

TECHNICAL ASSISTANCE COMPLETION REPORT

Governance, Finance, and Trade Division
Southeast Asia Department

TA No. and Name TA 3355-THA: Restructuring of Specialized Financial Institutions			Amount Approved: US\$3,000,000	
			Revised Amount: US\$3,000,000	
Executing Agency: Ministry of Finance	Source of Funding: Asian Currency Crisis Support Facility		TA Amount Undisbursed US\$186,951.15	TA Amount Utilized US\$2,813,048.85
Approval	Signing	Date	Completion Date	
		Fielding of Consultants	Original	Actual
21 Dec 1999	19 Sep 2000	Corporate Governance Component: 22 Jan 2001 and 5 Jan 2002	30 Apr 2002	31 March 2006
		SME Component: 22 Jan 2001	Closing Date	
			Original	Actual
			30 Apr 2002	29 June 2006
Description				
<p>The TA grant was piggy-backed to TA Loan 1735: Restructuring of Specialized Financial Institutions (SFIs). The TA loan and grant were designed to contribute to Thailand's recovery from the Asian crisis by making the financial sector more resilient through governance reforms, and by accelerating the access of small and medium-sized enterprises (SMEs) to bank credit. The grant was provided in parallel with the TA loan to ensure the sustainability of the overall restructuring initiative following the 1997 Asian financial crisis.</p> <p>The TA grant had two main objectives: (i) to rationalize the Government's role in the financial system and the SFIs, and to establish appropriate governance structures for SFIs and (ii) to develop appropriate institutional mechanisms and strategies for SME financing. It consisted of two components: (i) rationalization of and corporate governance for SFIs and (ii) financing strategy for SMEs.</p>				
Expected Impact, Outcome and Outputs				
<p>For the corporate governance component, expected outputs, outcome and impact were: (i) Government's role and rationale for involvement in financial sector and among SFIs are formulated; (ii) corporate governance framework for SFIs, including an institutional and incentive structure is developed and implemented; and (iii) corporate governance core principles are adequately communicated and internalized through effective workshops for Government officials, regulators, and SFI executives, and interaction with consultants.</p> <p>For the SME component, expected outputs, outcome and impact were ; (i) measures to help SME access debt and equity capital through channels such as venture capital or guarantee facilities are defined; (ii) options are evaluated and feasibility studies undertaken for a specialized SME bank or fund and guarantee corporation; and (iii) training programs on SME financing and development have been provided to Government officials and SFI staff.</p>				
<p>Fiscal Policy Office (FPO) of the Ministry of Finance (MOF) served as the Executing and Implementing Agency. Policy guidance and direction was provided by a steering committee chaired by the Director General of FPO, and included representatives from Ministry of Industry, SFIs, and BOT. The SME component was implemented over nine months compared with the expected duration of six months, while the corporate governance component was implemented over four years, compared with the expected implementation period of two years.</p>				
<p>A 3-phased development and implementation of the corporate governance component ensured the effective delivery of the required corporate governance system which included: (i) a public services account (PSA) for separating commercial from policy lending; (ii) a reporting system and performance indicators for the SFIs, (iii) a monitoring system in the MOF that linked the reporting format to the public services accounts in the SFIs, and (iv) other corporate governance mechanisms including a corporate governance code and draft articles of association.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The project was well conceived to respond to the challenges that the SFIs and the Government faced. As implementation began, the Government and ADB agreed that the passage of time, as well as the changed economic and policy circumstances, justified modifications to the weight of effort and allocation of resources to the project's components. These modifications, however, did not alter materially the project objectives or scope, and were reasonable responses to the changing needs of the SFIs and the Government.</p>				
<p>The SME component was implemented as conceived, but the corporate governance component encountered initial implementation difficulties. Once redesigned, however, this was likewise implemented successfully.</p>				

The cost at appraisal was \$4.32 million equivalent, comprising foreign exchange costs of \$2.40 million and local currency costs of \$1.92 million equivalent. While the actual costs appear to be higher than the original estimates, the TA grant account had an undisbursed balance of \$186,951 as of 26 June 2006.

Component 1 of the TA involved upgrading financial services to SMEs. This component was designed to be implemented in parallel with a World Bank program that addressed corporate debt restructuring. The intention of both programs was to accelerate the access to bank credit, thereby promoting an early economic recovery through increased investments. The Asian crisis had hit SMEs hard, and they were having great difficulties accessing bank credit. At the same time, SMEs accounted for 96% of registered enterprises and 70% of all industrial employment in the country. The inclusion of the development of an SME financing strategy under the TA grant was intended to enhance SME access to bank credit, and correspondingly to support an early industrial recovery. The SME financing strategy, based upon the experiences in many other countries, was developed effectively and presented to the Government in September 2001. Consulting services for this component was satisfactory.

Component 2 which involved the development of corporate governance in the SFIs faced implementation difficulties arising from its design. The consulting contract for the development of the corporate governance component was terminated in March 2002 due to nondelivery of key components, namely a corporate governance framework and the associated monitoring and surveillance systems. While a consulting contract failed, a fundamental difficulty arose from the design of the process which did not anticipate the need for an interactive and flexible approach to implementation. ADB staff and relevant Government officials conceptualized the required interactive process to include: (i) the review of existing materials and development of the broad TORs for the design of a governance implementation plan; (ii) detailed design of the scope of the implementation plans, and an assessment of the resources needed for their implementation; and (iii) implementation of all designed systems in the four beneficiary SFIs. The expected outputs reflected the original objectives and scope of the TA grant. Their phased implementation required a high level of staff inputs. This resulted in a sharper focus on key expected project outputs: (i) a system of PSA; (ii) a monitoring and reporting system for FPO and SFIs; (iii) a set of corporate governance codes and implementation guidelines; and (iv) capacity building in the SFIs, FPO and other government agencies. Almost all SFIs, not just the four original targets, received capacity building support under the TA grant.

ADB recruited individual experts to address these corporate governance TORs, which were augmented by major input of staff resources to coordinate those inputs and ensure full Government involvement and ownership. This considerable input of staff time and resources, and the extensive dialogue with all of the agencies involved in the project, was necessary to win acceptance and ownership of the TA outputs, given the initial failure to meet Government and ADB expectations under the contract. These changes reflected the need to select highly qualified individual consultants to ensure leading edge governance inputs, while providing an overall framework for policy dialogue. This continuity in the policy dialogue, which entailed soliciting the views of relevant Government officials and ensuring effective incorporation of their feedback, was necessary to ensure Government ownership.

The performance of ADB was satisfactory. The performance of the EA was likewise satisfactory. The performance of the consultants were rated as follows: i) satisfactory for the consulting team for the SME component; ii) marginal for the initial consulting team for the corporate governance component; and iii) excellent and satisfactory for the subsequent individual consultants for the redesigned corporate governance component.

Evaluation of Outputs and Achievement of Outcome

The SME study provided a useful set of recommendations that were based on approaches used successfully in other countries. Perhaps the most enduring has been the need to support the borrowing entrepreneurs with technical skills and marketing support.

Under the SFI governance reform component, the FPO embarked on a program to restructure and strengthen the corporate governance of the SFIs. As part of these efforts, the costs associated with social or public policy objectives were to be segregated, and a sound reporting and monitoring system for SFIs was to be established within FPO. Applied training for FPO officials on the technical and policy sides supported the governance system that emerged from the inputs of Government officials, consultants, and ADB staff. As a further consequence of these efforts, the informal unit in FPO that was responsible for supervising the SFIs was upgraded to a formal unit in 2002 to better address these governance issues. The governance reform program has been increasing the efficiency and transparency of SFIs through improved corporate governance and rationalization.

The consultants developed a generic code of corporate governance applicable to all SFIs. In addition, they provided model articles of association and implementing guidelines, so that the governance code and articles of association could be adapted to the individual institutions and then approved by the government. Besides the recommendations for improving SFIs' corporate governance, enhanced reporting systems – including a spread sheet based monitoring system – were instituted to provide the necessary regulatory oversight. Subsequently, the corporate governance code and articles of association were tailored for two SFIs – SME Development Bank and for BAAC – for implementation on a pilot basis.

A noteworthy output is the development of a system of accounts for separating commercial from directed lending. The PSAs that were developed enable public enterprises—financial and nonfinancial—to be held accountable or compensated transparently for the tasks and objectives for which they assume responsibility. A reporting system was added, and performance indicators for the SFIs were developed. The design of a monitoring system for SFIs was an innovative feature of the project, and linking this to the PSA was highly noteworthy. Most importantly, FPO staff played a key role in conceptualizing and implementing the PSA and monitoring systems. In these areas, FPO now has the capacity to develop further refinements of its own choosing.

Disbursements were delayed substantially due to the design reformulation of the corporate governance component.

Overall Assessment and Rating

The overall rating of the Project is successful. Detailed ratings are: highly relevant, effective, efficient, most likely sustainable.

The objectives were achieved effectively. The outputs were useful in helping the Government ensure the effectiveness of SFIs in undertaking public service obligations. The resulting development benefits have contributed substantially to poverty reduction and SME development.

The TA provided enhanced strategies for the SFIs to address SME needs. Perhaps most importantly, it designed governance enhancements in cooperation with FPO for the SFIs themselves. The establishment of an SFI policy section within FPO also has strengthened supervisory capacity and created continuity in policy formulation and governance reform implementation. The TA outputs contributed to implementation of new governance mechanisms in selected SFIs, and to better monitoring of SFI performance by FPO.

Major Lessons Learned

1. In project design, two factors should be recognized. First, the domestic political process will determine outcomes. Second, project design will need to be adjusted during implementation to reflect this process.
2. Government commitment and ownership of a project is the single most important factor in its successful implementation.
3. Governance reforms cannot be promoted effectively with consulting firm support, as the outputs cannot be specified fully in advance. ADB staff involvement is needed in conjunction with individual consultants to adjust the programs during implementation to meet the needs of the Government effectively.

Recommendations and Follow-Up Actions

In middle-income countries such as Thailand, a partnership framework is a more suitable approach to providing development assistance. Clearly, alternative modalities are available to achieve the same development objectives. Since the most important determinant of success is government ownership, development assistance must be designed to assist the government through its chosen modalities.

ADB should remain vigilant about Thailand's changing economic circumstances, and adapt its modalities to the country's needs. At this juncture, a development partnership with Thailand is clearly required. This implies that ADB staff will need to be involved fully in the innovative design and delivery of development banking and capital market services. The client's needs must be viewed with the utmost importance, and programs and projects must be adjusted to meet the changing needs of the government.

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Designation

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