative internal stability, and certainly a positive marginal productivity of capital, all of which Thailand has enjoyed for several decades.[18] It would seem that some of the cogent historical reasons, touched upon previously, are no longer valid and that there is little justification for holding reserves in excess of a full year's import requirements. The savings represented by these reserves could, in principle, be used more productively in furthering the sustained growth of the economy.[19]

---

[17] I am indebted to Professor Edward Shaw for bringing this to my attention. On the other hand, the existence of large foreign exchange reserves has played an important part in attracting foreign capital to Thailand and in enhancing the confidence in the economy of other foreign and local investors.

[18] See Robert Muscat, Thailand, A Strategy for Development (New York: Frederick A. Praeger, Inc. 1965), pp. 297.

[19] It should be noted, however, that the full implementation of the Five-Year Plan (1966-71) would put a severe strain on these balances.

The other aspect of the balance sheet which deserves attention by those concerned with the impact of the Bank of Thailand's operations on the volume and direction of saving is the changing composition and volume of government securities held among its assets, an outward manifestation of debt management.[20]

Thus, it will be convenient to analyze the role and the impact of the Bank of Thailand's operations under three headings. Under the first of these headings attention will be given to the provision of credit by the Bank of Thailand to the commercial banking system. Under the second heading the implications of debt management policies will be considered. The last heading will contain a discussion of the role of the Central Bank in structuring the financial market in a developing country, its function in the development process, and its contribution to the financial intermediation between savers and investors.

These three headings will receive attention which will be uneven in both scope and depth. The provision of credit to the commercial banks, which now stands at the center of the Bank of Thailand's operations,

---

[20] Strictly speaking, debt management is only in part within the purview of the Bank of Thailand. The Treasury (the Ministry of Finance) is the higher authority with respect to the type, character, and frequency of issue. As stated earlier, however, the operations and policies of the Bank of Thailand will be assumed to have the authority and sanction of other parts of the Thai government unless there are good reasons to believe otherwise.

will be discussed most fully, even at the risk of some repetition.[21] The analysis of debt management policies, although detailed in some respects, will be concentrated on selected aspects of the problem and will deal only incidentally with budgetary policy or overall monetary policy. The paragraphs under the last heading will be to a large extent tentative and intuitive. Moreover, the content of these paragraphs will seldom be rigorously substantiated. This will not necessarily make them less important from the standpoint of development strategy.

Provision of Credit

In general, Bank of Thailand credit is extended in one of two ways. Commercial banks can borrow from the Bank of Thailand, usually against the collateral of government securities, or they may obtain credit against one of the several lines of rediscount made available by the Bank of Thailand. It is the latter form of credit provision which not only shows a more rapid growth but also contains a number of features of special interest. Therefore, it will be discussed first.[22]

---

[21] See Chapter IV.

[22] Inasmuch as direct borrowing from the Bank of Thailand is done mainly against the security of government bonds in the portfolio of the commercial banks, it will be convenient to discuss this form of credit provision under the heading of debt management.

Rediscount Facilities of the Bank of Thailand

There are, at the time of writing, three types of rediscounting facilities made available to the commercial banks and their customers by the Bank of Thailand. The oldest, and still the most important in terms of the value of paper discounted, is the export rediscounting facility. Begun in November 1958, the rediscounting of exporter's paper is the best established, the most widely used by the commercial banks, and the best known to the business community. Started in conjunction with the export drive, it was initially confined only to certain kinds of export transactions and only to selected types of paper, but its coverage was gradually extended so that, at the present time, it embraces most of the important agricultural exports and covers letters of credit, purchase contracts, usance bills, bills of exchange, and other documents used in export finance. The duration of this credit facility is limited to 90 days, and the Bank of Thailand rediscount rate is 5 per cent per annum, provided the exporter is not charged more than 7 per cent by the discounting bank.[23]

---

[23] When the facility was first offered, the rate charged by the Bank of Thailand for rediscounting purposes was set at 7 per cent. At that rate there was little interest in rediscounting on the part of the commercial banks and the rate was reduced at the end of the year. Initially the rediscounting facility was confined to rice. A year later it was extended to other crops, but certain important exports (e.g., tin) remained excluded. With the development of newer agricultural exports it became necessary to extend the facility to cover documents other than those familiar in the traditional export markets where bills of exchange and, to a lesser extent, irrevocable letters of credit predominated. Even so, the existing regulations tend to favor the more established export

In the course of time the requisite procedures have been somewhat simplified and adjusted to the needs of the export trade, but they still remain rather complex and time consuming. There are, in fact, two separate aspects in the process of obtaining the rediscounting credit from the Bank of Thailand. The first of these involves the commercial bank and the second, the exporter. Any commercial bank which wishes to avail itself of the facility must first apply for a line of rediscounting to the Bank of Thailand. The approval is by no means automatic, and the pertinent regulations make it clear that the facility is a privilege rather than a right. In fact, while most banks operating in Thailand, whether foreign or domestically chartered, are now eligible, the power to grant and to revoke the privilege of acting as a discount bank under the export rediscounting facility is a significant power of the Bank of Thailand and one which, in principle at least, may be used to achieve objectives other than those directly related to export trade.[24]

---

[23](continued)
documents. Thus, the maximum amount of credit granted against bills of exchange is 90 per cent of the face value of the invoice. Against irrevocable letters of credit it is 70 per cent, and the maximum is only 60 per cent against purchase contracts. In every case the foreign documents must be accompanied by the exporter's promissory notes, supporting documents, and a number of requisite statements from the sponsoring bank. These supporting documents include warehouse and godown receipts, invoices and sales slips, bank and special forms, and pledges required by the Bank of Thailand. The maturity of each promissory note cannot exceed 90 days from the date of rediscounting. When export proceeds have been completed before maturity date, the exporter must repay his promissory note in whole or in part.

[24]This point is discussed later.

The exporter is also not granted the privilege automatically. He must apply to the Bank of Thailand through his commercial bank and must establish, to the satisfaction of the Bank of Thailand, his bona fide, his standing as an exporter, and his overall credit rating. This is so in spite of the fact that the discounting commercial bank assumes contingent liability in the event of nonpayment by the exporter on the date due. Initially, the whole process takes from two to three months. Once the bank and the exporter have assured themselves of the line of credit under the rediscounting facility, the release of the Bank of Thailand funds under a specific transaction is done promptly and quite efficiently.[25]

While there is little question that export rediscounting plays a role in sustaining the remarkable export performance of the Thai economy, its quantitative importance must be kept in perspective. As suggested by Tables VI-7 and VI-8, neither from the standpoint of the exporters nor that of the commercial banks is the rediscounting by the Bank of Thailand a determining factor in the situation. Measured as a proportion of total

---

[25] While some commercial bankers still complain about cumbersomeness and length of the export discounting procedure, an intensive series of field interviews disclosed that these complaints either refer to the initial establishment of the line of credit or are due to the shortage of competent clerks, at some of the smaller banks, able to prepare the necessary documents promptly and fully. It would appear that once a line of credit is established and all the documents sent to the Bank of Thailand, the transfer of funds to the account of the discounting bank takes no more than a day or two.

Table VI - 7

Bank of Thailand Operations, Export Rediscounting as Proportion of Total Exports
(In Million Baht)

Year	Value of Export Rediscounts	Value of Exports (FOB)	Percent
1959	326	7560	4.31
1960	768	8614	8.92
1961	781	9997	7.81
1962	660	9529	6.93
1963	551	9676	5.69
1964	913	12339	7.40
1965	850	12941	6.57
1966	550	13744	4.00

Source: See text.

Table VI - 8

Bank of Thailand Operations, Export Rediscounting as Percent of Bank Export Credit
(In Million Baht)

Outstanding End of Period	Export Rediscounts	Banking Export Credit	Percent
June 1965	40.5	798.7	5.07
December 1965	121.1	1279.1	9.47
June 1966	29.9	974.1	3.07
December 1966	103.2	1308.8	7.89

Source: See text.

exports, the value of rediscounted paper never exceeded 9 per cent, nor was there any discernible upward trend in this proportion (see Table VI-7).[26] Export rediscounting continues to be but a small part of the total value of bank credit extended to the export sector (which, in turn, is only a fraction of the total value of exports). In 1965 and 1966, for example, the value of rediscounted export paper as a percentage of export credit outstanding at the commercial banks ranged from 3 to 9 per cent (see Table VI-8). Moreover, the availability of the export rediscounting credit facility is far in excess of its actual utilization. Exact figures are hard to come by, and they vary considerably from one bank to another; but it would appear that for all commercial banks, and taking the last three or four years as a whole, the ratio of utilization to availability did not exceed 20 per cent.[27]

---

[26] The sharp increase in 1960 was due, inter alia, to the extension of the range of eligible exports and to a considerable reduction in documentary stamp duty. The sharp decline in 1966, in spite of an increase in the value of exports, can be explained, in part, by the sharply increased liquidity of the commercial banks in that year.

[27] Each of the discount banks is given a "quota," which is currently 50 per cent of the sum of its cash deposits at the Bank of Thailand and its unencumbered holdings of government bonds. The combined quota for all the commercial banks ranged, in the last four years, between one and one-half billion baht. The annual value of discounted paper averaged three-quarters of a billion baht. Assuming random distribution of this type of credit over time, about one-fourth of this amount (360 divided by 90) should be compared with the total line of credit available.

There are several reasons why the export rediscounting facility still constitutes a small fraction of total export finance. For example, rubber, tin, and a significant fraction of rice exports do not come within the purview of this credit facility.[28] Bankers may not like the procedural aspects of the credit facility and certainly do not like the narrow spread of two basic points between the discount and the rediscount rate. Exporters may have a variety of reasons for financing their exports in ways not open to rediscounting scrutiny. But the main reason for the underutilization of export rediscounting facility is simply the considerable and growing liquidity of the commercial banks in Thailand. So long as their own funds are by and large abundant, the rediscounting facility will be taken advantage of only marginally to tide over a temporary or seasonal tightening of funds or, perhaps more importantly, to enable the commercial banks to engage in other activities in the comfortable knowledge that they have a readily available source of funds at their disposal--a source of funds which not only is costless but also brings in a modest return. Thus, the commercial banks may still be quite anxious to establish themselves as discount banks and to present themselves to exporters as providers of cheap credit, but they do

---

[28] Exports of rubber are traditionally conducted on the basis of sight bills. Tin has special characteristics of trade and financing which make it unsuitable. Some 40 per cent of rice export is on government-to-government basis.

not necessarily have to exhaust this line of credit. After all, so long as their own funds are available, a 7 per cent return is better than a 2 per cent return.[29]

All this does not, of course, mean that the export rediscounting facility is of no importance or that it does not need to be further improved and streamlined. It may be marginal, but for some exporters at all times and for other exporters at certain times it may make a difference between profit and loss. For the economy as a whole it may mean that, in the absence of this line of credit, certain exports would not have taken place. Export rediscounting appears to be particularly valuable for newer exports, such as shrimp, and for extension of other exports to new markets.

In line with the growing emphasis on the development of manufacturing capacity in the country, the Bank of Thailand has, since 1963, made available to the commercial banks rediscount facilities to manufacturers. At present these facilities are of two types. The first makes it possible for the domestic manufacturer to obtain cheap funds for the purchase of raw materials. The second provides credit facilities, below the market rate of interest, against sales of manufactured goods on credit.[30]

---

[29] Another reason for the low rate of utilization of the export rediscount facility is the availability of foreign funds to Thai banks engaged in financing foreign trade. Even though foreign credits are used more extensively in financing imports than exports, the amount borrowed from abroad by export-financing Thai banks exceeds considerably the volume of rediscounting.

[30] The rediscount rate is 5 per cent provided no more than 7 per cent is charged to the manufacturer. Credit is extended for a maximum of 120 days, and although the maximum amount granted may not exceed 90 per cent of the face value of the invoice, it will not be less than 30,000 baht. The maturity of the promissory note dates from the day of rediscounting.

While, in principle, the procedures for obtaining credit under the two manufacturing lines of rediscounting are similar to those under export rediscounting, in practice they appear much more vexing and cumbersome to the banking community and their clients. To a large extent this is because officials at the Bank of Thailand and at the commercial banks are still in the process of evolving standards and practices which will insure compliance with the intent of the regulations, on the one hand, and the needs of industrial community, on the other. It does seem, however, that a manufacturer seeking rediscounting credit must provide a lot of information, and he must undergo a thorough credit examination, not once but twice. Moreover, there are several areas of disagreement as to what constitutes raw material, what is meant by manufacture, and on other matters on which agreement is difficult to come by.[31]

---

[31] The Bank of Thailand stands ready to rediscount promissory notes issued by the manufacturer and previously discounted by the commercial bank, provided that the commercial bank submits such notes to the Bank of Thailand together with documents which will include, but will not be confined to, the following: balance sheets, operating accounts, profit and loss statements, and a special lengthy statement by the manufacturer. In addition, the commercial bank will certify that the promissory note is bona fide, and that the face value is not greater than is customary in trade. Finally, the commercial bank will sign an authorization to debit its account at the Bank of Thailand, and it will also authorize that, in the event the balance in its debit account is insufficient to cover its liability under the promissory note, the Bank of Thailand may dispose of other assets held. Even then the rediscounting facility may be refused to the applicant bank, particularly if the bank has been guilty of contravening the provisions of the Commercial Banking Act. This sounds reasonable, but the regulations go on to say that when under its contingent liability the commercial bank has to dispose of its assets other than cash held at the Bank of Thailand, it disqualifies itself for the rediscount facility. The latter provision would suggest that a commercial bank which had once made a bad credit appraisal will be debarred from the rediscounting facility in the future. This sounds less than reasonable.

Yet, despite shortcomings in procedure and applications, most of which are expected to be reduced or eliminated in the course of time, the provision of credit to manufacturers constitutes the first deliberate step taken by the Bank of Thailand to channel resources in directions deemed critical by the country's planners. Irrespective of whether manufacturing represents the truly critical direction from the standpoint of optimal development strategy, the rediscounting facilities offered to manufacturers are highly significant because they demonstrate that the Bank of Thailand now considers it its responsibility to influence the flow of savings and their utilization. The official rationale for offering facilities to manufacturers is that they will reduce the competitive disadvantage of local producers who face rates of interest higher than those obtaining abroad and who suffer from a shortage of working capital.

Insofar as the rediscounting of raw material purchases is concerned, there is another alleged comparative disadvantage in that imported raw materials benefit from cheap financing by foreign suppliers. Accordingly, more lenient treatment is given to those who apply for rediscounting credit for the purchase of local raw materials. Here again the Bank of Thailand deliberately tried to influence the direction of funds and the nature of economic activity.[32]

---

[32] In addition to more lenient treatment for those purchasing local materials, rediscounting facility for those using imported raw materials was tailored in accordance with their foreign finance arrangements. Thus, if the credit for foreign raw materials was for 180 days, rediscounting

In terms of value and as a proportion of total credit extended to manufacturing, rediscounting facilities offered by the Bank of Thailand have yet to play a major role. As shown in Table VI-9, the joint total of raw materials and credit sales rediscounting did not exceed 11 per cent of the outstanding total bank credit to manufacturing. Even though the value of raw materials' rediscounts rose from 70 million baht in 1965 to 254 million in 1966, much of this increase was due to promissory notes against purchases of tin, which were, in turn, due to the establishment of a major tin smelter on the island of Phuket.[33]

Rediscounting under the credit sales facility shows a more rapid rate of growth though it is difficult to form firm conclusions because of the short experience with this type of credit.[34]

---

[32] (continued)
was not made available at all. In the event foreign financing ran for 60 days, rediscounting currency did not exceed an additional 60 days. These provisions had some limited effects. The value of rediscounts for purchase of local raw materials rose from 28 million baht in 1965 to 72 million in 1966, much of the increase being due to higher purchases of cotton and kenaf.

[33] See Bank of Thailand, Annual Economic Report 1966 (Bangkok: Bank of Thailand, 1966), pp. 55-56. It will be recalled that tin was ineligible under export rediscounting credit. Total manufacturing rediscounting line of credit (commercial banks' quota) appears to be the sum of deposits and unencumbered government bonds rather than 50 per cent of that sum as in the case of the export rediscount quota.

[34] Raw materials' rediscounting started in 1963, and it was not until 1965 that credit sales facilities were extended to all manufacturers whether they had previously qualified under the raw materials' rediscounting provisions or not. The requirements and provisions of this line of credit are analogous to those obtaining under new materials' rediscounting except that the maturity of the promissory note will not exceed 90 days,

Table VI - 9

Bank of Thailand Operations, Manufactures Rediscount as Proportion of Commercial Bank Credit to Manufacturers

(In Million Baht)

End of Period	Raw Materials	Credit Sales	Total	Bank Credit	Percent
June 1965	20.7	11.3	32.0	1317.0	2.43
December 1965	22.3	67.6	90.0	1482.0	6.07
June 1966	69.4	93.3	162.7	1491.0	10.91
December 1966	90.6	89.1	179.7	1725.0	10.42

Source: See text.

Total value of rediscounting under credit sales rose from 228 million baht in 1965 to 801 million at the end of 1966, several times the value of raw materials' rediscounting.[35] It is reasonable to expect that credit sales will continue to be more popular than raw materials' rediscounting. Much of Thai industry is of the finishing and packaging variety where the raw materials are imported under financial arrangements which compare favorably with those proffered by the Bank of Thailand.[36] The type of industry which is based on local raw materials and which is largely locally financed and managed is not yet well established in Thailand. There is also the problem of finding suitable local materials. For example, the local textile industry finds that only about one-fifth of its needs can be met with local cotton and the rest must be imported.

---

[34] (continued)
and the amount discounted does not exceed 90 per cent of the sales value of the product. The promissory note cannot be issued later than 60 days after the sale's transaction.

[35] See Bank of Thailand, Annual Economic Report, 1966, p. 56.

[36] Many established firms can get up to 18 months' credit abroad. Moreover, many of the manufacturing firms are, in reality, subsidiaries of foreign manufacturers, and the import of components presents mainly accounting problems. The Bank of Thailand has, accordingly, devised strict rules regarding the physical change in the imported materials to be effected by the local manufacturer before he can qualify for rediscounting. These rules, while well motivated, create occasional problems.

But more disquieting is the apparent tendency for credit sales' rediscounting to be preempted by larger and more established industrial units. There is a real question whether such units should finance their distribution costs at from two to five basic points below the market rate of interest and whether their operations would indeed be curtailed or slowed down if this subsidy were unavailable to them. Yet the small manufacturer may either be unaware of the facility or be reluctant to provide all the information required for his eligibility. Most likely, he simply lacks the necessary documentation. There are also reasons to suspect that bankers are much less eager to endorse the promissory notes of the small firms than they are of the large industrial units. Yet, as shown later, it is the small and medium manufacturer who, in Thailand, has the most acute need for an access to finance at reasonable terms.[37]

From the preceding discussion of the Bank of Thailand's rediscounting facilities, three main problem areas seem to emerge. The first of these has to do with methods, techniques, and procedures governing the administration of the present facilities. The second area concerns itself with the possibility of extending the range and scope of rediscounting, perhaps by offering similar facilities to other segments of the economy. The last problem area pertains to the allocation of credit by the Bank of Thailand, to insure that such credit flows to those who need it most and that it promotes activities which would not thrive in its absence.[38]

---

[37] See Chapter VII.

[38] The listing of these problem areas would seem to call for remedial suggestions in line with the "piecemeal engineering" concept discussed in Chapter I.

The administration of currently offered facilities could perhaps be improved by making rediscounting truly what the term connotes. That is, the commercial banks would be responsible for the discounting process and the Bank of Thailand would provide additional resources to the banking system pari passu with the increase in the volume of discounted paper submitted to it. This implies that the credit investigations, certification of documents, and other procedural aspects should be left to the commercial banks and not be duplicated by the Bank of Thailand. The central bank should, however, retain the control over the direction of the subsidized credit by requiring the commercial banks to abide strictly by eligibility rules. One way to achieve this would be for the Bank of Thailand to announce that it stands ready to rediscount eligible paper whenever submitted by the commercial bank subject to a formal statement by a responsible official of that commercial bank that the discounted paper represents eligible transaction. The Bank of Thailand would retain the right to post-audit and could take legal action in the advent of fraudulent intent.[39] Making the provision of credit at favorable terms to selected areas of the economy truly a rediscounting activity also implies the abandonment of the quota system and the relaxation of the rather extreme provision

[39] It might be desirable to amend the Legal Code to the effect that such a fraudulent misrepresentation constitutes a felony, with prison sentences imposable on the responsible officer of the commercial bank.

that a commercial bank is ineligible for rediscounting if it ever made a bad credit appraisal.[40]

Insofar as extending the range and scope of rediscounting is concerned, by far the most promising is the scheme for refinancing group loans made to farmers for productive purposes, outlined in Chapter III. There is a possibility that rediscounting could be broadened to include processing of crops destined for exports but the matter requires further study. There is little to recommend the introduction of rediscounting facilities into construction activity.

In order to insure that the credit user refinancing by the Bank of Thailand flows to those who need it most and that such credit adds most to total capital formation would be to offer the commercial banks a greater spread on discounted promissory notes below a specified face value.[41] Thus, a small manufacturer would be able to discount a bill for 7 per cent as at present but his bank could refinance it at 4 per cent rather than at 5 per cent, provided the total discounted to one name does not exceed a specified sum in any one year. The availability of a greater spread would provide an incentive to the commercial banks to go after this type of business.[42]

---

[40] See above, p. VI-32, footnote 33. It would also seem that to the extent a quota is necessary, given the limited resources of the Bank of Thailand, it should be related to the composition of a bank's portfolio rather than its liquid assets.

[41] The ceiling on the face value may have to be set for a period of time rather than on a transaction given to unlimited abuses.

[42] The extent of this spread could be made greater, if required.

Debt Management and the Bank of Thailand

The ostensible reason advanced by the Bank of Thailand for entering the area of provision of cheap credit to selected kinds of borrowers is that these borrowers face high interest rates in the money market, and this puts them at a competitive disadvantage vis-a-vis their counterparts abroad. There is little question that the interest rates in Thailand are high, both in the organized and the unorganized markets. As will be shown in Chapter VII the modal rate of interest for bona fide small or medium-size businessmen is in excess of 20 per cent per annum, with a range from some 6 per cent to over 30 per cent per annum.[43] These rates are certainly higher than those prevailing in the industrialized countries and almost certainly higher than those available to businessmen in most of the countries of Southeast Asia. Yet the subsidized credit provided by the Bank of Thailand under the various lines of rediscounting goes, in the main, to those who already appear to have better than average access to relatively cheaper credit in the Thai financial markets. As argued above, large exporters and large manufacturers seem to have been the main beneficiaries of rediscount provisions and it is these two groups whose credit status within the country is appreciably better than that of many others. Moreover, the experience with rediscounting to date hardly justifies the hope

[43] See Chapter VII.

that the provision of limited quantities of cheap credit to narrowly selected groups will tend to depress downward the entire interest rate schedule. While there was some decrease in the rates charged by the banks during 1966, the decrease was a minor one. It seems to have been brought about more by Bank of Thailand suasion than by anything else, and it does appear to have changed the real cost of bank accommodation to any significant extent.[44]

One reason for the persistence of high interest rates in Thailand in the face of large resources, both actual and potential high interest rates, of the monetary system in general and the commercial banks in particular, must be sought in the debt management policies pursued by the country's monetary authorities.[45] On the one hand, the availability of government securities provides the commercial banks with attractive outlets for their idle funds and, on the other, it inhibits their willingness to seek other, untried and more risky outlets for these funds.[46]

---

[44]The most important of these reductions was to set the upper limit on the commercial bank rate at 14 per cent instead of 15 per cent. See Chapter IV, Table IV-32. However, only a fraction of all loans made are at the ceiling and, as shown in Chapter VII, there are costs, hidden or explicit, which the borrower must bear in addition to the interest charge.

[45]Another reason must be sought in "underutilization of capacity" of Thai banks. Chapter IV, pp. IV-86ff.

[46]For a discussion of the circumstances and conditions under which commercial bankers will compete for business by lowering the interest rate charged, see Marshall Freimer and Myron J. Gordon, "Why Bankers Ration Credit" Quarterly Journal of Economics (August, 1965), especially p. 416.

Table VI-10 gives the holdings of government securities, classified by principal category of holder, for the period 1956-66. These securities are of two types, long-term bonds, maturing from 8 to 15 years, and short-term bills, whose currency ranges from 3 to 4 months. At the present time, holdings of bonds far outweigh holdings of bills, the volume outstanding of which has been steadily decreasing since 1959. Moreover, issues, sales, and the amount outstanding of bonds has shown an upward trend, with sales in 1966 almost double those in 1965 (see Table VI-12). The implications of these large bond holdings will be discussed first.

Government Bonds

Table VI-10 shows that the composition of bond holders has changed considerably over the years. In 1956, nearly 80 per cent of all bonds outstanding were held by the Bank of Thailand, with other banks (commercial and the Government Savings Bank) holding less than 10 per cent of the total. By the end of 1966, 10 billion baht worth of bonds, out of an outstanding total of nearly 12 billion baht, were about equally divided among the portfolios of the Bank of Thailand, the commercial banks, and the Government Savings Bank. The category of holders designated as "other" includes eleemosynary and similar institutions, private corporations, insurance companies, and individuals. Table VI-12 gives a more detailed breakdown

Table VI - 10

Thai Government Internal Securities Outstanding, Classified by Holder
(in million baht)

End of Period	GOVERNMENT BONDS					TREASURY BILLS			
	Bank of Thailand	Com. Banks	Government Savings Bank	Other	Total	Bank of Thailand	Com. Banks	Other	Total
Dec. 1956	1,636.2	135.3	56.4	230.5	2,058.4	3,132.8	94.1	39.8	3,266.7
1957	1,934.6	149.1	124.5	257.1	2,465.3	2,988.2	79.8	218.7	3,286.7
1958	2,089.8	198.3	168.7	295.0	2,751.8	2,946.6	43.7	276.4	3,266.7
1959	2,041.2	289.5	267.2	374.1	2,972.0	2,973.8	16.1	276.8	3,266.7
1960	2,920.8	394.8	440.2	516.8	4,272.6	2,057.2	23.5	27.0	2,107.7
1961	3,193.8	531.5	646.3	678.3	5,049.9	1,495.9	80.0	31.8	1,607.7
1962	3,328.3	943.8	981.0	816.3	6,029.4	1,377.0	183.6	46.4	1,607.0
1963	3,287.0	1,379.6	1,324.0	978.8	6,969.4	182.2	304.6	163.2	650.0
1964	3,266.5	1,903.8	1,751.6	1,212.3	8,134.2	361.1	262.1	26.8	650.0
1965	3,237.5	2,342.7	2,405.0	1,372.2	9,357.4	452.4	197.0	0.6	650.0
1966	3,063.0	3,728.7	3,456.4	1,583.2	11,831.3	484.2	391.0	4.8	880.0

Source: See text.

Table VI - 11

Government of Thailand, Internal Direct Debt, 1966
(In Million Baht)

Outstanding End of Year	All Internal	Short & Medium Term	Long Term
Total	12,680	850	11,830
Change during year	(*2,676)	(+200)	(+2,476)
AVK of Thailand	3,517	454	3,063
Change during year	(- 172)	(+2)	(- 174)
Commercial Banks	4,120	391	3,729
Change during year	(+1,580	(+194)	(+1,386)
Government Savings Bank	3,456	---	3,456
Change during year	(+1,053)	---	(+1,053)
Others	1,587	5	1,582
Change during year	(+ 215)	(+4)	(+ 211)

*Note --At the end of 1966 total baht equivalent of direct external debt outstanding was 1,796.5 million baht, of which 1,408.3 million was denominated in U.S. dollars. Thai government guaranteed obligations totaled 3,487.8 million baht, of which 3,212.5 million were in U.S. dollars. During the year there was an increase of some 285 million baht in direct debt and less than 9 million in guaranteed obligations.

Source: See text.

Table VI - 12
Sale of Government Bonds
(Jan. to Jan.)
(In million baht)

Type of Holders	1964		1965		1966	
	Amount	Percent	Amount	Percent	Amount	Percent
1. Bank of Thailand	6.289	0.52	6.716	0.52	55.396	2.19
2. Government Savings Bank	428.9	35.22	655.0	51.10	1053.0	41.53
3. Commercial Banks	525.180	43.14	431.265	33.65	1327.608	52.37
4. Organizations & Institutions	75.923	6.24	37.604	2.93	45.305	1.79
5. Societies, Foundations, Hospitals	13.217	1.08	34.697	2.70	2.751	0.11
6. Private Corporations	30.171	2.47	8.146	0.63	2.240	0.08
7. Insurance Cos.	6.713	0.55	4.270	0.33	5.352	0.21
8. Private Individuals	131.131	10.78	104.401	8.14	43.748	1.73
Total	1217.524	100.00	1281.559	100.00	2535.400	100.00

Source: See text.

of these holdings for the years 1964 through 1966.[47] As seen in this table, while the absolute amount of bonds purchased by non-banking investors shows an uneven trend, their relative share shows a decline, with the sharpest drop occurring in the case of individuals.

Table VI-13 lists the major characteristics of the indentures of internal bonds of the Thai government, issued since 1956.[48]

Until 1965 the coupon rate of these bond issues was 8 per cent per annum.[49] The reduction of the coupon from 8 to 7 per cent was accompanied by some reduction in the maturity dates, but this apparently was not sufficient to compensate for the lower return, at least insofar as individual purchasers were concerned, and there was a sharp reduction in purchases in 1966.

---

[47] It should be noted that Table VI-12 gives the acquisitions by holder category of securities issued in each of the three years, 1964, 1965, and 1966, while Table VI-10 gives totals outstanding at the end of each year for the period 1956-66.

[48] This is not strictly true. There were two bond issues in 1960 and two in 1963, aggregating 2.8 billion baht, which are not included in Table VI-13. These four were issued under conditions and terms which were quite special, however, and quite different in intent and purpose from those bonds which form the basis of the discussion in the text and which are given in Table VI-13. For example, the 1960 issues resulted from the conversion of government overdrafts from a short-to long-term obligations. At least one of the 1963 issues, even though internal, was denominated in foreign currency.

[49] The coupon rate was 4.5 per cent before 1954. It was increased to 6 per cent in 1954 and then to 8 per cent in 1956.

Table VI - 13
Thai Internal Bonds, Selected Characteristics
(In million baht)

Month	Year	Amount Issued	Interest Rate	Years of Currency	Amount Sold	Amount Redeemed	Amount Out-standing
Jan.	1956	500	8	10-15	500	49	451
May	1958	500	8	8-15	500	3	497
June	1959	484	8	10-15	484	20	464
Feb.	1960	500	8	10-15	500	16	484
Feb.	1961	500	8	10-15	240	8	232
Jan.	1962	500	8	10-15	500	8	492
Mar.	1962	500	8	10-15	265	2	263
Jan.	1963	1,000	8	10-15	1,000	12	988
Jan.	1964	1,000	8	13-15	1,000	11	989
Jan.	1965	1,000	8	12-15	1,000	8	992
Feb.	1965	300	7	9-12	300	---	300
Jan.	1966	1,000	7	9-12	1,000	---	1,000
Feb.	1966	500	7	9-12	500	---	500
Mar.	1966*	700	7	9-12	700	---	700
Apr.	1966	500	7	9-12	324	---	324

*Note: There were additional bond issues in 1966. See Table VI- 11.
Source: See text.

Commercial banks, on the other hand, continued to buy government bonds and actually increased their holdings of bonds as a proportion of total assets during 1966. Although the reduced return on bonds made them less attractive to individuals as contrasted with the return on fixed deposits, the commercial banks continued to find these bonds an attractive outlet for their idle funds, and they found them even more attractive when the Bank of Thailand borrowing rate was reduced at the same time from 8 to 7 per cent.[50]

---

[50] The maximum rate of interest payable on fixed deposit accounts held at the commercial banks for 12 months or longer was 8 per cent until 1963, when it was reduced to 7 per cent. Corresponding to the reduced purchases of bonds by individuals during 1965 and 1966, there was a sharp increase in the fixed deposits held at commercial banks. At the end of 1962 time deposits of private residents totalled 3.1 billion baht. They rose to 4.2 billion baht in 1963, 5.4 billion in 1964, and 6.4 billion in 1965. From 1965 to the end of 1966 they rose by 2.4 billion, to 8.8 billion baht. The reduction in maturity date apparently meant little to private individuals inasmuch as the minimum holding period required before the bonds could be redeemed without loss of interest remained three years from the date of purchase. The exact terms vary with each bond issue but the following, taken from the prospectus of the First Loan Bond of the B. E. 2509 Budget (1966), are typical. This issue of 1 billion baht was offered either as bearer or as registered bonds at the option of the purchaser. Maturity is 12 years, but they can be redeemed after 9 years. Interest of 7 per cent is payable semi-annually. Bonds are issued in denominations of 100, 1,000 10,000, and 100,000 baht. Interest on bonds is tax exempt and the bonds are acceptable as security in all transactions. After three years the bonds can be redeemed for cash, but the amount of interest will depend on the length of time held, according to the following schedule:

Period Held	Interest Received on Bonds Sold
3 to 5 years	5.0 per cent per annum
5 to 7 years	5.5 per cent
7 to 8 years	6.0 per cent
8 to 9 years	6.5 per cent
9 years and over	7.0 per cent

The commercial banks find government bonds attractive for a number of reasons. Not only is return on them riskless, but it is also substantial in terms of alternatives. While it is true that commercial banks can charge up to 14 per cent on commercial accommodation, the process of extending loans, assessing the value of the collateral, and so on, imposes operating costs which are probably in excess of those associated with the acquisition of government bonds. Bonds are acceptable as collateral against

---

[50] (continued)

In actual fact, even though the bonds have to be held for three years before they can be redeemed at the Bank of Thailand, there is a secondary market for these bonds at the commercial banks. Bonds sold to these banks before three years have elapsed from the date of purchase sell at discount from par. One interesting aspect of this secondary market is that the terms proposed by the participating banks appear to be identical; i.e., all banks will pay 97 per cent of par for bonds held less than one year, 97.5 per cent for those held between one and two years, and 98 per cent for those held between two and three years. The existence of the secondary market is one more indication that the commercial banks are not deterred by the terms to maturity of these bonds. In point of fact, more recent issues of government bonds have extended somewhat the holding period. Thus, an issue of 2 billion baht worth of bonds in 1967 provides that the redemption period will be from 10 to 15 years; that is, the purchaser must hold the bonds at least 10 years before he can resell them to the Bank of Thailand without losing any of the interest return. The tax exemption is an important feature of these bonds but hardly an overriding one if only because the interest payable on fixed deposits is similarly exempt from income tax. Thus, the determining consideration for an individual appears to be liquidity when the interest return is the same as that payable on bank deposits and the risk appears to be not significantly different. When money is held as a fixed deposit, full interest is payable after 12 months and the money can be withdrawn virtually at any time without any discount from par, even though the interest return will be adjusted to the length of time the deposit was maintained.

loans from the Bank of Thailand, against promissory notes issued for settlement of rice premium, against AID-financed imports, and other obligations, direct or contingent, of the banks.[51]

By far the most important attraction of government bonds is that they are now the principal asset against which the commercial banks can borrow from the central bank. The terms on which these loans are extended are quite lenient and insure that the banks may regard their portfolio of government securities as almost equivalent to cash reserves in terms of liquidity and much more rewarding than cash in terms of return. The interest cost of borrowing from the Bank of Thailand is equal to the bond coupon; but while the interest received on the bond is tax exempt, the interest payable on the loan can be deducted from the commercial bank's gross income for income tax purposes. If the commercial banks were allowed to borrow the full face value against the security of the bond, they would actually make money in the process. In fact, however, the banks cannot borrow more than from 70 to 90 per cent of the face value of the bond, depending on the length to maturity. Even so, the net cost of borrowing is minimal.[52]

---

[51] For instance, in rediscounting procedures.

[52] A loan from the Bank of Thailand may be obtained either by spot pledging of government securities or by an advance pledge of such securities. On the date due (loans are usually made for 90 days) the commercial bank can, if it wishes, settle its debt by disposing of the bond collateral. This is seldom done, however, inasmuch as few banks either need or are willing to accept a reduction in interest return. Most frequently loans are settled, if need be, by replenishing the bank's account at the Bank of Thailand which is debited on the date the loan is made.

Thus, there is little wonder that commercial banks continue to purchase large quantities of government bonds, despite the reduction in the coupon rate in 1965. What needs explaining, however, is the fact that the amounts borrowed from the Bank of Thailand remain but a minor source of funds to the Thai commercial banking system, averaging less than 1 per cent of its liabilities over the last 10 or 12 years.[53]

As shown in Table VI-14, borrowing from the Bank of Thailand, over the period 1957-66, averaged substantially less than 10 per cent of all borrowings of commercial banks even though that total has been rising steadily year after year. At the end of 1966 total loans outstanding of commercial banks, both local and foreign, operating in Thailand, amounted to 3.4 billion baht of which only 337 million was owed to the Bank of Thailand.[54]

There appears to be no discernible trend in borrowing from the Bank of Thailand, with the amounts borrowed from that source varying from year to year. Nor is there any apparent difference between locally chartered and foreign chartered banks. Over the years, and as a proportion of total borrowings, there appears to be a somewhat lesser reliance on interbank loans (see Table VI-15). The decline in interbank loans is surprisingly enough,

---

[53] See Chapter IV, p. IV-20.

[54] The 200 million baht carried as owed to other banks in what purports to be a consolidated table of all banks in the country is due to a peculiarity of Thai banking accounts. Chapter IV., p. IV-15, footnote 17.

Table VI - 14
Thai Commercial Banks, Borrowing by Source
(in million baht)

End of Period	All Banks				Banks Incorporated in Thailand				Banks Incorporated Abroad			
	From Bank of Thailand	From Banks in Thailand	From Banks Abroad	Total	From Bank of Thailand	From Banks in Thailand	From Banks Abroad	Total	From Bank of Thailand	From Banks in Thailand	From Banks Abroad	Total
Dec. 1957	-	95.1	543.8	638.9	-	91.5	179.5	271.0	-	3.6	364.3	367.9
1958	8.7	100.9	559.9	669.5	8.7	83.8	202.3	294.8	-	17.1	357.6	374.7
1959	41.9	252.9	738.4	1,033.2	40.1	194.8	353.5	588.4	1.8	58.1	384.9	448.8
1960	109.7	202.2	804.9	1,116.8	104.7	166.5	402.1	673.3	5.0	35.7	402.8	443.5
1961	106.3	243.5	1,065.5	1,415.3	103.0	167.1	549.7	819.8	3.3	76.4	515.8	595.5
1962	103.5	293.1	1,429.8	1,826.4	103.5	141.3	949.6	1,194.4	-	151.9	480.1	632.0
1963	98.0	370.2	1,852.3	2,320.5	91.7	136.4	1,373.1	1,601.2	6.3	233.8	479.2	719.3
1964	164.7	326.4	2,383.9	2,875.0	142.6	96.1	1,665.0	1,903.7	22.1	230.3	718.9	971.3
1965	244.4	241.4	2,727.9	3,213.7	218.6	112.5	1,848.6	2,179.7	25.8	128.9	879.3	1,034.0
1966	336.9	198.5	2,889.4	3,428.8	290.5	92.8	2,053.8	2,437.1	46.4	105.7	835.6	987.7

Source: See text.

Table VI - 15
Thai Commercial Banks, Borrowing by Source*
(Percentage Distribution)

End of Period	All Banks				Banks Incorporated in Thailand				Banks Incorporated Abroad			
	From Bank of Thailand	From Banks in Thailand	From Banks Abroad	Total	From Bank of Thailand	From Banks in in Thailand	From Banks Abroad	Total	From Bank of Thailand	From Banks in Thailand	From Banks Abroad	Total
Dec. 1957	-	14.88	85.12	100	-	33.76	66.24	100	-	0.98	99.02	100
1958	1.30	15.07	83.63	100	2.95	28.43	68.62	100	-	4.56	95.44	100
1959	4.06	24.48	71.47	100	6.82	33.11	60.08	100	0.40	13.06	86.53	100
1960	9.82	18.11	72.07	100	15.55	24.73	59.72	100	1.13	8.05	90.82	100
1961	7.51	17.20	75.28	100	12.56	20.38	67.05	100	0.55	12.83	86.62	100
1962	5.67	16.05	78.29	100	8.67	11.83	79.50	100	-	24.03	75.97	100
1963	4.22	15.95	79.82	100	5.73	8.52	85.75	100	0.88	32.50	66.62	100
1964	5.73	11.35	82.92	100	7.49	5.05	87.46	100	2.28	23.71	74.01	100
1965	7.60	7.51	84.88	100	10.03	5.16	84.81	100	2.49	12.44	84.88	100
1966	9.83	5.79	84.27	100	11.92	3.81	84.27	100	4.70	10.70	84.60	100

Source: See text.
*Details may not add up to total because of rounding.

more pronounced in the case of locally chartered banks.[55] For a number of reasons, of which the desire to avoid paying tax on interest income is perhaps the most important, there has been since 1962 a growth of "interbank deposits" at the expense of "interbank loans."

The acquisition of bonds by commercial banks was given another fillip in 1965 when the proportion of government securities allowed to count as reserves against deposit liabilities was raised from 25 to 50 per cent. Given the attractions of bonds to the commercial banks, there ensued, in 1965 and 1966, a shift in the assets of the commercial banks from cash to securities. Thus, at the end of 1965, the ratio of cash assets to demand deposits stood at 9.74 per cent. By the end of 1966 it fell to 8.63 per cent.

---

[55] See Table VI-15. One would expect that, as the scope of business activity expands, it will be the foreign banks who will tend to rely more heavily on head offices abroad for their seasonal and cyclical needs. Yet, the proportion of total funds obtained from foreign banks has, if anything, declined in the case of banks chartered abroad and increased in the case of those locally incorporated. One reason cited in field interviews with managers of foreign banks is an alleged discrimination in the tax laws which treats funds obtained from headquarters abroad as addition to capital and disallows deduction of interest payable on those funds for income tax purposes. Locally chartered banks do not encounter any difficulty in deducting interest charges on funds obtained from their foreign correspondents from the gross income base.

At the time of writing, the annual interest charge for interbank loans varied from 7 to 8 per cent with loans from abroad available to Thai commercial banks at from 6 to 7 per cent. In addition to lower interest rates the advantage of funds borrowed from abroad was their length which was typically 180 days, compared with 90 days for loans from the Bank of Thailand and only a few days in the case of interbank loans. By borrowing from abroad for 180 days and lending to importers for 90 days, the commercial banks can, even allowing for shipping and other delays, profitably invest funds obtained at relatively low cost from abroad.

On the other hand, the ratio of liquid assets (which differ from cash assets mainly by the inclusion of government securities) to deposits rose from 25 per cent at the end of 1965 to 30 per cent at the end of 1966.[56]

With commercial banks liquidity assured by recourse, if need be, to foreign credit and by the rapid growth of deposits, particularly time deposits,[57] the Thai commercial banks increasingly converted their excess reserves into government securities. By the end of 1965, the banks' holdings of government securities were larger than their excess reserves (see Chart VII).

Table VI-16 shows that the policy governing distribution and treatment of government bonds (as well as Treasury bills) was not determined by budgetary needs. Issues of government bonds have been, in recent years, substantially in excess of deficits and have been mainly responsible for the accumulation of large cash balances at the Treasury account. Whatever the exact reasons for making available to the commercial banks large blocks

---

[56] See Bank of Thailand, Monthly Report (June, 1965), p. 7. Because of the highly seasonal demand for bank accommodation, liquidity ratio tends to vary considerably from month to month. As shown in Chart VI, however, liquidity of commercial banks in 1966 was very high throughout the year.

[57] Demand deposits were 6.4 billion baht at the end of 1965 and 7.5 billion at the end of 1966. Time deposits rose in the same period from 6.8 to 9.3 billion baht. As mentioned previously, most of the increase in time deposits was a result of increased holdings by private residents.

CHART VI

Thai Commercial Banks, Ratio of Liquid Assets to Deposits, 1962-66

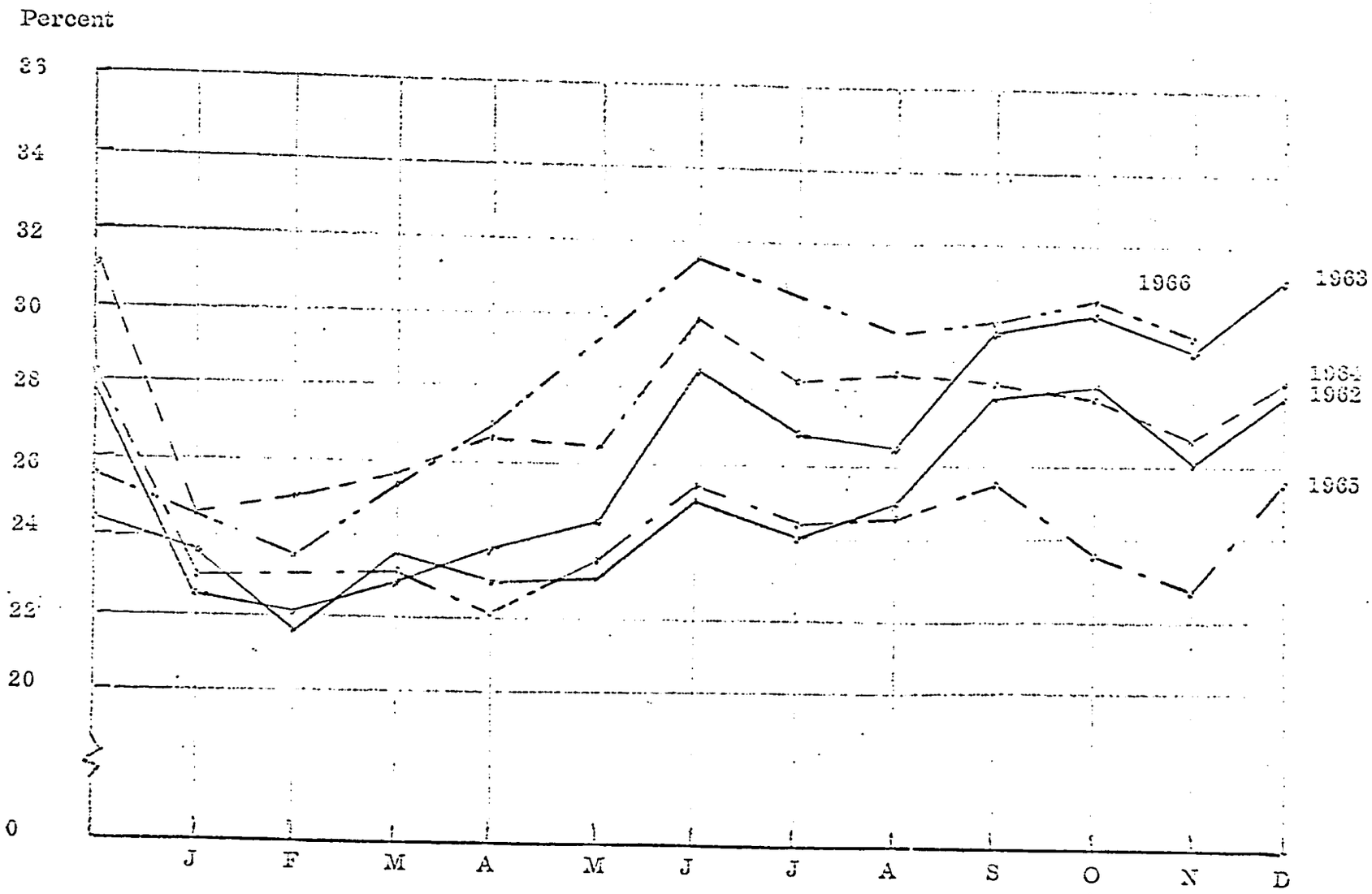

CHART VII

Thai Commercial Banks, Holdings of Government Securities and Excess Reserves
1962-1966

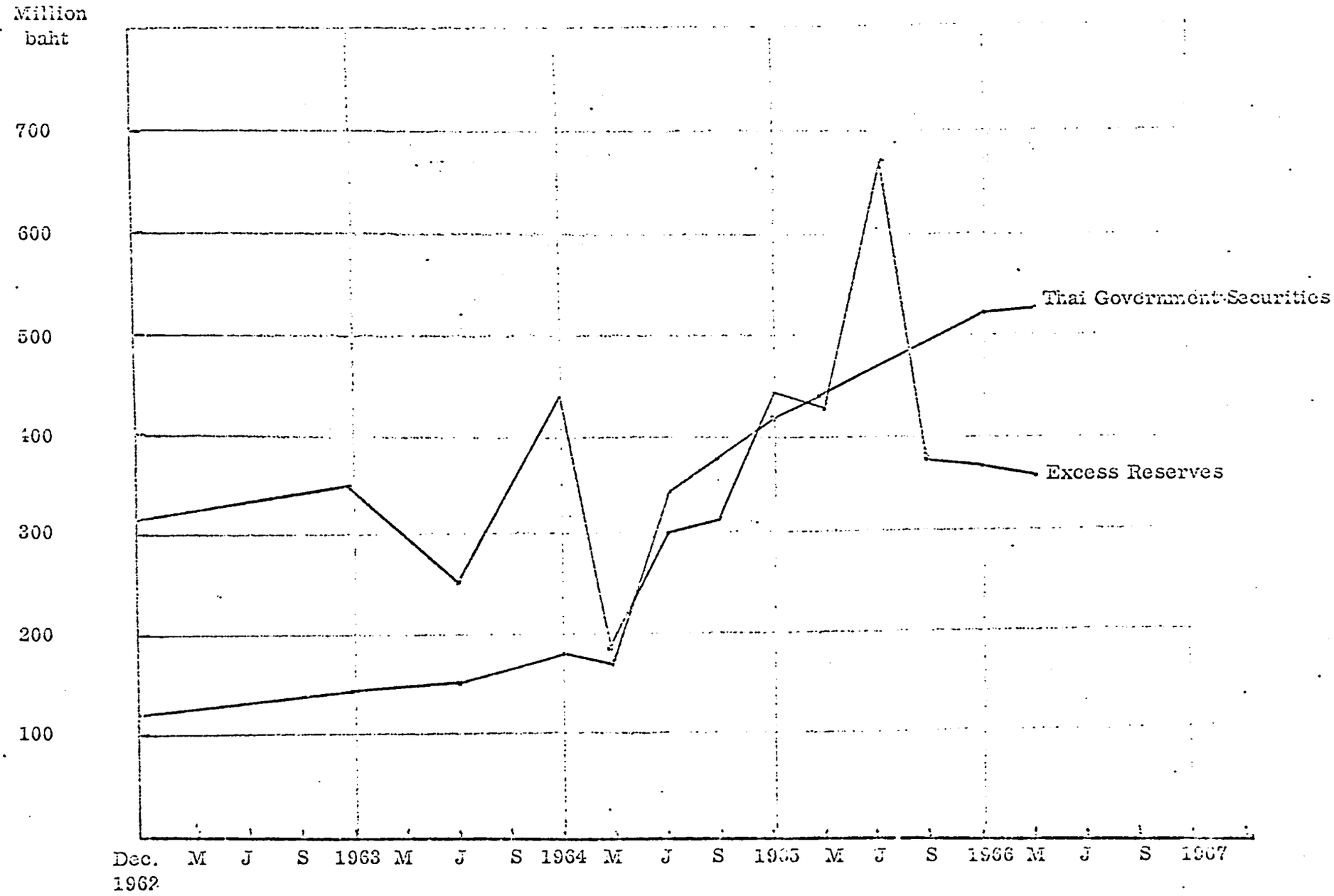

Table VI - 16

Thai Government Deficits, Borrowing and Treasury Balances
(in million baht)

Fiscal Years	1962	1963	1964	1965	1966
Treasury Cash Deficit	-1	-358	-555	-240	-668
Sale of Bonds	576	900	905	1195	2302
Sale of Bills	-123	277	-699	-51	145
Coin Issues	14	48	67	91	77
Change of Treasury Balance	466	867	-282	995	1856
Treasury Balance, End of Year	1871	2738	2456	3451	5307

Source: See text.

of bonds at very favorable terms, the net effect has been to make the commercial banks more liquid, less economically dependent on Bank of Thailand direction, less anxious to compete for customers, less likely to reduce interest charges as a means of securing employment of their idle funds, and more content to continue business as usual instead of seeking new uses for their funds.[58]

Treasury Bills

As seen in Table VI-10, holdings of Treasury bills among financial institutions are, at the present time, much smaller than those of government bonds. Compared with the nearly 12 billion baht worth of bonds outstanding at the end of 1966, total bills outstanding amounted to only 850 million baht, of which commercial banks held less than 400 million baht. Moreover, as contrasted with bonds, which are held by a great variety of holders, the vast bulk of bills are held by banks (central and commercial), with less than 5 million baht held outside.[59]

---

[58] The Bank of Thailand has, of course, to contend with many pressures and many needs of the economy. The policy of accumulating large Treasury balances may have been motivated by a fear of inflation. The Bank of Thailand has been interested, for some time, in creating a money market and feels that issuance of securities in excess of budgetary requirements is a step in the right direction. Also, it may feel that by making available bonds and bills at coupon rates below those obtainable in many parts of the market, it helps to bring about a general reduction in the level of interest rates.

[59] The bulk of this (4.8 million) is held by the Government Savings Bank.

Under an act passed in 1944 which regulates the issues and terms of Treasury bills, the responsibility for their management is vested in the Ministry of Finance. In practice, however, the management of bills is now in the hands of the Bank of Thailand. In fact, until about 1960, the Bank was almost the sole purchaser of the bills from the Treasury, and the proceeds of these sales were credited to the Treasury account to finance operating needs of the government. The rate of return offered on these bills, together with other terms of issue, were not sufficiently attractive to attract other buyers.[60] It was not until 1960 that the Bank of Thailand succeeded in convincing the Ministry of Finance that it should increase the maximum rate of interest paid on Treasury bills from 3.0 to 4.5 per cent and permit their issue on tap as well as on tender. The Bank of Thailand stood ready to sell bills from its own portfolio to commercial banks and others with an option to buy them back before maturity at a penalty rate of one-fourth of 1 per cent.

---

[60] At the outset, when the bills were first issued by the Ministry of Finance, they did attract a number of commercial banks as well as the Government Saving Bank. But the Bank of Thailand, by bidding close to the fixed price, managed to depress the yield below 1 per cent per annum and became, after 1947, the sole buyer of bills. After 1948 the yield on the bills continued to increase but the return on bonds increased even faster, rising to 8 per cent in 1953. Moreover, until about 1960, there were no provisions for reselling the bills before maturity.

Parallel to the development of a secondary market in Treasury bills, the volume of outstanding bills has gradually been reduced, and the emphasis in Treasury bill policy has shifted from that of financing government to that of developing a money market.

Table VI-17 shows that the amount of bills outstanding was reduced from over 3 billion baht in 1959 to about half that amount in 1961 and to 650 million in 1965.[61]

The maximum rate payable on 90-day Treasury bills was further increased to 5 per cent in 1961, leading to increasingly large purchases of bills by the commercial banks (see Table VI-18).[62] In 1965, however, the coupon was reduced to 4.5 per cent. The penalty rate for repurchase of bills by the Bank of Thailand was reduced from one-fourth to one-eight of 1 per cent. In 1966, the coupon was further reduced to 4 per cent, the currency of the bills was limited to 60 days and, as a partial compensation, the penalty rate was cut to one-twelfth of 1 per cent.

---

[61] The value of bills outstanding, or the "revolving fund," as it is called, at the time of writing (1968) is limited to 850 million baht.

[62] Table VI-19 suggests, however, that the more attractive terms at which Treasury bills could be purchased failed to bring in other buyers in any significant amount.

Table VI - 17

Thai Treasury Bills, Selected Characteristics
(in million baht)

Year	Issued during the year (฿)	Terms	Average Interest (discount)	Amount Sold (฿)	Redeemed during the year (฿)	Out-standing at the end of the year (฿)
1956	9,801	4 months	2,260	9,801	9,801	3,267
1957	9,855	4 months	2,279	9,835	9,835	3,287
1958	9,800	4 months	2,923	9,800	9,820	3,267
1959	9,853	4 months	2,990	9,853	9,853	3,267
1960	8,653	3 months	3,077	8,653	9,812	2,107
1961	4,953	3 months	4,647	4,953	5,453	1,608
1962	4,493	3 months	4,978	4,493	4,494	1,607
1963	3,749	3 months	4,980	3,749	4,706	650
1964	2,900	3 months	4,994	2,900	2,706	650
1965	3,150	3 months	4,461	3,150	3,150	650

Source: See text.

Table VI - 18

Thai Commercial Banks Purchases of Treasury Bills

Year	By Tender		From Bank of Thailand		Total	
	Value in million baht	Percent of Total	Value in million baht	Percent of Total	Value in million baht	Percent of Total
1960	13,000	3.8	329,000	96.20	342,200	100
1961	40,000	2.96	1,300,324	97.04	135,324	100
1962	125,000	3.51	3,434,188	96.49	3,559,188	100
1963	310,000	8.26	3,442,231	91.74	3,752,231	100
1964	555,200	18.01	2,527,413	81.99	3,082,613	100
1965	724,000	26.67	1,990,270	73.33	2,714,270	100

Source: See text.

Table VI - 19
Sales of Treasury Bills
(on bid basis)

(Calendar years, in million baht)

Type of Holders	1964		1965		1966	
	Amount	Percent	Amount	Percent	Amount	Percent
Bank of Thailand	2344.8	80.85	2426.0	77.01	2498.0	56.56
Commercial Banks	554.0	19.10	724.0	22.99	1918.0	43.43
Insurance Companies	1.2	.05	-	-	-	-
Government Savings Bank	-	-	-	-	.234	.01
TOTAL	2900.0	100.0	3150.0	100.0	4416.234	100.00

Source: See text.

In recent years the monetary authorities have attempted to reduce the proportion of bills bought on tap in favor of direct tender from the Treasury. The schedule of maturity dates, penalty rates, and repurchase prices were so arranged as to provide inducement for holding bills longer and, in consequence, to buy them on tender basis.[63] These attempts met with some measure of success, as shown in Table VI-18.

It would seem that the entire policy regarding Treasury bills has not, as yet, been clarified. There appears to be some confusion regarding objectives, methods, and goals. In particular, three aspects of this policy are, prima facie, inconsistent with the avowed objectives. In the first place, there seems to be little justification for reducing the revolving fund of Treasury bills to the current low level. Treasury bills are generally, a cheaper means of financing government needs than bonds, and, to the extent that borrowing has to be resorted to, reliance on long-term securities increases the budgetary cost of internal debt.

---

[63] The schedule, at the time of writing, read as follows:

Length of Maturity	Yield	Repurchasing Rate
1-15 days	2.50 per cent	2.63 per cent
16-30 days	3.05 per cent	3.13 per cent
31-45 days	3.34 per cent	3.25 per cent
46-60 days	3.60 per cent	3.88 per cent

In the second place, to the extent that issuance of bills is motivated by the desire to develop a money market in Thailand, over and above budgetary needs, it is difficult to understand why sales on tender basis should be emphasized and encouraged.[64] The tap market at the Bank of Thailand provides a secondary market which the commercial banks find very useful because it enables them to select the maturities they need on a day-to-day basis.

Finally, the overall reduction of interest yield and reduction of maturities appears inconsistent with specific steps to encourage banks to hold on to the bills for longer periods so as to receive a higher yield. In any event, so long as these banks continue to be very liquid, Treasury bills will play only a marginal role in their portfolios.

The preceding discussion of debt management as implemented by the Bank of Thailand brings out two factors which tend to inhibit its ability to direct a greater volume of savings into developmental channels. The first of these factors is the existence of only one type of long-term government security and the second factor, related to the first, is the absence of any intermediate-term issues. At present there is nothing

---

[64] In a truly competitive market with many buyers of different types and with many alternative outlets available, tender bills could be said to effect market forces. It is doubtful if this is true in Thailand where the ceiling on <u>all</u> bills is set by the Minister of Finance.

available in the market between the 40-day Treasury bill and the eight-year government bond. There appears to be a clear need for two sets of measures. One of these sets would attempt to "tailor" the long-term government bonds to the different markets. Thus, for example, the tax exemption feature, while important to the private individual, is of no significance to a charitable institution. To some segments of the market the length of the bond to maturity may be more significant that its coupon. Others would perhaps be willing to accept a lower rate of interest in exchange for more immediate redeemability.

As things stand at present, to sell a given volume of bonds the monetary authorities are compelled to offer terms and conditions acceptable to the most reluctant buyer. There is little doubt that "tailoring" of bond issues to different markets in terms of yield, maturity, tax status, and other variables would not only be more efficient but would also lower their total cost to the Thai government.

But "tailoring" of bond issues can achieve an effect which is more important than that of efficiency or lower budgetary costs. Throughout the preceding discussion much stress was put on the fact that availability of high-yielding, tax exempt, government bonds was instrumental in the commercial banks apparent reluctance to aggressively seek out additional business other than that of the financing of trade. There is thus the possibility that a bond could be issued, to be sold only to the commercial banks, which would both insure their liquidity and also provide them with

a somewhat greater incentive to compete for additional business. It is difficult to suggest the specific types of bonds which would achieve these ends, but the range of possibilities is rather wide. Two approaches suggest themselves. One approach would, say, reduce the coupon rate significantly, but keep it above the yield on Treasury Bills. Other attractions of government bonds would be retained and, if need be, an instant redemption feature, at par, would be added. The second approach would provide that additional purchases of bonds could not be counted as part of the legal reserves, or could be so counted only to a very limited extent. In deciding on a specific type of bond it is important to bear in mind the welfare and stability of the commercial banks and their real need for liquidity and reasonable profits.

The adoption of various types of bonds to different segments of the market is closely related to the need to provide for an intermediate type of security, say of from one to three years currency. In fact a three year, instantly redeemable, 6 per cent bond may be the type of security which could be reserved for commercial banks only. Yet other intermediate bonds could have special features which would make them potentially effective vehicles of developmental finance.[65]

---

[65] Among these are convertibility features. Thus, a bond could be convertible into shares of other undertakings, whether public or private. Such a bond need not, of course, be of any specific currency, but it would appear that in Thailand convertible features could well be appended to an intermediate term bond. See, however, Robert F. Emery, "The Successful Development of the Philippine Treasury Bill Market," (Board of Governors of the Federal Reserve System, March 1967), mimeo.

Central Banking and the Financial Nexus

The effectiveness of central banking operations in directing the flow of savings and investment into developmental channels depends on the Central Bank's willingness and ability to pursue a growth-oriented policy. As mentioned previously, throughout most of its existence the Bank of Thailand has been preoccupied with maintaining the external and internal value of the baht, and only recently has its leadership become concerned with economic growth.[66] While its willingness to channel resources into growth-oriented activities can be said to have increased somewhat, its power to do so effectively is yet to be examined.[67]

In this section, the willingness and the ability of the Central Bank to influence the direction of economic activity will be discussed under two subheadings. In the first of these, Central Bank relations with

---

[66] "...there is considerable doubt whether macroeconomic factors related to the money supply as a whole are as important for growth as redirection of the energies of the financial institutions into growth-promoting activities." T. H. Silcock, ed., Thailand--Social and Economic Studies in Development (Durham: Duke University Press, 1967), p. 197.

[67] Willingness and power are, of course, intertwined. The cognizance of the limits of power affects the willingness to undertake certain actions. This, in turn, inhibits the use of power. The reluctance of the Bank of Thailand to use certain powers formally vested in it can be traced not so much to its unwillingness to use them as the recognition that these formal powers are not always tantamount to real power.

commercial banks and other financial institutions will be scrutinized. The second subheading will speculate on the direction which Bank of Thailand activities should take, given certain assumptions regarding the optimal strategy for Thailand's development.

Relations with Financial Institutions

The commercial banks are by far the predominant financial intermediaries on the Thai scene. Their relations with the Central Bank are manifold and occasionally complex. Some of these relationships arose out of the powers and obligations of the Commercial Banking Act of 1962 and subsequent amendments by the Minister of Finance. Other relationships are those which, although enabled by pertinent legislation, were more fully developed under various administrative notices and provisions of the Bank. Finally, there are those operations of the Bank which affect the activities of the commercial banks but which have already been discussed elsewhere.[68]

---

[68] Either in this chapter or in Chapter IV. Again, it should be noted that many of the activities of the Bank of Thailand which affect the commercial banks stem from the powers and obligations formally vested in the Minister of Finance. Thus, even though examinations of commercial banks and eventual sanctions against them depend to a large extent on the Ministry of Finance, no distinction will be made in the text.

For purposes of this discussion the significant relations with the commercial banks are those which deal with the ability of the Bank of Thailand to control the behavior of these banks, in general, and their lending policies, in particular.

Three types of controls can usefully be distinguished. The first set of control instruments derives from statutory or administrative enactments but is largely useless. Either these controls are not implemented or they are not effective. The formal powers from which these control instruments derive are not invoked for a variety of reasons or, in those rare cases when they are invoked, they are either bypassed or not pressed with sufficient vigor.

The second set of controls over the behavior of commercial banks is also based on formal powers, but these powers are rooted in economic and/or political realities. The Bank of Thailand can exert some influence over commercial banks' portfolios and policies to the extent that it pushes these intruments vigorously.

Finally, there are those instruments of control which are rooted less in formal powers of the Bank of Thailand than in its standing, integrity, and prestige. Up to the present time, it is at least arguable that changes in commercial banking operations were brought about more by "moral suasion" than by the exercise of legal powers by the Bank of Thailand.

The formal powers at the disposal of the Bank of Thailand include the power to set maximum interest rates on various types of accommodation, to vary reserve requirements within rather wide margins, to limit the ratio of risk assets to capital, to prescribe the ratios of specified assets to capital, to regulate the proportion of loans to one name, to examine the books of the banks, and many others.[69] Many of these provisions, however, remain in abeyance. Thus, even though the Bank of Thailand can set the ratio of cash assets to deposits at a rate as high as 50 per cent, the ratio remains constant at 6 per cent. There are many reasons for the reluctance to use these rather standard control instruments but some of the more telling ones are quite clear. Given the great liquidity of the commercial banking system as a whole, a very sharp increase in the reserve ratio would be needed to put the commercial institutions "at the Bank." But such a sharp increase would affect the commercial banks quite unevenly, with the smaller banks probably no longer able to operate. Yet some of the smaller and relatively less liquid banks need to be protected, not only because some of them wield considerable political power, but also because it would be both unfair and unwise to press their backs to the wall.[70]

---

[69] Some of these powers will be discussed in the succeeding paragraphs. See also Chapter IV, pp. IV-9ff.

[70] Should it prove politically feasible, the change in reserve requirements could be brought about gradually over a period of time as was done recently in Hong Kong and the Philippines. Such a gradual change may be considered in implementing the scheme for bringing banks into the agricultural credit field spelled out in Chapter III. I am indebted to Mr. Robert Emery of the Board of Governors of the Federal Reserve System for bringing the Hong Kong and Philippine experience to my attention.

Less clear are the reasons for not exercising some of the other statutory powers which, in principle at least, could quite considerably affect commercial bank behavior. Among these are the powers to prescribe the proportion of selected assets to capital and the maximum proportion of capital which can be lent to one name.[71]

Inasmuch as capital resources of Thai commercial banks are more of a constraint on their liquidity than liquid assets, the regulation of commercial bank behavior via selective control of assets would appear feasible. In particular, the Bank of Thailand could, in principle, direct lending activities of the commercial banks into certain directions merely by positing a requisite ratio of a specified asset to total capital resources. But such forcible direction would cause more problems than it would solve. Suppose, for example, that the Bank of Thailand required commercial banks to increase their loans to manufacturers to a much higher proportion of capital than at present. Without proper safeguards on both sides of this particllar market for lendable funds, and without rather basic

---

[71] The Bank of Thailand also has the power of counting unused portions of overdrafts as deposits. The exercise of this power, however, is subject to the limitations mentioned in the preceding paragraph. The power to vary the ratio of assets to capital has been exercised only negatively by excluding certain assets from the definition of risk assets. See Commercial Banking Act of 1962, Sec. 10 (2).

changes in the entire credit structure, such requirements could not be implemented or enforced.[72]

A bank examination, which is routinely performed by the Bank of Thailand, is, even when competently done, a negative instrument of control at best. Certain glaring abuses can be avoided or rectified, but examination of the books, per se, can do little to channel bank lending in desired directions. Moreover, it is very difficult to obtain any information regarding the number of abuses found, their frequency and distribution among banks, remedial action taken, and so on. The Bank of Thailand must protect the confidential relationship it enjoys with the commercial banks, and it would perhaps be improper for it to divulge to an outsider any more than can be gleaned from Table VI-1.[73]

---

[72]The language of the 1962 Act is not clear as to whether the various ratios must apply equally to all banks or whether the Bank of Thailand may discriminate among banks. It is understood, however, that these ratios are equally binding on all banks operating in Thailand.

[73]The purpose of a bank examination is twofold. On the one hand, it is to insure that the commercial bank will remain solvent and, on the other, it is to exact compliance with the numerous provisions regarding lending to directors, purchases of certain assets, or engaging in certain transactions. When solvency is in question, the bank, in principle, can be forced into liquidation. Contraventions of existing rules may result in up to one year's imprisonment and fines of up to 20,000 baht. (see Table VI-20 for number of examinations).

Table VI - 20
Bank of Thailand Operations, Commercial Bank Examinations
(frequency in absolute numbers)

	1962	1963	1964	1965	1966
Head Office	3	4	23	7	16
Bangkok branches	12	9	35	78	39
Provincial branches	20	130	21	136	98
Total	35	143	779	221	153

Source: See text.

The Bank of Thailand does have the power to set maximum rates on different types of deposit liabilities and on different kinds of loans of the commercial banks. This is an area where the Bank of Thailand was and is active, but its ability to set effective ceilings on interest rates is, in some instances, bypassed by the devices employed by certain banks to exact higher interest rates on loans and/or pay higher than the official rates on deposits.[74]

It would thus seem that the formidable arsenal of control weapons available to the Bank of Thailand under legislative enactments is seldom used, or used rather haltingly. The reasons for this are both economic and political. The economic reasons have to do with commercial bank liquidity which, however, is unevenly distributed among the individual banks.[75] The political reasons have to do with the considerable political

---

[74]The concern with the prevailing level of interest rates is reflected in numerous speeches made by the Bank of Thailand Governor. See Puey Ungphakorn, Speeches, Articles, and Addresses (Bangkok: Bank of Thailand, 1964).

[75]A related economic constraint is the ease with which commercial banks can obtain funds from abroad. This has an effect not only on their liquidity but also on the availability of foreign exchange. In many countries the Central Bank's control of foreign exchange serves as a powerful influence on commercial bank behavior. On the economic limitations of Central Bank power under conditions resembling those of Thailand, see R. S. Sayers, Modern Banking (London: Clarendon Press, 1951), especially pp. 282ff.

muscle at the disposal of many of the commercial banks incorporated in Thailand. It's a rare bank which does not have on its board a field marshals, a general, or a high police officer.[76] Many Thai banks have close ties with high civil servants, members of the ruling families, or both. No matter how intrepid the leadership of the Bank of Thailand may wish to be, it must reckon with political realities.[77]

But the Bank of Thailand does employ control instruments which enable it to affect the flow of funds through the commercial banks and, hence, the economic behavior of these banks. Perhaps the most important of these are related to rediscounting activities and to granting of permits for new branches.[78] As mentioned earlier, the Bank seems to have a good deal of discretion in allowing rediscount facilities and there is no reason

---

[76] In April 1966 three field marshals were on the boards of 10 banks. Four army generals served on the boards of fifteen banks. An army lieutenant-general was a board member of three banks. An air marshal was on the boards of three banks and three police generals served as board members of seven banks. Apart from the special case of the Thai Military Bank, one commercial bank counted among its board members three army generals, a lieutenant-general, and a police general.

[77] For a discussion of the political powers of Thai commercial banks and of the political constraints within which the Bank of Thailand operates, see T. H. Silcock, "Money and Banking," in Thailand: Social and Economic Studies in Development (Canberra: Australian National University Press in association with Duke University Press, Durham, N. C. 1967) especially pp. 182-85.

[78] See Chapter V, pp. V-25ff.

why elements of these discretionary powers should not be employed to achieve certain desired, albeit limited, objectives.[79] The objectives must be limited so long as total volume of rediscounting remains low relative to the volume of commercial bank's operations.

The possibility of utilizing the right to grant permission to commercial banks to open new branches as a control instrument has been discussed earlier.[80] Again, its scope can only be a limited one.

It may be a truism to say that among the controls available to the Bank of Thailand the ones that have the best chance of influencing the policies of commercial banks are those which promise them direct or indirect benefits. Whenever the aims of the economy, as interpreted by the Bank of Thailand, coincide with or can be made compatible with those of the commercial banks, the control instruments can be made to work. When there is little overlap of economic benefit or a direct conflict emerges, the implementation of legal powers of the Bank of Thailand will have to contend with the political realities. Thus, the commercial banks are anxious to have new

---

79 See above, pp. VI-38ff.

80 See Chapter V, pp. VI-25ff. Perhaps the best way to achieve desired changes in commercial banks' policy would be to combine potentially effective but politically awkward control instruments with economic benefits which would accrue to the banks once they adhere to the policy change. This, of course, is the essence of the "carrot and stick" approach to the provision of agricultural credit by commercial banks suggested in Chapter III, pp. III-112ff.

branches, and they might be willing to abide to a limited extent by Bank of Thailand direction in order to get these branches. On the other hand, they will resist a straight increase in the cash-deposit ratio or the substitution of other assets for government securities in their legal reserves.[81] The Bank of Thailand, hemmed in as it is by economic and political limitations which restrict its ability to direct the policies of the commercial banks, is not entirely without resources. To date, its greatest success in influencing the behavior of the commercial banks has derived from "moral suasion;" i.e., in utilizing its great prestige in the community to bring about certain changes in commercial banks' policy. Moral suasion takes time to make itself felt and it is not always easy to relate the cause and the effect; but there is little question that the general improvement in banking practices and the reduction in frequency of grosser abuses owes a good deal to the persistent prodding and cajoling of the Bank of Thailand.[82]

---

[81] They are also likely to resist the changes in the terms and conditions at which they can buy government bonds, if these changes are on the lines suggested above, pp. VI-64ff.

[82] In at least one case, that of the reduction of maximum lending rates in 1966, the tie-in between moral suasion and acceptance by the banking community was a direct one. The Bank of Thailand supplements its moral suasion effort by a range of services to the banking community which tend to make commercial banking more professional and more responsible. Among these should be listed the central clearing of checks, the central register of credit information (confidential information on individuals who owe in excess of 500,000 baht to more than one bank), statistical and analytical services, and so on.

The prestige of the Bank of Thailand is based, first of all, on the skills and integrity of its Governors. The Bank has been fortunate in that the persons chosen to lead its affairs have been men of unquestioned probity, whose financial acumen and experience have been widely respected. The Bank has also been able to retain a measure of independence, both political and administrative, which has stood it in good stead.[83]

The moral suasion is exerted in a variety of ways. One of the most popular ones is through the speeches of the Governor and other high Bank officials given at formal occasions. These speeches are widely reported in the press and frequently reprinted and published.[84]

---

[83] The Minister of Finance cannot issue orders to the Governor, and his supervisory sanction can, ultimately, take only the form of removal of the Bank of Thailand's directors, a very drastic step indeed. Unlike most civil servants, directors of the Bank are personally liable for any losses of the Bank's funds which can be traced back to willful negligence on their part. This unusual provision gives the directors some measure of political status. The fact that the Bank of Thailand is outside civil service rules enables it to recruit and retain superior staffs.

[84] The membership in the IMF and in the World Bank is said to give a good deal of weight to the pronouncements of the high officers of the Bank of Thailand. The Bank is the primary point of contact for the missions of the IMF and its regular annual consultations.

Apart from its close cooperation with the Treasury, the Bank of Thailand has very few transactions with other financial intermediaries operating in the Thai financial nexus.[85] This itself is symptomatic of the past preoccupation of the Bank of Thailand with the control of money supply and with financing government. Only very recently did the Bank begin to concern itself with provision of credit to institutions other than the commercial banks. Its proposed assistance to the newly created Bank for Agriculture and Agricultural Cooperatives and to the Industrial Finance Corporation of Thailand has already been mentioned. There are, as yet, no direct financial dealings between the Bank of Thailand and life insurance companies, provident and pension funds, mutual funds, and other institutions of the fledgling capital market.[86]

The discussion of the relationships, actual and contemplated, between the Bank of Thailand and financial institutions other than the commercial banks will be found in Chapter VIII, which deals with the capital market.

---

[85] Relations with the Treasury have been discussdd only tangentially throughout this study which concentrates on the nongovernmental segments of the financial nexus.

[86] As suggested above, the absence of direct financial dealings does not preclude the Bank from being involved in discussions, debates, and deliberations affecting a number of financial institutions. In fact, the officers and staff of the Bank play an important part on many official and unofficial committees concerned with development.

Central Banking in the Development Process

The preceding section described in some detail the means at the disposal of the Bank of Thailand for influencing the direction of economic activity, primarily via the commercial banks.[87] But in order for the Bank of Thailand to channel resources into developmental needs intelligently, it must know what these needs are, what is their ordering relation, and what kind of policy can be expected to bring the desired directional change.

In Chapter I it was suggested that one area where there is presumed need to increase the flow of finance, both absolutely and relative to other segments of the economy, is small and medium scale manufacturing primarily for export markets. So far, little has been done to stimulate export-promotion type of manufacturing which, in Thailand, appears to possess comparative cost advantage (i.e., seafood processing and packaging, fruit canning, teak manufacture, etc.).[88]

---

[87] The Bank of Thailand operations do affect households' decisions to save, both directly and indirectly. The direct effects flow from the offerings of government bonds, and the indirect effects from the terms at which the commercial banks accept deposits. As yet, there are no sufficient data available to permit any conclusions, let alone suggestions, with respect to the impact of the Bank of Thailand on household savings, their level, composition, and form.

[88] The experience of Taiwan is instructive in this connection. In 1965 Taiwan did not export canned asparagus at all. Three years later it sold $11 million worth abroad. Exports of canned mushrooms, rose from nothing in 1951 to $21 million in 1966. Exports of canned pineapple increased

A part of the "blame" for this state of affairs must be put on the existing financial structure which has mirrored the country's economic development and which has helped Thailand achieve its remarkable growth record to date. If it is true, however, that the continuing growth of the Thai economy will hinge on its ability to develop export-promotion manufacturing capacity, then it behooves the Bank of Thailand to redirect the activities of the financial markets away from their emphasis on foreign trade toward the financing of nascent processing industry which is based on local resources.

While the emphasis on exports and imports is primarily responsible for the dearth of institutions and instruments for financing locally based manufactures, the heavy reliance on unorganized financial markets for the provision of capital to medium and small manufacturers must also bear a part of the responsibility.[89] Hence, it would seem that the Bank of Thailand should promote the development of capital market institutions and instruments capable of providing finance to fledgling Thai industrialists rather than further enhance the ease and convenience of foreign trade financing.[90]

---

[88] (continued)
sevenfold between 1952 and 1965. At present Taiwan is the world's largest exporter of canned pineapples and mushrooms, and second largest in asparagus. See IMF, Finance and Development (September 1967).

[89] For evidence, see Chapter VII.

[90] According to Muscat, among obstacles to industrialization are: "no commercial bank interest in financing industrial investment, absence of capital market or the suitable instruments for mobilizing savings and channelling them into the hands of entrepreneurs looking for capital availability of industrial credit where it can be obtained only at very onerous interest rates and for short periods." Op. cit., p. 208.

Thus, for example, the current policy of providing encouragement to manufacturers using local raw materials is consistent with that objective.[91]

On the other hand, the exclusion of much foreign trade paper from the definition of risk assets tends to make that form of activity even more attractive to the commercial banks.[92]

In 1966, over 40 per cent of commercial bank loans went to finance exports and imports, 19 per cent to domestic trade, and only 12 per cent to manufacturing, much of it to rice milling, which accounts for about a third of value added in manufacturing.

As should be clear from the preceding discussion, the ability of the Central Bank to channel economic activities in directions conducive to economic growth will remain limited by the extent of its economic and political sway over financial institutions. Yet, within these constraint a number of things can and should be done. Some of these things have been suggested in the preceding pages. Other suggestions will be made in Chapter IX. The Bank is of course, aware of some of these possibilities.

---

[91] See provisions regarding raw materials' rediscounting p. VI-30.

[92] It will be recalled that even though the commercial banks charge lower interest rates to exporters and importers than to manufacturers, especially small and medium manufacturers, foreign trade financing is very profitable. In addition to the interest charges, the banks collect fees for a variety of documents, commissions on exchange transactions, and other charges. Moreover, foreign financing resorted to by domestic banks, principally in connection with their export and import activities, is very lucrative, mainly because the funds from abroad are available for a period of time which is longer than the period at which they are re-lent locally.

Witness its interest in some of the capital market institutions, its participation in official committees on financial institutions, its advisory functions in the preparation of the five-year plan, and its cooperation with other bodies concerned with Thai economic growth.[93]

One specific possibility may be briefly mentioned here. It has received a good deal of attention lately and although promoted by the commercial banks themselves, it has been incorporated in the five-year plan. This is the suggestion that in order to promote saving and perhaps also to facilitate term lending by commercial banks, maximum interest rates on deposits should be increased for balances held in excess of one year. While this suggestion merits further study, it raises the question of whether such a step will not delay the formation of capital market institutions able to finance more properly medium- and long-term industrial needs. Also, there may be some doubt as to what extent an increase in fixed deposits will be a net addition to voluntary savings rather than a change in their disposition, given the flexibility of at least some commercial banks with respect to the treatment of time versus checking accounts.

---

[93]See Puey Ungphakorn, op. cit., pp. 82-84.

CHAPTER VII

FINANCING URBAN BUSINESS ENTERPRISE

It was shown in Chapter II that much of the financial resources required to start or to operate a business in Thailand comes from outside the organized institutions of the money and capital markets.[1] The sources and uses of funds emanating from the unorganized markets and financing agriculture were discussed in Chapter III. In this chapter the nature and extent of the unorganized markets in financing "urban" or non-agriculture enterprise will be examined.

In the Thai national accounts it is difficult, if not impossible, to sector out corporations from other forms of business enterprise and, indeed, to separate business from household activities. This immensely complicates the task of tracing the flow of saving from households to capital formation in business. A good deal of financial activity involves households which are at the same time businesses and where saving in the latter capacity is frequently offset by dissaving in the former. Not only are the national income data unable to reflect financial arrangements devoted to consumption expenditures, but the lack of independent saving data in the Thai national income accounts makes reconciliation of saving and investment flows an almost hopeless task.

---

[1]For information regarding the organized institutions of the capital market, see Chapter VIII.

Thus, any attempt to trace the course of household saving into business investment has to contend with the scarcity of information regarding the assets and liabilities of the relevant sectors vis-a-vis each other. Financial transfers through unorganized financial markets are not reported and are very hard to trace.

Strictly speaking, it is probably true that the ultimate financing of capital formation is done chiefly via the organized financial markets. Probably no more than a fifth of aggregate capital formation is financed through activities of the unorganized sector.[2] But the importance of unorganized markets extends beyond that suggested by this modest proportion. For example, an importer who obtains resources from abroad through the use of banking channels may dispose of a portion of these resources through unorganized markets. Other inputs from abroad may be acquired by financial techniques outside any commercial banking connection. The farmer who uses a cooperative loan to buy fertilizer, for example, may have to borrow from a moneylender for his living expenses when the payment falls due. Much of the business funds eventually channeled through organized financial institutions may have been acquired from unorganized markets. In any event,

[2]This estimate was made by Forrest Cookson, who has done much pioneering work on estimating the magnitudes of flows within the Thai economy.

the bulk of financial transactions affecting business enterprise flow through the unorganized markets.

The Nature and Scope of Unorganized Financial Markets in Thailand

Because of the very nature of unorganized financial markets, their amorphous structure, their often clandestine operations and high degree of fragmentation, it is neither possible nor desirable to provide a rigorous definition of their extent and scope.

The approach adopted here is to examine the existing links between savers and investors and to group these institutionalized and/or informal links into two separate if not always very distinct categories, i.e., organized and unorganized markets.

The criterion employed in deciding whether a given arrangement falls into one or another category is whether it is actually or potentially amenable to control and direction by developmental authority.[3] For example, at present no Thai developmental authority exerts any supervision or control over the Bangkok Stock Exchange. But because the Exchange has made its records, etc., available to the public and the existing legal framework provides for a measure of control to be exercised by the Bank of Thailand,

---

[3] In some cases no neat distinction pertaining to an entire link can be made. Thus, commercial banks are organized links between savers (depositors) and investors (borrowers). But there are cases where a prospective borrower needs the intermediary of a somewhat shadowy figure to obtain the bank loan. The shadowy aspect of the link belongs to the unorganized markets.

for example, the operations on the Bangkok Stock Exchange would be classed as those of the organized financial markets.[4]

Similarly, while the Ministry of Finance and the Bank of Thailand have control powers over the commercial banks, banks which certainly make their official records available to the public, so far little of this existing power of scrutiny and control has been used for strictly developmental ends. In the case of commercial banks, however, both the power and the awareness of the need to orient their operations to societal development goals exist; therefore, their operations fall clearly into the organized financial markets category.[5]

One can envisage an almost infinite range of relationships linking the saver to the ultimate investor. It would be almost impossible to describe these links in all their ramifications and complexities. Instead, only a simplified outline will be given below, and the number of links will be confined to those which appear to be significant in present day Thailand.[6]

---

[4]See Chapter VIII.

[5]See Chapters IV and VI.

[6]The discussion in the text is based on numerous conversations held with bankers, moneylenders, compradores, businessmen, government officials, and many others, as well as on personal observations and contacts made during two years of field work in Thailand.

The most common type of relationship between the saver and the investor is one where they are one and the same person. But because this type of relationship does not involve going through a financial market and because there is no "link," properly speaking, between the saver and the investor, it will not be discussed here.[7]

Much of the financing of investment is of a direct type. The simplest link exists between the saver and the borrower who maintain face-to-face contact without any intermediary. The saver acquires an asset which is at the same time a liability of the investor, and the exchange of claims takes place directly between the parties concerned.

A farmer who borrows from the village moneylender or the businessman who obtains funds from a friend or relative engages in direct financing of this type. The assets and liabilities exchanged need not be formal instruments, nor does the contract need to be an explicit one. Indeed, in most financing of this type, especially in the less developed countries, the respective claims of the parties tend to be customary and implicit rather than formalized and explicit. It is not unusual, for example, for a small shopkeeper to obtain funds from a kinship or ethnic group against only vaguely defined liability in terms of the rate of return, the currency of the loan, the collateral, etc. A farmer who obtains seed on credit from

---

[7] See, however, Chapter I, p. 14, and Alek A. Rozental, "Mobilization of Domestic Savings and the Structure of Capital Markets in Underdeveloped Economics," (Reprint Series # 6; Washington: National Planning Association, Center for Development Planning), p. 6.

the village shopkeeper may be under no obligation to the lender other than that of selling him his crop at the time of the harvest.

This simplest of all links between the saver and the investor is entirely within the unorganized financial sector. No institution participates in the dealings between the parties, and no regulations of the State are abiding. It is difficult to conceive of a mechanism of supervision and control of this type of direct financing.[8]

Direct financing is, of course, important even in highly developed countries, and even in highly developed countries much of it takes place outside the orbit of official control and scrutiny. There is little doubt that in the less developed countries such financing is both relatively more significant and also less conducive to economic growth. This is true for at least two reasons. First, the claims exchanged between the saver and the investor tend, in the more developed countries, to be more formal and, hence, less liable to abuse. They are more amenable to legal and other redress. Second, for many of these claims there exist secondary markets which have many of the characteristics of the organized markets.

---

[8]Strictly speaking, the statutes are full of regulations purporting to set maximum interest rates, prescribing and proscribing moneylenders, etc. But these are unenforceable and unenforced. See Chapter III.

Presumably, these secondary markets actually or potentially influence the nature of the primary direct transactions. Thus, secondary markets in accounts receivable, or in individual farm mortgages, remove from the unorganized markets in the more developed countries some of the impediments to economic growth. This is not to say that direct financing in the less developed countries is invariably misdirected from the standpoint of social, developmental goals, or that it should be institutionalized in its entirety. On the contrary, the bulk of its transactions (other than those that serve to satisfy consumption needs and, hence, can hardly be termed links between the saver and the investor) are as necessary and as efficient as they could be in a country where there is little in the way of capital markets, where primary securities issued by business units are primitive with respect to underlying accounting procedures, and where the farmer and the small businessman can only seldom deal with a commercial bank.[9]

---

[9] While much of the business of unorganized markets in the less developed countries has to do with consumption loans, which from a development standpoint are hardly relevant, involving as they do merely interpersonal transfers, note must be taken of the fact that often a consumption loan enables direct investment outlay. The farmer who is anxious to obtain cheap fertilizer from his cooperative may have to borrow from a moneylender for clothing, for example, to tide himself over until after the harvest. A small shopkeeper will finance the acquisition of his stock through the organized financial market (or trade credit) but may be forced, in part because of that, to go to a usurer for cash to give to his children at the beginning of the school year.

A type of link between saver and investor which is both peculiar to and prevalent in the less developed countries is one that has some of the aspects of direct financing but also takes on characteristics of an institution. This is the rotating credit society, which, in Thailand, is best known as the "pia huey." In this very informal type of institution, savers and investors interchange their functions intermittently. Though they face each other, the directness of the financing arrangements is circumvented by the rotating system. At any given time all members of the society but one are savers, and this single investor will become a saver at the next meeting. The pia huey is an important segment of business finance in Thailand and merits a more extended discussion.[10] It is, of course, an institution of the unorganized market.

Of those links which reside firmly in the organized financial markets, the most important is that between the saver and the investor through the intermediary of a commercial bank. The saver deposits money in a fixed deposit account, and the bank lends it to an investor who acquires assets with it. This simple picture is, in fact, much more complex, even in Thailand. For example, the owner of a deposit account may borrow from the bank himself; borrowing, as in the case of a postdated check, may antedate the deposit of funds; and bank lending may finance

---

[10] See pp.VII-54. Contrary to the impression given in the limited literature on the subject, the rotating credit society, in Thailand at least, is not confined to financing consumption expenditures.

consumption as well as capital formation. But, basically, the relationship between the saver and investor takes place in two steps, the second step being the intermediary of a financing institution. This institution, the commercial bank, clearly belongs to the organized financial markets on the basis of the criteria set out above.

The situation becomes less clear and the classification more difficult where the intermediation between the saver and the investor extends beyond the commercial bank itself and requires additional intermediation. For example, it is alleged that for some borrowers to obtain any funds at all it may be necessary for them to engage in shady dealings with a person close to, yet separate from, the bank. Similarly, it is said that some savers may obtain particularly favorable terms on their deposits if they are willing to deal with somebody connected with the bank, yet acting independently of it. Whether this shadowy intermediary is a compradore, an agency manager, or an officer at the headquarters is immaterial. The penumbra of commercial bank operations must be classed as belonging to the unorganized markets. More important, according to reliable accounts this penumbra is quite significant on the Thai financial scene. An agency manager, for example, may make little distinction in his own business dealings between his own funds and those of a bank. A provincial bank manager will, on occasion, attract deposits by paying "extra" interest. He will obtain funds for this purpose by requiring borrowers to pay, in addition to maximum interest charges, a fee for

contribution to a "welfare fund" or some other such designation. A compradore may charge both the employer and the client, and so on.[11] All these and similar dealings are illegal, and their frequency is strenuously denied by the chief executive of all the commercial banks. Yet they exist, even though it is difficult to assess their incidence and quantitative importance.[12]

Stretching from the penumbra of commercial bank operations deep into the heart of the unorganized markets is the "wholesaling" of credit. The links here are as follows: The bank obtains deposits from savers and then lends them to a "wholesaler" of credit. The wholesaler then distributes the funds to others, who may or may not be the ultimate

---

[11] It is alleged that in some banks a loan will be made on condition that the lender will be allowed to participate in the profits of the enterprise. Should the enterprise fail, the bank may have to write off the loss; should it succeed, the lender may profit over and above the interest payment to the bank. It seems that this kind of participation is not uncommon in real estate development. For example, on occasion a real estate developer, a person of some credit standing, manages to create a shopping center on a remarkably small equity base. He will approach the owner of suitable land and obtain a 15- or 20-year lease from him either against payment of a fee or a promise to share in the profits. Armed with such a lease, he will secure funds from the commercial banks sufficient to cover about 20 per cent of the costs of the construction of building shells. As soon as these shells are erected, they will be sold to prospective tenants (so as to minimize taxable income). The cash so obtained will be used to make payments to creditors and to garner a tidy capital profit. After the expiry of the lease period the buildings revert to the landlord.

[12] In later sections of this paper some quantitative data will be cited. They were derived from a sample survey of urban credit conducted in late 1966 and early 1967 by the Bank of Thailand in cooperation with Thammasat Univeristy. See pp. VII-57, VII-69-71.

investors (or consumers). The wholesaler is usually a person who has easy access to commercial bank credit because of his credit standing or because of the availability of acceptable collateral or for some other reason. His customers are those who lack these attributes. The number of steps leading from the wholesaler to the ultimate user of funds may vary from one to five or more. At each descending step the terms at which the funds are acquired become steeper. The larger the number of steps, the less it is likely that the ultimate user of the funds obtains them for investment purposes. In fact, in the next, even darker layer of the unorganized markets where the "retailers"of credit operate, the connection of the financial transactions with investment and capital formation become very tenuous. As stated earlier, for the small shopkeeper or farmer the distinction between his personal needs and his business needs is an uncertain one at best.

Finally, at the bottom of the unorganized financial markets, the small "retailers" operate. These are small operators, frequently night watchmen, "babus," and the like, who are not beyond lending 100 baht to a person in desperate straits but at an extremely high price. The loan may be repaid in a month or through daily payments of one baht or less. In the same category, one will find "unofficial" pawnshops, and gold shops operating as fronts for usurious lending organizations.[13]

---

[13]Official pawnshops are, however, a part of the organized market inasmuch as they are controlled and supervised by authorities (by municipalities in Thailand). The lending rate of official pawnshops is limited to 2 per cent per month.

An important area of the unorganized financial markets in Thailand, but one which lends itself only uneasily to an analysis in terms of links between the saver and the investor, is that of trade credit. As is true of all other aspects of the unorganized markets, little is known about magnitudes and practices of trade credit, but some information about this important form of financing business is presented below.[14]

As might be expected, the terms at which financing takes place become steeper the more one penetrates into the unorganized markets. The interest rates on loans made in the penumbra of the commercial banking system will range from one and one-half per cent to two per cent per month, while at the bottom of the scale a consumption or emergency loan to someone in dire straits may reach a monthly rate of 20 per cent or more.[15]

Table VII-1 summarizes the preceding discussion in synoptic form. It should be emphasized that both the composition of the markets and the range of prices prevailing in each are approximate and illustrative. In particular, great variations exist with respect to implicit cost of borrowing in the rotating societies and in trade credit.

The division of the unorganized markets into six categories is arbitrary because each market shades almost imperceptibly into an adjacent

---

[14] See pp. VII-62-63.

[15] Other terms of loans, such as the type of security, the currency of the loan, etc., do not follow an equally neat gradation. For some of the details see pp. VII-70-71.

Table VII-1

Synoptic Table
Unorganized Financial Markets in Thailand

Type of Market	Supply	Demand	Rate of Interest (%) (monthly range)
1. "Penumbra" of Commercial Bank	Compradores, Bank Officers, Branch Managers, Agency Partners	Businessmen	1 1/2 to 2
2. Wholesalers	Landlords, Rich Merchants, highly Placed Individuals.	Traders	2 to 3
3. Trade Credit	Foreign Exporters, large Corporations, and Others.	Manufacturers	1 to 4
4. Rotating Credit Societies	Various.		3 to 5
5. Retailers	Individuals (often wives of officials and traders).	Small Businessmen	5 to 10
6. Small Retailers	"Unofficial" pawnshops, Gold Shops, Night Watchmen.	Households	10 and over

Source: See text.

category both above and below it. Nevertheless, the division is useful if only because it focuses attention on the suppliers of credit in each market, who, as opposed to borrowers, are a much more distinctive group. Little more can be said about the borrowers beyond the rather obvious fact that they are businessmen first and householders second at the top of the scale, and householders first and businessmen second at the bottom of the scale.[16]

The composition of the supply side of the penumbra type of market has already been touched on. The wholesalers include landlords who, profiting from the boom in land values, have acquired large amounts of cash. Though they are not interested in going into business themselves, they are interested in obtaining a return on their capital in excess of the maximum interest rate payable on fixed deposits.[17]

---

[16]The scale being, in this context, that of interest charges. What is significant with respect to borrowers is that they are frequently active in both the organized and the unorganized markets. On the supply side this, too, is frequent, if rather obvious for such persons as bank officers. The reasons why a businessman of good credit status and with access to bank credit should go to a moneylender are discussed below (pp. VII-59ff.)

[17]The fact that interest on bank deposits is tax exempt, while interest on private loans is not, is of limited relevance to those engaging in operations through the unorganized channels.

Apparently there are a large number of reliable, well connected retailers who are willing to offer their own guarantees to these landlords, as well as to other highly placed individuals or merchants with idle funds on their hands, and to pay up to three per cent per month for capital. The retailers, in turn, distribute these funds to smaller businessmen and householders in need of money, who are prepared to pay up to five per cent per month for its use. It appears that a large fraction of this retail business is in the hands of wives of officials, a circumstance which facilitates collection of debts and compliance with the sometimes onerous terms of the loan.

Those who supply credit to the rotating credit societies are also those who demand credit from them, as implicit in the very concept of rotating credit. However, there apparently exists a group of professionals in this branch of the financial market who belong to several pia hueys at once, frequently organize new ones, and occasionally cover their liabilities in one society by drawing on the facilities of another.[18]

The suppliers of trade credit are primarily foreign exporters. Under practices prevailing in Thailand today, the importer has some 90 days to pay for the cost of imports, and within this time limit he can extend credit to others down the distribution ladder. Trade credit is a subject which will only be touched upon in this chapter, but its importance

[18] See below pp. VII-54ff. for additional information on the rotating credit societies.

will become apparent even from the modest quantitative information gleaned from the sample survey.[19]

In addition to foreign exporters, the main suppliers of trade credit are large manufacturers with branches or subsidiaries in Thailand who use trade credit in the same way it is used in the industrial countries. There is also a very small number of specialized financial firms who deal in receivables.

Small retailers include pawnshops, gold shops, night watchmen, and possibly remittance shops. The importance of remittance shops has declined considerably as fewer persons transmit funds to families in mainland China; however, it is believed that the resources of these formerly important intermediaries still find their way into the internal unorganized financial markets.

---

[19] An allegedly important source of funds to the unorganized markets, related to trade credit, is the supposed practice of selling standardized imports (i.e., condensed milk, tires) at cost or even at a slight loss upon arrival and using the cash proceeds in a fashion presumably more lucrative than straight trading. It is possible, however, that to the extent that such sales take place, they are motivated by considerations other than the lure of high return on cash in the unorganized markets. Sometimes such sales are merely the means to raise cash to meet urgent debts.

Sample Survey of Urban Credit

The preceding discussion provides an overall view of the unorganized financial markets in Thailand, with a somewhat arbitrary division of these markets from the standpoint of suppliers of credit. In attempting to fill in the picture of these markets which began to emerge from discussions with traders, bankers, moneylenders, and others, it soon became clear that any quantification or precision would not be obtained from the supply side. Many of the practices involved, many of the terms at which funds are advanced, and many of the relationships between the lender and the borrower are not of a nature susceptible to any inquiry, no matter how academic or detached from tax and judicial authorities. Yet it was felt that an attempt should be made to verify empirically the allegations and assertions made with respect to unorganized markets and to substitute quantitative data for hunches and informed guesses. The decision to undertake a sample survey of credit in urban areas was made with full realization that the results of such a survey would be doubtful at best. Even though the respondents would be the "demanders" rather than the suppliers of credit, "victims" rather than beneficiaries of any abuses which might exist, the prevailing ethos rules against disclosure of information to third parties--quite apart from the fact that the victims, too, may be held to engage in illegal practices. Although every effort was made to reassure the respondents that their names or identities would

not be made available to any authority, the majority of the respondents probably remained rather skeptical. Nevertheless, the survey was undertaken in the belief that the resulting information, however scanty and unreliable, would constitute a net addition to knowledge on an important subject.

The survey was administered by the Bank of Thailand with the cooperation of the Thai National Statistical Office and the Department of Economics of Thammasat Univeristy, under the overall guidance of the writer.

The results of the survey turned out to be only of limited usefulness. Aside from expected shortcomings, due to the reluctance of respondents to disclose information, there arose innumerable problems due to the language barrier, to the lack of experience of the personnel involved, and to the lack of sophistication on the part of the bulk of those questioned. Perhaps the most damaging was the language problem. It proved almost impossible to translate terms drawn from western usage into acceptable Thai in a way that imparted identical meaning to the interviewer, to the respondent, and to the supervisors. When viewed as a pilot project, however, the survey can hardly be termed a failure. It did provide a host of useful data, and it confirmed a number of assertions and allegations regarding the operations of the unorganized financial markets in Thailand. Last, but not least, it did bring to light some of the obstacles which

would face another, more rigorous inquiry into the problem.[20]

The Scope of the Survey

After initial discussions with experts at the National Statistical Office, it was agreed to confine the survey to businesses located in the metropolitan area of Bangkok-Thonburi, with subsequent checks to be made of preselected businesses in Chiengmai and Haadyai, the two other important urban centers in Thailand. Given the census data available, the sampling frame was confined to industrial enterprises and trading establishments only. Transport, mining, contracting, and other areas of business activity were excluded. Budgetary and manpower limitations made it necessary to hold the total number of firms in the sample to about 1,000 establishments.

The metropolitan business population was divided into two categories. The first category, comprised of about 400 firms, was drawn from Department of Labor data. It included industrial concerns with more than 100 employees, termed "big industry," and those with between 10 and 100 workers, termed "medium industry." The second category, comprised

---

[20] It will be recalled that the analysis of the unorganized markets in financing agriculture was based, to a large extent, on the survey of agricultural credit conducted in 1962/63 by Katsetsart University, with the cooperation of an American scholar. No comparable information existed with respect to "urban" finance.

of over 600 firms, was drawn from the Census of Trade data.[21]

A 100 per cent sampling fraction was employed for large industrial firms. For those employing between 10 and 100 workers (medium industry), the sampling fraction was two-fifths, and the sample was selected systematically and randomly. For the second category, based on the Census of Trade, the sampling frame consisted of 2500 area blocks in Bangkok-Thonburi. A stratified two-stage sampling was used. First, a systematic sample of 100 blocks was drawn from the total. Then the firms in each block were divided into five strata according to the size and the type of business. A sample was then selected systematically from each stratum, namely:

1. Small industry (less than 10 workers); all units were included.

2. Wholesalers; one-half was selected.

3. Large retail and service firms (with annual sales of 100,000 baht and over); one-half was selected.

4. Small retail and service firms (annual sales under 100,000 baht); one-tenth was selected.

5. Luxury service firms (night clubs, massage parlors, etc.); all units were included. Therefore, to illustrate, the overall sampling fraction for luxury service firms was 1/25 (100 per cent sample of one-twenty-fifth of all area blocks). Other sampling fractions are given

---

[21] The Department of Labor data on industrial establishements are published quarterly. The 1966 Trade Census, conducted by the National Statistical Office, is not yet completed, and the sample of smaller firms was drawn from unpublished data in the possession of NSO.

below:

Type of Business	Sampling Fraction
Big Industry	1
Medium Industry	2/5
Small Industry	1/25
Wholesalers	1/50
Big retail and service firms	1/50
Small retail and service firms	1/250
Luxury service firms	1/25

Within the overall constraints, the sampling fractions assigned to each type of business were designed to reflect the proportion of each type to the total population in the sampling frame.

The sampling procedure outlined above yielded a list of 1150 firms. One thousand seventy questionnaires were returned for an astonishingly high proportion of 93 per cent. Unfortunately, not all returned questionnaires were meaningful. Apparently the respondents realized that by claiming no outside borrowing they could reduce very considerably the length of the interview, and many of them chose to do so.

Several steps were taken to prevent the rather disappointing outcome. Some 15 interviewers were recruited and trained over a period of two weeks. During the training period special emphasis was placed on the importance of

obtaining meaningful answers, and interviewers were urged to be persistent in their questioning. Each interviewer approached the respondent armed with a letter written in English, Thai, and Chinese and signed by the Governor of the Bank of Thailand who is concurrently the Dean of the Faculty of Economics at Thammasat University. The letter assured the respondent that his name would not be given to any government department and that the purpose of the survey was purely a scientific one. A small group of experienced officials of the Bank of Thailand was appointed to act as inspectors and to check and follow up on the original interviews. The interviewers themselves, all of whom were graduates of Thammasat University, were paid at a premium rate for a fully completed questionnaire. The questionnaire was pretested on about 50 firms and modified as a result of this pretest.

Each interviewer was allotted about three hours per interview and instructed to call again in the event the respondent was temporarily absent. Even so, as stated before, the completed questionnaires leave much to be desired. There are many ambiguities and inconsistencies, and it is almost impossible to tell to what extent these are due to the respondents, to the interviewers, or to the designers of the survey.

However, from the analysis of the responses, it is still possible to construct a number of tables which give information of some interest and plausibility. On certain issues, such as those relating to the cost of borrowing, for example, the results appear quite reliable. On others, such as the market value of individual businesses and future plans, the results

hardly warrant any systematic presentation.

The questionnaire was designed to elicit information on three phases in a firm's financing. The first phase, that of starting the business, was confined to firms less than five years in existence. The second phase pertained to operations of the firm during the preceding year. It is this second phase of the inquiry which yielded the most meaningful data. The last phase was concerned with future financing plans. Here the results were hardly meaningful. In addition, the questionnaire asked a number of questions relating to opinions with respect to Thai financial institutions. A copy of the questionnaire in English translation is given in the appendix.[22]

---

[22] The English translation is rather clumsy, stylistically. It is supposed to reflect the flavor of the Thai text. It is perhaps here that the greatest single obstacle to a sample survey in a non-English speaking, preindustrial society may be found. A draft questionnaire was first written in English. A committee of Thais, fluent in English and with knowledge of Thai business practices as well as Western usage, met for several days with the writer to adapt the questionnaire to local conditions and customs. The resulting Thai draft was then independently translated into English. This process of repetitive translation was gone through several times without giving complete satisfaction to either the English-speaking or Thai-speaking side. It is impossible to determine to what extent the ambiguities and inconsistencies due to the language barrier stem from lack of comprehension on the part of the respondents and to what extent from misinterpretation on the part of the interviewer.

The Composition of the Sample

The 1,070 completed questionnaires represent when the resulting figures are multiplied by the sampling fractions, some 65,000 business establishments in the metropolitan area. Because of the concentration of business units in the Bangkok-Thonburi area, the results of the survey may be said to be quite representative of industry and trade in Thailand. In any event, the tables which follow give data adjusted to the total business population rather than to merely businesses of the sample itself. This proviso will apply to the absolute figures as well as to the percentages given in the tables and in the accompanying text.[23] Occasional references to the actual number of sample respondents will be found in the footnotes.

Tables VII-2 through VII-7 give details of the composition of the sample. As was to be expected, most establishments were in existence for over five years. The growth of the luxury service-type of business in very recent times is indicated by the fact that the luxury service proportion of businesses in operation less than one year is nearly double that of its proportion of total business units. Even more startling is the relatively high proportion of small industrial establishments in existence less than one year, as compared to their proportion of the overall total. Small

---

[23] It should be noted that extrapolating the universe from the sample is subject to a sampling error of approximately ± 3 per cent. Consequently, caution should be used in interpreting the absolute (as distinct from percentage) figures from the sample which are said to represent the universe. Thus, a figure of 42 may, in actual fact, mean that the number in that category may range from 0 to 180.

industrial establishments account for 8 per cent of the total business units but make up over 23 per cent of those in existence under one year. This high proportion is probably only partially due to the "boom" conditions in the country. It also indicates that the mortality of small industrial establishments in Thailand is rather high. On the other hand, the formation of big industrial units shows little acceleration over time, relative to other types of business. For example, large industrial establishments comprise 0.18 per cent of all businesses in existence over five years, but their proportion of all business units, irrespective of length of time in operation, is only 0.13 per cent (see Tables VII-2 and VII-3). Eighty-six per cent of all large industrial firms were in existence for more than five years, and only slightly more than 2 per cent were formed in the year preceding the field phase of the survey. By contrast, over 6 per cent of all small industrial firms were formed during that same year (seeTable VII-4).

Of the 64,828 firms represented by the sample, small retail establishments are the most important, accounting for over 70 per cent of all firms.[24]

---

[24] Somewhat surprisingly, no respondents indicated that they are branches or subsidiaries of foreign businesses, even though the questionnaire provided for such kind of ownership. One explanation may be that, from a strictly legal point of view, such firms as Firestone (Thailand)are considered to be Thai business entities. More likely is the explanation that businesses related to foreign ownership tend to be corporations, and the respondents indicated corporate of ownership in preference to foreign, on the questions whose format suggested only one answer among several forms of business enterprise. See however, below, p. VII-29.

Table VII-2

Urban Credit Survey
Number of Firms by Type and Length of Time in Business

Length of Time	Type of Firms							
	Total*	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Retail	Small Retail	Luxury
Total	64,828	85	793	5,200	2,650	9,950	45,500	650
Less than 1 year	1,402	2	-	325	50	250	750	25
1-5 years	22,885	10	75	1,200	1,100	3,300	17,000	200
Over 5 years	40,541	73	718	3,675	1,500	6,400	27,750	425

Source: See text.

*The numbers in this and following tables (unless otherwise rated) are extrapolated from a sample of 1070 respondents and are subject to a sample error of approximately ± 3 percent.

Table VII-3

Urban Credit Survey
Number of Firms by Type and Length of Time in Business
(Percentage Distribution)

Length of Time	Type of Firms							
	Total	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Retail	Small Retail	Luxury
Total	100	0.13	1.22	8.02	4.09	15.35	70.19	1.00
Less than 1 year	100	0.14	-	23.18	3.57	17.83	53.50	1.78
1-5 years	100	0.04	0.33	5.24	4.81	14.42	74.28	0.87
Over 5 years	100	0.18	1.77	9.06	3.70	15.79	68.45	1.05

Source: See text.

Table VII-4

Urban Credit Survey
Sample Firms, Percentage Distribution by Type of Firm
and Length of Time in Business*

Type of Firms	Total	Length of Time		
		under one year	1 - 5 years	Over 5 years
Big Industry	100	2.35	11.76	85.88
Medium Industry	100	-	9.46	90.54
Small Industry	100	6.25	23.08	70.67
Wholesale	100	1.89	41.51	56.60
Big Retail	100	2.51	33.16	64.32
Small Retail	100	1.65	37.36	60.99
Luxury	100	3.85	30.77	65.38
Total	100	2.16	35.30	62.54

Source: See text.

*Details may not add up to total because of rounding.

Table VII-5

Urban Credit Survey
Number of Firms by Type and Kind of Ownership

Kind of Ownership	Type of Firms							
	Total	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Retail	Small Retail	Luxury
Total	64,828	85	793	5,200	2,650	9,950	45,500	650
One Owner or Family	58,828	1	302	4,325	900	7,400	45,500	400
Ordinary Partner-ship	930	2	53	100	200	450	-	125
Limited Partner-ship	3,300	5	245	600	850	1,600	-	-
Limited Company	1,676	63	188	150	700	450	-	125
Branch of Foreign Co.	-	-	-	-	-	-	-	-
Other	94	14	5	25	-	50	-	-

Source: See text.

It is the small retail firm which is also invariably a single proprietorship, as only one large industrial firm was found to be owned by a single person or family. Table VII-6 suggests that wholesale establishments are the predominant type of firm using the corporate form of business organization. But this seems so only because wholesalers are a much more numerous component of the sample than are large industrial firms. As seen from Table VII-7, limited companies account for only 26 per cent of all wholesalers but for 74 per cent of all large industrial firms. For all firms in the sample, corporations comprise 3 per cent and proprietorships, 91 per cent of the total. Limited partnerships are the most popular type of business organization among wholesalers. Ordinary partnerships appear to be the least popular form of doing business among Thai firms.[25]

While the above data appear to be quite reliable, information gathered from the survey regarding balance sheet items leaves much to be desired. In the first place, the total of assets does not jibe with the total of liabilities. This embarrassing result came about despite the

---

[25] The "other" category was checked by 18 respondents in the actual sample, 14 of them in the large industry category, without, in most cases, specifying the "otherness" as requested in the questionnaire. It is possible that the majority were, in fact, firms related to foreign ownership, either unsure of this relationship or reluctant to disclose it to the interviewer for whatever reason.

Table VII-6

Urban Credit Survey
Number of Firms by Type and Kind of Ownership
(Percentage Distribution)*

Kind of Ownership	Type of Firms							
	Total	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Retail	Small Retail	Luxury
Total	100	0.13	1.22	8.02	4.09	15.35	70.19	1.00
One Owner/ or Family	100	0.001	0.51	7.35	1.53	12.58	77.34	0.63
Crdinary Partner-ship	100	0.22	5.70	10.75	21.51	48.39	-	13.44
Limited Partner-ship	100	0.15	7.42	18.18	25.76	48.48	-	-
Limited Company	100	3.76	11.22	8.95	41.77	26.85	-	7.46
Other	100	14.89	5.32	26.60	-	53.19	-	-

Source: See text.

*Details may not add up to total because of rounding.

Table VII-7

Urban Credit Survey
Number of Firms by Type and Kind of Ownership
(Percentage Distribution)*

Kind of Ownership	Type of Firms							
	Total	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Retail	Small Retail	Luxury
Total	100	100	100	100	100	100	100	100
One Owner/ or Family	90.74	1.18	38.08	83.17	33.96	74.37	100	61.54
Ordinary Partner-ship	1.43	2.35	6.68	1.92	7.55	4.52	-	19.23
Limited Partner-ship	5.09	5.88	30.90	11.54	32.08	16.08	-	-
Limited Company	2.59	74.12	23.71	2.88	26.42	4.52	-	19.23
Other	0.14	16.47	0.63	0.48	-	0.50	-	-

Source: See text.

*Details may not add up to total because of rounding.

determination of interviewers to reconcile the respective answers, even going so far as to make estimates of the value of intangibles such as good will. Moreover, cross check questions, such as an estimate of the market value of the business, have yielded results vastly different from those of net asset valuation or net worth. In fact, the answers to these last two questions were so implausible that they were not even tabulated. It may be of some interest, however, to give the data regarding the composition and the totals of main assets and liabilities, bearing in mind the caution which should attach to any interpretation of these particular results. Assets are given in Tables VII-8 and VII-9 and capital and other liabilities, in Tables VII-10 and VII-11.

Even with their severe limitations, these tables indicate one or two things of interest. One is the importance of trade credit among the liabilities of the business firms represented in the sample. Twenty-one per cent of all the liabilities are of this type, and, not surprisingly, this proportion reaches 39 per cent in the case of wholesale firms. Trade credit is, of course, also represented on the asset side; however, its importance is overshadowed there by that of fixed assets. Indeed, the data are given in Table VII-9 and appear rather startling. It is difficult to believe that 64 per cent of all assets of small retail establishments are in fixed form unless the cost of the often rickety structure exceeds that of the meager stock. Equally unexpected is the indication that fixed assets of small industrial firms are relatively more important than those of medium size industrial establishments.

Table VII-8

Urban Credit Survey
Type of Assets by Type of Firm
(Millions of Baht)

Type of Industries	Type of Assets					
	Total	Cash	Trade Credit	Stock in Trade	Fixed Assets	Others
Total	28,818	2,874	3,239	6,839	13,083	2,783
Big Industry	5,967	365	428	635	2,331	1,708
Medium Industry	2,483	182	277	608	1,267	149
Small Industry	2,881	302	202	296	1,827	254
Wholesale	6,580	981	1,802	2,968	674	155
Big Retail	6,390	557	439	1,770	3,405	219
Small Retail	3,251	386	65	546	2,074	180
Luxury Service	1,266	101	26	16	1,005	118

Source: See text.

Table VII-9

Urban Credit Survey
Type of Assets by Type of Firm*
(Percentage)

Type of Industries	Type of Assets					
	Total	Cash	Trade Credit	Stock in Trade	Fixed Assets	Others
Total	100	9.97	11.24	23.73	45.40	9.66
Big Industry	100	6.12	7.17	10.64	47.44	28.62
Medium Industry	100	7.33	11.16	24.49	51.03	6.00
Small Industry	100	10.48	7.01	10.27	63.80	8.82
Wholesale	100	14.91	27.39	45.11	10.24	2.36
Big Retail	100	8.72	6.87	27.70	53.29	3.43
Small Retail	100	11.81	2.00	16.79	63.81	5.54
Luxury Service	100	7.98	2.05	1.26	79.38	9.32

Source: See text.

*Details may not add up to total because of rounding.

Table VII-10

Urban Credit Survey
Capital and Liabilities by Type of Firm
(Millions of Baht)

Type of Firms	Type of Capital and Liabilities				
	Total	Net Worth	Loans	Trade Credit	Other Liabilities
Total	28,627	17,909	3,487	6,003	1,228
Big Industry	5,964	4,205	619	606	534
Medium Industry	2,485	1,287	545	453	200
Small Industry	2,861	2,031	421	342	67
Wholesale	6,583	3,137	791	2,555	100
Big Retail	6,353	3,642	762	1,854	95
Small Retail	3,115	2,741	143	172	59
Luxury	1,266	866	206	21	173

Source: See text.

Table VII-11

Urban Credit Survey
Capital and Liabilities by Type of Firm *
(Percentage)

Type of Firms	Type of Capital and Liabilities				
	Total	Net Worth	Loans	Trade Credit	Other Liabilities
Total	100	62.56	12.18	20.97	4.29
Big Industry	100	70.51	10.38	10.16	8.95
Medium Industry	100	51.79	21.93	18.23	8.05
Small Industry	100	70.99	14.72	11.95	2.34
Wholesale	100	47.65	12.02	38.81	1.52
Big Retail	100	57.33	11.09	29.18	1.50
Small Retail	100	87.99	4.59	5.52	1.89
Luxury	100	68.40	16.27	1.66	13.67

Source: See text.

*Details may not add up to total because of rounding.

Sources of Initial Capital

There are *prima facie* reasons to believe that the initial capital of a business undertaking does not come from the same sources as capital that is obtained to finance ongoing operations and/or expansion and that it is different in extent and nature. This seems to be especially true in a country such as Thailand, where the capital market is not well developed, where there are no venture companies, and where the existing financial institutions rely primarily on the past record and current credit standing of the would-be borrower of investible funds. For these and other reasons the questionnaire split the series of questions dealing with sources of funds into three categories: questions pertaining to initial capital, those relating to operations of existing firms in the past year, and those concerned with answers as to future financing plans.[26]

The questions relating to initial sources of funds were confined to those firms which were in existence less than five years at the time of the survey. There was little likelihood that meaningful answers to this set of questions could be obtained from old, established firms where back

---

[26] Another reason for splitting the series of questions was to minimize the possibility that the respondent, by answering "no" to the first question as to whether he borrows, does away with the entire questionnaire. As the interview proceeds, there is a tendency to open up and to answer affirmatively similar questions later on.

records may be lost or nonexistent, where the respondent is a person other than the original entrepreneur, or where the firm has substantially changed its identity over time.

Table VII-12 gives the breakdown of these firms by type. Their answers are summarized in Tables VII-13 and VII-14.[27]

Of the 3.3 billion baht of initial capital indicated by the sample, 2.9 billion, or 88 per cent, was obtained from the personal resources of an entrepreneur's own capital.[28] Less than 6 per cent of initial capital was obtained from commercial banks, and family and friends provided a scant 3 per cent. While the high proportion of funds from an entrepreneur's own capital is hardly surprising, one would expect a higher proportion than the indicated less than one per cent to come from non-banking sources. These include not only such non-bank financial institutions as life insurance companies and the Industrial Financial Corporation of Thailand but also private individuals, both those in the penumbra of commercial

---

[27] The number of answers is greater than the number of firms in Tables VII-2 because respondents indicated more than one source of funds.

[28] Even though the questionnaire asked for sources of an entrepreneur's own capital (i.e., savings, inheritance, etc.), the responses were not of a nature which would warrant machine coding.

Table VII - 12
Urban Credit Survey
Initial Capital
Number of Firms by Type and Length of Time of Business

Length of Time	Total	Type of Firms						
		Big Industry	Medium Industry	Small Industry	Wholesale	Big Retail and Service Firms	Small Retail and Service Firms	Luxury Service Firms
Total	24,287	12	75	1,525	1,150	3,550	17,750	225
Less than 1 year	1,402	2	-	325	50	250	750	25
1-5 years	22,885	10	75	1,200	1,100	3,300	17,000	200

Source: See text.

Table VII-13

Urban Credit Survey
Initial Capital by Type of Firm and Source of Funds
(Millions of Baht)

Type of Firms	Source of Funds						
	Total	Entre-preneur	Family/ Friend	Commer-cial Bank	Share or Pia	Non-Com-mercial Bank	Other Sources
Big Industry	252.4	141.4	1.7	51.0	-	2.0	56.3
Medium Industry	46.4	37.6	2.5	5.7	0.6	-	-
Small Industry	997.6	963.1	13.8	16.3	4.4	-	-
Wholesale	699.1	583.5	9.8	105.8	-	-	-
Big Retail	436.1	384.9	29.4	9.5	12.3	-	-
Small Retail	679.7	606.7	42.3	-	30.7	-	-
Luxury Service	167.0	154.5	12.5	-	-	-	-
Total	3,278.3	2,871.7	112.0	188.3	48.0	2.0	56.3

Source: See text.

Table VII-14

Urban Credit Survey
Initial Capital by Type of Firm and Source of Funds*
(Percentages)

Type of Firm	Source of Funds						
	Total	Entre-preneur	Family/ Friend	Commer-cial	Share or Pia	Non-Com-mercial Bank	Other Sources
Big Industry	100	56.02	0.67	20.21	-	0.79	22.31
Medium Industry	100	81.03	5.39	12.28	1.29	-	-
Small Industry	100	96.54	1.38	1.63	0.44	-	-
Wholesale	100	83.46	1.40	15.13	-	-	-
Big Retail	100	88.26	6.74	2.18	2.82	-	-
Small Retail	100	89.26	6.22	-	4.52	-	-
Luxury Service	100	92.51	7.49	-	-	-	-
Total	100	87.60	3.42	5.74	1.46	0.06	1.72

Source: See text.

*Details may not add up to total because of rounding.

banking and other moneylenders. In fact, no respondents indicated that their initial capital came from private individuals, a most unexpected result in a country where moneylending is a thriving profession and where moneylenders are known to be very active in financing certain business needs. This was perhaps the most disappointing outcome of the survey which was designed, in large part, in the hope of eliciting quantitative information about moneylenders and their practices. With respect to initial capital at least, it would seem that resort to moneylenders is the exception rather than the rule.[29] It is also quite certain, however, that many respondents are reluctant to admit borrowing, in general, and borrowing from moneylenders, in particular.

Finally, there are good reasons to believe that many of the relatives or friends are, in fact, moneylenders, or acting as such. Table VII-15 indicates that a substantial proportion of the firms that borrow from family or friends pay an annual rate of interest in excess of 24 per cent, the rate which is considered to be the prime"market" (i.e., unorganized market) rate for secured business loans. Over 40 per cent of all firms that

---

[29] As will be seen below, a more significant response as regards borrowing from moneylenders was given with respect to operating funds during the previous year. For initial capital only one firm indicated borrowing from "private individuals" but failed to check either the "moneylender" or "connected with bank" slots. Only one firm in the sample borrowed from the Industrial Finance Corporation of Thailand.

Table VII - 15
Urban Credit Survey
Level of Interest Rate on Initial Funds
Obtained from Friends and Relatives, by Type of Business
(Percentage Distribution)

Type of Business	Total		Under 24% p.a.		Over 24% p.a.	
	No. of firms	Amount Borrowed	No. of firms	Amount Borrowed	No. of firms	Amount Borrowed
Total	100	100	58.39	84.43	41.61	15.57
Big Industry	100	100	100.00	100.00	-	-
Medium Industry	100	100	84.00	82.14	16.00	17.86
Small Industry	100	100	85.00	84.55	15.00	15.45
Wholesale	100	100	66.67	97.44	33.33	2.56
Big Retail	100	100	51.72	61.40	48.28	38.60
Small Retail	100	100	57.14	93.68	42.86	6.32
Luxury Service	100	100	100.00	100.00	-	-

Source: See text.

obtain funds from family or friends pay more than 24 per cent per annum for such funds, and they account for 16 per cent of all funds obtained from this source. The high number of firms in the overall total is primarily due to the high proportion of retail businesses.[30]

"Other" sources provided only 2 per cent of total capital requirements to all the firms represented by the sample. The entire amount was obtained by large industrial establishments, and it represented 22 per cent of their initial capital requirements (see Table VII-14). These sources included funds obtained from the government, from abroad, and from the sale of securities to the public, all of which are not readily available to smaller businesses.[31]

As seen in Table VII-14, the proportion of initial capital obtained from any one particular source varies significantly with the type of firm involved. Large industrial firms, for example, rely much more on bank credit than do other types of businesses. The proportion of funds obtained from the rotating credit arrangement (pia huey) is greatest for small retail firms, and that obtained from family and friends is greatest in the case of

---

[30] Because high interest rates charged by moneylenders are illegal and because their place of operation is not advertised, contact with the moneylender is usually on the basis of kinship or personal knowledge, direct or indirect, of the borrower. Under these circumstances a moneylender, naturally, is either a relative or becomes a friend.

[31] Five large industry firms in the sample borrowed a total of 56 million baht from these "other" sources. Two firms obtained 28 million baht from government enterprises); two firms obtained some 21 million from abroad; and one got 7.5 million from unspecified sources.

luxury service firms. This last type of business relies for its initial capital on only two sources: its own capital and family/friends. It is alleged that much of this type of business is in the hands of one ethnic group in the metropolitan area, the members of which frequently band together for the purpose of starting a new hotel, restaurant, or similar enterprise. It is said that each member contributes not only his own capital but his skills and labor as well.

As was to be expected, initial capital requirements vary in amount between different types of firms. Large industrial establishments lead the list with over 21 million baht of initial capital per firm; whereas, a small retail business needed only 38 thousand baht to get started within the last five years. What is rather unexpected, however, is the finding, indicated in Table VII-16, that the initial capital of small industrial establishments is greater than that of medium scale industrial firms. One may be tempted to seek explanations in the nature of the sample, in the possibility that somehow small industrial firms (with less than 10 workers) use high cost capital equipment, and so on. It is more likely, however, that the survey is not reliable when it comes to the consistency of responses pertaining to specific business operating quantities. This was found to be true with respect to data on assets and liabilities above and is true here.[32]

---

[32] See pp. VII-29-31. Note, however, that fixed capital bore a higher proportion of total assets in the case of small industrial firms than in the case of medium size industrial firms (see Table VII-9).

Table VII - 16
Urban Credit Survey
Initial Capital per Firm, by Type of Firm
(baht)

Type of Firms	Initial Capital per Firm
Big Industry	21,033,333
Medium Industry	618,666
Small Industry	654,098
Wholesale	607,913
Big Retail	122,845
Small Retail	38,287
Luxury Service	782,222

Source: See text.

Even t' ugh the interviewers were instructed to check the consistency of quantitative data, they were also told to accept approximate figures and, if need be, to make their own estimates.[33]

Sources of Current Funds

The results of the survey with respect to sources of capital for ongoing operations and expansion appear to be quite plausible. In part, this is true because most respondents are more certain and clear about their financial operations of the past 12 months than they are about those of several years ago. Furthermore, the questions relating to sources of funds during the past year appeared to be less ambiguous than those relating to original capital. With respect to the latter, vexing problems of interpretation, translation, and comprehension of such terms as "own" funds, borrowed capital, and equity participation plagued the survey from its inception, through the construction of the questionnaire, and right up to the coding of field work responses.

As seen from Table VII-17, some 45,000 firms provided usable answers regarding their financial operations in the past year.[34] The number

---

[33]Another source of possible error and inconsistency may be the actual processing of data. Many simple computational errors were discovered and rectified but, most likely, some still remain.

[34]Extrapolated from the sample.

Table VII-17

Urban Credit Survey
Source of Funds for Ongoing Operations, Number of Firms by Type of Firm

Type of Firm	Total	Source of Funds					
		Entre-preneur	Family/ Friend	Commer-cial Bank Credit	Pia Huey	Non-Com-mercial Bank Sources	Other Sources
Big Industry	61	14	8	30	-	3	6
Medium Industry	656	65	237	185	135	17	17
Small Industry	4,100	125	1,800	375	1,775	-	25
Wholesale	1,550	50	550	550	200	200	-
Big Retail	7,000	200	3,050	1,150	2,450	150	-
Small Retail	31,310	1,500	14,500	-	13,750	1,560	-
Luxury	300	75	150	25	50	-	-
Total	44,977	2,029	20,295	2,315	18,360	1,930	48

Source: See text.

of respondents differs from the total number of firms represented by the sample because a number of firms did not seek additional funds during the past year. Tables VII-18 through VII-20 give a breakdown, by type of firms, of the sources of funds obtained by the respondents for purposes of financing ongoing operations and/or expansion of their business activities.

The total amount borrowed for annual operations is given in Table VII-18 as 3.9 billion baht, of which 1.5 billion baht was borrowed from commercial banks. During 1966, total commercial bank accommodation to Thai business was slightly over 1.8 billion baht. Inasmuch as the survey sample excludes certain segments of Thai business, such as transport, the amount given in the table is not implausible.

In addition to the 40 per cent of total requirements obtained from commercial banks, the sample firms obtained over 32 per cent from "other" sources (i.e., from government funds, from the issue of securities, or from abroad), about 18 per cent from friends or relatives, over 4 per cent from pia huey, and less than 6 per cent from their own resources (see Table VII-19). Thus, there is a drastic difference between the sources of funds obtained to start a business and those obtained to carry on with an existing enterprise. Whereas, the vast bulk of initial funds comes from the entrepreneur's own resources and/or capital, these provide but a minor part of the funds required for ongoing operations. Commercial banks, official and foreign sources, and family/friends loom much more importantly as sources of ongoing funds.

Table VII-18

Survey of Urban Credit,
Sources of Funds for Ongoing Purposes, by Type of Firm
(Millions of Baht)

Type of Firms	Source of Funds						
	Total	Entre-preneur	Family/ Friend	Commer-cial Bank	Pia Huey	Non-Bank Source	Other Sources
Total	3,895	228	684	1,543	162	27	1,251
Big Industry	1,472	19	13	303	-	3	1,134
Medium Industry	605	10	37	379	60	2	117
Small Industry	134	8	58	46	22	-	0.25
Wholesale	699	31	30	625	4	9	-
Big Retail	760	153	420	172	15	0.11	-
Small Retail	194	4	116	-	61	13	-
Luxury Service	31	3	10	18	0.45	-	-

Source: See text.

Table VII - 19
Survey of Urban Credit
Sources of Funds for Ongoing Purposes, By Type of Firm
(Percentage)

Type of Firm	Source of Funds						
	Total	Entre-preneur	Family/ Friend	Commer-cial bank	Pia Huey	Non-commer-cial bank	Other Sources
Total	100	5.85	17.56	39.61	4.16	0.69	32.12
Big Industry	100	1.29	0.88	20.58	-	0.20	77.04
Medium Industry	100	1.65	6.12	62.64	9.92	0.33	19.34
Small Industry	100	5.96	43.20	34.26	16.39	-	0.19
Wholesaler	100	4.43	4.29	89.41	0.57	1.29	-
Big Retail	100	20.13	55.26	22.63	1.97	0.01	-
Small Retail	100	2.06	59.79	-	31.44	6.70	-
Luxury Service	100	9.54	31.30	57.23	1.43	-	-

Note: Details may not add up to total because of rounding.

As was true with respect to initial capital, the proportion of total needs obtained from different sources varies considerably among different types of firms. The high proportion of funds in the overall total obtained from "other" sources, therefore, is due to the practices of big industry firms which obtain considerable amounts from this source. Of special interest is the fact that small retail firms apparently get no operating funds from commercial banks and rely heavily on family and friends for their funds. Luxury firms, which relied mainly on the funds of the entrepreneurial and kinship groups for their initial capital, here resort heavily to bank accommodation, even though they still remain the type of firm which uses outside sources for funds less than any other (see Table VII-19).

Some of the findings of the tables are not unexpected. Once a business is operating and has acquired some earning assets, it is easier for it to obtain bank credit, for example, and lesser reliance needs to be put on "insiders," relatives, friends, or the entrepreneur's own resources.

Of the total amount obtained by the sample firms to finance their annual requirements, the greatest proportion of the total was required by large industrial firms (see Table VII-20). Luxury service firms accounted for less than 1 per cent of the nearly four billion baht. Of the total amount borrowed from commercial banks, the greatest share went to wholesalers. Over 90 per cent of all funds obtained from "other sources" went to large industrial firms. Even though family and friends are the

Table VII - 20
Survey of Urban Credit
Sources of Funds for Ongoing Purposes,
By Type of Firm
(Percentage)

Type of Firm	Total	Entre-preneur	Family/ Friend	Commer-cial Bank	Tia Huey	Non-commercial	Other Sources
Big Industry	37.79	8.33	1.90	19.64	-	11.07	90.63
Medium Industry	15.53	4.39	5.41	24.56	36.93	7.38	9.35
Small Industry	3.44	3.51	8.48	2.98	13.54	-	0.01
Whole-saler	17.95	13.60	4.39	40.51	2.46	33.20	-
Big Retail	19.51	67.11	61.40	11.15	9.23	0.41	-
Small Retail	4.98	1.75	16.96	-	37.55	47.95	-
Luxury Service	0.80	1.32	1.46	1.17	0.28	-	-
Total	100	100	100	100	100	100	100

Note: Details may not add up to total because of rounding.

Source: See text.

principal contributors to the operating requirements of small retail firms, it is the big retail establishments which account for the bulk of funds from this source.

The rotating credit society, or pia huey, is of special interest in any analysis of unorganized money markets and how these markets are used as sources of funds to finance Thai business enterprise. Basically, the rotating credit society is a device whereby persons obtain funds on an intermittent basis from other persons similarly situated. Credit society members make periodic contributions to a revolving fund, and at regular intervals disbursements are made from this fund to one of the participating group. Said to be of Chinese origin, the rotating credit society is found throughout most of the preindustrial societies in Asia as well as in Africa. Even though the methods differ, as do the names by which these methods are known, the basic principles are remarkably similar throughout most of the world.[35]

In Thailand, however, the rotating credit societies appear to have two distinguishing characteristics not usually found elsewhere. In the

---

[35]For a comprehensive account of the various practices, see Clifford Geertz, "The Rotating Credit Society: A Middle Rung in Development," Economic Development and Cultural Change (April, 1962). For a detailed account of Vietnamese "ho," see Nguyen Van Vinh, "Savings and Mutual Lending Societies," Yale University, Southeast Asia Studies, 1949 (Ann Arbor, University Microfilms). For an account of the "Kye," see Lee Duc Soo, "Study of Unorganized Money Market," (Seoul, Korea: n. d.), mimeographed.

first place, the Thai pia huey (literally, "share") seems to be an exclusively urban phenomenon. It is different from the Vietnamese "ho" and the Korean "Kye," which are both rural and urban, and it is certainly unlike the Indonesian "arisan," which is almost entirely rural. In the second place, while most of the rotating credit societies discussed in the sparse literature on the subject seem to be designed to provide ad hoc funds for consumption needs, the pia huey does provide a significant amount of funds for ongoing business operations. Whether this second distinguishing feature of the pia huey is related to the first is difficult to say. In any event, even though the pia huey accounted for less than 5 per cent of all ongoing funds needed by the firms represented in the sample, nearly 30 per cent of all the firms did obtain some money from this source.

The information [36] available from the survey on pia huey is summarized in Table VII-21. It indicates that the vast majority of these rotating credit societies meet monthly. The number of members in the society determines the number of meetings; i.e., if the society has 12 members, it will meet monthly for 12 months. At each meeting a sum of money is paid into a pool by all members except one; the non-paying member, or beneficiary, receives the entire proceeds of the pool. The identity of the beneficiary is determined by one of several methods. In Thailand, the method most commonly employed is that of tender. At each meeting all those

---

[36] An analysis of interest rates payable by members of pia huey indicates that the model rates range from 3-5 per cent per month.

Table VII - 21
Urban Credit Survey
Characteristics of Rotating Credit, by Type of Firm and Number of Firms*

Frequency	Type of Firm														
	All Firms		Big Industry		Medium Industry		Small Industry		Wholesale		Big Retail & Service		Small Retail & Service		Luxury S
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number P
Weekly	35	100	-	-	10	28.57	-	-	-	-	-	-	-	-	25
Monthly	18295	100	-	-	120	0.66	1775	9.70	200	1.09	2,400	13.12	13,750	75.16	50
Other	75	100	-	-	-		25	33.33	-	-	50	66.67	-	-	-
Total	18405	100	-	-	130	0.71	1800	9.78	200	1.09	2,450	13.31	13,750	74.71	75
System															
By Tender	15808	100	-	-	108	0.68	1750	11.07	200	1.27	2,450	15.50	11,250	71.17	50
By Drawing	2540	100	-	-	15	0.59	25	0.98	-	-	-	-	2,500	98.43	-
By Rotation	27	100	-	-	2	7.41	25	92.59	-	-	-	-	-	-	-
Other	2	100	-	-	2	100.00	-	-	-	-	-	-	-	-	-
Total	18377	100	-	-	127	0.69	1800	9.79	200	1.09	2,450	13.33	13,750	74.82	50

Source: See text.

*Details may not add up to total because of rounding.

members who have not yet received the monthly pool will tender bids, and the successful bidder will receive all contributions paid at that meeting. The bids are made in terms of discount from the agreed value of contributions. For example, if the monthly value of each member's contribution is set at 1,000 baht, the successful bidder may be the one who will accept only 960 baht from each of the other members. Having received the contributions of all other members, the successful bidder is then obligated to pay in, at every one of the remaining meetings, the sum of 1,000 baht less such discount as is determined by the successful bidders at each subsequent meeting. Discounts from the agreed upon amount of the periodic contributions depend on the type of rotation used. In addition to the periodic tender, the rotation may be determined by lottery drawing or may be set in advance for the duration of the pia huey.

As seen in Table VII-21, the relative importance of pia huey varies enormously among different types of firms. No big industrial firms seek operating funds from this source, but three-fourths of small retail establishments do, and nearly 10 per cent of small industrial firms.[37]

---

[37] The number of firms under the "frequency" and "system" rows in Table VII-21 is not exactly equal. This slight discrepancy, due to careless checking of the relevant slots in the questionnaire, is much less serious than another type of discrepancy (not confined to responses relating to pia huey) which was found in almost every case where the total derived from the responses to one question differs significantly from the responses to an identical question somewhere else in the questionnaire. For example, the responses under question A7 in the questionnaire

Even less quantitatively important than pia huey as a source of funds to Thai business firms are non-bank commercial sources. These, it will be recalled, include specialized financial institutions as well as individuals (see Appendix, Questionnaire, items 11 and 23). As was mentioned when discussing sources of funds for initial capital, there are reasons to believe that the amount of funds obtained from private individuals is understated and that much of the money allegedly obtained from relatives and friends is, in fact, obtained from moneylenders and those persons who operate in the penumbra of the banking system. As seen in Table VII-22, over 40 per cent of all firms obtained funds from friends and relatives at an interest rate of 24 per cent and above.

Only slightly over 1,000 of the 65,000 firms represented in the sample conceded that they had obtained funds for ongoing purposes from moneylenders or others. Rather surprisingly, no small manufacturers or luxury service firms were in that category. Of these 1,000 firms, only 50, all wholesalers, admitted that they received loans from persons on the margin of commercial banks.[38]

---

[37] (continued)
(see Appendix) give the total of funds obtained from pia huey for ongoing purposes at some 170 million baht, but the same total, derived from responses to question 22, gives a much larger figure. The same applies to other items. This is particularly disappointing inasmuch as one of the reasons for such spacing of questions was to give the interviewer an opportunity to check the responses and the respondent a chance to refresh his memory. Assuming, however, no special bias, the percentage distribution should reflect the situation as it exists.

[38] In fact, only one actual respondent in the sample was in that category.

Table VII-22

Urban Credit Survey
Level of Interest Rate on Initial Funds
Obtained from Friends and Relatives, By Type of Business*
(Percentage Distribution)

Type of Business	Total		Under 24 %		Over 24 %	
	Number of Firms	Amount Borrowed	Number of Firms	Amount Borrowed	Number of Firms	Amount Borrowed
Total	100	100	58.40	84.43	41.61	15.57
Big Industry	0.01	1.65	0.01	1.65	-	-
Medium Industry	0.34	3.29	0.28	2.70	0.05	0.59
Small Industry	6.76	12.62	5.74	10.68	1.01	1.95
Wholesale	2.03	9.17	1.35	8.94	0.68	0.24
Big Retail	19.59	27.61	10.13	16.96	9.46	10.66
Small Retail	70.94	33.89	40.54	31.75	30.40	2.14
Luxury Service	0.34	11.76	0.34	11.76	-	-

Source: See text.

*Details may not add up to total because of rounding.

These results were so unexpected and so much at variance with the observed practices of Thai business that an effort was made to determine the reasons for the poor showing of moneylending in the survey returns. This effort took the following form: first, practicing or, allegedly, recently retired moneylenders were approached and, second, those businessmen who had experiences with private individuals as sources of funds were deliberately sought out. In order not to upset the randomness of the sample, the latter aspect of this effort was conducted during field trips to Chiengmai and Haadyai, where the smallness of the business community and the availability of reliable and informed contacts made it possible to pinpoint the desired kind of respondents.

The emerging picture fails to provide a quantitative estimate of the real importance of private individuals as suppliers of business funds. It does, however, provide some insight into the reasons why the survey returns failed to indicate the true dimensions of moneylending in financing Thai business.[39]

---

[39] Moneylending, whether by professional, full-time moneylenders, such as those to be found on Nakorn Norg and Nakorn Nai in Songkhla, or by part-time moneylenders, who may also be substantial textile merchants, is to a considerable extent oriented toward satisfying consumption needs. Yet, by all accounts it plays a more significant part in financing Thai business than indicated by the results of the Urban Credit Survey. Consumption loans by moneylenders are outside the scope of this paper.

In the first place, as asserted previously, many friends and relatives are actually moneylenders or persons connected with commercial banks. The Thai business community is densely intertwined with kinship ties, and many of the bankers retain active and varied interests in many businesses. There is also little doubt that most Thai businessmen are reluctant to admit that they borrow from anyone, especially from moneylenders. Indeed, the very fact that they prefer to refer to such lenders as relatives or friends underlines this reluctance. The reasons for this go beyond the fear of criminal or administrative responsibility and have to do with "face." It is still true that having to borrow is, for many businessmen, an admission of weakness or dependence. It is also interpreted by many as an indication that support from the immediate family is lacking or that a decline in former wealth and status has taken place. This consideration of "face" may in many cases actually force a businessman of good credit standing, one who is potentially a welcome bank customer, to go to a moneylender. He does this because he does not want the world to know that he has to borrow. The bank may require a registration of mortgage, a visit or two to the bank's premises, or an inspection of his warehouse, all steps not calculated to keep his need for funds a secret.

Besides reasons of relative intimacy or secrecy of transactions, there are, of course, other reasons why a Thai businessman might resort to private individuals for financing. Indeed, the mere listing of these other reasons suggests their likely frequency and thus casts further doubt on the validity of the sample survey in this respect.

A businessman will go to a moneylender when he is unwilling to pledge his land. Sometimes his need for funds may be only a fraction of the value of his land. Land titles cannot be subdivided in Thailand, and it is understandable that a person may be unwilling to pledge a million baht to secure the use of 50,000. A businessman may also be compelled to resort to moneylenders when and if the branch of the bank where he does business has gone over the limit of individual loans allowed it or when the bank feels that it has advanced him enough for the time being. Another businessman may already have pledged his available collateral, other than operating assets, to secure additional accommodation. Finally,and perhaps most importantly, there are many businessmen perfectly able to obtain funds from the bank who, nevertheless, go to moneylenders whenever time is of the essence. In the course of their normal business operations, especially when these are predominantly trading operations, most businessmen will occasionally come across an opportunity which requires quick and substantial cash for its fruition. It is a rare bank which can make a substantial loan, even to its best customer, in a matter of

minutes. Most large moneylenders can and do.[40]

Many of the above considerations which apply to independent moneylenders apply equally as well to those individuals who operate in the penumbra of the commercial banking system in Thailand. With respect to the latter, there are other constraints which militate against their being fully reflected in the urban credit survey results. There is, first of all, the need to protect such sources of funds, a need which is greater than the one to protect the moneylenders. Both types of lenders act outside the law, but the bank-connected individuals also act against the bank. In the second place, financial "extra curricular" dealings with bank officials are never simple, straightforward loan transactions. A bank borrower may be told, for instance, that he will obtain the loan from the bank on regular terms but that he must pay a commission to the compradore or that he may have to accept "temporarily" a slight cash discount from the face value of the loan. He may also be told that he is expected to contribute a sum of money to a "welfare" fund or that it would be appreciated if he were to remember the official in question at Christmas or on his birthday, and so on.[41]

---

[40] This last point acquires special validity in the provinces, where most large loans require prior permission from Bangkok headquarters. To the extent, therefore, that the need for quick cash accounts for a large proportion of business borrowing from moneylenders, one would expect them to be under-represented in a survey of metropolitan businesses.

[41] Another reason why businessmen may, on occasion, shy away from the banks is that a good opportunity, requiring ready and substantial cash, may need to be hidden from bank officials, compradores, and others who are themselves interested in such opportunities.

In addition to private individuals, non-banking sources of funds include those obtained from specialized financial institutions. Only very few firms in the sample resorted to this type of credit. Several larger firms obtained funds from the Industrial Finance Corporation of Thailand and one or two from the Small Industry Loan Funds. No firm in the sample indicated that it obtained funds from life insurance companies.[42]

As seen in Table VII-23, only 42 firms represented by the sample obtained funds for ongoing operations from the government or from abroad.[43]

What is amazing is that apparently no firm obtained funds from the sale of securities, such as debentures, to the public.[44] Inasmuch as the survey purports to include most large firms in the metropolitan area, some of which are known to have issued securities in the period covered by the survey, the results summarized in Table VII-23 are clearly at variance with facts. Apart from the possibility that the exact date of issue cannot be remembered, the main reason for the omission of this source of funds

---

[42] The role of specialized financial institutions in financing Thai business is dealt with in Chapter VIII.

[43] Those relying on government funds were, in fact, state enterprises. The two "other" responses were meaningless (i.e., "partnership" and "frequently in contact").

[44] In the initial draft of the questionnaire the question was a broader one and referred to issue of securities to the public other than debentures. Apparently the final Thai version does retain this broader implication, even though the English translation reads "debentures."

Table VII-23

Urban Credit Survey
"Other" Sources of Funds for Ongoing Operations, by Type of Firm*

Source of Funds	Type of Firm							
	Total		Big Industry		Medium Industry		Small Industry	
	No. of Firms	Million of Baht	No. of Firms	Million of Baht	No. of Firms	Million of Baht	No. of Firms	Million of Baht
Government Enterprises	5	66	3	65	2	0.55	-	-
Issue of Debentures	-	-	-	-	-	-	-	-
Abroad	7	174	3	169	4	5	-	-
No Code	27	4	-	-	2	4	25	-
Other	2	2	-	-	2	1.34	-	0.25
Total	41	246	6	234	10	11	25	0.25

Source: See text.

*Details may not add up to total because of rounding.

from Table VII-23 is to be sought in the line "no code."[45] This indicates that 27 firms represented in the sample stated that they borrow from the sources listed but failed to indicate the particular source. Whatever the reason, it is very likely that the bulk of the actual security issues is to be found among these "no code" respondents.

One source of funds not reflected in the tables presented is that of trade credit. Only peripheral attention can be given to this type of credit here, but its importance is illustrated by the data in Table VII-24. The annual amount borrowed by sample firms in the form of stock, machinery, and equipment is about three times the amount of cash. As was to be expected, it is the wholesalers who rely most on this source for their operations.[46]

Terms of Loans

The analysis of survey results indicates that, with the possible exception of the funds obtained from relatives and friends and the possible exception of some security issuers hidden behind the "no code" designation

---

[45]The field interviewers asked in November and December of 1966 for sources of finance during the preceding 12 months. There is at least one case where one of the sample firms issued debentures in the relevant period but within three weeks of its limits. It is then possible that the respondent, well informed as he may have been, was uncertain about the exact date.

[46]Additional information on trade credit will be given in the next section.

Table VII-24

Urban Credit Survey
Trade Credit by Type and Number of Firms*

Type of Firms	1965				1966			
	Number of Firms		Amount of Trade Credit		Number of Firms		Amount of Trade Credit	
	Number	Percentage Distribution	Amount in Million Baht	Percentage Distribution	Number	Percentage Distribution	Amount in Million Baht	Percentage Distribution
All Firms	31,416	100	9,252	100	32,852	100	9,564	100
Big Industry	66	0.21	468	5.06	65	0.20	510	5.33
Medium Industry	575	1.83	1,116	12.06	562	1.71	1,090	11.40
Small Industry	3,050	9.71	252	2.72	3,125	9.52	254	2.66
Wholesale	1,950	6.21	5,255	56.80	1,750	5.33	5,785	60.49
Big Retail	4,900	15.60	1,822	19.69	5,200	15.83	1,664	17.40
Small Retail	20,500	65.25	247	2.67	21,750	66.21	202	2.11
Luxury Service	375	1.19	91	0.98	400	1.22	59	0.62

Source: See text.

*Details may not add up to total because of rounding.

in Table VII-23, outside financing of Thai business is done on contractual basis. Funds obtained are loans, or at least are shown as such; they require certain stated obligations on the part of the borrowers; and they are advanced by the lenders subject to certain conditions.

Even though the greatest proportion of initial capital comes from "inside," i.e., from an entrepreneur's own funds, outside sources of funds to start a business are, with the possible exceptions mentioned in the preceding paragraph, contractual obligations no different in kind from those obtained to finance ongoing operations. In this section the terms at which these contractual obligations (loans and liabilities on trade credit account) are made will be discussed in the light of the findings of the urban credit survey.

The most important of these terms are interest rates. Table VII-25 gives the modal rates on initial capital by sources of funds and type of firm. The modal rates were determined by two criteria: the number of firms and the amount borrowed. For example, the modal interest rates for medium industrial firms on funds obtained from commercial banks are 14 per cent per annum, when the greatest number of firms in that category is considered. The modal interest rates are 6 per cent when the greatest amount borrowed from this source is taken into account. Table VII-25 suggests that there are significant variations with respect to the source of funds and the type of borrower. Moreover, the modal rate changes significantly according to whether the criterion of modality used is the number of firms or the amount

Table VII-25

Urban Credit Survey
Modal Annual Interest Rates on Initial Capital, by Source of Funds and Type of Firm

Type of Firm	Source of Funds*							
	Family or Friends		Commercial Banks		Non-Banking Sources		Other Sources	
	No. of firms	Amount	No. of firms	Amount	No. of firms	Amount	No. of firms	Amount
Big Industry	24	24	6	6	9	9	6	6
Medium Industry	0	24	14	6	-	-	-	-
Small Industry	0	24	15	15	-	-	-	-
Wholesale	18	18	12	12	-	-	-	-
Big Retail	30 +	30	12	15	-	-	-	-
Small Retail	30 +	12	-	-	-	-	-	-
Luxury Service	24	24	-	-	-	-	-	-
All Firms	30 +	24	12	12	9	9	6	6

*Note: The modal rates payable to each source of funds indicated are compiled separately for: (1) the rate paid by the greatest number of firms in each category (No. of Firms); and, (2) the rate at which the greatest amount was borrowed in each category of firm (Amount). Plus signs attached to a number mean "over". For example, 30 + means over 30 per cent.

Source: See text.

borrowed. Small industrial establishments, for example, can in most cases obtain funds from relatives and friends at no explicit interest charge. However, whenever the amounts required are large, they must pay 24 per cent per annum. On the other hand, small retail firms apparently do better with friends and relatives in terms of the amounts borrowed than they do with respect to number of units. For all firms, relatives and friends are the most costly source of initial outside capital by either criterion. Non-banking and other sources, available only to large firms, are the cheapest source.

The modal rates of interest payable to commercial banks are within the formal limits prescribed by the Bank in Thailand. For the period covered by the table, these ranged from 7 per cent for an importer's accommodation to 15 per cent for loans to local entrepreneurs.[47] These modal rates mask, however, the actual dispersion which is shown in Table VII-26 and which is of interest in the light of these legal maxima. Table VII-26 shows that 39 per cent of small industrial firms and 8 per cent of medium-size industrial firms were required to pay more than the maximum legal rates to banks for their initial capital.

Of even greater significance is the information given in Table VII-27 which, while constructed on the same principles as Table VII-25, pertains to funds for ongoing operations. The greater significance derives from two circumstances. First, as mentioned above, survey results relating

---

[47]For each category of loan these rates are maximum rates, i.e., a customer can get an import loan at less than 7 per cent but cannot pay more than that, legally.

Table VII-26

Urban Credit Survey
Interest Rates Paid On Initial Capital
Obtained From Commercial Banks By Type of Firm *

Type of Firms	Total		Under 7%		7-15%		Over 15%	
	Amount	%	Amount	%	Amount	%	Amount	%
Big Industry	51,000,000	100	42,000,000	82.35	9,000,000	17.65	-	-
Medium Industry	5,188,000	100	2,500,000	48.19	2,687,500	51.80	500,000	0.01
Small Industry	16,250,000	100	-	-	10,000,000	61.54	6,250,000	38.46
Whole-sale	105,800,000	100	-	-	105,800,000	100.00	-	-
Big Retail	27,500,000	100	-	-	27,500,000	100.00	-	-
Small Retail	-	-	-	-	-	-	-	-
Luxury Service	-	-	-	-	-	-	-	-
All Firms	205,738,000	100	44,500,000	21.63	154,987,500	75.33	6,250,500	3.04

Source: See text.

*Details may not add up to total because of rounding.

to funds for ongoing operations appear to be more reliable than those for starting capital and, second, the former funds rely more on outside capital than do the latter.

In Table VII-27, non-bank and "other" are no longer the cheapest sources of funds, nor are they confined to large industrial firms. With respect to non-bank sources, some firms obtained funds from private individuals, notoriously expensive providers of funds. With respect to "other" sources, a number of small industrial firms were forced to borrow, abroad most likely, and at high interest rates.

Table VII-28 shows that the dispersion of costs of bank loans exists also with respect to capital for ongoing purposes. While only 2 per cent of the total amount borrowed from commercial banks bore an interest cost above the legal maximum rate, it affected a broader array of firms than was the case with initial capital.

The interest rates paid to private individuals ranged from 15 per cent per annum to over 30 per cent. Most of the firms that obtained funds from this source were required to pay in excess of 30 per cent, with no appreciable differentiation among types of firms except that medium-size industrial concerns paid considerably less than the small and large retail concerns.[48]

---

[48] Over 30 per cent was the highest category in the questionnaire. Presumably, additional classes would have indicated a greater differentiation among types of firms.

Table VII - 27
Urban Credit Survey
Modal Annual Interest Rates on Funds for Ongoing Purposes
By Source of Funds and Type of Firm

Type of Firms	Source of Funds*							
	Family and Friends		Commercial Banks		Non-Bank Sources		Other Sources	
	No. of Firms	Amount	No. of Firms	Amount	No. of Firms	Amount	No. of Firms	Amount
Big Industry	0	0		10	9	9	8	8
Medium Industry	24	24	15	15	30	30	8	8
Small Industry	24	24	24	12	-	-	24	24
Whole-sale	0	-6	15	10	-6	-6	-	-
Big Retail	30+	0	15	12	30+	30+	-	-
Small Retail	30+	24	-	-	24	24	-	-
Luxury Service	12	12	-	-	-	-	-	-
All Firms	30+	0	15	10	15	15	24	8

*Note: The modal rates payable to each source of funds indicated are compiled separately for: (1) the rate paid by the greatest number of firms in each category (No. of firms); and, (2) the rate at which the greatest amount was borrowed in each category of firm (amount). The plus and minus signs attached to certain numbers mean under (when minus), and over (when plus). Thus - 6 means under 6 percent, for example.

Source: See text.

Table VII-28

Urban Credit Survey
Interest Rates Paid on Additional Funds
Obtained from Commercial Banks, by Type of Firm *

Type of Firms	Total		Under 7%		7 - 15%		Over 15%	
	Amount	%	Amount	%	Amount	%	Amount	%
Big Industry	302,724,315	100			302,724,315	100.00		
Medium Industry	374,003,874	100	9,617,300	2.57	359,724,074	96.18	4,662,500	1.25
Small Industry	46,050,000	100	-	-	37,000,000	80.35	9,050,000	19.65
Wholesale	625,232,300	100	-	-	615,232,300	98.40	10,000,000	1.60
Big Retail	164,755,000	100	-	-	159,755,000	96.97	5,000,000	3.03
Small Retail	-	-	-	-	-	-	-	-
Luxury Service	-	-	-	-	-	-	-	-
All Firms	1,512,765,489	100	9,617,300	0.64	1,474,435,689	97.47	28,712,500	1.90

Source: See text.

*Details may not add up to total because of rounding.

Tables VII-29 and VII-30 summarize the available information regarding terms of loans other than interest. These tables should be viewed with caution, however. Because of the technical nature of the terms employed, it is hard to know to what extent the answers given reflect real understanding on the part of the respondents. These typical loan conditions were confined to three aspects of the terms, other than interest, on which these loans were granted.[49]

These three aspects consist of an extra fee, collateral, and the duration of the loan. The extra fee refers to payments that, allegedly, must be made to certain intermediaries in order to gain access to the actual lender, as well as secure a loan from him. The other aspects were intended to have the same meaning they have in western usage.

It will be noted that the terms of credit discussed above do not include those pertaining to pia huey and to trade credit. The information on pia huey was given above. The available information on terms of trade credit is contained in Table VII-31.[50]

---

[49]"Typical," in this context meant one covering the greatest number of firms represented in the sample.

[50]As mentioned previously, information garnered from the survey regarding future financing plans does not appear either meaningful or reliable. Some 17,000 firms represented in the sample indicated that they plan to obtain slightly over 2,000 million baht during the next 12-month period but stated that these funds will come from their own resources.

Table VII - 29
Urban Credit Survey
Initial Capital, Typical Loan Conditions, by Source and Type of Firm

Type of Firm	Family and Friends			Commercial Banks			Non - Banks Sources			Other Sources		
	extra fee	collateral	duration	extra fee	collateral	duration	extra fee	collateral	duration	extra fee	collateral	duration
All firms	6%	"other"	no limit	0	Sale with right of redemption	no limit	0	title deed	over one year	0	"other"	over one year
Big Industry	-	-	under 3 months	0	title deed	over one year	0	-	over one year	0	"other"	over one year
Medium Industry	0	"other"	no limit	0	sale with right of redemption	3 - 6 months	-	title deed	-	-	-	-
Small Industry	0	"other"	under 3 months	0	mortgage	3 - 6 months	-	-	-	-	-	-
Wholesale	0	sale with right of redemption	7-12 months	0	mortgage	3 - 6 months	-	-	-	-	-	-
Big Retail	-	"other"	no limit	0	sale with right of redemption	under 3 months	-	-	-	-	-	-
Small Retail	6%	"other"	under 3 months	-	-	no limit	-	-	-	-	-	-
Luxury Service	-	-	-	-	-	-	-	-	-	-	-	-

Notes: 1. Whenever data were available with respect to modality both for numbers of firms and the amounts involved the modal number of firms was chosen as being "typical".
2. "Other" refers to other than pledge, mortgage, sale with right of redemption guarantee, title deed or securities.

Source: See text.

Table VII - 30
Urban Credit Survey
Funds for Ongoing Purposes, Typical Loan Conditions by Source and Type of Firm

Type of Firm	Family and Friends			Commercial Banks			Non-Bank Sources			Other Sources		
	extra fee	collateral	duration	extra fee	collateral	duration	extra fee	collateral	duration	extra fee	collateral	duration
All Firms	0	"other"	no limit	under 5%	guarantee	3-6 months	0	"other"	under 3 months	0	"other"	no limit
Big Industry	0	guarantee	no limit	0	guarantee	7-12 months	0	title deed	over 1 year	0	guarantee	over one year
Medium Industry	0	"other"	no limit	0	guarantee	3-6 months	under 5%	"other"	no limit	0	"other"	over one year
Small Industry	0	"other"	no limit	under 5%	guarantee	3-6 months	under 5%	"other"	no limit	0	"other"	no limit
Wholesale	0	"other"	no limit	under 5%	guarantee	3-6 months	0	"other"	no limit	-	-	7-12 months
Big Retail	-0	"other"	no limit	under 5%	guarantee	3-6 months	0	pledge	under 3 months	-	-	-
Small Retail	0	"other"	no limit	-	-	-	-	"other"	under 3 months	-	-	-
Luxury Service	0	"other"	no limit	-	-	-	-	-	-	-	-	-

Source: See text.

Table VII-31

Urban Credit Survey
Typical Characteristics of Trade Credit, by Type of Firm

	Type of Firms							
	All Firms	Big Industry	Medium Industry	Small Industry	Whole-sale	Big Re-tail & Service Firms	Small Retail & Service Firms	Luxury Service Firms
Period of Repayment	under 3 months	under 3 months	under 3 months	under 3 months	under 3 months	under 3 months	under 3 months	under 3 months
Discount for Payment before Due Date	1-5%	1-5%	1-5%	1-5%	1-5%	1-5%	1-5%	1-5%
Source of Purchase	Whole-salers	Pro-ducers	Whole-salers	Whole-salers	Expor-ter	Whole-salers	Whole-salers	Whole-salers
Collateral	Others	Bills	Bills	Others	Others	Others	Others	Others
Penalties for No Payment on Due Date	none	none	none	none	none	none	none	none

Note: Other than bills or guarantees.

Source: See text.

Urban Credit Survey and the Unorganized Financial Markets

The sample survey lends some credence to the contention that financial markets in Thailand are layered, both with respect to the predominant type of supplier of credit and with respect to the gradation of interest rates and other terms of loans. It provides some evidence that there is, in fact, a penumbra of the commercial banking system where a significant proportion of borrowers must pay interest rates higher than the maximum rates set by the authorities. It also suggests that some 40 per cent of business firms probably resort to moneylenders, however disguised these may be as friends or relatives.

The survey amply confirms the proposition that sources of initial capital are quite different from those which provide for the ongoing needs of business. Nearly nine-tenths of initial capital needs come from personal sources, i.e., an entrepreneur's own funds, compared with 6 per cent of ongoing capital coming from this source. Commercial banks, which provide a negligible proportion of initial funds, account for 40 per cent of ongoing funds, even though most small-scale establishments do not have access to commercial bank accommodation.

Four findings of the sample survey are of particular significance for Thai developmental planning in the area of finance. The first of these is the revealed importance of trade credit, which, for ongoing capital needs, appears to be about three times as important as borrowed funds.

Even in the developed countries trade credit is an important source of operating capital. In the developed countries, however, it is partly institutionalized, and discount companies, agents, and other institutions retain some relation to the organized money market. In Thailand trade credit remains largely outside the control of developmental authorities, and its relationship to the organized money market is tenuous at best.

The second significant finding of the survey is the importance of the rotating credit society as a source of ongoing capital for Thai business. While in value terms the Thai pia huey accounts for less than 5 per cent of ongoing funds, some 30 per cent of all business firms rely on this form of finance.

The third finding of significance, one which is probably especially relevant for Thailand, is the very minor role played by specialized financial institutions in financing Thai business needs. In addition, there are very few public institutions designed to provide developmental finance. The proportion of funds provided by the IFCT and the Small Loan Fund is very small indeed, and neither life insurance companies nor other financial institutions play any part in financing business.[51]

The last and perhaps most important finding of the survey from the standpoint of developmental finance is the almost exclusively contractual nature of borrowing by Thai business establishments. There is little

---

[51]For further evidence regarding this point see Chapter VIII.

indication of equity financing, no evidence of funds being provided in exchange for participation in profits, and no sign of venture companies or other similar institutions of capital markets. It is, of course, possible that part of the allegedly personal entrepreneur-owned funds connote some participation in profits on the part of close kin, but external funds are obtained against a promise of payment of fixed amounts in the future. In a country where the level of interest rates is high, this excessive reliance on contractual finance militates against the formation of sizeable manufacturing units, against productive enterprise with a long gestation period, and in favor of undertakings which tend to promise a quick pay-off.

As is true for most market surveys, the reliability of the survey of urban credit appears to be much greater with respect to prices than with respect to quantities. That is, the data on the cost of loans seem more reliable than the figures on their amounts or information on the way in which they were utilized. In general, the information on prices (i.e., interest rates on various sources of loans) is consistent with the qualitative information derived from field research unconnected with statistics.

For reasons touched on in several parts of the preceding discussion, the role of unorganized markets in financing Thai business appears understated by the results of the survey. Even so, the role of unorganized markets in the day-to-day financing of Thai business (as distinct from initial capital financing), even in metropolitan areas, is not

negligible. If one includes relatives and friends, private individuals, pia huey, and at least a portion of personal or "own" resources as deriving from unorganized markets, then up to one-fourth of total ongoing funds of Thai business comes from outside the organized markets.

It is difficult to assess the plausibility of the above estimate because there is so little comparative data to go by. Measurements of unorganized markets in other countries have typically concentrated on markets for rural credit, and very little quantitative information is available on financing sources of business outside the organized markets. The one striking exception to the above statement is Korea, a country which may serve as a comparison with Thailand. In 1965, 80 per cent of all manufacturing establishments in Korea were said to resort to the unorganized money markets (defined somewhat differently than in this paper), and one-third of those establishments in debt owed moneylenders between 40 and 80 per cent of their liabilities.[52]

The astonishing fact about these findings is that they were obtained from a mail questionnaire sent quarterly to some 600 manufacturing enterprises in 10 major cities. The response rate is said to be in the neighborhood of 55 per cent.

---

[52] See Bank of Korea, Survey of Enterprise Finance, Private Finance, and Business Prospects (Seoul: Bank of Korea, 3rd Quarter, 1965).

It is said that 16 per cent of total borrowing by Korean businesses, including manufacturing, was from unorganized financial markets in 1962.[53] Even though Korea has had much less price stability than Thailand, it does have a much greater number of specialized credit institutions and it makes a much greater effort to limit borrowing from the unorganized markets.[54]

The general picture of unorganized financial markets developed in the first part of this paper, a picture which was only moderately filled in and supported by quantitative data from the sample survey, is consistent with what is known about these markets in other parts of Asia. While unorganized financial markets in various countries differ quite appreciably with respect to structure and composition and have very different proportions of rural versus urban or consumption versus business credit, they do share a number of operational aspects. Such characteristics as rather high and freely fluctuating lending rates, the absence of cumbersome lending procedures, lesser reliance on formal collateral, and the dispersion

---

[53] See Kwang Suk Kim, "Unofficial Money Market in Korea," (Seoul; 1964), unpublished mimeo.

[54] See Chang-Nyul Lee, "Financing and Capital Formation in Korea," (Seoul; 1966). This work is written in Korean and was not read by the author. However, the author did benefit from personal discussions with Mr. Kwang Suk Kim who is, at present, attached to the ECAFE.

of lending centers may be cited as examples.[55] In addition, several studies of unorganized markets in Asian countries have noted the preponderance of relatives and friends as sources of funds. The fact that these funds are often rather costly implies the existence of risks not usually associated with true kinship ties or genuine friendships. The prevalence of rotating credit societies has already been mentioned.

In a number of studies of unorganized markets, the inference is drawn that their spread and development is a direct function of the inadequacies of existing financing institutions, as well as the inability or unwillingness of commercial banks to provide sufficient funds for the legitimate needs of the smaller trader or manufacturer.[56] In particular,

---

[55] In addition to the sources cited above, the following contain material on the unorganized markets in the countries of Asia:

Government of India, Directorate of Economics and Statistics, Agricultural Legislation in India, Vol. I, especially "Regulation of Money Lending" (Delhi: Manager of Publications, 1956);

Reserve Bank of India, Report on Rural Credit Follow-up Survey 1959-60 (Bombay: Reserve Bank of India, 1962);

Dacca University Socio-economic Survey Board, Report on the Survey of Rural Credit and Rural Unemployment in East Pakistan, 1956 (Dacca, East Pakistan: Dacca University, 1953);

Central Bank of Ceylon, Survey of Ceylon's Consumer Finances, 1963 (Colombo: Bank of Ceylon, 1964);

Central Bank of China, Financial Statistics Monthly (Taipei: Bank of China, July, 1966);

Central Bank of the Philippines, Seventeenth Annual Report (Manila: Bank of the Philippines, 1965);

J. G. Gurley, H. T. Patrick and E. S. Shaw, The Financial Structure of Korea (Seoul: U. S. Operations Mission/Korea, 1965).

[56] "The role and lending behavior of commercial banks in many Asian countries which favor individuals and firms on economically irrelevant grounds give rise to a class of intermediaries..." (from an unpublished paper, "Unorganized Credit Markets: Feature and Policies," prepared by the Survey Section of ECAFE, November, 1966).

a number of studies conclude that unorganized financial markets are not compatible with societal developmental needs, despite their merits or virtues in satisfying needs not elsewhere provided for. Their lending priorities run counter to developmental priorities. The lenders in unorganized markets are typically interested in assets maintenance of their borrowers rather than in the continuing growth of these assets. The very existence of these markets inhibits an effective strategy of developmental financing and of an effective credit and monetary policy. While these markets may be quite efficient from an operational, microeconomic point of view, they are inefficient from the standpoint of social macroeconomic policy.[57] From the standpoint of developmental strategy the implications for policy measures are quite simple. The existing institutions of the capital market must be made more efficient. The commercial banking system should be induced to direct a greater proportion of its resources into financing of small and medium scale non-trading enterprises.[58]

---

[57] It should be noted that not all the material obtained from the urban credit survey has been discussed in the text. The omitted material falls into three categories. The first, referred to in several places in the text, consists of responses which appear either wildly implausible or in-inconsistent. The second category includes material, such as that on pia huey, which need additional research and analysis some of which is currently being conducted at Thammasart University and which is based in part on raw data collected in the course of the survey. Finally, a number of responses and insights, obtained from the survey and yet not suitable for translation form the basis for some of the insertions and suggestions made in discussions of, say, the Bangkok Stock Exchange and the IFCT to be found in Chapter VIII.

[58] Some specific suggestions on these lines are given in the preceding chapter and in the following one. A summary of these suggestions will be found in Chapter IX.

Additional study and research should be made of arrangements such as pia huey and trade credit to see if they can be replaced or supported with similar institutions in the organized market with the aim of making them more amenable to social goals. But the main thought of this chapter indicates that the primary reason for the financing of business needs outside the organized markets in the urban areas is the lack of equity finance in those markets. To start a business, in particular, the Thai entrepreneur has to fall back on his own resources and those of his friends and relatives. Not only the volume but the distribution of investment is strongly affected by the unavailability of finance on participation basis. While it is true that the existing complex of laws, customs and trading tends to favor trade, construction and "packaging" of imports, the lack of non-contractual equity funds militates against the formation of manufacturing businesses utilizing local resources of raw material and personnel.[59] Thus, the most important single measure calculated to enhance the scope of financing through the unorganized markets would be the establishment within the organized markets of institutions and instruments which could provide, to some extent at least, equity funds to actual and would-be entrepreneurs. In Chapter IX specific suggestions will be made to that effect.

---

[59] While the analysis of the tax structure is outside the scope of this study, the lack of capital goods tax, tax on transfers of property, and so on make trading deals more attractive than they would be under a more balanced tax and legal structure.

CHAPTER VIII

THE CAPITAL MARKET

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

---

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

[2]There 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 (GSB), the Loan Office for Small Industries Development (LOSID), and the Government Provident Fund. With one exception, that of 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

---

[3]See Chapter I, pp. I-22,ff.

[4]All these institutions of the public sector are discussed in this paper, except for the Bank for Agriculture and Agricultural Cooperatives which was referred to in Chapter III. 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

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, 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. The discussion is largely descriptive. It is designed to bring out the points made in the preceding paragraphs and to substantiate the assertions made in Chapter VII where it

---

[4] (continued)
metropolitan area. Some 60 million baht has been used for this purpose since 1953. The Bank's resources come from the budget and from the Government Savings Bank. Its total assets have shown 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 ancilliary to other interests of their owners, many of whom graduate into commercial banking. In addition to these private and municipal pawnshops there are allegedly "unofficial" pawnshops which make "consumption" loans at exorbitant rates of interest.

was stated that it is in the area of provision of long-term finance to industry that the organized markets fall woefully short of developmental needs.[5]

In discussing the performance and prospects of the institutions which comprise the Thai capital market the usual suggestions are made for improving the performance. However, inasmuch as the chief financing problem of Thai business seems to be the lack of equity, (participating capital which the existing institutions have not yet attempted to provide), specific proposals on how such type of finance could be provided to Thai enterprise will be presented in Chapter IX.

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

[5]See Chapter VII, pp.VII-84-VII-87.

operations which have special relevance to mobilization of voluntary savings.[6]

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 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

---

[6]This 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 (Bangkok). 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.

Tables VIII-1 and VIII-2).[7]

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.

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.[8] 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

---

[7]Government 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.

[8]These 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.

Table VIII - 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		Total	Private	Government	Banks	Total				
		Bank of Thailand	Others									
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	1,208
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 VIII - 2
Government Savings Bank
Liabilities
(in millions of baht)

End of Period	PRIVATE SECTOR DEPOSITS				Government Demand Deposits	Bank Demand Deposits	Government Savings Bonds and Premium Savings Bonds	Insurance	Other Liabilities	Capital Accounts
	Savings Deposits	Other Deposits		Total						
		Demand	Time							
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.

those gathered from the metropolitan area by some 50 per cent.[9] 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.[10] As seen in Table VIII-3, 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

---

[9] Many 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.

[10] Apart 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 institutions, 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 VIII - 3
Government Savings Bank
Assets
(percentage distribution)

End of Period	CASH				LOANS AND OVERDRAFTS				Bills Dis-counted	Thai Government Securities	Other Assets	Total Assets or Liabilities
	Notes & Coins	Balances at Banks		Total	Private	Government	Banks	Total				
		Bank of Thailand	Others									
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.

assets. In the 10-year period, while total assets increased about five fold, government securities rose over sixty fold (Table VIII-5).

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 VIII-4 and VIII-6). 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 VIII-7, the premium savings bonds, which contain a lottery feature, have grown faster than the composite liability of savings bonds and premium savings bonds together, suggesting that the rate of growth of the latter was greater than that of the former.[11]

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

---

[11] It 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 allegation that, except for the capital account, lottery bonds grew faster than any other liability of the GSB.

Table VIII - 4
Government Savings Bank
Liabilities
(percentage distribution)

End of Period	PRIVATE SECTOR DEPOSITS				Government Demand Deposits	Bank Demand Deposits	Government Savings Bonds and Premium Savings Bonds	Insurance	Other Liabilities	Capital Accounts
	Savings Deposits	Other Deposits		Total						
		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 VIII - 5
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		Total	Private	Government	Banks	Total				
		Bank of Thailand	Others									
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	327.94	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	235.29	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 VIII - 6
Government Savings Bank
Index of Liabilities
(1956=100)

PRIVATE SECTOR DEPOSITS				Government Demand Deposits	Bank Demand Deposits	Government Savings Bonds and Premium Savings Bonds	Insurance	Other Liabilities	Capital Accounts
Savings Deposits	Other Deposits		Total						
	Demand	Time							
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

Source: See text.

Table VIII - 7
Government Savings Bank
Percentage Distribution of Deposits, by type

Year	SAVINGS DIVISION			BANK DIVISION		Unclassified
	Demand	Fixed	Lottery	Current	Time	
(Dec.)						
1957	61.0	15.9	8.3	8.4	0.1	6.3
1958	56.6	17.7	9.1	10.0	0.1	6.5
1959	52.7	19.0	10.4	12.7	0.1	5.1
1960	53.9	17.5	10.9	13.6	1.6	2.5
1961	55.8	17.1	11.9	11.9	0.1	3.2
1962	54.4	17.3	14.8	9.1	0.4	4.0
1963	51.7	16.4	18.3	8.5	0.6	4.5
1964	49.5	15.6	22.2	7.7	0.6	4.4
1965	43.6	22.0	22.5	6.3	0.9	4.7
1966	39.5	27.8	21.8	5.4	0.8	4.7

Source: See text.

bonds.[12] 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 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.[13]

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

---

[12] The 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 VIII-4 and VIII-6, 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.

[13] These 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.

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 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-8, 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.[14] In any event, as seen in Table VIII-3, loans are now a minor

---

[14] These estimates are from Direk Rabin, op. cit. The total of loans differs slightly from those given in Table VIII-8.

Table VIII - 8
Government Savings Bank--Breakdown of Loans by Purpose
(Thousands of Baht)

Categories of Loans	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
1. Housing	97,456	108,484	113,080	122,730	131,561	132,036	132,429	119,382	104,838	102,557
2. Educational	5,649	5,390	4,738	4,161	3,490	2,748	1,804	2,121	1,314	1,012
3. Employee Welfare	169	492	315	501	366	467	461	317	163	13
4. Public Welfare	224,360	248,429	251,371	250,053	245,253	238,322	235,193	206,732	142,413	2,008
5. Co-operatives	113,650	110,000	112,050	103,875	103,275	95,725	84,682	72,315	60,338	47,440
6. Transportation	69,427	71,336	71,042	72,053	56,612	46,815	45,415	28,570	10,809	7,374
7. Industry	60,500	89,665	99,526	100,066	90,412	140,861	95,447	73,301	58,000	17,497
8. Oil Distribution	--	--	--	370	8,063	9,890	--	--	--	--
9. Hotels	--	--	--	33,000	30,000	25,000	14,000	10,000	7,000	- 151
10. Pawn Shops	--	--	--	12,000	12,000	12,063	7,584	8,040	8,578	7,324
11. Ship Repair	--	--	--	3,015	236	248	77	407	- 345	- 1,668
12. Banking	--	--	--	98,874	98,874	98,874	98,574	91,254	90,150	84,998
13. Broadcasting	--	--	--	--	1,600	1,100	1,100	1,000	750	300
14. Lottery	--	--	--	16,956	21,150	33,819	49,274	73,474	91,775	102,710
15. Family Annuity	--	--	--	1,141	1,331	1,618	2,043	2,523	2,823	3,197
16. Educational Annuity	--	--	--	--	--	--	--	--	100	325
17. 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.

component of total assets of the Government Savings Bank.

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.[15]

The loan program to small industries is administered jointly with the Krung Thai Bank, the only deposit institution entirely controlled by the government.[16] 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

---

[15] The 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.

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

and from contributions of the bank deposited to the special account.[17] The bank charges 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."[18]

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 VIII-10).

While LOSID grants loans for working capital purposes, an effort has been made to stress loans for plant and equipment. As seen in Table VIII-11, the proportion of loans made for working capital has decreased

---

[17] The government matches the amounts earmarked by the bank for LOSID purposes. (See Table VIII-9). Statistical information in this section was compiled from the data obtained from LOSID and from interviews with its principal personnel.

[18] In 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 VIII - 9
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 VIII - 10
LOSID--Loan History, 1964-1967
(amounts in millions of baht)

Year	Applied for		Approved		Disbursed	Outstanding
	No.	Amount	No.	Amount	Amount	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.

Table VIII-11

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

Source: See text.

from nearly half in 1964 to less than one-fourth in 1967.

As shown in Tables VIII-9 and VIII-10, 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 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 10 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.[19]

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 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.[20] 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 VIII-12, only about 10 per cent of its loans have gone sour.[21] It pursues a vigorous follow-up program and, in general, its leaders have an awareness

---

[19]The 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.

[20]See Chapter VII-73-80.

[21]The 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.

Table VIII-12

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: See text.

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.

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."[22] Unlike other

[22] Kingdom of Thailand, Industrial Finance Corporation of Thailand Act (1959), Section 11.

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.[23] 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 conjunction with a sister institution, to play an important part in financing the industrial development of Thailand.[24]

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.[25] On its liquidation, some 14 million baht of its assets were

---

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

[24] This potential, however, is not likely to be realized unless IFCT has access to new and as yet untried modes of operation and financing and unless it 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 Investment.

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

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.[26]

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.[27]

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

---

[26] In 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.

[27] In 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 of net worth, of capital, or of some other benchmark. The Executive Committee can decide on financing which does not exceed 50 per cent of these limits.

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 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.[28]

In addition to baht loans, IFCT obtained two loans from foreign sources. In 1963 it negotiated a loan agreement with the German Kreditanstalt fur Wiederaufbrau 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

---

[28] The 15 million dollar loan from the International Cooperation Administration, a U. S. aid agency, was for a 30 year period. 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.

dollars of the credit unspent.[29]

IFCT borrowing history up to the end of 1966 is summarized in Table VIII-13. 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 VIII-14.[30]

As indicated in the balance sheets (see Table VIII-14), 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 VIII-15, 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 100 million baht, with the remaining 108 million baht accumulating over six years.[31]

---

[29] These loans were for 15 year periods and carried a 5.5 per cent interest charge. At the beginning of 1968, 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.

[30] The 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.

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

Table VIII - 13
IFCT-Summary of Lendable Funds

	1960	1961	1962	1963	1964	1965	1966
Share 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
Borrowings:							
-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 VIII - 14
Industrial Finance Corporation of Thailand
Development of Balance Sheet
December 31, 1964-1966
(in thousand baht)

Assets	December 31 1964 (baht)	1965 (baht)	1966 (baht)
Cash	193	54	491
Call Loans	---	--	6,000
Time Deposits	33,000	44,800	---
Thai Government Securities	7,679	2,260	2,160
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
	42,486	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 VIII - 14
(continued)

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

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
		1,801	2,599	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 Kreditanstalf für Wiederaufban		1,352	8,189	16,289
Loan from IBRD		1,352	6,297	20,391
		51,437	79,289	110,538
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				
Special Reserve		4,850	6,500	8,330
Unappropriated		15	16	30
Equity of Shareholders		34,865	36,516	38,360
Total Liabilities	baht	86,749	118,403	152,584
Acceptance and Guarantees on behalf of Customers	baht	790	7,562	905

Source: See text.

Table VIII - 15

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	156,752	---

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.[32] Although local currency resources have proved inadquate to meet the demand for loans, foreign currency funds obtained from the two foreign institutions have not yet been used to capacity. 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 meager baht resources of the IFCT were unnecessarily depleted while the lenders of foreign exchange found the rate of utilization of the

---

[32] The 1.5 million baht equity investment shown in the balance sheet (see Table VIII-14) 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 of 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.

line of credit they provided to have been exasperatingly slow.[33]

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

---

[33] IFCT 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.

supply seems to be assured by the willingness of various foreign institutions to provide a line of credit.[34]

As seen in Table VIII-16, 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.[35] 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

---

[34] In 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 were 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 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.

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

Table VIII - 16
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)	Un-class-ified	Total
No. of Loans	44	50		94
Amount of Loan	63,397,000	197,068,000	1,000,000	261,465,000

Table VIII - 16
(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	Unclassified	
No. of Loans	39	37	15	3		94
Amount of Loans (baht)	24,480,000	32,123,000	104,082,000	50,750,000	50,000,000	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

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.[36]

But measures to increase the utilization of foreign exchange funds will not take the IFCT very far.[37] 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

---

[36] The 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.

[37] Another 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.

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 VIII-17 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 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.[38] 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

---

[38]The 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.

Table VIII - 17

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					
1960-1966	12,539				280,625
Sept. 1967	707	13,245			
Other Income 1960-1966	707				
Sept. 1967	107	814			
Profit from Sale of Land		868			
		280,606			

Total uses and sources may not be exactly equal because of rounding.
Source: See text.

opens the door to the employment of such devices as sale of debentures.[39] 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 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.[40] 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,

---

[39] Other 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 loans. 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.

[40] One 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 (see p. VIII-73).

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.

Irrespective of the extent to which these allegations are justified, they have to be contended with.[41] 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,[42] there appears to be little justification for the IFCT to grant

---

[41] 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.

[42] 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.

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 eliminate much of the banking circle's resentment against "unfair competition" of the IFCT.[43]

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.[44]

---

[43] Of course the level of interest to be charged by such a quasi-public institution as IFCT is, 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.

[44] To 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.

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 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 has 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 in the next chapter.[45]

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 insitutions 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 VIII-18, however, Thailand ranks well near the bottom of the list of Far Eastern countries in this respect.[46]

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,

---

[45]The 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.

[46]Table VIII-18 refers to a period, several years ago, for which relevant and comparable data were available. Life insurance is measured by net premiums. In Table VIII-19 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 VIII-18
"Saving" Throug.. 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 (1962).

Table VIII-19

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	148	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
Life Insurance Assets / GNP	.24	.23	.0025	.0074			.0072	.0061	.002	.005
Life Insurance Assets / 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 (New York: 1968); 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.

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.

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 units and to enhance both the flow and the composition of household savings.[47]

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

---

[47]For 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 Organizations for Economic Cooperation and Development, Capital Markets Study, General Report (Paris: OECD, 1967).

the problems of financing economic development.[48]

Life insurance companies operating in Thailand have had a checkered career.[49] 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

---

[48]Very 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 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 was 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.

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

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.

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 VIII-20, 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 VIII-21 suggest that the intercompany competitive effort was not paralleled by enhanced efficiency. Thus, quadrupling of the number of agents between

Table VIII-20
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 Ayudhya	14	20	114	249	17	48
Oriental	15	15			55	52
Siam Life	0	0	521	2,726	23	33
Thai Life	5	10	120	180	28	40
Thai Sreshthakich	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 VIII - 21
Life Insurance Companies in Thailand--Selected Indicators, 1955-1965
(Thousand baht)

Year	Net Premiums	Amount I nsured	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.

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 economics of scale which are inherent in a financial business.[50]

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 VIII-22 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 VIII-22 overstate the relative share of

---

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

Table VIII - 22
Life Insurance Fund as Proportion of
Total Savings in Thailand

Year	Savings Fund Total	Life Insurance Fund in million baht (amount)	Life Insurance Fund as percent of total
1957	766.6	38.2	4.98
1958	633.0	27.0	4.27
1959	919.7	23.6	2.57
1960	1655.7	13.8	0.83
1961	1862.4	-2.8	-0.15
1962	2064.5	8.2	0.40
1963	2365.0	33.3	1.41
1964	2898.9	20.1	0.69
1965	2965.8	43.2	1.46

Source: Based on Table II-16, Chapter II.

life insurance saving flows, because the total excludes 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.[51]

If the record of the life insurance industry in attracting household savings was a poor one, its performance on the supply aide of the schedule of investible funds was even less impressive. In Table VIII-23 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 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.[52] Both in 1961 and in 1965 the greatest proportion of total

---

[51] See Chapter II, Table II-16.

[52] The 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.

Table VIII - 23
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	
	100.0		100.0	

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

*Details may not add up to total because of rounding.

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.[53]

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 VIII-24 gives the distribution of the assets of U. S. life insurance companies.[54]

---

[53] Policy 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 about 12 per cent.

[54] It 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 VIII - 24
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
	100.0	100.0

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

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.

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.[55] Most importantly, the predominant form of life insurance policy in Thailand is the endowment type which enables the insurance companies to assume the intermediation role much more confidently.[56] 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.[57]

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

---

[55] At 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.

[56] 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.

[57] 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 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 life insurance translates as "man-long-life").

offices from 68 in 1961 to 141 in 1965, there have been attempts to sell life insurance directly to rural households.[58]

One company, in particular, has been quite successful in selling life insurance policies to farmers and others generally regarded as being a poor market, and it now sells three-fourths of its policies in the countryside. In 1965 it collected 47 million baht in premium, 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.[59]

Granted that the Thai life insurance business is capable of accelerated growth in the future, what is its potential within, say, 10

---

[58] 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.

[59] The 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.

to 15 years?[60] 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 baht annually to the capital market.[61] This compares with the 1,600 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

---

[60] So 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 VIII-19, 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.

[61] 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.

the legal and institutional setting within which the life insurance business operate 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.[62]

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.[63]

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.[64]

---

[62] 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.

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

[64] Elements of compulsion do exist, however, with respect to provident funds. See the next section.

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 savings are in their infancy, where a social security system is well-nigh non-existent, and where there are relatively few large-scale employee organizations.[65] 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.[66]

---

[65] A 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 for Economic Cooperation and Development, Capital Market Study, General Report (Paris: OECD, 1967), p. 13.

[66] There 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 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.

As shown in Table VIII-25, 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 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.[67] The government's Official Provident Fund was established in 1950.[68] Currently 4 per cent of a civil servant's salary is

---

[67] Two-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.

[68] A 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

Table VIII - 25
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	1,409

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.

deducted each month and deposited in the fund. The contribution of the government consists of interest payments of 5 per cent.[69]

The provident funds of State enterprises[70] 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

---

[68] (continued)
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 is a self-insured, funded scheme of the type which predominate in the United States and the United Kingdom.

[69] For 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 employ.

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

and matching contributions plus interest.[71]

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.[72]

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.[73] 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 employee benefit funds by other businesses

---

[71] Interest 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.

[72] These 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.

[73] The 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.

and the further expansion of those firms which already operate such funds.[74] 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.[75]

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

---

[74] At present, only about one-third of the labor force (in establishments with more than 10 workers) in the metropolitan area are 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.

[75] In 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, 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.

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.[76]

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.[77]

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

---

[76] Proposals 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 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).

[77] At 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.

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.[78]

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.[79]

Tables VIII-26 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

---

[78] In 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 leaving less than 100 outstanding loan balances.

[79] The 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

Table VIII - 26

Employee Benefit Funds in Thai Private and State Enterprises, Asset Distribution
(million 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.

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 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.[80]

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

---

[79] (continued)
financial institutions.

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, 18 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. 353-55.
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: University of Minnesota Press 1955).

[80] See Chapter IX, p. 22.

securities are traded approximates 30.[81] 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.[82]

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.[83]

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.

---

[81] The 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.

[82] About 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.

[83] See Bangkok Bank, Monthly Review (September, 1965), p. 231.

Table VIII-27 gives the available information on those listed corporations whose stock has been traded on the Bangkok Stock Exchange in recent years.[84] 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.

As shown in Table VIII-28, 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 VIII-29. 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

---

[84] The 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 VIII-27 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 VIII-27

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)	ACFCAF	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.
ACFCAF - Automobile and other consumer goods finance, commercial accounts factoring.
SCC - 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 EastAsiatic 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 VIII-27
(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)	BDPW	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	39.7	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.
BDPW - 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.

Table VIII - 28
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	5.62	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	6.68	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	4.82	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 VIII - 29
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.

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.[85]

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 Exchange that such practices as "cash sales," "insider trading" and "rigging of the market" will be either prevented or severely punished.[86]

Of the three mutual investment companies operating in Thailand, only one makes available information, however sketchy, relating to its

---

[85] For a recent discussion of the role of stock exchange in the process of capital formation see: David William, "The Growth of Capital and Securities Markets," Finance and Development (Washington: International Monetary Fund, September, 1966).

[86] While 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 foreboding. 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.

performance.[87] 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.[88]

Tables VIII-30 through VIII-32 summarize the available information regarding the performance of the TIF. The number of units outstanding have 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 VIII-31, 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

---

[87] The 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.

[88] Initial 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 VIII - 30

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 VIII - 31
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 VIII - 30.

Table VIII - 32

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.

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.[89] 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 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.

---

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

There are reasons to believe that provisions 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.[90] 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.[91]

---

[90] 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.

[91] 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 earning whether distributed or not. On the other hand, there is no capital gains tax in Thailand.

CHAPTER IX

FINANCIAL MARKETS IN THAILAND--CONCLUSIONS AND RECOMMENDATIONS

Summary of Empirical Findings

The financial structure of Thailand is basically a by-product of the country's economic history. It was formed, and is still being formed, by the forces which have shaped the Thai economy. Unlike a number of other pre-industrial countries where more or less deliberate attempts were made to structure financial institutions so as to influence the path of development,[1] the Thai financial nexus, for the most part, mirrors the economic past. Even the establishment of the Central Bank came about, not as a fully conscious effort to coordinate and manage the financial affairs of the Kingdom, but as a response to the political and financial pressures of Japanese occupation authorities.

The organized money market in Thailand is dominated by the commercial banks. The role of foreign banks in Thailand has steadily diminished with the development of the country's economy, and at present the bulk of deposits and earning assets is in the hands of the 16 locally chartered banks. Very few, if any, of these banks originated as institutions of credit. In most

---

[1]See, for example, Robert L. Bennett, The Financial Sector and Economic Development--The Mexican Case (Baltimore: The Johns Hopkins Press, 1965), especially p. 138.

cases they were started as appendages to export operations, remittance shops, or other businesses. Even now, most Thai bankers are heavily involved in a number of business ventures, and the banking business may not necessarily be the most important.

Every Thai commercial bank has at least one field marshal, general, or member of the Royal Family on its board, and the political muscle of the Thai banks is an important aspect of the financial nexus.

Partly for this reason and partly because of its traditions, the Central Bank's control over commercial banks is exercised primarily through moral suasion. The Bank of Thailand is loathe to use the control instruments which, in law, it has possessed since the passage of the Commercial Banking Act of 1962.

The commercial banks, though they account for over 50 per cent of all financial liabilities recorded as being in the hands of the public, still finance only about one-fifth of private capital formation. In the Thai Second Six-Year Plan, less than 10 per cent of all private sector finance is expected to come from the financial institutions. Clearly, much of the financing of business enterprise, not to mention rural households and consumption needs, comes from outside the organized financial nexus.

The commercial banks do not appear to push their lending operations to the full limits of their capacity, actual or potential, to obtain additional funds. It would appear that this reluctance to maximize long-run banking profits is due in part to the oligopolistic position of these banks, in part to their unwillingness to abandon the lucrative and well-trodden path

of trade accommodation and, in part, too, to the lack of experience and personnel to venture into untried and risky areas of term credit and manufacturers credit.

The Central bank (the Bank of Thailand) has an excellent record of maintaining price stability in a quite rapidly growing economy, but it has only recently recognized its responsibility for providing, or at least guiding, developmental finance, particularly in offering certain lines of rediscounting. Its debt management policies, in particular, have helped the commercial banks to maintain a degree of underutilization of capacity in the face of an allegedly high level of demand for funds. By enabling the commercial banks to hold a large fraction of their reserves in the form of high interest-yielding, tax-free bonds, the Central Bank countervailed any tendency which may have developed among the commercial banks to compete by offering lower terms for accommodation or by entering new lines of activity.

The relatively dense network of commercial bank branches in Thailand is a potentially valuable developmental resource, but it is used, to a large extent, as a device for transferring savings from the country-side to the Bangkok headquarters. These savings, however, are not utilized to the full; and to the extent that they are utilized, they are not directed into those channels which appear to have high developmental priority.

There appears to be some confusion in official circles as to whether debt management should be employed primarily as a budgetary instrument or whether it should be designed as a device to create a bill and intermediate

credit market. The Treasury accumulates cash balances at the same time it issues bonds and bills. Often the size of these balances is close to the amounts borrowed annually. There is no attempt, as yet, to tailor government issues to the needs of various markets, and there is only one type of bond issued by the Treasury, thus making it necessary to attach to the entire issue terms which would make it acceptable only to the marginal, most reluctant buyer. The market for bills is also rather limited in terms of variety of offerings, and there seems to be a regression in the former tendency to create a secondary market in tap bills.

The capital market is both less efficient and less sophisticated than the money market. It contains few specialized institutions, all of which suffer from an inability to obtain lendable funds from households, primarily because of their commitment to lend funds below the market rate. The provision of long-term finance is further limited by the absence of non-contractual capital and by lack of flexibility as to the terms at which capital is made available.

There are very few public institutions within the Thai capital market. There is the Government Savings Bank which channels household savings into the government budget, but the annual flow of these savings is overshadowed by those accruing to the commercial banks in the form of fixed deposits. The Bank for Agriculture and Agricultural Cooperatives was set up only in 1967 and has yet to make its mark, but its predecessor, the Bank for Cooperatives, played but a very minor role in financing rural households.

The Industrial Finance Corporation of Thailand (IFCT) did not account for more than a fraction of one per cent of total private capital formation in 1967. The Small Loan Industry Fund and the Housing and Welfare Bank are either very recent or very insignificant. Life insurance companies do not, as yet, do long-term financing, and the various pension and provident funds also have not entered these markets. The Bangkok Stock Exchange was set up in 1963 by a group of foreign entrepreneurs, and it is neither recognized nor regulated by the Thai authorities. It operates in a narrow and thin market, and perhaps only one or two listed corporations are traded daily.

The unorganized urban financial market has many layers and encompasses a great variety of borrowers and lenders (many of whom are also active in the organized markets), and it accounts for at least one-fifth of the annual capital requirements of Thai business enterprises. This proportion is even higher when urban centers, other than the metropolitan areas of Bangkok and Thonburi, are considered and when initial capital needs are included. The unorganized markets, even more than the organized, tend to favor the trader and the speculator over the manufacturer. The volume of business done in the unorganized markets is heavily weighted with trade credit, which is of little use to the nascent manufacturing enterprise. Most of the finance provided by the unorganized markets (and this is true also for the organized markets) is on a contractual basis, which, with its heavy and often immediate interest obligations, interdicts many a potential manufacturing enterprise. There is a striking paucity of equity finance.

Less than five per cent of total annual financing of agricultural households is handled by the organized financial institutions in the countryside. Much of the financing provided outside these institutions, at best, maintains the value of the assets of the farmer, but it is not concerned with increasing the value of his assets and, hence, does not expand the income and saving of the rural householder.

Contrary to the views held by some, unorganized financial markets in a country such as Thailand play an important role in urban as well as rural areas. They are still relatively more important in the countryside, however, and they remain the predominant vehicle of finance for rural households.

In Thailand, over 80 per cent of the initial capital requirements of business enterprise come from an entrepreneur's "own" resources, and less than 7 per cent is obtained in the organized financial market. Even for ongoing, annual requirements, more than 20 per cent of capital requirements come from outside the institutions of the organized markets.[2] Savers prefer to transfer resources to investors outside the purview of official scrutiny and control because of the opportunity to exact higher interest rates than those obtainable from the organized financial intermediaries and because of a desire to keep the extent and the source of savings hidden from authorities. Despite the higher cost of borrowing, investors find the

---

[2] As was emphasized in Chapter VII, these percentages are illustrative; and though they reflect the order of magnitudes, they cannot claim to be exact figures.

unorganized markets attractive for a number of reasons. These include speed and simplicity of transactions, more flexible collateral requirements, and a strong predilection for keeping loan dealings confidential.

There is some evidence to suggest that there exists a penumbra of the commercial banking system in Thailand which diverts funds available to the organized markets into the unorganized markets and which, at the same time, makes the cost of borrowing higher. The sample survey of urban credit in the unorganized markets also suggests that much of the moneylending activity is performed under the guise of "friends and relatives."

The level of interest rates in both the organized and the unorganized markets is high (especially in the latter), and the rates are almost certainly higher than they would be if either of these markets were truly competitive. This high level of interest rates--about 25 per cent is the modal annual rate payable by a legitimate entrepreneur of moderate size--militates against long-range undertakings and in favor of quick pay-off schemes.

Other terms and conditions of loans (other than the rate of interest) tend to inhibit the financing of manufacturing enterprises, particularly those enterprises which are locally owned and have only modest initial resources. The emphasis is on land as a collateral and on the status of the borrower rather than on the prospects of the enterprise. These practices, together with various other legal impediments, all tend to favor the trader and the speculator and discriminate against the small or moderate size would-be manufacturer.

The rotating credit society is known throughout the underdeveloped world as a consumption-serving, rural-based, face-to-face grouping, but in Thailand it is primarily an urban institution of the unorganized market which, surprisingly, finances business as well. In fact, some 5 per cent of the annual financial needs of Thai business are financed from this source, and approximately 30 per cent of all business undertakings, concentrated among small and medium-size firms, resort to this medium of finance.

These empirical findings point out the aspects of the structure of the Thai financial markets which are of crucial importance to the country's developmental strategy. The tentative conclusion of Chapter II is that agricultural saving has been in excess of investment in the agricultural sector. An important component of the intersectoral financial transfer has been an increase in the profits of the trading community which is concentrated in the metropolitan Bangkok-Thonburi area. During the period 1961-65, more than one-third of the increase in agricultural output was exported, and agriculture contributed three-fourths of the country's total export earning in that period. During this same period the industrial sector's average propensity to save rose from 0.133 in 1961 to 0.147 in 1962, to 0.164 in 1963, to 0.184 in 1964. A significant factor in this rising saving propensity, it appears, is a high marginal savings ratio among traders engaged in exporting agricultural commodities. There has been a positive correlation between savings and exports, and the key to this relationship may lie in the export traders' high marginal savings ratio. In open, dualistic economies, and ones where there is a considerable degree of

income inequality, an increase in agricultural output leads to a sharp increase in disposable incomes of port traders as larger volumes of exports move through the ports. Even though these traders save an increasing proportion of their income increments, the investment of these savings takes place largely outside the agricultural sector.[3] But the trading community in Thailand is composed of exporters and importers, many of whom are both. It is a tightly knit community which is simultaneously deeply involved in banking, insurance, warehousing, and other activities. Accumulated savings are translated into investment in trade, service enterprises, and import-substitution manufacturing much more readily than into agriculture or export-promotion industry.

The Thai economy has thus successfully crossed the second "threshold" on the path leading to self-sustained growth.[4] Whether it will surmount the third and last threshold will depend, inter alia, on its ability to adapt the financial structure to the developmental needs.

---

[3]"All these suggested relationships would not seem unreasonable in the Thai circumstances where an export boom can be expected to be associated with a shift of income distribution toward the community, leading to an investible surplus there which then, through the well-established channels of the so-called unorganized capital market, is made available to entrepreneurs seeking funds." International Bank for Reconstruction and Development, The Economic Situation in Thailand (April 1966), p. 5.

[4]See Chapter I.

Development Strategy and the Structure of Financial Markets

In Chapter I, a three-pronged conceptual framework was presented which is capable of yielding broad guidelines as to the ways and means of structuring the financial market. The three prongs are those of economic efficiency, developmental priorities, and extension of the scope of the organized markets. The broad guidelines for Thailand were three in number, to wit:

1. The cost of long-term capital should be lowered and the spread between the reward to the saver and the cost to investor narrowed.[5]

---

[5] The spread was taken as an index of efficiency. Ideally, the efficiency of a financial market (defined as its ability to provide an optimum investment mix; i.e., a capital-output ratio which is the best that can be obtained, given the "state of arts") will be maximized when the spread is zero.

The argument may be stated symbolically. If S measures the flow of lendable funds and $S = \Phi(R_I R_S F)$ where R_I measures the "cost" to the investor

R_S measures the "rewards" to the saver, and F denotes the financial structure, the function of F is to maximize the capital-output ratio "a," then:

$$\frac{\partial a}{\partial F} = \Phi'(R_I R_S F)$$

$$\frac{\partial a}{\partial F} = 0 \text{ and } \frac{\partial^2 a}{\partial F^2} < 0$$

This implies $\frac{\partial R_S}{\partial F} > 0$ and $\frac{\partial R_I}{\partial F} < 0$

and $R_I - R_S = \min.$

2. The flow of capital to the small- and medium-sized manufacturer should be increased, particularly when his output has a world market. Such a flow should be increased both absolutely and relatively to the volume of financing of trade, construction, and speculative activities.

3. Competitive institutions and instruments should be set up in the organized markets which are able to attract lenders and entrepreneurs hitherto confined to the unorganized markets.

These three broad guidelines provide a convenient device for grouping the suggestions and recommendations for modification of the Thai financial markets. Most of these suggestions and recommendations were made in the preceding chapters, and most of them are minor in nature in keeping with the "piecemeal engineering" approach indicated at the close of Chapter I. Inasmuch as the guidelines themselves are interrelated, there can be no clean-cut distinction between a specific suggestion designed, say, to improve the economic efficiency of the particular financial market and one designed to increase the scope of the organized markets. The allocation of a given suggestion to one of the three categories, implied by these broad guidelines, will thus be largely arbitrary and determined by a judgment as to the direction of the primary impact of such suggestion, when implemented.

Suggestions for Increasing the Efficiency of the Financial Markets

The suggestions made in Chapter III for bringing branches of the commercial banks into agricultural credit are designed primarily to expand the scope of the organized market in financing rural households. But they also contain some recommendations which are meant to enhance the efficiency of these markets. By posting a fixed spread between the rediscounting rate and the maximum lending rate, the commercial banks could increase their profits by lowering their operational costs, by stretching their overhead over a larger number of loans, and, finally, be better control over the purpose of loans so as to minimize losses from non-repayment.

The efficiency of commercial bank operations could be increased by greater emphasis on the purpose of the loan rather than on the status of the borrower. A banking self-insurance scheme would attract more depositors. It is also possible that commercial bank lending could benefit from simplifications of mortgage registrations and, particularly, from some device which would result in "splitting" deeds to large parcels of property into components adequate to cover a single loan. Some consideration could also be given to the extension of non-lending functions of banks by allowing them, say, to administer trusts and estates on a comingled basis.[16]

The central bank could also improve the efficiency of the banking system by streamlining its rediscounting procedures and allowing the commercial banks to assume exclusive responsibility for credit risks. It

---

[6]Some of these trusts are not legal in Thailand.

would also seem desirable to abolish the present quota system which determines the ceiling on the amount of rediscounting done by a single bank.

But perhaps the greatest single contribution to efficiency of the financial markets which could be made by the central bank lies in the area of debt management. By tailoring the various types of securities to the various segments of the market, the Bank of Thailand could not only reduce interest costs to the Treasury but also contribute to the reduction of the interest costs charged by the commercial banks. To improve the efficiency of the institutions of the capital market a series of suggestions were made in the preceding chapter. These included the abandonment by the Government Savings Bank of marginal functions such as selling life insurance, the assumption by the IFCT of exchange risk and the simplification of its procedure for importing machinery, as well as the possibility of transferring a portion of idle Official Provident Fund balances to the IFCT.

Suggestions for Channelling Resources into Development Priorities

The developmental priorities range from channelling resources away from trade and speculative construction toward the provision of medium and long-term capital to industry, in general, and export-oriented manufacturing in particular. The primary responsibility for channelling funds into developmental priorities rests with the Bank of Thailand. Specific suggestions include allowing commercial banks a greater "spread" on paper rediscounted

for small manufacturers, so as to provide these banks with greater incentive to engage in this type of business. The Bank of Thailand could also attempt to discourage certain financial activities by removing the preferential treatment of exports and other trading transactions implicit in Section 10 of the 1962 Banking Act and by helping to bring about a change in the tax system in the direction of taxing certain capital gains and speculative property transfers. On the positive side, the Bank of Thailand should insure the speedy implementation of pending legislation which would allow lending against chattel mortgage, thus making it easier to lend against the security of machinery and equipment. By periodic review of the licenses of branches of commercial banks, the Bank of Thailand could exert some influence on these banks to expand productive activities in the areas they serve. Similarly, the Bank of Thailand should be somewhat less rigid in allowing agencies to be set up in the provinces whenever the record of the mother institution seems to justify it.

In reforming its government debt management policy to orient the sale of government securities towards different buyers, the Bank of Thailand could give consideration to the issuance of a special bond, of intermediate maturity, which could be made convertible into equity shares in either state enterprises or private undertakings.

In addition to the suggestion pertaining to the Bank of Thailand, the commercial banks themselves, through cooperation in the provinces with the IFCT, perhaps on a "share the risks" arrangement, could contribute to a greater flow of finance towards developmental ends.

Suggestions for Expanding the Scope of Organized Financial Markets

Perhaps the most potentially productive of the suggestions in this category, and certainly the most detailed one is one which aims at bringing the commercial banks into the field of agricultural credit. In order to induce the commercial banks to enter the difficult business of granting supervised, productive loans to groups of farmers, a two-pronged approach is adopted of extending simultaneously a carrot and a stick. The stick should take the form of an increase in the legal reserve which the banks are required to hold against their deposit liabilities, with the option that the extra required reserves can be held in the form of agricultural paper. The carrot should be a generous rediscounting of this paper by the central bank. Higher and growing income of farmers is the best way to insure, in time, a market for manufacturing enterprise and enable that enterprise to grow in size. Thailand's network of bank branches suggests reliance on these rather than on artificially created and sustained public institutions in the rural credit field, whose record to date is rather poor. The public institutions should concentrate, rather, on the provision of longer-term credit to the farmers and on the costly and time consuming training of credit supervisors.

The commercial banks should also be encouraged to begin to engage in term lending, thus attracting some of the would-be borrowers who are forced to seek funds elsewhere.

In the preceding chapters it was suggested, on several occasions, that the interest rate charged by a number of institutions is below the market rate, thus effectively depriving these institutions of access to household savings and making them dependent on budgetary and quasi-budgetary appropriations. This is true for the Bank of Agriculture and Agricultural Cooperatives, for the IFCT, and for LOSID.

By bringing the maximum lending rate at least to the level of the minimum rate charged by the commercial banks on similar types of accommodation, these institutions could hope to divert some funds from the unorganized market.

Other suggestions designed to encroach, directly and indirectly, on the unorganized markets can be recapitulated briefly. They include greater emphasis on lottery bonds in Government Savings Bank operations, certain tax concessions for contribution to life insurance and provident funds, and a broad regulation of Stock Exchange operations.

National Investment Consortium - A Proposal

The preceding suggestions for improvement of the financial markets in Thailand, are with one or two exceptions, limited in scope and in their probable impact. In particular, they do not address themselves to one glaring deficiency in the financial structure of Thailand, i.e. the almost complete lack of equity finance (other than that associated with the garnering of entrepreneurial "own" initial capital resources) in both the unorganized and the organized markets. It is quite possible that the

predilection for enterprises with a short "pay-off" period is, in large measure, due to the inability of legitimate businessmen to secure venture capital within the confines of the organized portion of the Thai financial markets. There appears to be a present and urgent need to provide funds to nascent enterprise on the basis of participation in future profits, devoid of heavy annual contractual burden and with a grace period equivalent to the period in which the enterprise establishes itself and begins to make distributable earnings.

What appears to be suitable to the conditions prevailing in Thailand is an institution of the private sector, but with official backing which combines the functions of a national unit trust and a development corporation . Such an institution would act on both sides of the market for lendable funds. It would issue its own securities (units) to the savers and it would provide the proceed o the investors. The securities offered to the savers would be redeemable at par, either in perpetuity or for a stated number of years, and would carry a rate of return which would vary according to the return realized by the enterprises held in the portfolio of such a hybrid institution. The proceeds from the sale of the units would be used to provide equity capital to both existing and nascent enterprise, including, in Thailand, hopefully, also the shares of state enterprises which the government would make available. An important part of the job of this institution would be to actively seek out and promote the formation of manufacturing enterprise, using the lure of provision

of venture capital with a modicum of control and supervision. Such a hybrid combining, say, the roles of the Pakistani Unit Trust with that of the Mexican Nacional Financiera, appears quite feasible in the Thai setting, whether under the umbrella of the Industrial Finance Corporation (already empowered to engage in equity financing) or under some other aegis.[7]

Suppose, then that a decision is taken to set up an institution of a capital market on the lines of the hybrid unit trust-industrial development corporation (hereafter referred to as the National Investment Consortium or NIC). What should be the modus operandi of such a consortium?

---

[7] The Nacional Financiera was established in 1933 with "the fundamental objective of mobilization and reintegration into the economy of real property expropriated by the government and for the purpose of aiding the existing credit institutions in the channelling of investment capital into creation and expansion of industrial enterprises and to develop a national market in stocks and bonds" (See Marcello Aguilar y Maya, The Nacional Financiera, S.A. of Mexico, mimeo, (Circa 1955). In mid-1961 Nacional Financiera owned stock in 60 industrial enterprises, 13 of which it was the majority stockholder. At the end of 1959, its financing accounted for some 8 percent of Mexico's GNP (Robert L. Bennett, op. cit., pp. 54-55). The Nacional Financiera provides equity finance to enterprises but does not collect household savings in form of equity units, i.e., its "participation certificates" promise a fixed return. The Pakistani Unit Trust, on the other hand, issues units to the public with variable return but does not itself invest the proceeds in new undertakings, nor does it seem to promote new ventures but acts primarily as an official support to the stock market. In 1966, however an Investment Corporation of Pakistan was established which is to act as a development corporation (Information obtained from official pamphlets published by the Unit Trust and the ICP). It should be stressed that both the Nacional Financiera and Pakistani Unit Trust are government-sponsored institutions.

Who should run it? How to go about setting up its initial portfolio? How to insure sale of its units to the broad public? How to go about expanding the portfolio? How to best bring about the formation of new manufacturing undertakings? How to insure not only that the units issued by NIC continue to be attractive to savers but that NIC meets its primary purpose, i.e., provision of equity finance to long-gestation enterprise? What should be the relation of NIC to other institutions in this country and abroad?

It would be neither desirable nor feasible to provide detailed and definitive answers to these questions. The outline which follows is meant to be merely a first approximation of what is believed to be a sorely needed addition to the Thai financial structure.

It is contemplated that the consortium will be, in the first instance, a creature of the commercial banks, life insurance companies, and other financial institutions having interest in the development of a capital market in Thailand. At the same time, the formation of the NIC should receive the official blessing of the monetary authorities and a promise of its active support.[8] The initial contribution of the participating institutions should take the form of subscription of a portion of the member

---

[8]At present, the Thai monetary authorities are very seriously concerned with strengthening the capital market. A subcommittee on financial institutions of the Prime Minister's Committee on the Private Sector has held a number of hearings on various proposals to this end, including a proposal which is a precursor of the one given in the text; the committee is currently (1968) conducting further studies and analyses of the problem. Among the proposals considered was one, not dissimilar to one presented in the text introduced by a leading commercial bank.

institutions capital stock. The stock will form the basis of the initial investment portfolio of NIC but the title to that stock need not be alienated. It would be sufficient to deposit the stock in escrow, to be retrieved in the event of liquidation or at such time as the consortium acquires a large and diversified portfolio of its own. Whether or not the amount of the stock deposited should bear a fixed relation to the entire capital of the subscribing members will depend on the way in which the NIC is to be administered. For example, the interest in the new institution may be unevenly distributed among founder members and this uneven interest may be reflected in the willingness to provide personnel and resources to the management of the consortium. There may be some banks which may be reluctant to join NIC at the outset. Other financial institutions may be willing to join but unable to contribute the requisite resources. For these and other reasons, no rigid formula for stock contribution needs to be prescribed.

The initial stock contribution will provide NIC with a portfolio of dividend and interest earning securities sufficiently attractive to the public at large to enable the management to start an intensive campaign to sell its units. It is in this connection that the official support will prove most important. There are two principal ways in which such support may be instrumental in getting NIC off to a good start. One way would be, say, for the Bank of Thailand to undertake to redeem the units at any time at the option of the holder, at par. The other way would be by opening

facilities at post offices, branches of the Government Savings Bank, and provincial Treasuries, as authorized dealers in the NIC units, both for purchase and for redemption purposes.

The promise of the Bank of Thailand and/or the Ministry of Finance to redeem the units at par may be made for a period of years or in perpetuity. It may be that instead of redemption for cash the units could be redeemed against a special bond, issued by the Treasury and handled by the Bank of Thailand. For example, a five-year bond, without tax exemption but with instant redemption feature could be issued (or preferably authorized on tap) bearing, say, 5 per cent coupon, but with conversion option back into the units of the NIC.[9] In any event, the holders of the units should be assured that while the return on these units may be highly variable, the par value will be inviolate in money terms.

The rate of return will depend on the performance of the portfolio which NIC will acquire, but it need not be confined to dividends. For instance, one of the policy principles which NIC could adopt would be to sell, by public subscription, the stock of a company which NIC has nursed from infancy and which has grown sufficiently to stand on its own. The NIC need sell but a part of its initial participation in order to realize distributable capital gains.

The proceeds from the sale of units to the public will be used to acquire additional assets for the NIC portfolio. The approach here will be a twofold one. On the one hand NIC will add to its holdings the stock

---

[9]See p. VI-67 and p. IX-14.

of existing and operating enterprises including, hopefully, stock in such publicly held undertakings as the Government may be persuaded to transfer to the private sector. On the other hand, it will provide venture equity capital to new enterprises, either by setting up such enterprises or by facilitating conversion of existing businesses into public limited companies.

The acquisition of additional shares of existing companies could and should be facilitated by legislation requiring that certain types of corporations sell a stated proportion of their authorized capital to the NIC, at NIC's option. For example, it should be a relatively simple matter to require all the "promoted companies", as a condition of granting the promotion certificate, to offer to the NIC, say 5 percent of their capital stock.[10] The same principle could apply to other corporations which rely for their corporate existence and their charter on a grant from the government, as, for example, insurance companies, corporations with headquarters abroad, and so on. In addition to insuring a flow of operating assets to NIC's portfolio, such legislation will have the added advantage of providing auxiliary financial facilities to corporate undertakings with little loss of control.[11]

---

[10] "Promoted companies" are those which receive special tax and other benefits upon approval by the Board of Investment. They account for over half of total private investment in Thailand..." information strongly suggests two kinds of industry as preferred for promotion: heavy industry involving large overseas investment in fixed capital [and] finishing or branded products seeking access to the Thai market" (Silcock, ed.) Thailand, Social and Economic Studies in Development, (Canberra: Australian National University Press in association with Duke University Press, Durham, N.C. 1967).

[11] The provident funds which, in Thailand, are more significant than was expected could become important suppliers of funds to the NIC. See Chapter VIII.

Much more complex and difficult will be the task of setting up new enterprises and converting the existing ones into corporate entities issuing equity shares. It is in this connection that an active participation of commercial banks and other financial institutions will prove necessary. It is not sufficient merely to apprise prospective entrepreneurs of existing opportunities. It is essential to actively seek out the person or persons both willing and able to exploit these opportunities and to convince such persons of the advantages of the corporate form of enterprise, financed by equity capital. The bankers occupy a strategic position in this kind of endeavor. They are familiar with the talents and availabilities of many potential managers and entrepreneurs. They come into daily contact with those whose activities can conceivably be converted into manufacturing ones. For example, a person whose application for a line of rediscounting under manufacturers credit, sales, or raw materials has been turned down on the grounds that his activity does not sufficiently change the physical character of the imported components, would appear to be a good prospect for genuine manufacturing activity.[12]

Even though the role of bankers will be a crucial one in generating new or enlarged manufacturing activity, others will also have to play a part. These will include officials of the Board of Investment, the Bank of Thailand, various Government Ministries, those of IFCT, and possibly private consultants, particularly in conjunction with preparation of pre-feasibility studies, market surveys, and other ingredients requisite to a

---

[12]See Chapter VI.

successful campaign to enlarge the sphere of corporate activity and the size of the manufacturing sector.

While adequate financing on an equity basis is an important element in the formation of a viable manufacturing base in Thailand, it is often not the decisive one. Thus, customs, taxes, or personnel shortages may be much more inhibiting than lack of equity funds. The NIC can be only marginally helpful in removing these constraints. But, however important these other obstacles may be, there is little doubt that the lure of adequate funds, obtained on particiation basis, without loss of management control and without immediate and heavy contractual burden, is a powerful one.

Viewed objectively and broadly, there is no reason why Thai manufacturing should not progress rapidly and why it should not gradually make itself less dependent on foreign skills, capital and raw materials. Thailand is a stable country, blessed with an abundance of natural resources, with a population which is free of inhibiting prejudices. Much of Thailand's comparative advantage seems to lie in the production of canned foodstuffs for which there appears to be a growing market in a world crying out for more food production. It is in the processing, packaging and canning of sea food and fruit that there seems to be ample scope for growth of native manufacturing enterprise.[13]

Whether or not NIC will be able to capitalize on these opportunities will depend on the resources, human and capital, that the founding financial

---

[13]See Chapter I.

institutions will be willing to put into the consortium. Much of the initial staff, as well as the initial portfolio, will have to be provided by the commercial banks. The question arises whether these banks will be willing to do so, rather than, say, set up mutual funds individually and separately. After all, to induce the commercial banks to participate in NIC they must be convinced that such participation will be profitable to them as well as, ultimately, to the nation. But if, indeed, the banks become convinced that such activity is profitable they may prefer to embark on it individually rather than risk collaboration with other institutions, some of which are not in a position to add much to the success of NIC but complicating greatly the problem of effective control and efficient management.

It would be very unfortunate if, in a spirit of misguided competition, some of the larger banks were to opt out of the NIC and organize their own funds instead.[14] Such mutual funds could perhaps succeed in selling units to the public but would fail to provide much additional capital to manufacturing. Even in their selling efforts they would tend to confuse the public and it would be enough if one of such funds went sour to cause the development of a sound capital market in Thailand to be retarded by many years. Inasmuch as the privately operated

---

[14] Such a tendency seems to be implied in some of the alternate proposals submitted to the Subcommittee on Financial Institutions in 1967.

funds would have to rely on the listed securities they would bid up the prices of these securities (in an already narrow market) far and above their underlying values. Finally, in a country which, as yet, has scarce managerial, executive, and technical resources, the proliferation of mutual funds would be very wasteful indeed.[15]

On the other hand, NIC would avoid duplication of effort and would present itself to the public as a truly national institution backed by the monetary authorities and with a voice in the decision process affecting manufacturing in areas other than finance. By pledging a fraction of their capital stock to the initial portfolio, the founding institutions will reduce the pressure on the prices of existing securities. This pressure will be further relieved to the extent NIC is successful in sponsoring and developing new and enlarged enterprises.

As suggested earlier, the new enterprises sponsored and promoted by NIC should leave operating control in the hands of the entrepreneurs. Some device, however, will have to be found whereby NIC may liquidate its holdings in the event an enterprise goes sour. It should be noted

---

[15] The experience of TIF (see Chapter VIII) suggests that without substantial government support and propaganda, without redemption features and other supporting legislation, the market for units of a private mutual fund will be a limited one. On the other hand, the experience of the Government Savings Bank with its lottery bonds shows that claims with a low contractual return but high potential pay-off are very attractive.

however, that the likelihood of many of the sponsored enterprises going broke need not be inderdicting. Even if only one out of 10 sponsored undertakings proves a success, it is still quite possible that the continuing profits of the lone successful corporation will more than compensate for the loss of the initial capital of the nine failures. There is no upper limit on profits but the maximum loss is limited to the original capital participation. Even so, utmost care and judgment will have to be exercised so as to hold the number of failures to a minimum.

For reasons touched upon earlier, it would appear essential that NIC be run entirely as a creature of the private sector. Its staff, its capital, its modus operandi should all be determined by the founders, the participating financial institutions. Yet, as suggested above, the support of the authorities would seem to be essential with respect to such things as the redemption guarantee, the legislation ceding stock of certain corporations to NIC, and the cooperation on a host of other matters including custom duties, tax laws, and so on. It will be necessary, in return, to insure that the Government has at least a veto power over major decisions of the NIC. NIC should be free to run its affairs as it sees fit but the Government should have the right to suspend its operation and, in extreme cases, to withdraw its charter or license.[16]

---

[16] Nothing said in the text attempts to prejudge whether NIC should be set up as an entirely separate institution or as an adjunct to the IFCT. There are many arguments in favor of either course of action. Should it prove advantageous to form NIC as a department of the IFCT, for example, such a decision would be perfectly consistent with the principles expounded here. See Chapter VIII.

Financial Structure and Economic Growth

The suggestions for modifying and reforming the Thai financial structure have ranged from the detailed and elaborate to those merely implied. They include some rather pedestrian and practical suggestions as well as some which may be considered rather visionary. Some of these suggestions appear to be quite feasible of prompt implementation, others may wait for a long time, if not forever, before they see the light of day.

The enactment of any specific suggestion depends on many considerations of which an outside observer is only dimly aware. It would therefore be superfluous to indicate which of the several proposals is the most "important" or the least "costly" or the most "productive." Some of the specific suggestions for the improvement of the financial markets would be of little avail in the absence of other reforms in other spheres. Others would take a long time to bear fruit, yet others may be simple in principle but in practice strenuously opposed.

All that can be said at this juncture is that those proposals which have been presented with a good deal of detail are those which are both promising in terms of results and least likely to engender much opposition. But even such proposals as those for NIC or for agricultural credit are, in spite of their somewhat elaborate presentation, meant to be illustrative rather than definitive. They are capable of adaptation and modification in light of the requirements and realities of the situation.

But if the suggestions made are meant to be tentative, and if they are not presented in the context of a rigorous cost-benefit analysis, what is their significance for development planning? In part, the answer to this question was given in Chapter I. It was argued there that the very success of the Thai economy to date, together with the uncertainty regarding the optimal growth path of the economy in the future, calls for a strategy of piecemeal social engineering applied to the reform of its financial markets. In addition, however, there are reasons to believe that even a moderate degree of improvement in financial institutions in Thailand may play a significant role in helping that country to cross its third "threshold."

In developing their criteria for evaluating economic development potential, Adelman and Morris have concluded that Thailand's highest probability is in becoming a member of an "intermediate group" rather than a "high potential group," even though the Kingdom was initially assigned a place in the "high prospect group."[17]

The preliminary classification of 73 underdeveloped non-communist countries was made on the basis of past performance. The top group, which included Thailand, was composed of 16 countries showing, between 1950-1 and 1963-4, an average rate of growth of per capita GNP of at least 2 per cent

---

[17] Irma Adelman and Cynthia Taft Morris, "Performance Criteria for Evaluating Economic Development Potential: An Operational Approach," Quarterly Journal of Economics, (May 1968), p. 275. Thailand's probability of membership in the high potential group was found to be .21, in the intermediate group .73, and in the "low potential" group .05.

and which, in addition, ranked fairly high with respect to five of seven key indicators.[18]

Following the preliminary classification, the 73 countries were subjected to a discriminant analysis where the inputs included 22 indicators in addition to the initial seven. It was as a result of this extended analysis that Thailand was given a lower growth "prognosis."

As was indicated in Chapter I, a single discriminant function accounted for 97 per cent of the discriminable variance between the three groups, to wit:

$D_1 = .71F + 26K + .52M + .37L$, where F stands for degree of improvement in financial institutions, K for degree of improvement in physical overhead capital, M for the degree of modernization of outlook, and L for the extent of leadership commitment to economic development.[19]

Without going into detail of statistical analysis, the implication of the "downgrading" of Thailand development potential is that its ranking with respect to one or more of the four key variables has been low enough

---

[18] The seven indicators were:

1. Change in degree of industrialization since 1950;

2-6. Improvement since 1950 in agricultural productivity, physical overhead capital, effectiveness of financial institutions, the tax system, the rate of investment; and,

7. Rate of additions to the stock of human resources (Ibid. p. 261)

[19] This function was given in a slightly different (normalized) form in Chapter I so as to bring out the relative importance of the four variables, i.e., $D_1 = 127F + 65K + 108M + 72L$.

to affect its overall standing, or, more precisely, the probability of its remaining in the "high potential group."

As a matter of fact, with respect to the four variables which composed the D_1 function, Thailand was classified as follows:

K	-	A-
F	-	A-
L	-	B
M	-	C

With A+ being the largest possible classification and C- the lowest. The variables K and F have been based on economic indicators, both statistical and judgmental, while variables L and M derive from political and social indicators.[20]

---

[20] A description of the 41 indicators which include the 29 indicators referred to previously is given in Irma Adelman and Cynthia Morris, Society Politics and Economic Development (Baltimore: Johns Hopkins Press, 1967). This description was supplemented by information obtained from personal communications with the authors. A rating of B with respect to "extent of leadership committment to economic development" was given to countries in which some government leaders evidenced a definite commitment to economic development (during the period 1957-62) as indicated by the practice of some form of national development planning. However, it was typical of the countries in this category that the activity of the agencies involved in central guidance of the economy were poorly coordinated and that government attempts to alter institutional arrangements unfavorable to economic growth were infrequent or poorly sustained" (Ibid., p. 80). With respect to "degree of modification of outlook," a rating of C was given to "countries in which the outlook of the educated urban sector was partially but not significantly modernized and on which programs of modernization, if they existed, and gained relatively little support among either the urban or the rural population" (Ibid., p. 56). With respect to K-- "degree of improvement in

At first blush it would seem that the surest way to improve the prognosis of Thailand with respect to its development potential would be to improve its ranking in the L, and especially K, indicators. This may indeed be true. But there are several considerations which point to F as the variable, the upgrading of which may even be more rewarding.

In the first place, the importance of F in the discriminant function D_1 is significantly greater than M or L. This means that a slight improvement in F may have the same effect on the overall probabilities as would a more substantial improvement in M or L. In the second place, and perhaps more importantly, a slight amelioration in the rating of F (from A- to A+) appears to be easier to effect then a more substantial improvement in M and or L, both of which depend on political and social attitudes and change rather slowly over time. Finally, some of the suggestion for improving the structure of the Thai financial markets (F) given on the

---

[20] (continued)
physical overhead capital"--countries classified A- are countries that have shown either an average annual rate of increase of 10 per cent or more in miles of paved roads or an average annual rate of increase of more than 7 per cent in miles of paved roads, plus an average annual rate of increase of net ton - kilometers carried by rail of more than 7 per cent. (Ibid, p. 112).

The final category, "countries that have demonstrated a marked improvement in the effectiveness of their financial institutions as indicated...by either an increase of more than five percentage points in the ratio of time and demand deposits to GNP or more than a five-fold increase in the real value of private domestic liabilities to the banking system" (Ibid, p. 122). Thailand, received a ranking of A- in this category, but a lower ranking B, with respect to "level of effectiveness of financial institutions."

For an up-to-date reconstruction of the elements of both level and "degree of improvement" of F on a comparative basis, see Table IX-1, and note the position of Japan and Taiwan vis-a-vis Thailand.

Table IX-1

Level and Improvement of Effectiveness of Financial Institutions, Selected Indices, Selected Countries, 1960 and 1966*

Country	Level of Effectiveness				Improvement of Effectiveness	
	GFCF / GDP		M+QM / GDP		D.D. + T.D. / GDP	1966 RCPS / 1960 RCPS
	(percent)		(percent)		(1966-1960)	
	1960	1966	1960	1966	(Percent)	(Percent)
Ceylon	15.0	13.7	29.4	33.6	2	1.45
Japan	31.2	31.4	87.7	83.9	30.6	2.50
Korea	11.2	20.2	11.6	15.4	5.7	1.98
Malaysia	12.3	17.3	33.7	35.1	8.1	2.55
Philippines	9.9	18.5	21.7	26.0	5.2	2.11
Taiwan	20.1	22.3	17.3	33.1	16.8	4.12
Thailand	14.9	22.2	22.7	30.8	8.9	2.25
Vietnam*	7.9	8.6	21.8	36.0	10.5	2.96

Legend:

GFCF - Gross Fixed Capital Formation
GDP - Gross Domestic Product
M - Money
QM - Quasi-money
DD - Demand deposit
TD - Time deposit
RCPS - Claims on the Private Sector Deflated by Cost of Living Index

*For Vietnam, figures are for 1965, rather than for 1966.

Source: Calculated from data in International Monetary Fund, International Financial Statistics (Washington: Statistics Division, IMF: June 1967, March 1968), and Supplement to 1967-68, International Financial Statistics.

preceding pages are certain to improve L and eventually to affect even M in the upward direction.[21]

The sense of the preceding argument is that to the extent that some of the suggested modification of the Thai financial markets are put into practice, particularly those that improve the performance of the financial institutions in the provision of finance to agriculture and industry,[22] the likelihood of the Kingdom maintaining its high rate of growth will be enhanced.

In terms of the conceptual framework developed in Chapter I, without a reform of its financial structure Thailand runs the danger of slowing down in its growth rate in the years to come. By reforming its financial markets along the lines indicated, it improves considerably its chances of crossing the last threshold to self-sustained growth.

---

[21] Some of the arguments for allocating F rather than M or L apply equally well to K, except that F is relatively more of a determinant than K.

[22] Provision of medium- and long-term capital to agriculture and industry was deemed by Adelman and Morris to be an important judgmental indicator of the level of performance of financial institutions in the 73 countries studied.

APPENDIX

URBAN CREDIT SURVEY QUESTIONNAIRES

This appendix contains a first draft of the questionnaire as originally written in English, Exhibit I, and an English translation of the questionnaire which developed several weeks later, Exhibit II, This second questionnaire is the one which was used by interviewers during the field phase of the Urban Credit Survey (October-December, 1966).

EXHIBIT I

First Draft of Questionnaire - Urban Credit Survey

(NOTE : introduction and explanation of survey)

1. Now, could you tell me what kind of business you are in? Exactly what kind of work does your business do from which it earns income?

   (PROBE for a full description of type of business from which main income is derived. DO NOT accept answers such as "commerce", "trading", "business", "selling", but find out what kind of products or services are traded, and whether direct to the consumer, or to a middle man.)

2. Is this business a partnership, a limited corporation, or what?

   Individually owned proprietorship
   limited partnership
   full partnership: Number of partners _____
   closed corporation
   public corporation
   other (specify) _____

3. When was the business started?

   Less than 3 months ago
   3 months to one year ago
   1 to 5 years ago
   More than 5 years ago

4. Where did you get the money to set up the first capital for starting the business, from your personal money, from family money, from friends, or what? (Check all that apply)

   personal (Ask Q3)
   banks (Ask Q12 - Q24)
   huey. (Ask Q25 - Q30)
   family and friends (Q6 - Q11)
   private loan (Ask Q12 - Q24)
   other (Specify) _____ (Ask Q12 - Q24)

IF Q4. "Used Personal Funds"

5. Did these funds come from cash savings, property mortgages, or something else?

savings
land mortgages
mortgages of other property (Specify) _____
other source (Specify) _____

IF Q4. "Funds from family and friends"

6. On what terms did your family and friends provide this money?

lent at interest (Specify) rate: _____% per _____
lent interest-free
gave for a share of profit (What terms?) _____
_____
other (Specify) _____
_____

7. Did you have to put up any property or assets to secure this loan?

Yes (Ask Q8)
No (Go on to Q9)

IF "YES" Q7

8. What collateral did you provide? (Probe for details)

_____

9. Was there a fixed date for repayment of these funds?

Yes (Ask Q10)
No (Skip to Q11)

IF "YES" Q9

10. Was there any option to extend this date?

Yes
No

11. Did you have to sign any papers for this money?

yes
No

IF Q4. "Obtained funds from Bank(s)" or "Other Sources"

---

12. Did you contact the (bank) (_____) name and other Sources) directly, or some other way?

contacted directly in person
contacted compradore
someone else was intermediary (Ask Q13)
something else (Specify) _____

If "Other-Intermediary"

13. How did you happen to know this person?

_____

14. What form of loan did you get?

direct interest-bearing loan
overdraft
discount
advance (What's the difference between this and o/d? FLA)
other (Specify) _____

15. How long was the loan period?

less than 3 months
3 to 6 months
7 to 12 months
more than one year

16. Could you tell me what the interest rate was on this loan?

_____ % per _____

17 Was this all to the (bank), (_____(name of other Sources) or some to the compradore or someone else?

all to the bank (Skip to Q19)
some to the compradore and/or other (Ask Q18)

If "Compradore or other" Q17

18. How much interest did you have to pay to them?

compradore _____% per _____
others (Specify _____). _____% per _____

19. Did you receive the full face value of the loan, or was some or all of the interest deducted when you received it?

full face value
interest deducted

Ask only of those who had bank loans

20. Did you have to maintain a specified balance in the bank?

Yes
No
Don't remember/don't know

21. Did you have to offer a share of profits?

Yes
No

22. Did you agree to make any contingent payments (Note: I think this may need some explanation by example. FLA)?

Yes (Ask Q23)
No (Skip to Q24)

IF "YES" Q22

23. What kind of payments were required?

_____

24. What collateral did the (bank) (_____) name of other Sources) require?

title deed
registered mortgage deed
sale deed with right to repurchase
government bonds
other (Specify)_____

IF Q4 "Funds from huey"

---

25. About what proportion of the total required capital came from the huey?

26. Were you already a member of the huey, or did you join in order to get capital for this business?

already a member
joined for this business capital

27. For how many months did the huey run?

28. How much did you have to pay per month into the huey?

29. How was the rotation on huey, lottery, bidding, fixed rotation, or something else?

lottery
bidding
rotation
other (Specify) _____

30. Can you figure how much the capital obtained from the huey cost you?

---

31. Up to now, we have been talking about money you obtained to <u>start</u> your business. Now I would like to ask you about funds used in current operations. During the last two years have you got extra funds from any source(s) other than income to use to carry on your business?

Yes (Ask Q32)
No (Skip to Q33)

<u>IF "YES" Q31</u>

32. What source(s) did you get money from (Check all that apply)?

personal funds (Ask Q33)
family and friends (Ask Q34 - Q39)
banks (Ask Q40 - Q52)
Huey (Ask Q53 - Q58)
private loan (Ask Q40 - Q52)
Other (Specify)_____(Ask Q40 - Q52)

<u>Note: Qs32 - 58 are identical with Qs5 - 30</u>

59. Could you look at this card (Show card "A") and tell me which of these lines best describes the amount of money you borrowed over the last two years for business use -- not counting the money you needed to <u>start</u> business, of course -- ?

1. Less than Bt. 5,000
2. More than Bt. 5,000 but less than Bt. 50,000
3. More than Bt. 50,000 but less than Bt. 500,000
4. More than Bt. 500,000 but less than Bt. 1 million
5. More than Bt. 1 million

60. Right now, does your business owe money to any person or organization?

Yes (Ask Q61 - Q69)
No (Skip to Q70)

IF "YES" Q60

61. To whom do you owe this money, your family and friends, bank(s), or someone else?

% (Q62)

_____family and friends
_____banks
_____other (Specify)_____

62. About what per cent of all the money you owe, is owed to each of these kinds of lenders? (Enter per cent in Q61 above)

63. Are you up to date right now in all your payments on interest and principal?

Yes (Skip to Q67)
No (Ask Q64)

IF "NO" Q63

64. Which of the lenders do you owe back payments to?

65. Is that interest or principal? (Ask for each source of arrears)

Interest only
Principal only
Both interest and principal

66. Would you point out on this card (Show card B") about which line would best show the total amount you are now behind in payments -- (Both interest and principal combined, if applicable)

1. Less than Bt. 1,000
2. More than Bt. 1,000 but less than Bt. 5,000
3. More than Bt. 5,000 but less than Bt. 50,000
4. More than Bt. 50,000 but less than Bt. 500,000
5. More than Bt. 500,000

67. Altogether, could you say about how much debt you have now? Just show me on this card (Show card "A")

68. Now this money you borrowed during the last two years, could you tell me for what purposes you used the money? (Probe for purposes such as: working capital, purchase of stock, purchase of machinery or equipment, repairs and maintenance, payroll, taxes, other debt payments, etc.)

_____

69. About what per cent of the borrowed money was used for each of these purposes (Listed above in Q68)?

70. Do you plan to borrow money for your business within the next year?

Yes (Ask Q71 - Q76)
No (Skip to Q77)

IF "YES" Q70

71. Do you have any plans about where you will borrow it?

family and friends
banks
huey
private loan
other (Specify)_____
Have no idea yet

72. What do you expect will be the interest rate for these funds?

73. Will you have to offer collateral?

Yes (Ask Q74)
No (Skip to Q75)

IF "YES" Q73

74. What kind of collateral will this be?

title deed
registered mortgage deed
sale deed with right to repurchase
government bonds
other (Specify)_____

75. For what use(s) do you think you will borrow this money?

working capital
purchase of machinery or equipment
repairs and maintenance
new construction
purchase of stock
payroll
taxes or duties
debt repayments
other (Specify)_____

76. About how much do you think you will probably borrow? Please point to the line on this card which best shows the amount you think you might borrow (Show card 'A')

77. Did you ever borrow money from any of these sources? (Show Card "C")

commercial bank
friend or family
compradore
moneylender
IFCT
Thai government
stock market
huey
others not shown above (Specify)_____

78. Did you ever try to borrow money from any of these, and could not get it?

Yes (Ask Q79)
No (Skip to Q80)

IF "YES" Q78

79. Why do you think you weren't able to get it? (Pre-code from pretest responses)

80. Why is it in your opinion that most businessmen don't borrow more of their required funds from commercial banks? In other words, how could the commercial banks give better lending service to businessmen? (Probe for full response)

Are there any other reasons

81. Now what about the lenders in the "market"; what's wrong with borrowing from them?

82. Have you ever heard about business loans from the IFCT?

Yes (Ask Q83)
No (Skip to Q84)

IF "YES" TO Q82

83. What do people say about how the service of IFCT is for business borrowers? What kinds of things do they say that IFCT does which could make it better to borrow from them?

84. How about the government departments which deal in loaning money? In what ways are there difficulties in borrowing money from them?

85. What would you say is bad for you about getting your funds from issuing stockshares or debentures?

86. Some people say that although there is lots of money in Thailand, it is hard to get money for investment. Why do think this might be true?

Could you tell me a little more about that?

Any other comments?

87. How do you think this situation could be best improved? Who should take the most responsibility? What can private business do? (Probe for improving activities by the Bank of Thailand, the Ministry of Finance, government agencies, stock market, if these are not mentioned voluntarily)

88. Now just a few last questions so that we can know how to combine your answers to these questions with those of other businessmen of about the same size. First, could you tell me, if your business could be sold on the open market today, what price would it be worth? Please choose your answer from this card (Show card "D").

1. Less than Bt. 100,000
2. Bt. 100,000 to Bt. 1 million
3. More than 1 million but less than 10 million
4. More than Bt. 10 million but less than Bt. 100 million
5. More than Bt. 100 million

89. Is your business wholly-owned by Thai partners or shareholders, partly foreign owned, or entirely owned by people or corporations who are not Thai?

Thai owned
Partly foreign-owned
Entirely foreign-owned

90. Could you tell me, for your current operations, about what per cent of your annual turnover is money borrowed from outside?

91. And then, could you tell me about what is the relationship in per cent between your annual expenditure and your capital investment?

92. Now the last question: On this card, where would you put your best estimate of the present annual turnover of your business? (Show card "E")

1. less than Bt. 50,000
2. more than Bt. 50,000 but less than Bt. 250,000
3. more than Bt. 250,000 but less than Bt. 1 million
4. more than Bt. 1 million but less than Bt. 10 million
5. more than Bt. 10 million

EXHIBIT II

"Final" Questionnaire (English Translation)

A PILOT SAMPLING SURVEY ON URBAN CREDIT FOR BANGKOK-THONBURI 1966

UNDERTAKEN JOINTLY BY
THE BANK OF THAILAND
AND
THE FACULTY OF ECONOMICS, THAMMASAT UNIVERSITY

The respondents of this Questionnaire are those who are owners, directors or managers of business firms. The results of this survey will be strictly confidential and are intended for educational and research purposes. It is in no way connected with tax-collection or any government department. Your kind cooperation will be much appreciated.

SECT. 1 Location and General Characteristics of the Business Firm

Item 1 Location	Name of Business Firm: _____ House No. _____ Road _____ Tambol _____ Amphur _____ [ ][ ] Changvad _____ [ ][ ] Block No. _____ [ ][ ][ ] Tel. No. _____
Item 2 Type of Firm	Put a check mark (✓) in only one [ ] 1. [ ] Big Industry 2. [ ] Medium Industry 3. [ ] Small Industry 4. [ ] Wholesaler 5. [ ] Big retail and Service Firm 6. [ ] Small Retail and Service Firm 7. [ ] Luxury Service Firm

Item 3 Type of Business	Please specify the type of business; e.g., selling hides, sundries, canning, or printing press. If the establishment is engaged in several kinds of business, specify the one from which the highest income is derived.
Item 4 Length of Time in this Business	Put a check mark (✓) in only one ☐ 1. ☐ Less than 1 year 2. ☐ 1 - 5 years 3. ☐ Over 5 years
Item 5 Form of Ownership	Put a check mark (✓) in only one ☐ 1. ☐ One Owner/or Family 2. ☐ Ordinary Partnership 3. ☐ Limited Partnership 4. ☐ Limited Company 5. ☐ Branch of a Foreign Company 6. ☐ Others (Specify)

THE STARTING OF BUSINESS

(For firms which have been in operation since 1961)

SECT. 2 Sources of Funds and Related Information

Item 6 Sources of Funds	Put a check mark (✓) in only one ☐ and state the amount 1. ☐ Entrepreneur's Own Capital..... Baht ☐ 2. ☐ Loan from Family and/or Friend(s).... Baht ☐ 3. ☐ Domestic Commercial Bank Credit..... Baht ☐ 4. ☐ "Share" or "Pia Huey" (Revolving Credit Group)..... Baht ☐ 5. ☐ Non-Commercial Bank Sources..... Baht ☐ 6. ☐ From Other Sources (Specify)..... Baht ☐

Item 6 A. Trade Credit	At the time of starting the business, your firm received trade credit on 1. ☐ Goods ..... Baht ☐ 2. ☐ Machinery, Factory and equipment on installment payment ..... Baht ☐
Item 7 Entrepreneur's Own Capital	If check ✓ in 6.1, please state the source of the capital 1. ☐ Savings 3. ☐ Sales of Chattels 2. ☐ Sales of Realty 4. ☐ Others (Specify)
Item 8 Loan from Family and/ or Friend(s)	If check ✓ in 6.2, please state 1. Interest Rate _____% per _____ ☐ 2. Rate of "purse-string" Fee % of Total Loan____ ☐ 3. Security 1. ☐ Yes 2. ☐ No 4. Type of Security 1. ☐ Pledge 2. ☐ Mortgage 3. ☐ Sale of Immovable Property with Right of Redemption 4. ☐ Guarantee 5. ☐ Others (Explain) 5. Period of Repayment 1. ☐ Less than 3 months 2. ☐ 3 - 6 months 3. ☐ 7 - 12 months 4. ☐ Over 1 year 5. ☐ No limit 6. Right to Extension of Contract 1. ☐ Yes 2. ☐ No

Item 9 Domestic Commercial Bank Credit	If check ✓ in 6.3, please state 1. Contract 1 ☐ Through Bank Officer 2 ☐ Through Compradore 3 ☐ Through Other Middleman 4 ☐ Others (Specify)_____ 2. Types of Credit 1 ☐ Loan 2 ☐ Overdrafts 3 ☐ Others (Specify)_____ 3. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit 4. Interest Rate_____% per _____☐ 5. Deducted as Discounts or "Purse-String" Fee 1 ☐ Bank_____% of Total Loan 2 ☐ Compradore _____% of Total Loan 3 ☐ Other Middleman _____% of Total Loan 6. Obligation in case of Short Notice Repayment 1 ☐ Yes 2 ☐ No 7. Type of Security 1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable property with Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)_____

Item 10 "Share" or "Pia Huey" (Revolving Credit Group)	If check ✓ in 6.4, please state 1. Type of Group 1 ☐ Set-up to Raise Fund for this purpose only 2 ☐ Already Participated in the Group 3 ☐ No. of Participants 4 ☐ Contribution per Each Participant.....Baht 2. Frequency of "Pia Huey" 1 ☐ Weekly 2 ☐ Monthly 3 ☐ Others (Specify)_____ 3. System of "Pia Huey" 1 ☐ By Tender 2 ☐ By Drawing-Lot 3 ☐ By Rotation 4 ☐ Others (Specify)_____ 4. Your "Pia Huey" 1 ☐ You Won in Your (1st, 2nd, etc.) _____Round ("Pia") 2 ☐ Amount Obtained _____Baht (Including your own contribution) 3 ☐ Interest Received _____Baht 4 ☐ Interest Paid _____Baht
Item 11 Funds from Sources other than those specified in Item 6.1 to Item 6.4	If check ✓ in 6.5, please state 1. Sources of Funds 1.1 ☐ Private Individuals (1) ☐ Persons connected with commercial banks (2) ☐ Money-Lenders 1.2 ☐ Non-Bank Financial Institution (1) ☐ Life Insurance Companies (2) ☐ Industrial Finance Corporation of Thailand (3) ☐ Others (Specify)_____

Item 11 (Continued)	2. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No Limit 3. Interest Rate _____% per _____☐ 4. Rate of "Purse-String" Fee _____% of Total Loan _____☐ 5. Obligation in case of Short-Notice Repayment ☐ Yes ☐ No 6. Type of Security 1 ☐ Deposit of Title Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable property with Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)_____
Item 12 Other Sources of Funds	If check ✓ in 6.3, please specify 1. Source of Funds 1 ☐ Government Enterprises 2 ☐ Issue of Debentures 3 ☐ Abroad 4 ☐ Others (Specify)_____ 2. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit

Item 12 (Continued)	3. Interest Rate_____% per _____ ☐ 4. Rate of "Purse-String" Fee _____% of Total Loan ☐ 5. Obligation in case of Short Notice Repayment 1 ☐ Yes 2 ☐ No 6. Type of Security 1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable property with Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)_____

BUSINESS OPERATIONS IN THE PAST YEAR

(For firms which have been in operation since January 1, 1965)

SECT. 3 Position of the Business

Item 13 Gross Receipts	Gross Receipts from Business Operations for the Whole period of Last Year _____Baht ☐ (For Firms Which Operate Under 1 Year, please give an annual estimate of the Gross Receipts)

Item 14 Capital Assets and Liabilities	1. At Present, the Total Amount of Assets of the firm is estimated at _____ Baht ☐ 2. Please fill in the table below either in absolute amounts or in percentages.

1. Capital and Liabilities

		Baht	%	
1 ☐	Net Worth	____	____	☐
2 ☐	Loans	____	____	☐
3 ☐	Trade Credit	____	____	☐
4 ☐	Other Liabilities	____	____	☐
5 ☐	Total	____	100	

2. Assets

		Baht	%	
6 ☐	Cash	____	____	☐
7 ☐	Trade Credit	____	____	☐
8 ☐	Stock in Trade	____	____	☐
9 ☐	Permanent Assets	____	____	☐
10 ☐	Others	____	____	☐
11 ☐	Total	____	100	

Item 15 Market Valuation and Debts	1. What would be the estimated price of the business excluding cash in hand, if it were put on sale at going market prices _____ Baht ☐ 2. Please give the total debts of the firm _____ _____ Baht ☐

SECT. 4 Increase of Capital and Borrowings

Item 16 Increase of Capital	In the past year your firm obtained additional capital from: 1. ☐ Original Entrepreneurs..... Baht ☐ 2. ☐ New Entrepreneurs ..... Baht ☐ Purposes 1 ☐ Ordinary Operation 2 ☐ Business Expansion For 1 ☐ Working Capital 2 ☐ Purchasing Goods 3 ☐ Purchasing Machinery and Equipment 4 ☐ Repairs and Maintenance 5 ☐ Construction 6 ☐ Others (Specify)_____
Item 17 Borrowings	In the past year Your Firm Borrowed Money From 1. ☐ Entrepreneurs..... Baht ☐ 2. ☐ Family and Friends..... Baht ☐ 3. ☐ Domestic Commercial Banks ..... Baht ☐ 4. ☐ Share' or "Pia Huey" (Revolving Credit Group)..... Baht ☐ 5. ☐ Non-Commercial Bank Service..... Baht ☐ 6. ☐ Others (Specify)..... Baht ☐ Purposes 1 ☐ Ordinary Operation 2 ☐ Business Expansion For 1 ☐ Working Capital 2 ☐ Purchasing 3 ☐ Purchasing Machinery and Equipment 4 ☐ Repairs and Maintenance 5 ☐ Construction 6 ☐ Others (Specify)_____

Item 18 Loan Requirement of the Business	Was the Loan Obtained as Mentioned in Item 17 Enough to meet the requirement of the Business? 1 ☐ Yes 2 ☐ No
Item 19 Level of Loan Requirement	If check ✓ in 18.2, please state 1. The Amount Loan obtained is _____% of the Loan Requirement _____Baht ☐ 2. The Level of Requirement is Approximately_____Baht ☐
Item 20 Loan from Family and/ or Friends	If check ✓ in 17.2, please state 1. Interest Rate _____% per _____ ☐ 2. Rate of "Purse String" Fee % of Loan _____ ☐ 3. Security 1 ☐ Yes 2 ☐ No 4. Type of Security 1 ☐ Pledge 2 ☐ Mortgage 3 ☐ Sale of Immovable property with Right of Redemption 4 ☐ Guarantee 5 ☐ Others (Explain) 5. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit 6. Right to Extension of Contract 1 ☐ Yes 2 ☐ No

Item 21 Credit from Domestic Commercial Banks	If check ✓ in 17.3, please state 1. Contact 1 ☐ Directly with the Bank 2 ☐ Through Compradore 3 ☐ Through Other Middleman 4 ☐ Others (Specify) 2. Types of Credit 1 ☐ Loan 2 ☐ Advances 3 ☐ Discounts 4 ☐ Overdrafts 5 ☐ Others (Specify) 3. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit 4. Interest Rate _____% per _____ ☐ 5. Deducted as Discounts or "Purse-String" Fee 1 ☐ Bank_____% of Total Loan 2 ☐ Compradore_____% of Total Loan 3 ☐ Other Middleman _____% of Total Loan 6. Obligation in Case of Short Notice Repayment 1 ☐ Yes 2 ☐ No 7. Type of Security 1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable Property with Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)

Item 22 "Chare or Pia Huey" (Revolving Credit Group)	If check ✓ in 17.4, please state 1. Type of Group 1 ☐ Set-up to raise fund for this purpose only 2 ☐ Already participated in the Group 3 ☐ No. of Participants 4 ☐ Contribution per each Participant _____Baht 2. Frequency of "Pia Huey" 1 ☐ Weekly 2 ☐ Monthly 3 ☐ Others (Specify)_____ 3. Your "Pia Huey" 1 ☐ You won in your (1st, 2nd, etc.) _____Round ("Pia") 2 ☐ Amount obtained _____Baht (Including your own contribution) 3 ☐ Interest received _____Baht 4 ☐ Interest paid_____Baht 4. System 1 ☐ By Tender 2 ☐ By Drawing Lot 3 ☐ By Rotation 4 ☐ Others (Specify)_____
Item 23 Funds from Sources other than those specified in Item 17.1 to Item 17.4	If check ✓ in 17.5, please state 1. Sources of Funds 1.1 ☐ Private Individuals (1) ☐ Persons connected with Commercial Banks (2) ☐ Money-Lenders 1.2 ☐ Non-Bank Financial Institutions (1) ☐ Life Insurance Companies (2) ☐ Industrial Finance Corporation of Thailand (3) ☐ Other Financial Institutions (Specify)_____

Item 23 (Continued)	2. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit 3. Interest Rate _____% per _____ ☐ 4. Rate of "Purse-String" Fee_____% of Total Loan ☐ 5. Obligation in Case of Short-Notice Repayment 1 ☐ Yes 2 ☐ No 6. Type of Security 1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable property with Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)_____
Item 24 Other Sources of Funds	If check ✓ in 15.6, please specify 1. Source of Funds 1 ☐ Government enterprises 2 ☐ Issue of Debentures 3 ☐ Abroad 4 ☐ Others (Specify)_____ 2. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ - 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit

Item 24 (Continued)	3. Interest Rate _____% per _____ ☐ 4. Rate of "Purse-String" Fee _____% of Total Loan ☐ 5. Obligation in Case of Short Notice Repayment 1 ☐ Yes 2 ☐ No 6. Type of Security 1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer 2 ☐ Deposit of Bond with Power of Attorney for Transfer 3 ☐ Pledge 4 ☐ Mortgage 5 ☐ Sale of Immovable property of Right of Redemption 6 ☐ Guarantee 7 ☐ Others (Specify)
Item 25 Endeavor to Borrow Money	In the past 2 years, did you ever attempt to borrow and fail in your effort to obtain loans? 1 ☐ Yes 2 ☐ No If check ✓ in 1, please give reasons 1 ☐ No collateral security 2 ☐ Unable to meet the interest rate demanded 3 ☐ Unable to meet other terms and conditions (Specify)_____ 4 ☐ No Influence 5 ☐ Others (Specify)_____

PRESENT

(As from January 1, 1966)

SECT. 5 Requirement For Funds

Item 26 Total Loans	A. Total Loan of the Firm at Present_____ Baht ☐ Please state the amount either in Baht or Percentage which your firm owes to:- 1. ☐ Entrepreneurs_____ Baht ☐ 2. ☐ Family and Friends_____ Baht ☐ 3. ☐ Domestic Commercial Banks_____ Baht ☐ 4. ☐ "Share" or "Pia Huey" (Revolving Credit Group)_____ Baht ☐ 5. ☐ Non-Commercial Bank Sources_____ Baht ☐ 6. ☐ Others (Specify)_____ Baht ☐ B. The Loans which are due for repayment, but you fail to pay both the principal and interest to:- 1. ☐ Entrepreneurs_____ Baht ☐ (1) ☐ Principal_____ Baht ☐ (2) ☐ Interest_____ Baht ☐ 2. ☐ Family and Friends_____ Baht ☐ (1) ☐ Principal_____ Baht ☐ (2) ☐ Interest_____ Baht ☐ 3. ☐ Domestic Commercial Banks_____ Baht ☐ (1) ☐ Principal_____ Baht ☐ (2) ☐ Interest_____ Baht ☐ 4. ☐ "Share" or "Pia Huey" (Revolving Credit Group)_____ Baht ☐ (1) ☐ Principal_____ Baht ☐ (2) ☐ Interest_____ Baht ☐ 5. ☐ Non-Commercial Bank Sources_____ Baht ☐ (1) Principal_____ Baht ☐ (2) Interest_____ Baht ☐ 6. ☐ Others (Specify)_____ Baht ☐ (1) Principal_____ Baht ☐ (2) Interest_____ Baht ☐

Item 27 Trade Credit	Details Relating to Your Trade Credit 1. Trade Credit including installment payment on machinery and Equipment: 1 ☐ In the past year_____ Baht 2 ☐ During the year_____ Baht 2. Period of Repayment 1 ☐ Less than 3 months 2 ☐ 3 - 6 months 3 ☐ 7 - 12 months 4 ☐ Over 1 year 5 ☐ No limit 3. Discount on Repayment Before Due date 1 ☐ 1 - 5% 2 ☐ 5 - 10% 3 ☐ 10 - 15% 4 ☐ 15 - 20% 5 ☐ 20% and over 4. Sources of Purchases on basis of Trade Credit 1 ☐ Producers 2 ☐ Wholesalers 3 ☐ Importers 4 ☐ Sellers Living Abroad 5 ☐ Others (Specify)_____ 5. Security 1 ☐ Bills (Cheques, Promissory Notes, and Bills of Exchange) 2 ☐ Guarantee 3 ☐ Others (Specify)_____ 6. When you fail to meet Your debts on time you have to pay 1 ☐ Penal Interest 2 ☐ No Interest 3 ☐ Others (Specify)_____

Item 28 Requirement of Additional Funds	At the highest level of interest rate on the loans, which you borrowed at _____% would you borrow any more at that rate if you were offered again? 1 ☐ Yes for _____ Baht ☐ 2 ☐ No
Item 29 Opinions Regarding Loans from Various Sources	1. Please give your Opinions Regarding Loans from Domestic Commercial Banks (You may Check more than one ☐ Please indicate in order of importance) 1 ☐ Too much Red-Tape 2 ☐ Slow in paying money 3 ☐ Demand for a mortgage 4 ☐ High interest rates 5 ☐ Have to pay excessive extra expenses 6 ☐ Bank has no interest or aims in lending money to the kind of business you are operating 7 ☐ Bank wants too much details about your inside business 8 ☐ Others (Specify)_____ 2. Please Give your Opinions Regarding Loans from the Non-Commercial Bank Sources (You may Check more than one ☐ Please also indicate in order of importance) 1 ☐ Interest Rate is too high 2 ☐ Hard to find willing lenders 3 ☐ Not always reliable when the loan is needed 4 ☐ Not interested in small business 5 ☐ Want too much security 6 ☐ No leniency and legal action might be easily taken 7 ☐ Take too much advantage of businessmen who are in need of funds 8 ☐ Imposing terms and conditions which might easily lead to bad reputation on the part of the borrowers 9 ☐ Others (Specify)_____

Item 29 (Continued)	3. Please Give your Opinions on obtaining Loans from the Industrial Finance Corporation of Thailand or from Government Enterprises (You may Check more than one ☐ Please also indicate in order of importance) 1 ☐ Too many rules and regulations 2 ☐ Process of giving loan is complicated and time consuming 3 ☐ Loan approval takes too long 4 ☐ Demand excessive evidence and too many documents 5 ☐ It is not prepared to grant loans to those who have no previous contact 6 ☐ High interest rate 7 ☐ Have to pay excessive extra expense incurred during the processing of loan granting 8 ☐ No Funds available 9 ☐ Others (Specify)
Item 30 Raising Funds by Selling Stocks and Bonds	Is your business aiming to raise money by selling stocks and bonds? 1 ☐ Yes 2 ☐ No If check ✓ in No. 2, please give reasons (You may check more than one ☐ Please also indicate in order of importance) 1 ☐ Business is too small 2 ☐ No reliable broker for the purpose 3 ☐ The process is complicated and requires technical skills 4 ☐ Not enough certainty 5 ☐ It gets too involved with Government 6 ☐ Expensive 7 ☐ Do not want outsiders to come in the inside business 8 ☐ Others (Specify)_____

FOR THE NEXT 12 MONTHS

SECT. 6 Plans for Future Borrowing

Item 31
Plans for Borrowing Money

1. In the next 12 months, has your firm planned to borrow money?
   - 1.1 ☐ Yes _____ Baht ☐
     Interest Prepared to pay _____
     _____ Baht per year ☐
   - 1.2 ☐ No

2. Sources of Loan
   - 2.1 ☐ Entrepreneurs
   - 2.2 ☐ Family and/or Friend(s)
   - 2.3 ☐ Domestic Commercial Banks
   - 2.4 ☐ Share" or "Pia Huey"
   - 2.5 ☐ Non-Commercial Banks
   - 2.6 ☐ Others (Specify)

3. Purposes
   - 3.1 ☐ Ordinary Operation
   - 3.2 ☐ Business Expansion

4. For
   - 4.1 ☐ Working Capital
   - 4.2 ☐ Purchasing Goods
   - 4.3 ☐ Purchasing machinery and Equipment
   - 4.4 ☐ Repairs and Maintenance
   - 4.5 ☐ Construction
   - 4.6 ☐ Others (Specify)

5. Types of Security Offered
   - 5.1 ☐ Deposit of Title-Deed with Power of Attorney for Transfer
   - 5.2 ☐ Deposit of Bond with Power of Attorney for Transfer
   - 5.3 ☐ Pledge
   - 5.4 ☐ Mortgage
   - 5.5 ☐ Sale of Immovable Property with Right of Redemption
   - 5.6 ☐ Guarantee
   - 5.7 ☐ Others (Specify)