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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
BUREAU FOR PRIVATE ENTERPRISE  
FINANCIAL SECTOR DEVELOPMENT PROJECT  
USAID/THAILAND  
FINANCIAL SECTOR STRATEGIC ASSESSMENT (PHASE I)**

**FINAL REPORT**

**APRIL 30, 1990**

## *Price Waterhouse*



April 30, 1990

Mr. James T. Grossmann  
Private Sector Initiatives Division  
USAID/Thailand  
37 Petchburi 15, Petchburi Road  
Bangkok 10400 Thailand

Dear Mr. *J. Grossmann* Grossmann:

Re: AID/PRE Financial Sector Development Project  
Contract No. PDC-2206-Z-00-8191-00  
USAID/Thailand - Financial Sector Strategic Assessment  
(Phase I)  
PIO/T No. 398-0249

Attached please find 5 copies of our Final Report for the Financial Sector Strategic Assessment (Phase I) prepared by the Price Waterhouse Financial Sector Team and reviewed by Price Waterhouse, Prime Contractor under FSDP. Additional copies have been forwarded to Sandra Frydman, AID/PRE/PD.

It has been a pleasure working with USAID/Thailand on this important assignment. We look forward to further collaboration with the Mission.

Sincerely,

J. Richard Breen

Project Director, FSDP

Attachments

## TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY</b>	
<b>I. INTRODUCTION</b>	<b>1</b>
<b>A. OBJECTIVE AND SCOPE</b>	<b>1</b>
<b>II. OVERVIEW OF THE THAI FINANCIAL SECTOR</b>	<b>3</b>
<b>A. COMMERCIAL BANKING</b>	<b>3</b>
<b>B. FINANCE COMPANIES AND OTHER BANK-LIKE INSTITUTIONS</b>	<b>5</b>
<b>C. SECURITIES INDUSTRY</b>	<b>6</b>
<b>III. ASSESSMENT OF AREAS FOR POSSIBLE USAID ACTIVITY IN PROMOTING THE DEVELOPMENT OF THE THAI FINANCIAL SECTOR</b>	<b>8</b>
<b>A. EXPANSION OF THE EQUITY MARKET</b>	<b>8</b>
<b>B. IMPROVING THE QUALITY OF FINANCIAL INFORMATION</b>	<b>9</b>
<b>C. LEGAL AND REGULATORY REFORM</b>	<b>11</b>
<b>D. MOBILIZING NATIONAL SAVINGS</b>	<b>12</b>
<b>E. IMPROVING THE COMMERCIAL BANKING SYSTEM</b>	<b>15</b>
<b>F. DEVELOPING THAILAND INTO A REGIONAL FINANCIAL CENTER</b>	<b>16</b>
<b>G. PRIVATIZATION</b>	<b>17</b>
<b>IV. NEXT STEPS</b>	<b>19</b>

## LIST OF APPENDICES

- A. SELECTED FINANCIAL STATISTICS
- B. FINANCIAL INSTITUTIONS IN THAILAND
- C. PERSONS INTERVIEWED
- D. FINANCIAL MARKETS ACTIVITIES OF OTHER DONOR AGENCIES
- E. PROJECT STAFFING AND MANAGEMENT
- F. THE NATION, FEBRUARY 27, 1990 ARTICLE: "PLAN GOES FOR FINANCIAL REFORMS"

## EXECUTIVE SUMMARY

Thailand has experienced remarkable economic development and social progress since the founding of the U.S. Agency for International Development (USAID) program in Thailand four decades ago. Real GDP growth, for example, has averaged nearly 6% for the last five years with the manufacturing sector contributing an increasingly important share. Beginning in 1985, AID shifted its program target away from a traditional focus on poverty and rural development to one which focused on the problems of Thailand as an emerging middle income country and, more recently, on facilitating Thailand's greater integration in the world economy.

### A. Objective and Scope

USAID is currently conducting a review of its program in Thailand to determine the role it can best play in Thai development over the next few years. In support of this review, the Price Waterhouse Financial Sector Assessment team was given the mission of conducting a reconnaissance of the Thai financial system to identify areas with the most potential for an AID role. Criteria used by the team included:

- Areas promising an increase in Thailand's integration with international financial markets
- Areas with prospects for improved US - Thai economic relationships, including opportunities for greater, profitable participation by the U.S. private sector
- Areas in which the Thai governmental authorities and private sector would find USAID assistance welcome and which have not become the focus of other donor agency programs.

While the PW team believes we have developed the outline for a USAID program that will contribute to the growth of Thailand, conclusions and recommendations for action should be put in a proper context. Our visit to Thailand from February 12 to March 1 included 11 Thai business days and was a brief helicopter ride or reconnaissance mission of a very large and complex sector. We have developed a preliminary outline which will have to be tested with some sound market research before an actual portfolio of projects can or should be launched. A high-level Financial Sector Conference, as proposed by AID, should follow to determine which of these recommendations should be pursued. Presented below is a brief overview of the Thai financial sector followed by the teams's recommendations and brief statements of the reasons for their selection.

## **B. Overview of the Thai Financial Sector**

### **1. Commercial Banks and Bank-Like Institutions**

Commercial banking dominates the Thai financial sector, accounting for over 70% of the assets of all financial institutions and over 70% of all household savings mobilized by financial institutions. Thailand has at present 15 domestic commercial banks, 14 foreign banks and 94 finance companies, plus a number of government-sponsored institutions with banking functions, the most important of which is the Government Savings Bank. (See Appendix B for a complete listing.)

The banking system is not highly competitive. The largest bank, Bangkok Bank, has nearly 30% of the total assets of the system. The four largest banks together have more than 60%. No new Thai commercial bank has been licensed since 1957. The 14 foreign banks are limited to one branch each (except two of the oldest, which each have two) and this, together with other constraints, has confined them to a small corner of the banking market - they have only about 5% of total bank assets. A recent proposal by the Minister of Finance to add 5 more foreign banks met heavy resistance and has been deferred.

The finance companies are a recent addition to the Thai system, the first one having begun operations in 1969. Of the 94, 22 are licenced only as finance companies while 72 also have licences for the securities business. (Another 11 are securities companies only.) While there is less concentration than in the banking sector, the degree of competitiveness may be limited by the fact that the two sectors - banks and finance companies - are to a large degree interwoven. Many of the finance companies are subsidiaries of Thai banks and nearly all of the foreign banks have interests in a finance company. With respect to their role in the economy, pure finance companies are engaged primarily in commercial lending, leasing and other short-term financing businesses, while finance and securities companies may also undertake such activities as securities broking, dealing, underwriting, investment advisory services and investment management.

Of the several other banking or financial institutions in Thailand, the one most worth noting at this point is the Government Savings Bank (GSB). With hundreds of branches throughout the country, it collects mainly small deposits and invests mainly in government securities. Its assets account for approximately 8% of the assets of Thai financial institutions. In terms of size, it is followed by the Bank for Agriculture and Agricultural Cooperatives, savings cooperatives and life insurance companies, which account for approximately 2% each of Thai financial institution assets.

### **2. Central Bank Control and Supervision**

The Bank of Thailand performs the role of a central bank setting policy on such

issues as credit allocation, reserve and liquidity requirements; effecting monetary policy through such means as the repurchase market; and serving as the lender of last resort. The Thai Bankers Association, with Bank of Thailand and Ministry of Finance approval, sets most deposit interest rates. Lack of competition accounts for the relatively wide spreads between deposit rates and loan rates of interest, which appear to be roughly a third larger than corresponding spreads in the industrial countries. It no doubt also accounts for a high level of profitability. The average return on net worth for Thai banks was over 8% in 1987 - a year in which three of the smaller banks were at a zero or negative earnings level - and is reported to have been around 15% in 1988 and 1989. But return on assets, a measure of efficiency, has been low, only 0.4% in 1987.

There is no system of deposit insurance, but following a series of bank failures in the mid-1980s, the Financial Institutions Development Fund was created to deal with troubled institutions, or "life boat companies," as they are known. The Bank of Thailand has a system of off-site and on-site supervision of banks and finance companies that goes beyond ensuring a bank's compliance with basic laws and regulations to conducting management audits and promoting improved credit analysis.

### 3. Long-Term Risk Capital Markets

Not only is the Thai financial sector dominated by commercial banks and the Thai economy financed primarily by bank loans, but the financial structure is built on short-term maturities. Apart from government bonds, in which there is no active secondary market, there are virtually no long-term debt instruments. The only other organized source of capital is the equities market, with the ratio of market capitalization to total bank deposits for Thailand in 1987 only 19.1%, compared to 174.9% in England, 113.2% in Singapore, 100.6% in Japan, 74.7% in the U.S. and 126.9% in Canada. Major players in the securities industry include the finance companies, the securities companies and those firms licensed as finance and securities companies. A Thai version of the U.S. Securities and Exchange Commission is currently being set up within the Fiscal Policy Office of the Ministry of Finance. A description of the securities market appears in the next section under Conclusions and Recommendations.

### C. Conclusions and Recommendations

This summary now turns to those areas of opportunity for AID both to assist in the development of Thai financial markets and to foster increased linkages between U.S. and Thai businesses.

#### 1) EXPANSION OF THE EQUITY MARKET

While growing rapidly, Thailand's equity market is still in its early stages of development. At the end of 1989, there were only 255,000 investors - less than

one percent of the population - who owned listed securities. The number of listed companies has increased from 93 in 1986 to 177 in 1989, but is still small. Trading hours are from 9:30 to 11:30 AM, Monday through Friday, and total shares traded in 1989 amounted to between three and four weeks of normal trading on the New York Stock Exchange (NYSE).

Recommendation to AID:

To increase the number of listed companies, AID could devise programs, first, to better understand the relative attractiveness to companies of debt versus equity financing and the reasons therefore and, second, to stimulate an increase in the supply of securities by removing any non-market oriented disincentives. An objective of these programs, which are likely to require long-term technical assistance, would be to bring into better balance the after-tax, risk-adjusted returns for debt and equity. In addition, AID could provide assistance in the development of a mutual fund industry and a competitive brokerage industry. More competition in these areas would increase the level of marketing of equities and help to broaden the base of participation by Thai investors (see Recommendation No. 3 - Investment Company Act). The privatization of state-owned enterprises such as the Electricity Generating Authority of Thailand (EGAT) and the Telephone Organization of Thailand (TOT) (see Recommendation No. 7 - Privatization) could result in an enormous increase in new share listings.

2) IMPROVING THE QUALITY OF FINANCIAL INFORMATION

Reliable financial statements are lacking for all but a small group of Thai companies. During the interviews, the PW team was told that no more than 30 listed companies produced financial statements containing a level of reliability required by U.S. standards. This quality of information issue has two important implications for the Thai financial markets. In order to become an important regional financial center, the domestic participants in the Thai equity market must be able to provide global investors with reliable financial data on the companies listed on the Securities Exchange of Thailand (SET). Furthermore, before either a primary or secondary commercial paper market or long-term debt market can be developed, credit analysts will have to have confidence in the reliability and quality of the financial information provided by listed companies.

Recommendation to AID:

AID could assist in increasing the demand for and supply of higher quality financial information. A possible AID role would be to provide technical assistance for the establishment of a Thai Chartered Financial Analysts (CFA) program. The officers of the SET and a number of leaders of the securities industry have already initiated discussions with the Securities Analyst Society in the United States about developing a program for training, testing and chartering

financial analysts. AID might also create a project to examine the desirability of setting up a Thai version of the U.S. Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) to develop better financial reporting standards. A credit rating agency, badly needed and the subject of a study by the Asian Development Bank (ADB), may offer additional opportunity for useful AID assistance at some stage.

### 3) LEGAL AND REGULATORY REFORM

The Thai financial system operates under legislation that dates from the 1920's and 30's and has been little changed since. Geared toward the small, family-run businesses of that time, it does not recognize the ways in which modern companies operate. There are no provisions for trusts which inhibits the development of corporate bonds and asset-backed securities. Without a bankruptcy law such as Chapter 11 in the U.S., creditors are not able to step in and keep a troubled company going. Furthermore, businesses can not pledge movable property such as aircraft or automobiles as collateral. The imposition of personal criminal penalties for corporate directors and officers failing to meet reporting deadlines further detracts from Thailand's desirability as a country in which to do business.

#### Recommendation to AID:

Many aspects of the Thai legal and regulatory system are under review. For example, the Asian Development Bank is assisting with a study of securities regulation by the Ministry of Finance. We have had some indication that AID assistance would be welcome on particular issues such as a trustee law or a revised bankruptcy code, where U.S. experience is relevant. The creation of a Thai version of the U.S. Investment Company Act of 1940, for example, would encourage the registration of new, competing investment management and brokerage companies while protecting shareholders against such abuses as securities fraud and insider trading. While the PW team identified 3 or 4 major areas in need of reform, further study would undoubtedly uncover other areas.

### 4) MOBILIZING NATIONAL SAVINGS

The remarkable performance of the Thai economy over the last three years (1987-1989) has been accomplished without pushing the savings gap, as measured by the current account deficit in the balance of payments, to an intolerable level. The gap was about 1% of GNP in 1987, 3% of GNP in 1988 and crept up to an estimated 3.2% in 1989 -just over \$2 billion. But there is no assurance that it will not rise within the next decade, and several reasons to believe that it may rise to a much higher level. In the first place, it is unquestionable that investments in transport and communications, power and urban facilities have not kept pace with the rapid growth of the economy. Bottlenecks are becoming obvious in port congestion, shortages of telephone lines, and traffic jams in Bangkok, to name a

few. By common assent, Thailand now has severe problems in such areas as air and water pollution, and social needs, including, for example, an expanded health care program, are looming. How can expenditures of this magnitude be funded? If the national savings rate does not rise, or actually falls, as it might, if the government's fiscal surplus declines, the burden would fall entirely on the balance of payments. Projections for the balance of payments over the next few years vary from a continuing favorable trend (Thai Development Research Institute) to a deteriorating trend (Bank of Thailand) to somewhere in-between (International Monetary Fund). While it would be misleading to suggest that a savings gap "crisis" is in the making, the sooner the savings rate is raised, the better. A national savings program would bring about a large increase in savings, in addition to its important social value within the context of a rapidly modernizing economy.

The establishment of a national savings program is an undertaking that touches on several major policy areas, including macroeconomic, fiscal and financial sector policies. The current ceilings on interest rates - an important element of macroeconomic policy - prevent the financial system from operating efficiently to capture savings. Moreover, interest rate repression channels credit away from borrowers in start-up companies and others who are smaller and less established. AID's role could be in addressing some of these issues at a policy level or in assisting in the development of a variety of programs to increase the savings rate and expand and diversify the Thai financial sector, such as a national savings plan, expansion of the insurance industry, or the promotion of private pension funds.

#### Recommendation to AID:

AID should first decide whether it prefers to address these issues at the policy level or get involved in the development of specific institution building programs. Taking the example of a national savings plan, AID could make a major contribution by developing comparisons of national provident funds that exist in Malaysia and Singapore, and examining involuntary savings arrangements in other countries. Any type of national savings program that is created will mean that very large funds will need to be placed prudently in an array of investments. Potential for U.S. private sector participation exists, if the Thai savings program assets were to be invested by private money management firms.

#### 5) IMPROVING THE COMMERCIAL BANKING SYSTEM

Lack of competition in the banking sector hinders the efficient allocation of credit and stifles the development of new financial products and instruments. No new Thai commercial bank has been licensed since 1957, and a decision to grant licenses to five foreign banks, as mentioned earlier, has been put on hold. Corresponding to a period of steady economic growth, commercial bank portfolios have multiplied in value, increasing the demand for skilled bank personnel. The

shortage of trained bank officers, already acute, could lead to an erosion of credit quality and weaken the banking system.

**Recommendation to AID:**

Since the banking sector is, and will continue for some time to be, the dominant part of the Thai financial system, handling up to 70% of household savings, it would be desirable, we believe, to maintain contact with it. AID should first decide whether it prefers to address banking issues at the policy level, such as promoting increased competition and the deregulation of interest rates, or to get involved in the development of specific programs such as bank training. A bank training program might be achieved at low cost by a continuing support of the training institute being set up by the Thai Bankers Association. The exposure of young Thai bankers to U.S. methods and equipment might be used as a vehicle for bringing U.S. information technology into the banking system on a very extensive basis.

6) **DEVELOPING THAILAND INTO A REGIONAL FINANCIAL CENTER**

In order to become a regional financial center, i.e., one that is large enough and sophisticated enough to provide financial services to foreign firms and governments and which is efficiently linked to world financial centers, certain government policy changes will be needed. Among the requirements to become a regional financial center are a free market system with market-determined interest rates; free movement of capital flows, firms, people and information; an adequate array of institutions, such as bond, equity, money and futures markets (and a corresponding array of instruments); and a legal and regulatory structure that is clear, equitably enforced and reasonably compatible with other systems internationally. (See Section III.F for a complete listing.) While it is clear that the Royal Thai Government (RTG) is eager to become a regional financial center, as expressed in the seventh Five Year Plan, it is less clear that the various public and private sector constituencies that make up the financial sector unanimously agree on a specific agenda for a program that will enable Thailand to become a regional financial center.

**Recommendation to AID:**

A constructive role for AID would be to assist in reaching a consensus among the SET, member firms, listed companies, the Ministry of Finance, the Bank of Thailand, commercial banks and investor constituencies on the organizational and policy issues relating to the evolution of Thailand into a major regional financial center. With respect to the securities market, members of the SET specifically requested that USAID develop a consulting program that would examine the organizational structure and activities of the world's major exchanges and provide an interchange of ideas between the public and private constituencies of the SET.

If undertaken, this project could lead to a much closer linkage of the SET with the New York and other stock exchanges in the United States. Eventually, stocks might be crosslisted in both markets, to the mutual advantage of both the NYSE and the SET member firms. An American Depository Receipt program might be established for Thai companies seeking a presence in U.S. markets.

## 7) PRIVATIZATION

The Thai government is presently working on plans to privatize some if not all of its 63 state-owned companies. The issue is politically sensitive, involving resistance from the unions. As long as the privatization program stays on track, over the long term it will enable the RTG to meet several important objectives, namely increasing the supply and quality of vital services, improving economic efficiency, increasing share listings and reducing the strain on the fiscal budget.

### Recommendation to AID:

While separate teams will be making their recommendations to AID regarding privatization, the contribution of such a program to the overall goal of financial markets development is plainly clear: very large companies would be listed on the SET. USAID could play a catalyst role that could involve finding a plan that will satisfy all major interested groups and move the program forward. This program could offer a range of opportunities for U.S. business and financial firms.

### D. Next Steps

As a continuation of this project, the PW team suggests that AID and Price Waterhouse work together to narrow the list of recommendations to a group of three or four offering the greatest potential for an AID role in developing the Thai financial sector. The selection process might also attempt to link together recommendations providing obvious synergies, such as Expansion of the Equity Market, Improving the Quality of Financial Information, and Legal and Regulatory Reform. Once the list of recommendations is narrowed, an in-depth study of each issue area will need to be prepared in order to put each recommendation in its proper context, including current initiatives at reform, fundamental success characteristics for an AID technical assistance program and outputs to be achieved within a four to five year period. With the results of these studies and some active consensus building in advance, USAID should sponsor a high-level weekend conference of a combined group of Thai-U.S. public-private sector leaders in Thailand in October 1989 to examine the proposals. The conference, funded by USAID, might be co-hosted with the Bank of Thailand, the Ministry of Finance and the Securities Exchange of Thailand. It would have two very important purposes. The conference would send an important signal to the right people in both countries that USAID is action-oriented in its response to market developments. Secondly, bringing together key decision makers from both

**countries, the conference would telescope the time required to test the viability and value of the recommendations in this report.**

**In summary, the team believes there is an important role that the USAID Mission can play in developing Thai financial markets. The team recommends that planning for a high-level financial markets conference begin immediately, targeting a conference to take place in October. A final report, outlining a more concrete action program for AID to follow, would be drafted after the conference to express the views developed there.**

## I. INTRODUCTION

Thailand has experienced remarkable economic development and social progress since the founding of the U.S. Agency for International Development (USAID) program in Thailand four decades ago. Real GDP growth, for example, has averaged nearly 6% for the last five years, with the manufacturing sector contributing approximately 27.5% to GDP compared to a decrease in the share of agriculture to 18.2%. The forces of rapid international economic integration, strong domestic economic growth and stable social progress have led USAID to distinguish Thailand as an Advanced Developing Country (ADC).

Beginning in 1985, AID shifted its program target away from a traditional emphasis on poverty and rural development to one which focused on the problems of Thailand as an emerging middle income country. With accelerated growth based upon increasing participation in world markets, AID is now moving toward a focus on facilitating Thailand's greater integration in the world economy.

### A. Objective and Scope

The Price Waterhouse Financial Sector team was given the mission of conducting a reconnaissance of the Thai financial markets in order to identify those areas with the most potential for U.S. public and private sector participation in the development of the Thai financial sector which might be supported by USAID over the next several years. The team's reconnaissance of the financial sector was to be conducted with the objective of creating longer term U.S.-Thai linkages in financial markets (including increased integration of the Kingdom into the world economy) and fostering continued economic growth.

In carrying out this assignment, the team was expected to:

- review available material on Thai financial markets prior to coming to Thailand and meet with persons in the U.S. knowledgeable about Thai financial markets including the World Bank and IFC officials;
- meet with AID/W officials knowledgeable about the Thailand program and financial markets prior to arriving in Thailand;
- meet in Thailand with U.S. and Thai nationals in key policy and management positions in financial institutions and others knowledgeable about Thai financial markets.
- identify priority areas with the most potential for enhanced U.S. public and private sector participation in the development of Thai financial markets which might be supported by USAID over the next several years with the purpose of creating longer term U.S.-Thai

linkages in financial markets. Topic areas to be explored by the team included the commercial banking sector, the capital markets (including securities markets and investment banking/brokerage operations), and the economic, legal, information and human resource constraints affecting both capital and financial markets.

- make recommendations for specific future action.

While the PW team believes we have developed the outline for a USAID program that will contribute to the growth of Thailand, conclusions and recommendations for action should be put in a proper context. Our visit to Thailand from February 12 to March 1 included 11 Thai business days and was a brief reconnaissance mission of a very large sector. We have developed a preliminary outline which will have to be tested with some sound market research before an actual portfolio of projects can or should be launched. A high-level Financial Sector Conference, as proposed by AID, should follow to determine which of these recommendations should be pursued.

## II. OVERVIEW OF THE THAI FINANCIAL SECTOR

### A. Commercial Banking

Thailand has at present 15 domestic commercial banks, 14 branches of foreign banks and 94 finance companies, plus a number of government-sponsored institutions with banking functions, the most important of which is the Government Savings Bank. (See Appendix B for a complete listing.) Commercial banking dominates the Thai financial system. Nearly three quarters of all household savings that enter official institutions go to the commercial banks. Total assets of the banks at end-1988 equalled about 80% of 1988 GDP.

The banking system is mature, well established and highly concentrated. The largest bank, Bangkok Bank, has nearly 30% of the total assets of the system. The four largest banks together have more than 60%. No new Thai commercial bank has been licensed since 1957. The 14 foreign banks are limited to one branch each (except two of the oldest, which have two each) and this, together with other restraints, has confined them to a small corner of the banking market - they have only about 5% of total bank assets. A recent proposal by the Minister of Finance to add 5 more foreign banks met heavy resistance and has been deferred.

The Bank of Thailand (BOT) supervises the commercial banks and sets requirements for reserves and capital. At the present time, a liquidity ratio of 7% against deposits is required and, in order to qualify for creation of branches, 16% of deposits must be held in government securities. The latter requirement has been relaxed recently since the national budget surplus has reduced the available supply of government securities; elimination of this requirement is highly recommended in order to encourage development of a long-term bond market. Although the BOT is able to influence liquidity to some extent through the repurchase market, it does not conduct open market operations and, therefore, interest rate ceilings and credit allocation are important tools of monetary policy.

The Thai Bankers Association, with approval from the Bank of Thailand and Ministry of Finance (MOF), sets most deposit interest rates. Currently, time deposits up to one year receive a rate of 9.5%. Last year the Ministry of Finance decreed the rate on deposits of over one year to be unregulated. Most banks raised that rate by about 1%. Loan rates are subject to a ceiling set by the Ministry of Finance, currently at 15%. The Bank of Thailand has recommended as an anti-inflation measure an increase of this ceiling to 17%, but the Minister of Finance had not yet agreed to this at the time this report was written.

The strait-jacketing of interest rates undoubtedly curbs the efficiency of the banking system. It is one of the factors limiting competition, hindering a more efficient and aggressive bank from increasing its share of the market. More importantly, it drives higher-risk borrowers out of the banks and to other lenders.

Some can find loans from the finance and securities companies (see below under Section B) which operate under a higher but still fixed rate structure. But the finance company sector is relatively small and limited in scope. Would-be borrowers are therefore often forced into the "unofficial" or curb market for credit, where rates are much higher. The result is to cramp entrepreneurial initiative and to encourage concentration in all sectors; only large, established firms have ready access to bank loans.

Lack of competition accounts for relatively wide spreads between deposit rates and loan rates of interest, which appear to be roughly a third larger than corresponding spreads in the industrial countries. It no doubt also accounts for a high level of profitability. The average return on net worth for Thai banks was over 8% in 1987 - a year in which three of the smaller banks were at a zero or negative earnings level - and is reported to have been around 15% in 1988 and 1989. But return on assets, a measure of efficiency, has been low, only 0.4% in 1987. Lack of competition may also account for some shortcomings in the modernization of equipment; however, this is unclear from our preliminary review. The larger banks have invested heavily in computer systems; modern technology is now being spread to the more than 2,000 branches all over the country. Use of automatic teller machines is widespread. Where mechanization is less-developed, as in smaller banks, it may not be justified, given the level of wage rates in the industry.

Commercial bank operations are defined by the Commercial Banking Act, as amended at various times and as interpreted by the Bank of Thailand. The law sets out what banks can do, leaving all else implicitly illegal. However, in recent years, the banks have gradually pushed into wider functions, with Bank of Thailand acquiescence. A new set of amendments, liberalizing the act, has been drafted by the BOT and is wending its way through the MOF to the Cabinet and the Parliament - a procedure that can take years.

However, in many respects, the Thai commercial banks are quite conservative. Lending policies usually require heavy collateral - often mortgages on real estate to a value of 200% of the loan. Personal relationships and reputation are critical elements. Few of the banks are prepared to analyze credit risk in the sense usual to modern banking. They lack the trained staff to do so, but a more important reason is the general unreliability of accounting information provided by prospective borrowers.

The banks suffered a setback in 1985-87 during a period of relatively low growth in the Thai economy when business failures, primarily in real estate, put three banks in trouble. Rescue operations by the authorities, using the government-owned Krung Thai Bank, second largest after Bangkok Bank, for the purpose, restored two of the three to viable condition. The third (Sayam Bank) was merged with Krung Thai in 1987. The episode has led to questions about the need for a deposit insurance system, and studies are underway.

The dominant role played by the banks in the Thai financial system and the fact that the equity market has until very recently been small has one particularly striking result: most businesses in Thailand are heavily debt-financed. Their debt-equity ratios are commonly 10 to 1 and sometimes 20 to 1, compared with accepted highs of 2 or 3 to 1 in the industrial countries. Moreover, most of this debt is carried either in short-term loans or in the form of roll-over credit lines. The whole financial structure of the private sector is thus built on foundations that could crumble in a recession. The setback of 1985-87 occurred during the mildest of slowdowns in the economy: GNP growth never dropped below 3.5%. The system has not been severely tested in the last decade.

#### B. Finance Companies and Other Bank-Like Institutions

The finance companies are a recent addition to the Thai system, the first one having begun operations in 1969. They proved popular in the 1970's when the total number rose to over 100. After a shakeout in the mid-1980's, 94 remain in operation. Of these, 22 are licenced only as finance companies while 72 also have licences for the securities business. (Another 11 not considered here are securities companies only.) Most have only one office and all but a few are headquartered in Bangkok.

The total assets of the finance companies at end-1988 were only \$8 billion compared to \$45 billion for the commercial banks, so they are a relatively small element of the system. However, several of the largest finance companies are larger than the smallest banks. In principle, finance companies differ from banks in that they are not permitted to accept deposits, relying instead on borrowings from the public - and from banks - usually in the form of promissory notes. Unlike banks, they may not engage in foreign exchange transactions. They also differ by using a higher schedule of interest rates than the banks. At present, while banks offer rates of 9.5% on deposits under one year and are subject to a ceiling of 15% on loans, finance companies offer up to 13.5% on their promissory notes (which in reality differ little from large time deposits) and may charge up to 18.5% for loans. By their nature, the finance companies are thus dealing at a slightly higher risk level, and lending to some clients who would not be able to obtain bank credit.

The finance and securities company sector is less concentrated than the banking sector. At the end of 1987, the four largest companies had only 24% of total assets. However, the degree of competitiveness may be limited by the fact that the two sectors - banks and finance companies - are to a large degree interwoven. Many of the finance companies are subsidiaries of Thai banks and nearly all the foreign banks have interests in a finance company.

A seemingly significant weakness of the finance company structure is the licencing of companies to operate both as finance companies and in the securities

business. The two businesses (each requiring four licences for full operation), permit a fully-licensed firm not only to borrow from the public but to act as brokers and dealers in stocks and bonds, as underwriters and as investment advisors, all functions forbidden to banks. The BOT and MOF have both been examining the issue with the BOT apparently favoring a separation of finance and security businesses. The issue may not be easy to resolve, however. According to banking sources, real profitability in this sector depends on having licences for both businesses.

Of the several other banking or bank-like institutions in Thailand, the only one worth noting at this point is the Government Savings Bank (GSB). Its assets of approximately \$5 billion at end-1988 would give it fourth place compared with commercial banks - after Bangkok Bank, Krung Thai Bank and Thai Farmers Bank. With hundreds of branches throughout the country, it collects mainly small deposits and invests mainly in government securities. However, it does make some loans, mostly on a small scale to its depositors, and recently has requested authority to expand its lending operations, because of the shortage of government securities available. In terms of size, the Government Savings Bank, which controls 8% of the assets of Thai financial institutions, is followed by the Bank for Agriculture and Agricultural Cooperatives, savings cooperatives and life insurance companies, which account for approximately 2% each of Thai financial institution assets.

### C. Securities Industry

Major players in the securities industry include the finance companies, the securities companies and those firms licensed as finance and securities companies. There are 35 finance and securities firms that are members of the Securities Exchange of Thailand (SET). The members trade on the floor of the Exchange in an open auction market that has three boards: the Main Board, the Special Board for odd lots and big lots, and the Alien Board for securities held by foreigners. To execute a trade a member must take the first quote on the board that matches his bid or offer. Trading hours are from 9:30 to 11:30 AM, Monday through Friday, and total shares traded in 1989 amounted to between three and four weeks of normal trading on the New York Stock Exchange (NYSE).

To some observers the SET is perceived as a speculative gambling environment. Unfortunately, most free financial markets are open to the actions of unprincipled operators who undermine the integrity of the marketplace. The Japanese had their Recruit scandal and the Americans had the Boesky insider trading scandal. In January, the SET was rocked by the reported market manipulations of Chao Thai Securities, which accounted for 30% of SET volume in late December and early January. In what had the appearance of a bear raid, Chao Thai's heavy selling for nominee accounts coincided with market rumors of the resignation of the Prime Minister.

The important point is the leadership of the SET moved decisively and suspended Chao Thai. An investigative committee, chaired by the Director General of the Fiscal Policy Office and consisting of officials of the Ministry of Finance, the Bank of Thailand and the SET, was then set up. The leaders of both the government and the private sector recognize that the Exchange marketplace must have a reputation for integrity if Thailand is to become a major regional financial center - a major goal of the seventh Five Year Plan (see Appendix F - The Nation, Feb. 27, 1990 article). The government has therefore established a Capital Markets Division in the Ministry of Finance. It currently has seven employees and the plan is for this division to evolve into a Securities and Exchange Commission type of regulatory entity to ensure open and fair markets. The SET has its own surveillance operation that will be enhanced by its program to automate the trading floor and will cooperate with the MOF's Capital Markets Division.

Like most financial institutions in Thailand, the SET's processing system is very people and paper intensive. But this situation is changing very rapidly. The SET has a turnkey contract with the Midwest Stock Exchange to automate its trading floor, and this is a good first step toward developing a broader and more efficient market. The system is scheduled to go online in the first quarter of 1991. Most member firms are planning their own systems to interface with the newly automated floor. Obviously, with a growing equities market, 1991 will be a first step in the evolution of the SET to a regional securities market.

While the evolution of the regulatory environment is proceeding satisfactorily, there are currently several legal and regulatory barriers to the type of liquid market that would enable the SET to become a major regional participant in the global marketplace. These barriers will be addressed in Section III.C on Legal and Regulatory Reform. The impact of these barriers results in distortions in the marketplace.

There is only one mutual fund company sponsoring ten primarily closed-ended funds, all of which were launched since 1985. These funds, taken together, have approximately \$800 million of invested capital. The capital may be invested in local stocks without breaching the foreign ownership limit, while the income of these funds is exempted from taxation, and the income received by foreigners from the fund is taxable at half the rate generally applied to foreigners. Foreign investment as a percent of market turnover more than tripled from 1985 to the end of 1989. The shares of many companies available, apart from the mutual funds, have reached the limit of foreign ownership. As a result, those shares owned by foreigners that do trade on the Alien Board trade at premiums to the regular board, some as high as forty percent or more. This two-tiered market obviously will limit the attractiveness of the SET to foreign investors; and, if it is not dealt with by a combination of policy changes to increase the available supply of securities and improve foreign access to the market, this situation will prevent the SET from becoming an important regional marketplace.

### **III. ASSESSMENT OF AREAS FOR POSSIBLE USAID ACTIVITY IN PROMOTING THE DEVELOPMENT OF THE THAI FINANCIAL SECTOR**

The current rapid growth of the Thai economy is based almost exclusively on lending by the commercial banks, as discussed in the preceding section. Highly diversified, the Thai economy is less susceptible than most to a shock in one sector. However, because so many sectors of the Thai economy are highly leveraged, the softening of one sector of the Thai economy - such as real estate - could result in bankruptcies in other sectors and become a far reaching constraint on the continued growth of the Kingdom. It is therefore essential to broaden and diversify the financial sector in order to develop a more stable Thai economy.

In examining the capital, infrastructure, legal and regulatory constraints to broadening the financial sector in Thailand and developing a pragmatic approach to eliminating them, the Price Waterhouse team conducted an inquiry consisting of the following questions:

1. What are the problems that need to be addressed?
2. Which problems are the leaders of the Royal Thai Government (RTG) and the private sector most interested in having USAID address?
3. What would be the profit opportunities for the U.S. private sector and what competitive advantage would U.S. businesses bring to the table?
4. Could definable objectives be reached in five years that would enable USAID to measure the success of the program?

Presented below are the team's recommendations with brief statements of the reasons for their selection.

#### **A. EXPANSION OF THE EQUITY MARKET**

Because of the rapid economic growth in Thailand, averaging over 10% during the past three years and heading for another strong performance in 1990, the equities market of the Securities Exchange of Thailand has expanded very dramatically in the past four years. The SET Index rose from 207.20 in 1986 to 879.19 at the end of 1989; trading volume increased from 153.7 million shares in 1986 to 3,253.6 million in 1989; and the dollar value of the trading expanded from \$1.1 billion to \$14.8 billion during the same period.

Despite this dramatic growth, the Thai stock market is still in its early stages of development. At the end of 1989, there were only 255,000 investors - less than one percent of the population - who owned listed securities, and the ratio of SET

market capitalization to GDP was estimated at 32.4. This compares to a market capitalization/GDP ratio of 133 for Japan, 270 for Singapore, and 100 for Malaysia.<sup>1</sup> Although the number of listed companies has increased from 93 to 177 since 1986, the SET is still a relatively underdeveloped market.

### Recommendation to AID

To increase the number of listed companies, AID could devise programs, first, to better understand the relative attractiveness to companies of debt versus equity financing and the reasons therefore and, second, to stimulate an increase in the supply of securities by removing any non-market oriented disincentives. An objective of these programs, which are likely to require long-term technical assistance, would be to equalize the after-tax, risk-adjusted returns for debt and equity. Areas to be reviewed include the corporate income tax for listed versus unlisted companies, tax treatment of dividends and interest payments, the price and availability of credit given the current government-imposed interest rate ceilings, and transaction costs (underwriting fees, listing fees, commitment fees, loan administration costs, etc.)

Measures to enlarge the participation in the market of institutional investors, such as insurance companies, mutual funds and pension funds, should also be considered. Demand for equities by insurance companies is effectively limited by restrictions on ownership. Currently, there is one mutual fund company which has had only limited success in attracting Thai investors, many of whom lack understanding of equity markets and tend to be short-term investors. AID could provide assistance in the development of a mutual fund industry. More competition in this area would increase the level of marketing of equities and help to broaden the base of participation by Thai investors (see Recommendation No. 3 - Investment Company Act). The privatization of state-owned enterprises such as the Electricity Generating Authority of Thailand (EGAT) and the Telephone Organization of Thailand (TOT) (see Recommendation No. 7 - Privatization) could result in an enormous increase in new share listings.

## B. IMPROVING THE QUALITY OF FINANCIAL INFORMATION

The uneven quality of financial information is an important by-product of the disinclination of Thai businesses to pay corporate taxes. The informal business culture of family-run business organizations that is responsible for this situation is being overtaken by rapid growth to much larger-scale enterprises that require professional management. As the younger generation of managers - many of

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<sup>1</sup> Note that there is no direct correlation between a country's market capitalization to GDP ratio and its stage of equity market development. In mature economies, new share issues have been overtaken in recent years by the retirement of existing equity. In the U.S., net new equity finance has been negative for several years as a result of mergers and acquisitions activity and extensive stock repurchase programs. This ratio is presented as but one of several indicators of equity market development.

whom have MBAs from U.S. business schools -mature and assume leadership of their companies, they will require improved management information systems.

Certainly, the quality of corporate financial information is improving as companies list on the SET. The Exchange requires certified audited financial statements annually and quarterly reports that are reviewed by auditors. These reporting requirements are modelled on the information required in the U.S. 10-K and 10-Q reports. Nevertheless, the quality of the auditing firms is very uneven and consequently there is room for manipulation of accounting systems that can result in misleading financial information. During the interviews, the Price Waterhouse team was told that no more than 30 listed companies produced financial statements containing a level of reliability required by U.S. standards.

This quality of information issue has two important implications for the Thai financial markets. In order to become an important regional financial center, the domestic participants in the Thai equity market must be able to provide global investors with reliable financial research on the companies listed on the SET. Furthermore, before either a primary or secondary commercial paper market or long-term debt market can be developed, credit analysts will have to have confidence in the reliability and quality of the financial information provided by listed companies.

#### Recommendations to AID

AID could assist in increasing the demand for and the supply of higher quality financial information. A possible AID role would be coordinating and accelerating the establishment of a Thai Chartered Financial Analysts (CFA) program. The officers of the SET and a number of leaders of the securities industry are very concerned about this problem. Consequently, they have already initiated discussions with the Securities Analyst Society in the United States about developing a program for training, testing and chartering financial analysts.

Additionally, the USAID Mission's program might include a project to examine the desirability of setting up a Thai version of the U.S. Financial Accounting Standards Board (FASB) and the American Institute of Chartered Public Accountants (AICPA) to develop better financial reporting standards. In addition to Price Waterhouse, there are several good international accounting firms located in Thailand that would have the ability to provide leadership and the necessary linkages to U.S. accounting institutions. Many Thai securities firms have securities analysts who have earned MBAs from U.S. universities. Both should be asked to participate in this project.

Another necessary element for a long-term corporate debt market is a credit rating agency. The Asian Development Bank is currently in the initial stage of a credit rating agency study. Obviously USAID should not duplicate their effort. However, one private group, the Tara Consulting Group of Tara Siam Limited,

believes that before a corporate bond market can become viable the quality of information issue will have to be resolved. This group suggested that USAID might sponsor a project with representation from the Thai private sector, the SET, the Ministry of Finance, the Bank of Thailand, and a U.S. commercial rating organization such as Moody's. The objective of this project would be to assess the steps necessary to make it possible for a credit rating agency to be commercially viable in Thailand. This proposal should be examined.

### C. LEGAL AND REGULATORY REFORM

Just as the Thai infrastructure is straining to support the current pace of business development and economic growth, the Thai legal framework, while sufficient to govern most traditional business practices, does not adequately address the needs of many sophisticated investors and financial markets participants. Company law is embodied in the Civil and Commercial Code which was originally drafted in 1929 and has changed very little in subsequent years. Geared toward the small, family-run businesses of that time, it does not recognize the ways in which modern companies operate.

As a civil law country, trusts are unknown in Thailand. The lack of trustee law inhibits the development of financial instruments such as corporate debentures and asset-backed securities. Without a bankruptcy law such as Chapter 11 in the U.S., creditors are not able to step in and keep a troubled company going. Their choices are currently limited to accepting the company's default on its obligations or forcing it to go bankrupt and having an official receiver step in. These issues are currently being examined by the Bankruptcy Law Reform Committee. Furthermore, businesses can pledge buildings and land (immovable property) as loan collateral but can not pledge movable property such as inventory or mortgage an aircraft or automobile. Security interests need to be allowed for additional types of property.

Under the Civil and Commercial Code, harsh criminal sanctions are imposed on corporate directors and managers for the submission of late or inadvertently incorrect administrative reports. The stiff penalties for non-compliance with reporting requirements seriously detracts from Thailand's desirability as a country in which to do business. The lack of a treaty to eliminate double taxation of U.S. businesses and tight controls on licenses for foreign banks are further impediments to increased U.S.-Thai commerce. When the RTG formerly announced that it was prepared to open up the market to foreign banks for the first time in years, nine banks were invited for final negotiations including three Japanese, one Canadian, one Australian and four European banks but not one U.S. bank. U.S. bankers found the rules and regulations controlling foreign banks' operations in Thailand too restrictive. Most, if not all, of these legal and regulatory barriers must be eliminated before Thailand can become a major regional financial market.

## Recommendation to AID

Many aspects of the Thai legal and regulatory system are under review. For example, the Asian Development Bank is assisting with a study of securities regulation by the Ministry of Finance. We have had some indication that AID assistance would be welcome on particular issues such as a trustee law or a revised bankruptcy code, where U.S. experience is relevant. The creation of a Thai version of the U.S. Investment Company Act of 1940, for example, would encourage the registration of new, competing investment management and brokerage companies while protecting shareholders against such abuses as securities fraud and insider trading. While the PW team identified 3 or 4 major areas in need of reform, further study would undoubtedly uncover other areas.

As in most countries, legal and regulatory reform is a very long and slow process. Last year, only five new laws were passed in Thailand. Getting new bills into the review pipeline, however, is necessary to prevent even further delays in Thailand achieving its goal of becoming a regional financial center.

### D. MOBILIZING NATIONAL SAVINGS

The remarkable performance of the Thai economy over the last three years (1987-1989), with GNP growth averaging over 10% per year, has been accomplished without pushing the savings gap, as measured by the current account deficit in the balance of payments, to an intolerable level. The gap was about 1% of GNP in 1987, 3% of GNP in 1988 and crept up to an estimated 3.2% in 1989 - just over \$2 billion. But there is no assurance that it will not rise within the next decade, and several reasons to fear that it may rise to a much higher level.

The following figures below show that growth of the savings gap has been contained only because savings by the public sector increased; private sector savings have not risen.<sup>2</sup>

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<sup>2</sup> Data from Institute for International Finance, Dec., 1989.

	<u>Percentage of GNP</u>		
	<u>1987</u>	<u>1988</u>	<u>1989 (est.)</u>
Gross domestic investment	26.3	28.5	29.0
Gross national savings	25.2	25.1	25.8
Public sector	3.4	5.3	6.0
Private sector	21.8	19.8	19.8
Current account balance	- 0.8	- 3.0	- 3.2
Statistical discrepancy	0.3	0.4	- 0 -

The public sector has contributed an increasing share of total savings because boom conditions in the economy and a surge in exports and imports have brought a big increase in government revenue, while the fiscal conservatism of the previous (Prem) government held expenditures in check. The cash surplus of the government in 1989 is reported by the Bank of Thailand to have risen to Bt 59.6 billion, about \$2.3 billion.

There is a wide range of views on the prospects for the Thai economy over the next few years. At one extreme, the Thai Development Research Institute (TDRI) sees a continuing favorable trend in exports and foreign investment, with a gradually narrowing current account deficit, as GNP growth continues to be strong, albeit slowing to single digits. At the other extreme, the Bank of Thailand sees a deterioration in both the government budget and current account balance. An IMF projection is reported as lying somewhere in-between.

The main difference in these projections lies in the forecast of gross domestic investment. Everyone seems to agree, however, that Thailand is facing some major requirements for infrastructure projects. Investments in transport and communications, power and urban facilities have not kept pace with the rapid growth of the economy. Choke points are becoming obvious in port congestion, shortages of telephone lines, and traffic jams in Bangkok, to name a few. Underinvestment has also been true with respect to the environment. By common assent, Thailand now has severe problems in air and water pollution and in deforestation, with flooding and loss of topsoil. Finally, social needs, including, for example, an expanded health care program, are looming. Expenditures to resolve these problems will raise the level of gross domestic investment by several billion dollars a year - the amount depending on how rapidly programs are undertaken.

How could an increase of this magnitude be funded? If the national savings rate does not rise, or actually falls, as it might, if the government's fiscal surplus declines, the burden would fall entirely on the balance of payments. Former BOT Governor Kamchorn, to give one estimate, predicted that the balance of payments, - i.e., savings - gap, would rise to Bt 160 billion or \$6.5 billion by 1991, an amount that would probably equal about 7 to 8% of GNP. A balance of payments current account gap of that magnitude would not be immediately disastrous. Thailand's foreign exchange reserves, for one thing, are currently around \$11 billion, providing a margin of safety. Also, Thailand's external debt is moderate, with the debt service ratio (ratio of all debt service to exports of goods and services) estimated at a modest 11% to 12% for 1989. Total external debt, estimated by the Institute for International Finance as \$25 billion for end-1989 (public and private) could increase substantially without endangering Thailand's presently high credit standing among international lenders. Nonetheless, over any extended period, the trend of increasing debt and declining reserves would be a blow to the confidence of business and a threat to the stability of the Baht. Some of the financial flows that Thailand has received in the last few years may not be dependable. For example, Thailand has been getting quite a bit of foreign investment from Hong Kong, based on the political fears there. There is also no assurance that the Thai stock market will continue to be as attractive to foreign investors in the future as it has been recently. Prudence calls for Thailand to initiate measures to increase its private savings rate. The required increase in household savings, from which most of the total must come, may be on the order of a quarter to a third, implying a major shift in the savings habits of the Thai population. To bring that about within a relatively short period of years may take a degree of compulsion, that is, forced savings.

Thailand has at present a voluntary system of private provident funds, organized by firms for their employees. More than 300 of these are in existence, but they are mostly small and so far have not accumulated a really significant amount of funds. The system does not extend to government employees. Meanwhile, a proposal for a social security program has been under discussion, apparently for a good many years, without conclusion. Objections have been raised that it would evolve into an unemployment insurance scheme which Thailand might not be able to afford. A Thai cabinet meeting on February 23, 1990 is reported (Bangkok Post, Feb. 24, 1990) to have considered measures to make the provident fund mandatory for private firms, and of expanding tax privileges for them.

A national program to increase household savings, in addition to its important social value within the context of a rapidly modernizing economy, is an undertaking that touches on several major policy areas, including macroeconomic, fiscal and financial sector policies. The current ceilings on interest rates - an important element of macroeconomic policy - prevent the financial system from operating efficiently to capture savings. Moreover, interest rate repression channels credit away from borrowers in start-up companies and others who are smaller and less established. AID's role could be in addressing some of these

issues at a policy level or in assisting in the development of a variety of programs such as a national savings plan, expansion of the insurance industry, or the promotion of private pension funds, that would expand and diversify the Thai financial sector.

#### Recommendation to AID:

AID should first decide whether it prefers to address these issues at the policy level or to get involved in the development of specific programs, such as a national savings plan, promotion of additional private pension funds or expansion of the insurance industry. Taking the example of a national savings plan, AID could make a major contribution by making comparisons of national provident funds that exist in Malaysia and Singapore and examining involuntary savings arrangements in other countries. Funds set up in some U.S. states could also be examined. This comparative study could serve as the basis for developing a national savings program tailored to Thailand that could become a reality in several years.

Potential exists for U.S. private sector involvement in the management of these funds. Any type of expanded provident fund or national savings program will mean that very large funds will need to be placed prudently in an array of investments. U.S. investment managers have abundant experience in managing large aggregates of savings. Furthermore, there is a precedent for U.S. money management firms participating in investment decisions with the Thai. The current management structure of the Mutual Fund Company involves shared responsibility with foreign advisory firms, including Morgan Stanley. A Thai money manager and his foreign advisor make joint decisions, and the advisor shares in the management fee. One official of the Securities Exchange of Thailand suggested that a new group of jointly owned companies -based on a new law modelled on the U.S. Investment Company Act of 1940 - might be established to manage the funds.

#### E. IMPROVING THE COMMERCIAL BANKING SYSTEM

As mentioned earlier, the commercial banking system is mature, well-established and highly concentrated. The entrenched character of the interests involved in banking have tended to protect it from measures that would open up the sector to increased competition in the delivery of products and services. Corresponding to a period of steady economic growth, commercial bank portfolios have multiplied in value, increasing the demand for skilled bank personnel. The shortage of trained bank officers, already acute, could lead to the erosion of credit quality and seriously weaken the banking system.

Since the banking system is, and will continue for some time to be, the dominant part of the Thai financial system, it would be desirable, we believe, to maintain contact with it. Looking further down the road, it is certain that the objective of

turning Bangkok into a regional financial center implies major banking reforms, including more competition. For instance, more foreign bank licences will have to be issued. Therefore, if AID proposes to establish itself in the financial arena and if it hopes to influence trends involving U.S. interests, it should keep in close contact with the banking sector.

### Recommendations to AID

Keeping a hand in may partly be accomplished through actions directed at accounting and information systems, as recommended elsewhere in this report, because the objectives in those areas are spread across the financial system, including the banking sector. At the policy level, AID could promote important reforms such as increased competition and the deregulation of interest rates. But we also recommend that AID consider small-scale assistance to the new bank training institute being set up under the sponsorship of the Thai Bankers Association (TBA). Besides giving AID a continuing relationship with TBA, this could be designed to keep a certain number of young bank executives familiar with American banking methods and equipment, as well as American attitudes toward free markets and competition. It might also do something to benefit competition in the banking sector, because training needs are greatest in smaller banks. This program might be used as a vehicle for bringing U.S. computer information technology into the banking system on a very extensive basis. U.S. software companies, particularly, have a comparative advantage. This program could help the U.S. to enhance that position.

#### F) DEVELOPING THAILAND INTO A REGIONAL FINANCIAL CENTER

In order to become a regional financial center, a country's financial sector must be large enough and sophisticated enough to provide financial services to foreign firms and governments and be efficiently linked to world financial centers. A set of eight basic requirements must be met, as follows:

1. Political stability over many years
2. A free market system with market pricing (including market-determined interest rates)
3. Free movement of people, money, information, and firms (including entry of foreign banks, buyers and sellers of stock)
4. Government regulation that is sufficient but non-interventionist
5. A legal and regulatory structure that is clear, understandable, equitably enforced, and reasonably compatible with others internationally

6. Taxes that are reasonably low, equitably enforced, and relatively simple
7. An adequate array of institutions: bond, equity, money and futures markets (with a corresponding array of instruments)
8. A large array of foreign banks, companies, and investment houses.

During the reconnaissance assignment, it became quickly apparent to the team that Thai leaders in both the government and private sectors would like their country to become a regional financial center in the global financial marketplace. This goal is currently being written into the seventh Five Year Plan which will begin in 1992 and is now under development by the government ministries (See Appendix F). It is less clear, however, that the various public and private sector constituencies that make up the financial sector unanimously agree on a specific agenda for a program that will enable Thailand to become a regional financial center.

#### Recommendation to AID:

While Thailand has many characteristics that make it attractive to foreign investors, important policy changes will be needed in order for the Kingdom to become a regional financial center. A constructive role for AID would be to assist in reaching a consensus among the SET, member firms, listed companies, the Ministry of Finance, the Bank of Thailand, commercial banks and investor constituencies on the organizational and policy issues relating to the evolution of Thailand into a major regional financial center. With respect to developing the SET into a regional securities market, members of the SET specifically requested that USAID develop a consulting program that would examine the organizational structure and activities of the world's major exchanges and provide an interchange of ideas between the public and private constituencies of the SET. If undertaken, this project could lead to a much closer linkage of the SET with the New York and other stock exchanges in the United States. Eventually, stocks might be crosslisted in both markets, to the mutual advantage of both the NYSE and the SET member firms. An American Depositary Receipt program might be established for Thai companies seeking a presence in U.S. markets.

#### G. PRIVATIZATION

The government's privatization plan has met with stiff opposition from the state enterprise labor unions. Thai newspapers report daily on threatened work stoppages by the unions; indeed, last month thousands of workers at Thailand's largest port stopped work for four days until Army intervention ended the strike and secured an agreement from the port unions to return to the negotiating table.

Privatization is an intensely politicized activity requiring, above all, leadership and tenacity on the part of the government. The present opposition to privatization in Thailand is no greater than that experienced by other countries, many of which have already implemented successful programs. Over the long term, the transfer of ownership in entities such as the Electricity Generating Authority of Thailand (EGAT) and the Telephone Organization of Thailand (TOT) to the private sector will enable the RTG to meet several important objectives, namely, increasing the supply and quality of vital services, improving economic efficiency, developing the capital market through new share listings and reducing the strain on the fiscal budget.

Related to the issue of privatization is the potential for municipalities to finance infrastructure projects through the issuance of bonds. The need for investment in basic infrastructure projects such as ports, the sky train, elevated highway projects, electricity supply, and water and sewer projects is well established. If sewer or water districts, for example, were to issue their own bonds - perhaps with government guarantees - many infrastructure projects could potentially be self-financing. Issues such as the metering and revenue collection abilities of the authorities and their legal basis for issuing bonds would need to be resolved. Members of the Mission staff are already studying the feasibility of a series of sewer projects for the city of Bangkok.

### Recommendation to AID

While separate teams will be making their recommendations to USAID regarding privatization, the contribution that a privatization program would make to the overall goal of financial markets development is plainly clear: very large companies would be listed on the SET. This activity could easily be folded into a comprehensive USAID program that would involve a group of U.S. companies. A U.S. team is currently working on privatization of the TOT. This project could involve AT&T, NYNEX and several major U.S. investment banking firms. One team member estimated that TOT privatization would require \$800 million of equity money, a large portion of which would have to be raised internationally. This would be a very prestigious and profitable underwriting for a U.S. investment banking firm. In addition, USAID involvement in selected infrastructure projects involving funding through the international bond and equity markets could result in significant opportunities for U.S. business and financial organizations. Such projects could bring together a group of U.S. companies who would help design, finance and construct infrastructure facilities and develop a management organization to ensure that the facilities are effectively managed once they are completed.

In addition to sewer projects, it is recommended that AID examine other infrastructure opportunities where a combination of U.S. companies would have a comparative advantage to both successfully compete for projects and profitably complete them.

#### **IV. NEXT STEPS**

**USAID is considering setting up a Thai Growth and Investment Fund to promote economic growth by encouraging open markets, a more open society and the mutual interests of Thailand and the United States. The activities of this program would be designed to substantially increase U.S. private sector participation in Thai economic growth. The Fund would consist of seed money for a portfolio of projects that would last five years and have measurable objectives in linking Thai problem solvers and U.S. sources of expertise, while at the same time generating revenues for the U.S. private sector that would grow to a substantial multiple - perhaps 10 to 20 times - of the seed money in the Fund itself. This is a very attractive concept and the recommendations in this report are intended to meet the Fund's proposed criteria.**

**The Price Waterhouse financial sector team arrived in Bangkok with no more than a handful of contacts among key public and private sector players in the Thai financial markets. Not only was the Mission staff helpful in setting up appointments, but through their extensive network, they were able to put us into direct contact with an impressive array of people. The quality of the meetings was excellent and enabled the team to grasp the important issues relating to Thai financial markets in a very short time.**

**With its years of experience in Thailand, the USAID Mission is wired into the public and private sector human infrastructure of the country. At the SET, for example, we were given very helpful assistance in obtaining information by an officer of the Exchange who had previously worked at the Mission for eight years. This network of important relationships is an extraordinarily valuable asset and should be used in the implementation of the Thai Growth and Investment Fund program. The success of the program may very well depend on an ability to establish close relationships between U.S. sources of expertise and Thai problem solvers. The people in the AID Mission would play a critical catalytic role in establishing these close relationships and helping the Fund manager nurture them to ensure success of the Fund program.**

#### **Recommendation to AID:**

**The Price Waterhouse financial sector team found an enthusiastic initial response to the proposals recommended in this report. In meeting after meeting, the team was advised to move forward quickly on some of these initiatives. On this basis, we therefore suggest that the Mission and Price Waterhouse work together to narrow the list of recommendations to a group of three or four offering the greatest potential for an AID role in developing the Thai financial sector. The selection process might attempt to link together recommendations providing obvious synergies, such as Expansion of the Equity Market, Improving the Quality of Financial Information, and Legal and Regulatory Reform. Once the list of recommendations is narrowed, an in-depth study of each issue area will need to be prepared in order to put each recommendation in its proper context, including current initiatives at reform,**

fundamental success characteristics for an AID technical assistance program and outputs to be achieved within a four to five year period.

With the results of these studies and some active consensus building in advance, USAID should sponsor a high-level weekend conference of a combined group of Thai-U.S. public-private sector leaders in Thailand in October to examine the proposed portfolio of USAID projects. The conference, funded by USAID, might be co-hosted with the Bank of Thailand, the Ministry of Finance and the Securities Exchange of Thailand. It would have two very important purposes. The conference would send an important signal to the right people in both countries that USAID is action-oriented in its response to market developments. Secondly, bringing together key decision makers from both countries, the conference would telescope the time required to test the viability and value of the proposed projects. The output of the conference would lay the groundwork for the structure and direction of the Thai Growth and Investment Fund.

An important issue is how to pitch the financial sector conference. A possible theme would be THAILAND AS A REGIONAL FINANCIAL CENTER. This program theme has a number of distinct advantages. It is a positive vision which the financial community and the RTG have already decided to pursue. Moreover, it fits neatly with the Mission's Assistance Management Plan's emphasis on integration into the international economy. Finally, discrete program activities across a broad range of issues, including all of those listed in this report, could be incorporated in varying degrees as contributing to the objective of developing Thailand as a regional financial center. An alternative to the regional financial center theme would be to simply focus on IMPROVING THE EFFICIENCY OF THAILAND'S FINANCIAL MARKETS. This is a straightforward approach with strong rationale in an economy that is rapidly growing and undergoing major structural changes.

The structure of the conference might open with a morning plenary session in which high level speakers would frame the issues of the conference and set its agenda. The first afternoon might then be broken up into working sessions in which groups of expert participants would explore the separate issues in detail, with 3-5 page briefing papers distributed in advance of the conference. Each working group would be co-chaired by a leading Thai and American public official or business executive. With appropriate staff support, the co-chairs would revise the briefing papers into a working group report overnight, and the working group reports would be presented to the conference as a whole the next morning.

In order to be a productive meeting, the conference should be limited to 70 participants, equally split between the two countries. The Thai delegation would consist of senior officials from the Bank of Thailand, the Ministry of Finance, the SET, securities firms, listed companies, the Mutual Fund Company, the IFCT, the telephone company and several of the Thai firms providing services to the Thai financial industry.

In order to begin to gain support in the U.S. Congress for this innovative government-sponsored program, a leading U.S. Senator such as the Chairman of the Securities Subcommittee of the Senate Banking Committee, the House Majority Leader and other distinguished Representatives might be asked to address the plenary session on the role of the U.S. government in the post-Cold War global competitive environment. The American participants would also include a dean of a major business school and senior executives from the NYSE, U.S. investment management firms, investment bank/brokerage companies, commercial banks, service firms (such as Moody's), and representatives from professional organizations of lawyers, accountants and financial analysts.

### Work Plan:

In order to prepare for a successful conference of high-level participants with a target date of mid-October, 1990, the Mission and Price Waterhouse would have to move very rapidly along the lines of the following suggested work plan.

- Early April -** Begin market research to determine the general issues to be addressed by the Fund and develop the specific projects which would be undertaken. Obtain Bank of Thailand involvement in the preparation of 3-5 page briefing papers and co-sponsorship of the October conference. Circulate the report to key Thai and American government and private sector leaders. Conference site selected and travel arrangements initiated.
- Early June -** Research on program areas completed and a preliminary set of Fund projects designed by Price Waterhouse for discussion with USAID. Key conference participants identified and work begun on conference briefing papers that will be extracted from and correspond to the Fund program and portfolio of projects.
- Late June -** USAID and Price Waterhouse team participates in the 1990 United States Information Service (USIS) annual economic seminar in Bangkok and sends up some trial balloons on Fund projects.
- Mid July -** Price Waterhouse team prepares preliminary rough draft of Fund business plan. Conference brochure sent to invitees in Thailand and the U.S.
- Mid August -** Key speakers and working group co-chairs identified. Preliminary partial list of attendees.
- Early September -** Fund business plan approved by USAID/Thailand.
- Mid September -** Final program and attendees list mailed to participants. All arrangements and conference briefing papers completed.

- Early October - USAID/Thailand and Price Waterhouse team prepare to launch the Thai Growth and Investment Fund. Price Waterhouse team briefs conference participants.**
- Mid October - Conference takes place at a convenient location in Thailand.**
- Late October - AID/Thailand - Price Waterhouse team drafts conference conclusions and recommendations for Thai Growth and Investment Fund program actions.**

**APPENDIX A:**  
**SELECTED FINANCIAL STATISTICS**

*B'*

SELECTED FINANCIAL STATISTICS

APPENDIX A

	1985	1986	1987	1988	1989	(Jan. 10) 1990
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GDP GROWTH RATE	3.7	3.5	8.4	11.0	10.4	10.4
1 YR FIXED DEPOSIT RATE	11.0	7.25	7.25	7.25-9.50	9.50	9.50
LOAN/DEPOSIT RATIO	93.3	86.7	89.4	95.8	97.0	97.0
SET INDEX	134.95	207.20	284.94	386.73	879.19	912.18
TRADING VOLUME (MIL. SHARES)	99.3	153.7	923.6	1,579.7	3,253.6	--
TRADING VALUE (US \$ MILLION)	610.5	1,105.5	4,746.9	6,265.97	14,786.94	998.25
NO. OF QUOTED COS.	97	93	109	141	175	177
NO. OF SHAREHOLDERS	181,700	182,597	170,848	228,716	255,188	--
YIELD (%)	8.15	4.30	3.86	3.84	2.07	1.97
P/E (TIME)	9.59	12.34	9.31	12.05	26.39	27.57
MKT. CAP./GDP	4.8	6.9	11.3	15.26	32.4 (E)	32.4 (E)
MKT. CAP./SAV.	7.48	9.76	14.68	18.88	33.4 (E)	33.4 (E)
MKT. CAP. (US \$ BILLION)	1.8	2.8	5.3	8.95	25.86	27.03

SOURCE: SECURITIES EXCHANGE OF THAILAND

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**APPENDIX B:**  
**FINANCIAL INSTITUTIONS IN THAILAND**

## FINANCIAL INSTITUTIONS IN THAILAND

(Million Baht)

<u>Institutions</u>	<u>No.</u>	<u>Household Savings Mobilized</u>	<u>Total Assets</u>
Commercial Banks	30	704,588	1,126,058.9
Finance Companies	94	79,693	195,687.3
Life Insurance Cos.	12	224,234 P	29,257.1
Agricultural Coops.	1,251 E	3,075 E	13,958.6
Savings Cooperatives	785 E	25,020	30,898.4
Pawnshops	338	--	6,504.8
Credit Foncier Cos.	19	1,910	3,918.0
Government Savings Bank	1	105,939	124,273.3
BAAC	1	5,946	37,326.4
Industrial Finance Corp. of Thailand	1	1,910	3,918.0
Government Housing Bank	1	11,114	19,523.7
Small Industries Finance	1	--	78.4
<hr/>			
Total	2,534	961,519	1,611,589.5
<hr/>			

1/ Composed of 16 Thai banks and 14 foreign banks

P = Preliminary figure

E = Estimated figure

Source: Bank of Thailand, Department of Economic Research,  
December, 1989

**APPENDIX C:**  
**PERSONS INTERVIEWED**

## PERSONS INTERVIEWED

### Washington, D.C.

Mr. Zamir Hasan  
Senior Operations Officer  
The World Bank

Mr. Gayle McGuigan  
Investment Officer, Capital Markets Dept.  
International Finance Corporation

Mr. Jun Saito  
Economist, Asian Department  
International Monetary Fund

Ms. Margaret Halliday  
Economist  
Institute for International Finance

Mr. Christopher Barltrop  
Consultant

### Bangkok

Mr. Chavalit Thanachanan  
Governor  
Bank of Thailand

Mr. Pakorn Malamul  
Director, Banking Department  
Bank of Thailand

Ms. Nongnart Sondysuvan  
Department of Economic Research  
Bank of Thailand

Ms. Suchada  
Department of Economic Research  
Bank of Thailand

Ms. Chusri Daengprapai  
Financial Institution Supervision and  
Examination Department  
Bank of Thailand

**Mrs. Udonsap Tachakamput**  
**Bank Supervision and Examination Department**  
**Bank of Thailand**

**Ms. Salinee Wangtal**  
**Bank Supervision and Examination Department**  
**Bank of Thailand**

**Mrs. Phanni Triswasdi**  
**Deposit and Bond Department**  
**Bank of Thailand**

**Ms. Aroonsri Tivakul**  
**Deposit and Bond Department**  
**Bank of Thailand**

**Mr. Ronasak Ruenguirayudh**  
**Deposit and Bond Department**  
**Bank of Thailand**

**Mr. Pakorn Thavisin**  
**President**  
**Thai Danu Bank**

**Mr. Banyong Lamsam**  
**President**  
**Thai Farmers Bank**

**Mr. Olarn Chaipravat**  
**Senior Executive Vice President**  
**Siam Commercial Bank, Ltd.**

**Mr. Chulakorn Singhakowin**  
**Executive Vice President**  
**Bank of Asia Ltd.**

**Dr. Maruey Phadoongsidhi**  
**President**  
**Securities Exchange of Thailand**

**Dr. Weerasak Suk-Anarak**  
**Vice President**  
**Securities Exchange of Thailand**

**Ms. Puangsri Prachuabdee**  
**Assistant Vice President**  
**Securities Exchange of Thailand**

**Mr. Pakhawat Kovithvathanaphong**  
**President**  
**Securities One Limited**

**Mr. Sukhum Singaravanij**  
**President**  
**Dhana Siam Finance and Securities Co.**

**Mr. Vicharat Vichit-Vadakan**  
**Director**  
**Association of Members of the Securities Exchange**

- - - -  
**Managing Director**  
**Capital Securities and Finance Co.**

**Mr. John Johnstone**  
**Managing Director and Chief Executive**  
**Tara Siam Limited**

**Mr. Chesada Loha-unchit**  
**Managing Director**  
**Tara Siam Business Information Ltd.**

**Mr. Marshall Parke**  
**Managing Director**  
**Manistee Limited**

**Mr. Charles F. Bell II**  
**Financial Director**  
**Aquastar Ltd.**

**Mrs. Bunnam Oourairat**  
**Fiscal Policy Office**  
**Ministry of Finance**

**Mr. Udom Vichayabhai**  
**Managing Director**  
**Mutual Fund Co., Ltd.**

**Mr. Aswin Kongsiri**  
**President**  
**Industrial Finance Corporation of Thailand**

**Mr. Adisak Sigkhabhand**  
**Deputy Fund Manager**  
**Industrial Finance Corporation of Thailand**

**Dr. Pakorn Vichyanond**  
**Research Fellow**  
**Thailand Development Research Institute**

**Ms. Rachaniwan Uthaisri**  
**Executive Director**  
**Thai Institute of Banking and Finance**

**Mr. Thomas A. Seale**  
**Executive Director**  
**American Chamber of Commerce in Thailand**

**Mr. Ted Heyermann**  
**Vice President and Manager**  
**Bank of America**

**Mr. David L. Hendrix**  
**Vice President**  
**Citibank**

**Mr. Jim Musin**  
**General Manager**  
**American International Group**

**Mr. John Kelly**  
**Director and General Manager**  
**Price Waterhouse**

**Mr. Derek Pott**  
**Partner**  
**Price Waterhouse**

**Mr. David Lyman**  
**Senior Partner**  
**Tilleke & Gibbins**

**Mr. Bob Glass**  
**Economic Advisor**  
**U.S. Embassy**

**Mr. Robert B. Duncan**  
**Counselor**  
**U.S. Embassy**

**Telephone Interviews:**

**Mr. Richard Vechter**  
**Assistant to the U.S. Executive Director**  
**Asian Development Bank**  
**(Manila, the Philippines)**

**Mr. Ruey Bellow**  
**C.I.D.A.**  
**Embassy of Canada**

**Mr. Harold Vickery**  
**Partner**  
**Vickery Prapone Pramuan & Worachai**

**Mr. Andrew Wynne**  
**Partner**  
**Price Sanond Prabhas & Wynne**

**Mr. Leonard Chinitz**  
**Partner**  
**International Legal Counsellors**

**Mr. Philippe Annez**  
**Regional Mission Chief**  
**World Bank**

**Ms. Netnarumon Sirimonthon**  
**Program Officer**  
**United Nations Development Program**

**APPENDIX D:**  
**FINANCIAL MARKETS ACTIVITIES OF OTHER DONOR AGENCIES**

## International Finance Corporation (IFC) -

Outside of financing projects in selected industries such as petrochemicals, steel, agribusiness and cement, according to the local Project Officer, the IFC's activities consist of the following:

1. Technical assistance to the Ministry of Finance in the privatization of state-owned enterprises.
2. Technical assistance to the SET in forming a Thai Securities and Exchange Commission. This is being handled out of Washington, D.C. where we were told that the IFC is also helping to draft securities laws. This was confirmed by the Bank of Thailand's Department of Economic Research.

### Reference:

Mr. Jess Priebjivat  
Project Officer  
International Finance Corporation - Thailand

Mr. Gayle McGuigan  
Investment Officer, Capital Markets Dept.  
International Finance Corporation

## The World Bank

The World Bank has prepared a lengthy study on the financial sector in Thailand that includes recommendations on areas for financial market improvement. The study was issued in green cover in late February 1990 to a very limited distribution. Depending on the desire of the Thai government, the World Bank may provide some follow-up technical assistance. Its present activities in Thailand consist of more traditional sectoral financial projects. The Fiscal Policy Office at the Ministry of Finance mentioned that they had asked the World Bank to do a study of loan refinancing.

### Reference:

Mr. Philippe Annez  
Regional Mission Chief  
World Bank - Thailand

## Asian Development Bank (ADB)

The ADB's current portfolio of projects in Thailand consists of the following activities:

1. **Technical assistance to the SET to provide training in the use of automated systems. The budget of \$100,000 was expected to be approved in late February, 1990. The project officer is Mr. Mathur.**
2. **Study of the securities regulation division within the MOF. The study has two objectives: i.) to provide recommendations regarding the role, function and organization of the proposed securities regulation division within the MOF, and ii.) to review existing rules and legislation governing the issuance of capital markets instruments and recommend revisions in them. According to the project officer, Mr. Martin Nichols, SEC regulations have already been drafted; the ADB will assist in a review of the regulations, staffing, training and other human resource needs. The budget of \$350,000 was expected to be approved in late February.**
3. **Feasibility study for a credit rating agency. The \$108,000 budget was approved in December, 1989. Mr. Martin Nichols, the project officer, said the project will focus mostly on ratings for bonds. Although very few bonds exist, it is hoped that a credit rating agency will help to encourage development of the bond market. The ADB has proposed that the credit rating agency be predominantly private sector owned with some portion of its equity held by the Bank of Thailand. The ADB already has some experience in this area, having set up a credit rating agency in Malaysia last year.**
4. **Establishment of joint public/private power companies. This proposal will be submitted to the President for approval in the second quarter of 1990. The budget is \$1.5 million and the project officer is Mr. K. Nyman.**

#### Canadian International Development Agency (CIDA)

CIDA has no current programs involving Thai capital markets. They provide a major source of funding (\$15 million) to the Thailand Development Research Institute (TDRI) for their research but do not get involved in deciding what TDRI will study. For the moment, they are not contemplating any technical assistance projects involving the capital markets.

#### Reference:

Mr. Ruey Bellow  
Canadian Embassy.

#### Japanese International Cooperation Agency (JICA)

JICA is not directly involved in providing technical assistance for Thai financial markets development. The "Development Finance Scheme" project provides seed money to Thai-Japanese joint ventures for pilot activities. JICA also sponsors a

**program which provides credit guarantees for loans to small Thai businesses.**

**Reference:**

**JICA Representative  
Bangkok**

**APPENDIX E:**  
**PROJECT STAFFING AND MANAGEMENT**

## PROJECT STAFFING AND MANAGEMENT

Dr. Willard Sharpe was the team's leader and commercial banking specialist. Dr. Sharpe is an economist with extensive experience in Asia, having spent nine years with Chase Manhattan Bank as their principal economist for the Asia-Pacific area. Prior to Chase, Dr. Sharpe worked for the U.S. Government for 20 years for the Treasury Department and A.I.D. Dr. Sharpe holds a PhD in Economics from Harvard University.

Mr. John Bowles served as the team's capital markets specialist. Prior to starting his own financial and management consulting firm, PPA Incorporated, in 1982, Mr. Bowles was a Vice President and shareholder of the investment banking firm of Kidder Peabody in New York where he worked for 18 years. Mr. Bowles holds an MBA from the Wharton School.

The Project Manager was Ms. Julia Philipp, a Senior Consultant at Price Waterhouse with previous experience as a Corporate Finance Associate at Chemical Bank's investment banking affiliate in New York. Ms. Philipp holds an MBA from the Wharton School.

Project oversight was provided by Mr. J. Richard Breen, Director of the Financial Sector Development Project. Mr. Breen has held several senior-level positions in the U.S. government, including Associate Assistant Administrator for the U.S. Agency for International Development. In the private sector, Mr. Breen has held a number of senior management positions, including President of an international corporation. Mr. Breen holds an MPA from Syracuse University and completed the Key Executives Program at the Harvard Business School.

Mark Camstra, Deputy Director of the Financial Sector Development Project and currently working on a five-year USAID capital markets project in Indonesia, provided additional project oversight. Prior to joining Price Waterhouse, Mr. Camstra worked for General Motors and Union Bank. Mr. Camstra has an MBA from the University of Southern California and an MA from the Johns Hopkins School of Advanced International Studies.

APPENDIX F:

THE NATION, FEBRUARY 27, 1990 ARTICLE:  
"PLAN GOES FOR FINANCIAL REFORMS"

# Plan goes for financial reforms

SAM-ANG VUTISAKSATIT  
The Nation

THE Seventh National Economic and Social Development Plan will aim to transform Thailand into the main financial centre of Southeast Asia, informed sources said.

The Plan's draft for the financial sector is expected to call for separate budget allocations at both the national and provincial levels and urge that provincial bodies be authorized to issue bonds to finance local development and investment projects, the sources disclosed.

The financial sector reforms are part of a broader plan to turn Thailand into a regional financial centre under which long-term stability would be stressed and mechanisms created to deal with short-term instability.

The underlying problems addressed by the Plan are to include the widening gap between investment and savings, the unequal distribution of assets, inefficient budget allocation and politically-instigated delays in the privatization of state enterprises.

The financial sector draft plan also features a proposal to create greater



Maruey: bid to attract firms independence for the Bank of Thailand. Meantime, structural reforms of the capital market and fiscal operations will continue. The long-awaited implementation of a secondary market will strengthen the bond market. The economic planners will also

propose major changes for budget allocation procedures. A "multi year rolling" plan is to be instituted for the national budget. Both the national and provincial budgets will be decentralized in an attempt to boost Thailand's trade and investment competitiveness and to strengthen domestic self-sufficiency.

In addition, the Plan will recommend the introduction of financial incentives to promote research and development and companies will be encouraged to list on the stock market to ensure a broader distribution of ownership.

The Seventh Plan will also stress "quality of life", placing emphasis on the environment and natural resources. Communities will be encouraged to take better care of their local environment and state enterprises will be required to invest in environmental protection.

For example, reforestation projects will be encouraged to seek stock market listing. And the attractiveness of pension funds and life insurance companies as instruments for saving will be enhanced.

The Plan will continue to emphasize financial and tax incentives for people

who own houses.

Dr Maruey Phadoongsidhi, president of the Securities Exchange of Thailand, said the stock exchange would try to attract firms whose operations are in tune with national development priorities. This would include utilities and companies that have gained government concessions for operations in such fields as reforestation and tourism.

He said the stock exchange would study ways of overcoming the problem of listing concessionaires whose business lives are limited. For example, they companies could gain listing approval for the first year of their concession periods.

Informed sources said companies such as the Bangkok Expressway Co and Don Muang Tollway Co, both of which have been granted concessions to build highways, would fit this category. Such firms require large capital injections.

Maruey said the target set by the Sixth Plan, which expires next year, for privatization of state enterprises had not been met. Nevertheless, the programme would continue during the Seventh Plan, he added.

27