

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: PSIF2

TA No., Country and Name			Amount Approved: \$670,000	
TA 4558 - THA : Commercial Financing for Local Government Units			Revised Amount: \$612,431	
Executing Agency: Public Debt Management Office		Source of Funding TASF	Amount Undisbursed: \$0	Amount Utilized: \$612,431
TA Approval Date: 12 Jan 2005	TA Signing Date: 22 Feb 2005	Fielding of First Consultant: 23 May 2005	TA Completion Date Original: 28 Feb 2007 Actual: 27 Feb 2008	
			Account Closing Date Original: 28 Feb 2007 Actual: 18 Mar 2009	
Description				
<p>To further its decentralization policy for local government units (LGUs), the Government of Kingdom of Thailand (the Government) requested the ADB to provide a technical assistance (TA) to facilitate commercial borrowing by local government units (LGUs).</p> <p>Traditionally, financing and implementation of utility and infrastructure services in Thailand have been a function of the central Government. Such financing has included budget-funded projects delivered by central Government agencies, the use of state-owned enterprises to raise financing under a sovereign guarantee, and capital grants to LGUs. Following the Constitution of 1997 and the Decentralization Act of 1999, which aimed to significantly change local public expenditure arrangement, LGUs are expected to play a much greater role in providing urban infrastructure and services. While the reallocation of resources to LGUs will assist them in meeting their new obligation, they will need to raise additional finance to meet the considerable investment demand that accompanies urbanization. There is now increasing attention to the concept of subsovereign debt as a means to fill the investment gap for urban infrastructure services. A new Public Debt Management Act includes a provision prohibiting the central Government from providing sovereign guarantees to subsovereign borrowing. The reliance of LGUs on the central Government for funding and technical expertise has undermined the development of management and financial and management capacity within the LGUs. A weak regulatory framework, together with weak LGUs with limited capacity to generate revenue, has not been conducive to the entry of the commercial market into the subsovereign debt area. To improve confidence in the commercial market, LGUs need to build capacity and demonstrate commitment to resource mobilization reform.</p> <p>In this context, the TA had the following objectives: (i) to strengthen the capacity of local governments in financial reporting and project planning and execution; (ii) to assess existing LGU accounting and auditing practices and suggest improvements consistent with best international practices, realistically phased in so as to be sustainable; (iii) to develop and implement detailed rules governing government borrowing from commercial lenders and issuance of bonds, with such rules to support enforceable security structures and removal of unnecessary deterrents to purchase local government bonds by major investor classes; and (iv) to identify and structure two pilot projects for bond issuance for distribution to a multiple and diversified private investor base. The TA would help contribute to the building of a private market credit culture, which improves the access to finance of local governments that are able to regularly transmit professionally assembled transparent information to markets.</p>				
Expected Impact, Outcome and Outputs				
<p>The expected impact of the TA was increased access by LGUs to debt finance from commercial banks and bond markets for local development. The expected outcomes of the TA included the (i) establishment of accounting practices acceptable to the market, (ii) establishment of financial and management systems acceptable to international credit rating agencies, and (iii) addressing weaknesses in the framework that governs LGU borrowing in the market. The key outputs of the TA were divided into 5 Components (Components A, B, C, D, and E). Component A included the (i) identification of eligible LGUs to participate in the TA, and (ii) a diagnostic study comparing LGU accounting practices in Thailand with best practice. Component B included (i) the development of an accountant training course, (ii) assessment of the needs, strategy to strengthen capability, knowledge and database covering general LGU management, general LGU economic tax base, and project execution and operational capability; and</p>				

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

(iii) assessment of pricing arrangement including risk analysis for revenue collection and requirement for subsidies. Component C included the review of primary legislation and subordinate regulations, and development of regulations to give legal protection to borrowers, investors, and guarantors. Component D included the (i) assessment of the competitive advantages of public sector agencies over private sources; (ii) identification of obstacles to investment from the private sector, and development of strategies to mitigate constraints, and (iii) promotion of an internal and external rating systems consistent with best practice. Component E included the identification and development of pilot transactions.

Delivery of Inputs and Conduct of Activities

The scope of the TA and terms of reference (TOR) of the consultants clearly defined the expected quality and approaches of the inputs at the time of approval. However, during implementation, a minor change in scope was made in light of the developments in legal and regulatory framework in Thailand. Activities relating to legal and regulatory framework, accounting and financial reporting, and bond market were considered high priorities, and activities relating to pilot projects preparation and execution (Component E) were dropped. Conversely, activities relating to the legal and regulatory framework were expanded to include the preparation of a manual for LGUs to prepare projects for commercial financing.

The Consultant's initial performance was unsatisfactory. Thus, ADB requested for a replacement of the team leader with expertise in municipal finance to handle the prioritized activities. In view of the time spent to replace the team leader and the expansion of the consultant's scope of work, the TA completion date was extended from 28 February 2007 to 30 June 2008. At completion, the Government, executing agency, and ADB were satisfied with the performance and remaining outputs of the consultants.

PSOD provided extensive support to the TA, including fielding of review missions and timely processing of contract variation requests. Likewise, TRM provided guidance and resolution of technical and implementation issues. TRM closely coordinated with the consultant and reviewed the consultant's outputs. Close communication and consultation were maintained between the consultant team, PSOD and TRM during the entire TA period. The performance of PSOD, TRM, and the executing agency in implementing the TA is considered satisfactory.

Evaluation of Outputs and Achievement of Outcome

The first three reports did not satisfactorily achieve the initially expected outputs and outcomes due to changes in the regulatory and legal framework in Thailand and the reports' general lack of quality. Specifically, the reports did not provide adequate practical recommendations or guidelines for borrowing by LGUs based on international experience. However, after decisive action by PSOD and TRM, a new team leader was recruited and the scope of the TA was adapted to the new regulatory and legal environment (see preceding section). After a temporary suspension of the TA in January-March 2007, a special review mission was fielded, and thereafter the personnel schedule, budget allocations and timetable were revised in order to achieve the prioritized outcomes.

Subsequently, the TA produced reports in six volumes that fully achieved the revised objectives and assisted the Government in: (i) analyzing the legislative and regulatory framework for LGU finance, (ii) examining the current practices of LGUs in borrowing from donors and financial institutions, (iii) exploring the prospects for developing a market for local administration bonds, involving private investors and market intermediaries, (iv) reviewing LGUs' accounting and financial systems and practices, and making recommendations on accounting standards for LGUs, (v) addressing LGU revenues, which are crucial to ensuring adequate debt service and hence a key aspect of local administration capacity, and making detailed recommendations for more effective and transparent LGU borrowing, and (vi) building local administration capacity by offering a practical manual and toolkit to help LGUs more effectively borrow for capital investments. In general, the reports were timely, well-researched, clearly written and focused on key issues. The consultants also delivered a manual, accompanied by a CD-Rom with extensive supplemental materials, to guide local officials through the steps of borrowing for capital investments within the Thai context. The manual helps LGU officials to decide from which lender they should borrow, provides guidance and sample materials related to obtaining the necessary approvals from the central Government, and provides detailed and practical information on the steps involved in issuing bonds, i.e. (i) assembling a team and organizing the bond issuance process, (ii) structuring the debt instrument and developing financial and disclosure documents, (iii) marketing and selling the bonds, (iv) carrying out immediate post sale activities, and (v) fulfilling ongoing debt service, disclosure and reporting requirements.

A regulatory workshop was also conducted covering the draft LGU borrowing guidelines, key legal issues for LGU borrowing and bond issuance, as well as international practices and experiences. The workshop was well received and attended by officials from the Public Debt Management Office, the Fiscal Policy Office, Securities and Exchange Commission, Bank of Thailand, Department of Local Administration, Ministry of Interior, Bangkok Metropolitan Authority and representatives from LGUs. A hearing on the draft LGU borrowing guidelines was also conducted with representatives from Public Debt Management Office, Ministry of Interior, representatives from LGUs and

academics.

Overall Assessment and Rating

The TA outputs significantly achieved the TA objectives after the minor change in scope, which took into account regulatory changes in Thailand. The consulting team fully completed the tasks specified in the revised TOR. The key findings and recommendations outlined in the six volumes of TA reports subsequent to the restructuring of the TA were well-received by the EA, LGUs and other Government agencies. Moreover, the TA was successful in providing practical guidance to LGUs desiring to issue bonds for infrastructure projects. Considering the initial difficulties and subsequent success, the TA is rated partly successful.

Recommendations and Follow-Up Actions

The TA produced important findings allowing Government agencies, LGUs and financial market participants to analyze the LGU finance market, as well as practical recommendations for the Government to promote transparent LGU borrowing from the capital markets. The TA made specific recommendations on the issuance of initial benchmark transactions and implementing programmatic and legal measures. It also produced important findings for ADB to support the Government in promoting LGU bond issues for needed infrastructure projects. For example, ADB could provide a financial guarantee to support market development by extending the maturities for LGU debt in order to match its tenor with the cash flows from capital investments.

Prepared by: Daniel Wiedmer
Josephine Orense

Designation: Investment Specialist, PSIF2
Senior Operations Assistant, PSIF2