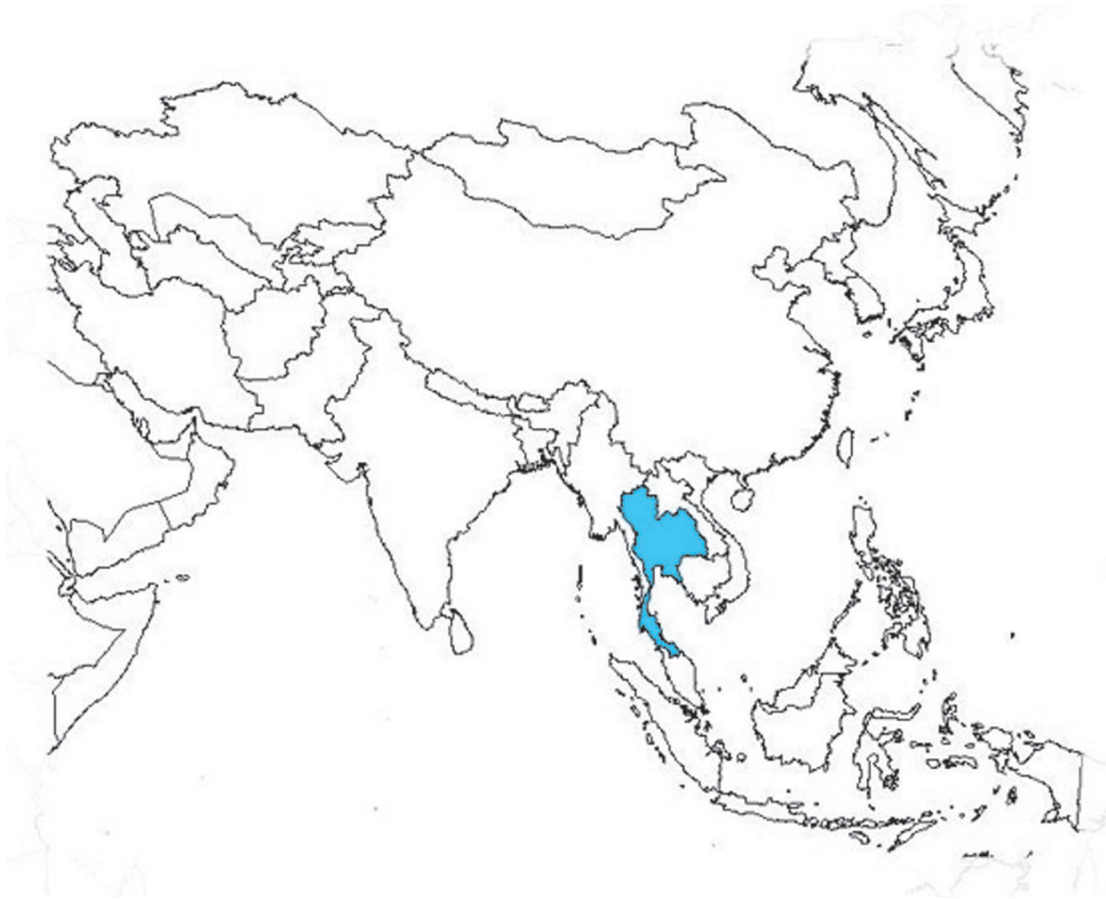




**REPORT**  
October 2003



# SRI

## IN ASIAN EMERGING MARKETS:

# THAILAND

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INTERNATIONAL FINANCE CORPORATION  
World Bank Group

### SRI in Asian Emerging Markets

Sponsored by the **IFC Sustainable Financial Markets Facility**

ASRIA wishes to thank the International Finance Corporation for its sponsorship of the project and the Report 'SRI in Asian Emerging Markets'. IFC's support has been provided via its Sustainable Financial Markets Facility (SFMF), a multi-donor technical assistance facility established to promote environmentally and socially responsible business practices in the financial sector in emerging markets. The SFMF is currently funded by IFC and the governments of the Netherlands, Switzerland and Norway. The SFMF grant was directed in particular to the reports on China, India, Indonesia, Korea, Malaysia, the Philippines and Thailand. IFC is the private sector arm of the World Bank Group ([www.ifc.org](http://www.ifc.org)).

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### Methodology

This Report was produced in collaboration with researchers in each country. Research has largely been conducted by telephone, face to face interviews, media and internet searches.

### Disclaimer

ASRIA does not guarantee that every relevant organisation and individual has been covered in each market. With the resources available in each market, the reports make every effort to focus on key areas of relevance, to deliver data that is accurate and opinions that are objective and balanced.

## Foreword



The expansion of Asia's private sector and its accompanying investment opportunities are forever changing the global economy. Yet as home to roughly half of the world's population, rapid industrialization, expansion of information technology, and urbanization underway throughout East and South Asia pose enormous challenges that must be recognized by private investors and governments alike. Hundreds of millions of people are in the process of moving permanently from the countryside to cities. Rapidly expanding businesses are making further demands on resources. Throughout the region, clean water, clean air, biodiversity, fisheries, fertile soils, and improved standards of living are all at risk because of unsustainable development.

For the most part, portfolio investors in Asia have yet to explicitly recognize the complex array of issues that could hinder long-term private business and investment returns. The socially responsible investment industry - a \$2.4 trillion worldwide industry that includes 760 retail funds and hundreds of institutional investors - has only just begun surfacing in Asia and has yet to fully demonstrate how its techniques can contribute to business performance. Research commissioned by IFC on the SRI industry indicates that SRI assets amount to only \$2.2 billion in all emerging markets, including Asia. That is less than one tenth of 1 percent of the worldwide total. Only \$1 billion in SRI assets is held by developing country investors.

Evidence shows that SRI investment approaches provide returns at least as strong as funds that don't take social, environmental, or corporate governance factors into account. Well-constructed and well-managed SRI funds have consistently proven to match or outperform their benchmarks. In the context of such enormous challenges facing Asia today, SRI has potential for contributing further to improved environmental and social conditions. SRI investors can also be a factor in improving long-term economic competitiveness by positively influencing corporate behavior and governance.

The International Finance Corporation, the private sector arm of the World Bank Group, shares the caution and conservative nature of most other financial institutions, in line with our fiduciary responsibility to shareholders. Yet in the process of nearly 50 years experience investing in developing countries we have learned how good investment returns are compatible with creating employment, a healthy environment, and an improved quality of life in developing countries. We set high standards for corporate governance and environmental and social performance and innovation, not only to fulfill our development mission, but because our investments in nearly 3,000 companies in 140 countries have demonstrated that there are valuable business benefits from initiatives that help progress toward sustainable development. IFC's experience would indicate that SRI investors likewise may be able to gain insight and better exploit hidden market opportunities by focusing on sustainability leaders.

The International Finance Corporation is fortunate to have been able to work with a partner like ASRIA to bring the message of sustainable investment to a wider audience. SRI has great potential in the emerging markets. Realizing this potential requires objective and thorough analysis of the investment opportunities and barriers; targeted programs of research, awareness raising and capacity building; and strong international partnerships to influence framework conditions and catalyze the market. The pioneering research undertaken by ASRIA and its partners for this report is another significant step forward. More needs to be done, and IFC and its Sustainable Financial Markets Facility look forward to playing their part.

We are grateful to the governments of the Netherlands, Switzerland, and Norway, whose cofounding enabled IFC to sponsor this important work.

A handwritten signature in black ink, appearing to read 'Javed Hamid', written in a cursive style.

Javed Hamid  
Regional Director for East Asia & Pacific  
International Finance Corporation

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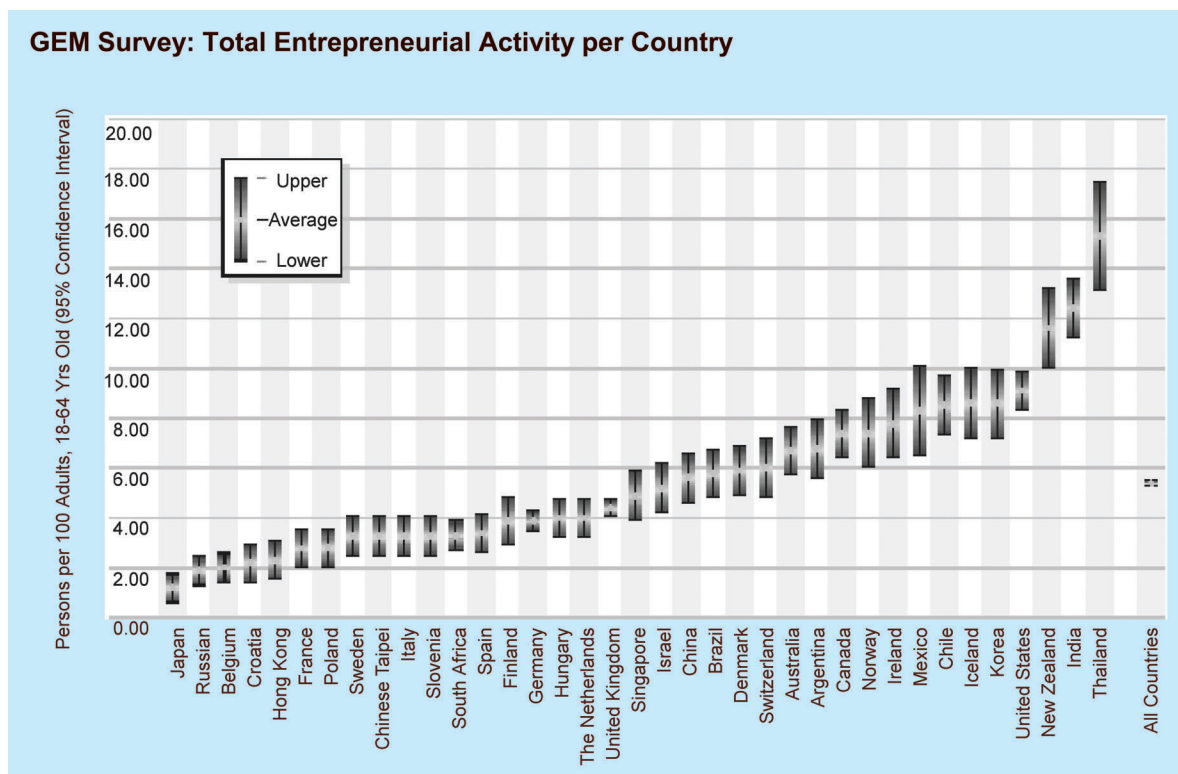
## 1.0 EXECUTIVE SUMMARY

When visiting Bangkok for the first time, Thailand strikes one as a comparatively developed country, especially compared to its neighbors. In the immediate vicinity, only Singapore and Malaysia have more comprehensive infrastructure and services. Bangkok in many ways is a modern urban metropolis, with its shopping malls, elevated commuter railway and soon to open subway system. But look beneath the surface and a number of significant development challenges become evident. Although manufacturing has leaped ahead of agriculture as the major export earner, farming still supplies over half the population with their livelihoods. Many of these farms are barely viable economic units and, increasingly, people living in the countryside have to find alternative ways of supplementing their meager incomes. Meanwhile, in the cities the family firm is still far and away the dominant business model and even where companies seek outside finance they generally buy debt rather than sell equity.

In the capital markets, it is rare to find a corporation where the founding family is not the majority shareholder. Labour standards, environmental awareness and protection and corporate governance all lag more developed nations. Moreover, economic growth that was up until recently based on the ready availability of cheap labour is now being squeezed by competition from other countries with abundant labour supplies and lower living costs.

However, Thailand is a nation of entrepreneurs. In the 2002 GEM Survey of Entrepreneurial Activity\*, Thailand **scored highest** (see chart below) of the 36 countries covered (representing 62% of the world's population). One of the push factors identified in regard to Thailand was that there was no significant social safety net, so people had to fend for themselves. If they couldn't find a job, for example, they had to find ways to create one. Of the pull factors, there were relatively few barriers to entry in Thailand in most business sectors compared to many neighboring countries in the region or even in developed nations. For most people, for instance,

*Thailand is a nation of entrepreneurs.*



\* The Global Entrepreneurial Monitor 2002 P.D. Reynolds, W.D. Bygrave, E. Autio, M. Hay. The Erwing Marion Kauffman Foundation ([www.emkf.org/pdf/GEM2002.pdf](http://www.emkf.org/pdf/GEM2002.pdf))

*Up to 56% of all businesses in Thailand are owned and operated by women.*

who may wish to set up a small business, this was fairly easy to do. The other significant finding of the survey was the high level of women entrepreneurs in Thailand. It is estimated that 56% of all businesses in the country are owned and operated by women. Many of course, consist of little more than small noodle stands but even at the other end of the scale, it is not uncommon for a woman to be the head of a corporation.

In short, Thailand is a country at the crossroads, poised half way between joining the ranks of the developed nations but still caught up by a number of serious constraints that hold it from making the final leap. In fact, social and economic change in Thailand have occurred at an unprecedented rate in the last thirty years, but now, if anything the country is facing bigger challenges that at any time in those three decades as the digital divide and related technological changes threaten to make the gap between the first world and the developing world insuperable. Thais recognize this threat but are uncertain about how best to proceed and of the importance of the role of SRI related values in this transformational process.

## 2.0 SRI FUNDS

### 2.1 Domestic SRI Funds

There are no domestic SRI funds registered for sale in Thailand at present.

*One possible route for SRI in Thailand is via the pension funds.*

One possible route for SRI in Thailand would be through the Government Pension Fund and related pension funds, as these already have strict investment criteria that reveal a potential bias towards SRI. As the power of the lower middle class grows and they become increasingly assertive, interest in corporate behavior is also likely to increase. Judging when this will arrive, however, is not easy to determine.

Total net assets under management by local mutual funds totaled 238 billion baht (US\$ 5.95 billion) through 283 funds at the end of May 2003, excluding specialist financial institution problem funds and country funds.<sup>1</sup>

### 2.2 Global SRI Funds Registered For Sale

There are no global SRI funds registered for sale in Thailand.

However, "The Securities and Exchange Commission approved five asset management companies to launch foreign investment funds (FIF) in May last year to give many Thai investors their first opportunity to invest in overseas markets. Each fund was allowed to raise up to US \$20 million at the start, with a maximum increase to US \$40 million. To date, none of the funds have reached their ceilings, although ING, Kasikorn and AJF have all reported considerable inflows in the past several months."<sup>2</sup>

<sup>1</sup> Bangkok Post Mid-Year Economic Review 2003.

<sup>2</sup> Bangkok Post July 17 2003

## 2.3 Global SRI Funds With Significant Holdings In The Domestic Market

There are currently no major global funds with significant holdings in the Thai market that we are aware of. Calvert has conducted limited research into Thai companies.<sup>3</sup> While there are currently no major global funds with significant holdings in the Thai market, possibly the most important international player to have recently participated in it has been the California Public Employees' Retirement System (CalPERS). CalPERS is significant because of its importance as a benchmark for similar funds. It is also illustrative of a number of the problems with the approach of such funds when making investments in developing countries' economies (See Appendix 1). There is more than a strong suspicion that CalPERS' actions in withdrawing from the Thai market were in part to placate unions in the U.S. that are sensitive about the migration of manufacturing jobs to the developing world. This is certainly how it was read here in Thailand.

*No global SRI funds in Thai markets since 2002 withdrawal of Cal PERS.*

## 2.4 Private Equity Investment And International Development Funds

A considerable amount of international aid has been pumped into Thailand, much of it into environment and community related projects. More recently, however, there have been moves towards injecting investment into development funds, such as the Thai Equity Fund (see box 2.4.1) and other private equity type funds. These funds, which have seen involvement from the private sector as well as the Government and international development agencies, have an emphasis on community capacity building and environmental protection.

*There is a move towards involving the private sector in development.*

### 2.4.1 International Finance Centre (IFC) [www.ifc.org](http://www.ifc.org)

In 2000 the IFC approved an equity investment of US \$37.5 million to establish the Thai Equity Fund (TEF). TEF is the largest Thai recovery fund launched since the Asian currency crisis and brings together under the same umbrella a group of leading financial institutions representing public, multilateral, and private sector investors. TEF will make direct equity investments in competitive private sector enterprises, including those that are in the process of debt restructuring. The IFC's strategic priorities for Thailand include a focus on strengthening financial institutions by providing long term equity investments and promoting corporate restructuring through transactions that emphasize improved corporate governance.<sup>4</sup>

<sup>3</sup> [www.asria.org/sri/asia/research?expand\\_all=1](http://www.asria.org/sri/asia/research?expand_all=1)

<sup>4</sup> [ifcln1.ifc.org/ifcext/factsheet.nsf/AttachmentsByTitle/thailand/\\$FILE/thailand-july02.pdf](http://ifcln1.ifc.org/ifcext/factsheet.nsf/AttachmentsByTitle/thailand/$FILE/thailand-july02.pdf)

### 2.4.2 Asian Development Bank (ADB)

[www.adb.org](http://www.adb.org)

Cumulative ADB lending to Thailand as of 31 December 2002 was US \$5.35 billion. However the Thai Government pared down its borrowing program in 2002 and did not borrow further from the ADB. Loans are primarily in the areas of energy, transport and communications and social infrastructure.<sup>5</sup>

In 2001 the ADB agreed to invest up to US\$25 million in the Lombard Thailand Intermediate Fund, LLC, an offshore fund. The fund's resources to be invested onshore, in the Thailand Equity Fund (TEF) (See 2.4.1). Thai domestic investors are encouraged to invest directly in the onshore fund, which will invest in Thai enterprises. The offshore fund is expected to raise up to US\$400 million from international institutional investors, while the onshore fund could raise a further US\$100 million from domestic institutional investors.<sup>6</sup> Investment by these funds have to abide by certain corporate investment criteria.

Japan is contributing ¥ 10 billion (about US\$90 million) to establish the Japan Fund for Poverty Reduction, which will provide ADB's developing member countries (DMCs) with grants to support innovative poverty reduction and related social development activities that can add substantial value to ADB projects. The Japan Fund's aim is to support ADB's poverty reduction strategy, approved in November 1999, which elevates poverty reduction to the main goal of its operations.<sup>7</sup>

### 2.4.3 Thai Business Initiative in Rural Development (TBIRD Scheme)

Despite the government's heavy investments and achievements in national infrastructure, it is clear that good roads, electricity, literacy and access to health facilities do not necessarily raise incomes. Established in 1988 by PDA, TBIRD enables villagers to acquire the skills and resources needed to launch and sustain income generating activities in their own communities. TBIRD was created with the following objectives in mind: to encourage successful businesses 'to help improve the quality of life of rural people; to transfer business skills to the villagers', to establish income generating activities for the rural poor; to reduce migration and encourage rural migrants to return home. Villagers and entire communities gain from the investment in capacity building, which pumps energy into local economies and helps start new enterprises and provide job opportunities. The business community gains from helping improve local economies, first hand experience of rural realities and also useful public relations benefits.<sup>8</sup>

<sup>5</sup> [www.adb.org/Thailand/default.asp](http://www.adb.org/Thailand/default.asp)

<sup>6</sup> [www.adb.org/Documents/News/2001/nr2001140.asp](http://www.adb.org/Documents/News/2001/nr2001140.asp)

<sup>7</sup> [www.adb.org/Documents/Periodicals/ADB\\_Review/2000/japan\\_poverty\\_fund.asp](http://www.adb.org/Documents/Periodicals/ADB_Review/2000/japan_poverty_fund.asp)

<sup>8</sup> [www.geom.unimelb.edu.au/pda/tbird.htm](http://www.geom.unimelb.edu.au/pda/tbird.htm)



## 2.4.4 Biomass Power Generation

Biomass power generation has been an area when dedicated private equity/direct investment funds have shown considerable interest in Thailand. Given that agriculture is a very important sector for the country, but one that suffers from inadequate investment and low returns, it would seem to be an ideal type of project for development in the rural heartland of Thailand. A pioneer is A.T. Biopower ([www.atbiopower.co.th](http://www.atbiopower.co.th)), a biomass project development company working on power generation from domestic and renewable energy sources - principally rice husks - being developed for Nakhon Sawan and three other northeastern provinces. The electricity produced will be sold to the Electrical Generating Authority of Thailand, the state energy supplier, through the Small Power Producer Program, designed to encourage the production of electricity from non-conventional and renewable resources. Small Power Producers (SPPs) engaged in renewable energy production will receive a subsidy for electricity sales to the national grid. The National Energy Policy Offices (NEPO) has set aside 2 billion Baht to ensure that SPPs that generate electricity from agri-waste get tariff rates that make their projects viable. The government is allowing an added-on up to 0.06 Baht/kWhr on top of the general tariff rates set for the SPP scheme.

A.T. Biopower was first developed with seed capital from E+Co ([www.energyhouse.com](http://www.energyhouse.com)), a non-profit energy investment service that is a spin-off from the Rockefeller Foundation. It is also being undertaken with support from the Energy Policy and Planning Office of the Ministry of Energy (EPPO), the UNDP, the Danish Agency for International Development Assistance, and the Kenan Institute Asia\*.

Kasetsart University (KU) has also set up a demonstration project to generate electricity from landfill gasses at Nakhon Prathom as a part of the university's move towards commercializing its research. The construction with two units of 650 kW capacity each has been completed. It is currently being tested. KU is also to perform feasibility studies of electricity production from landfill sites in Bangkok and other two major cities in the Northeast, Nakhon Ratchasima and Nakhon Sawan.

Garbage to ethanol is another promising technology given that Bangkok Metropolitan area produces 8000 tons of garbage a day and is rapidly running out of landfill space.

A study by the Sustainable Energy Network ([www.serd.ait.ac.th](http://www.serd.ait.ac.th)), an NGO attached to Kasetsart University (KU) that advocates the use of renewable energy, found site selection a prime cause of protests by locals opposed to the siting of such projects in their communities. This demonstrates that examples of 'NIMBY' ("not in my back yard") are just as possible in a country like Thailand. In fact, this may be particularly true in Thailand, where residents in rural areas, have in the past been the recipients of grand infrastructure projects (e.g. Pak Moon Dam Project) that originated in Bangkok and had severe negative environmental impacts with few benefits for the locals. SEN found that while energy developers prefer to locate near the fuel source and the national grid, which helps reduce costs and investment in technology to reduce the impact on the environment, this usually leaves them with zero room for change should local people protest against their projects. Speculators have frequently manipulated local sentiment to push up land prices, particularly since the National Energy Policy Office issued a regulation last year requiring the developers of biomass projects to seek the opinions of people living within a 10km radius of a planned plant. If 80% of respondents within 3km support the project then it would qualify for a state subsidy. Fourteen biomass projects have fulfilled this requirement and have been granted subsidies, although most of these are sugar cane factories or rice mills that had no need to buy more land.<sup>9</sup>

*Private equity funds have shown considerable interest in biomass power generation.*

*Collaboration between Government Departments and aid organisations have led to development of renewable energy projects using agriwaste.*

*KU is conducting feasibility studies in utilizing landfill gases.*

*Garbage to ethanol...*

*However, some projects have met with some local opposition.*

<sup>9</sup> Bangkok Post April 29 2003

## 3.0 SRI RESEARCH

### 3.1 Domestic Research

Currently there are no domestic companies undertaking research specifically into SRI within Thailand. In fact, securities firms in Thailand discount company research because few domestic investors appear to be interested in such research, as their investment strategies tend to concentrate on short-term trading patterns rather than making long-term investments. This may change in the future, however, as more ordinary citizens enter the capital markets.

### 3.2 International SRI Research Groups Covering the Domestic Market

Among all the Asian markets only the most limited evidence could be found of research being undertaken by international SRI research providers. Calvert has researched 'Land & Houses' and 'National Finance', Innovest only Advanced Info Service Public Co. and Social Centre claims to have some coverage of the IT Hardware and Telecommunications industries.<sup>10</sup> While there are therefore very limited international SRI research groups currently covering the Thai market, CLSA provides ratings on macro determinants of corporate governance, commentaries on the regulatory environment in Thailand, plus identifying those companies with good CG records. As their latest report notes, over the past five years the top-quartile CG stocks in Thailand "have greatly outperformed the SET by 138% in US-dollar terms."<sup>11</sup>

*Very limited SRI research has been done on Thai companies.*

## 4.0 SRI RELATED ORGANISATIONS, INCLUDING NGO'S

### 4.0.1 The SEEDS

[www.theseeds.org](http://www.theseeds.org)

The SEEDS (Social, Environmental and Economic Development) was established in 2002 specifically to promote awareness amongst Thais of SRI and to help identify opportunities to foster technologies and business models that support the growth of a sustainable future for the societies of Southeast Asia.

### 4.0.2 Social Venture Network

[www.svnasia.or.th](http://www.svnasia.or.th)

SVN's mission is to promote business awareness leading to environmental responsibility, basic human rights for all, and justice for every party concerned while considering differences in resources, opportunities and real potentials of organizations or individuals. SVN's objective is to create networks of environmentally and socially aware entrepreneurial businesses throughout Asia. The SVN annual conference promotes a wide range of alternative business models. It aims to encourage businesses and investors to consider environmental and social criteria as well as economic criteria when assessing business success. It is chaired by the well-known Thai businessman and personality Prida Tiasuwan.

<sup>10</sup> [www.asria.org/sri/asia/research?expand\\_all=1](http://www.asria.org/sri/asia/research?expand_all=1)

<sup>11</sup> CLSA; Corporate Governance in Emerging Markets; 2003; p.94.

#### 4.0.3 Thailand Environment Institute

[www.tei.or.th](http://www.tei.or.th)

Established in May 1993, the Thailand Environment Institute (TEI) is a non-profit, non-governmental organization focusing on environmental issues and the conservation of natural resources in Thailand. Founded on the belief that partnerships are the most effective approach to achieving a more sustainable way of life, the Thailand Environment Institute advocates a participatory approach to shared environmental responsibility. By working closely with the private sector, government, local communities, other civil society partners, academia and in international circles with international organizations, TEI helps to formulate environmental directives and link policy with action to encourage meaningful environmental progress in Thailand. The TEI manages a Business and Environment Program which focuses on three core projects:

- promoting cleaner production and cleaner technologies;
- promoting the adoption of ISO14000 standards; and
- administering the **Thailand Business Council for Sustainable Development.**

#### 4.0.4 Kenan Institute Asia

[www.kiasia.org](http://www.kiasia.org)

Until recently funded almost entirely by the USAID and supported by the Thai government, the institute is now endeavoring to become self-funding. It has a 'Labor Standards Advisory Service' that offers advice to companies in the labor-sensitive garment industry on how to meet international standards, plus an Environmental Management Division that aims to support companies by coordinating research into environmental management practices and implementation, in particular, by promoting links between US and Thai universities.

#### 4.0.5 The Population And Community Development Association (PDA)

[www.geom.unimelb.edu.au/pda](http://www.geom.unimelb.edu.au/pda)

Chaired by well-known personality and former government minister, Mechai Viraviadya, popularly known as "Mr. Condom" for his encouragement of the use of prophylactics. Founded in 1974, PDA was first active in promoting family planning in urban and rural areas of Thailand, where knowledge of and access to such services were scarce. Other campaigns were tailored to the health of specific target groups such as factory workers, hill tribe villagers and adolescents.

PDA programs now encompass integrated rural development, water resource development, local institution building, medical and health services, income generation and occupational training, and forestry and environmental conservation. It is now one of Thailand's largest private, non-profit development organizations. To see an example of one of their projects which trains farmers in the use of the internet to help achieve fair rice prices: [www.panasia.org.sg/news/rnd\\_st/ict\\_rnd06s.htm](http://www.panasia.org.sg/news/rnd_st/ict_rnd06s.htm)

#### 4.0.6 Thai Environment Net

[www.thaienvironment.net](http://www.thaienvironment.net)

This is a private sector initiative, set-up and managed by a team of engineers, professors, scientists and editors who have created a portal for environmental information. A major emphasis is on providing a forum for exchange of data and ideas. The website has been getting supportive feedback from business and industry.

## 5.0 GOVERNMENT INITIATIVES

### 5.1 Government Policies And Projects

The Thaksin administration is using expansionary fiscal policy in an attempt to enhance economic stability and lay the foundation for a sustained economic recovery. Its strategy to use the property market recovery to fuel growth in the general economy seems to be working so far. The Bank of Thailand (BOT) is focusing on exchange-rate stability, rather than targeting inflation. There is a particular focus on boosting rural incomes and development and on encouraging small and medium-sized enterprises (SMEs). Policies to diversify export markets and promote agricultural exports are being implemented, and incentives are being offered to substitute imports with locally produced goods.<sup>12</sup> The Thai Government's 7<sup>th</sup> & 8<sup>th</sup> National Plans, which are 5 yr plans addressing the overall economic development for Thailand, also provide specific environmental plans.

In 2002, the Industry Ministry initiated a number of industrial development programs principally aimed to strengthen the competitiveness of small and medium-sized enterprises.<sup>13</sup> It is promoting the concept of the cluster-based development for SMEs based on the ideas of Michael Porter, in a bid to improve competitiveness and productivity, reduce costs, and provide a value chain through the synergies of associated activities. Industrial development under the cluster concept is being implemented using specialized industrial zones or estates, and exclusive zones for small and medium-sized companies. So far, many industrial sectors have developed industry clusters or zoning, including automotive, agricultural, rubber, leather tanning and finishing, ceramics, waste recycling and printing ventures. Tens of billions of baht have been budgeted for liquidity support, training, technological assistance and marketing programs to help SMEs upgrade their competitiveness, expand markets and move up the value chain. Some of these may well qualify under SRI criteria.

The Lampang tableware and decorative ceramic cluster development concept initiated by IFC Thailand is seen as the first cluster project in Thailand. Lampang's 200 ceramics factories currently export about one billion baht worth of products a year and employ some 9,000 workers. The concept aims to boost productivity among small and medium enterprises in Lampang and is modeled on a similar project in Sassuolo, Italy.

Frederic Richard, the branch director of UNIDO's Strategic Research and Economics Unit, noted that small business operators had to be better prepared to move forward in the new economic era. Accounting systems, online customer services, supply chains and just-in-time management, and information management all needed improvement.

The MOF's one-billion-baht *SME Venture Capital Fund* managed by One Asset Management, a subsidiary of KGI Securities, is an example of these initiatives. To date, 145 million baht has been invested in joint ventures with 14 small businesses since June 2000. There were 57 applicants seeking a total of 855 million baht from the fund during the period. However, One Asset has been criticized for failing in its mission to help SMEs due to slow progress in the approval process.

"Most of the applicants lacked business potential and transparent accounting systems because most are family-run", according to Wiwan Tharahiranchoke, managing director of One Asset Management. "It's also not easy to convince the SME managements to clarify their accounts as it means they have to pay more taxes." It would appear that too many small companies remain reluctant to implement the necessary changes, whether in the form of improving accounting systems, drafting clear business plans or acknowledging the need to bring in outside managers or shareholders.

<sup>12</sup> The Economist Intelligence Unit, April 4 2003

<sup>13</sup> See "Thailand's Competitiveness: Key Issues In Five Clusters" by Christian Ketels, [www.nesdb.go.th/committees/new\\_committee/data/data15.pdf](http://www.nesdb.go.th/committees/new_committee/data/data15.pdf)

The MOF Venture Capital Fund has invested 145 million baht with 14 small business since June 2000.

Similar state-sponsored funds have also failed because it is claimed the fund criteria established by the Finance Ministry was too tough. For example, a regulation that only SMEs with debt-to-equity ratios of less than 2:1 would qualify for funding were considered a disincentive to investment, while SMEs blame loan conditions and demands for high collateral as key barriers. According to Patanasak Hoontrakul, president of the Subcontracting Promotion Club, a requirement for the venture capital fund to hold not more than 50% of the paid-up capital of potential partners was one of the key hindrances to attracting investment. Since most SMEs have registered capital of only one million baht, they are limited to receiving 500,000 baht, which is insufficient for business expansion. Furthermore, the requirement to create one board seat once a 50% investment was made was also perceived as another obstacle as SMEs were reluctant to accept this as most were family-run and had never held a board meeting. The requirement that venture receiving assistance must be profitable is a further barrier.

The Department of Industrial Promotion is also preparing its own national SME development plan, in which a new entrepreneurs promotion board will be formed as part of the government's ambitious plan to create 50,000 new businesses within the next two years. The board is a refinement of an existing program run on a smaller scale by the department, which has helped to produce 5,000 new entrepreneurs in the past two years. It initially helped proprietors run sustainable operations, effectively manage costs and prepare transparent accounts.

*The government has an ambitious plan to create 50,000 new businesses within the coming two years.*

The National Science and Technology Development Agency, meanwhile, is stepping up its efforts to transform itself into an industrial technology research institute to help strengthen the capacity of SMEs, particularly in the area of technology assistance. The agency would be based on Taiwan's Industrial Technology Research Institute, one of Asia's most successful agencies in enabling the transfer of knowledge to SMEs, and Canada's National Research Council. The United Nations Industrial Development Organization (UNIDO) suggested SME development in Thailand should be based on the pattern in Taiwan where new industrial firms and clusters were encouraged to innovate and upgrade products and capabilities through a proactive strategy.

Another initiative is the creation of a national data center for SMEs, which is a collaborative project of the Office of SME Promotion, the Thailand Institute of Scientific and Technological Research, the National Statistical Office and Krung Thai Bank. The one-stop center will offer a wide range of data services for small business operators, supplying updated information and assistance.

*Through various ministries, the Government is supporting a range of projects, which integrates sustainable development criteria and provide potential for SRI focused investment.*

Finally, the Ministry of Science Technology & Env (MOSTE) has 4 main departments focused on managing industrial pollution (PCD), policy aspects of environmental management (OEPP), promoting environmental quality (DEQP) and energy efficiency promotion & development (DEPD).

## 5.2 Government Attitude To SRI And NGO's

The Thai government is very wary of both NGO and foreign consultants. As the head of research at the SET commented when SRI was mentioned to her: "This is just another form of non-tariff trade barrier to Thai exports!" There is a common perception by the authorities in Thailand that many NGOs are either following an agenda that is determined outside the country or that they have been set-up principally to provide a livelihood for the activists who run them. Foreign NGO's such as Greenpeace, for example, are also seen as examples of foreigners meddling in sovereign Thai affairs, especially when they pursue issues like garbage incineration that many Thais don't regard as major concerns. (See article "NGOs, Violence and Money"<sup>14</sup>).

*The Thai Government is wary of the concept of SRI.*

Similarly, the Thai government is very sensitive to the idea that foreign consultants of any stripe may be taking jobs away from locals and enjoying levels of remuneration that are the envy of the average Thai, a theme that the Prime Minister has elaborated on, on different occasions.

<sup>14</sup> [www.geocities.com/changnoi2/ngos.htm](http://www.geocities.com/changnoi2/ngos.htm)

## 6.0 PUBLIC AWARENESS

*Low public awareness of SRI, however...*

### 6.1 Public Understanding Of SRI

To date there appears to be little public awareness of SRI, certainly not as a commonly understood framework for investing. However, environmental issues, labour standards and corporate governance all have separate and distinct audiences in the public arena that may coalesce over time.

*64% of thai would choose protection of the environment over economic growth.*

A Gallup Poll (**Gallup International Millennium Survey 1999**) interestingly found that respondents in Thailand (as well as Taiwan, Philippines, Korea, Bolivia, Dominican Republic and Columbia) would choose protection of the environment over economic growth by a clear majority (64%). Traffic pollution and the ozone layer was also a prime concern, hardly surprising given that Bangkok has some of the worst traffic problems on the planet.<sup>15</sup>

### 6.2 NGOs/ Consumer/ Academic Groups In Thailand

There is a fairly high level of protesting & activism in Thailand. In recent years there have been a lot of protests around landfill sites, which have led to delays in projects & additional costs to corporates - which is leading to an increased environmental awareness and changes to planning by company executives.

*Poverty is high on the agenda for Thai NGO's.*

Poverty issues are very high on the agenda for NGO's in Thailand, but pollution and the related health effects are also increasingly seen as important issues.

There is fairly good media coverage of environmental issues and a growing network of environmental journalists in Thailand that make sure environmental and social issues get coverage. In fact, Thailand's press is relatively but not completely open, and plays an increasingly beneficial role in raising these issues in the public sphere.

<sup>15</sup> How can it benefit business? A survey of ISO 14001 Certified Companies in Thailand ([www.sustainability.com/developing-value/details.asp?bcid=196&sfid=100&bsid=6](http://www.sustainability.com/developing-value/details.asp?bcid=196&sfid=100&bsid=6))

**PLAN International**  
[www.plan-international.org](http://www.plan-international.org)

Plan International was founded in 1937, is one of the oldest and largest development organizations in the world and is active in hundreds of village communities in Thailand's poorest regions. Some examples of the projects it is carrying out in Thailand are on providing nutritional information, preventative health care, and improvements in public hygiene and septic systems. In the N.E of Thailand, they are also involved in setting up village credit unions and silk weaving cooperatives. One of the concepts it is very keen to promote is "Permaculture", a sustainable farming method.

**Community Organizations Development Institute (CODI)**  
[codi.or.th](http://codi.or.th)

Set up by the Government in 2001, CODI is a joint resource for NGO's and the Government to help community organizations best manage their resources. It has wide-ranging objectives to assist with community development, resourcing and micro-financing schemes. It places an emphasis on forming partnerships between different stakeholder groups.<sup>16</sup>

**Foundation For Consumers**

Essentially focused on the issue of GM foods, this relatively small group joined in a campaign by Greenpeace to force Nestle's subsidiary in Thailand to label foodstuffs that include ingredients with GM components. However, there was little reaction from Thai consumers over this issue. Thai farmers are more concerned, with fears that growing GM produce may lead to consumer boycotts in the developed world, especially Europe.

**The Consumer Organization Federation**

This umbrella group of twenty consumer organizations in May 2003 joined with Greenpeace to try to force large supermarket chains, most of them foreign-owned, to comply with voluntary labeling of foods that contain more than 5% of GM ingredients. This generally, however, have little understanding of GMO and are often confused by the claims of NGOs that issue apocalyptic messages without engaging in comprehensive explanations of the complex issues surrounding the subject.

**Focus on the Global South**  
[www.focusweb.org](http://www.focusweb.org)

Lead by Philippine academic and social activist, Walden Bello, based in Bangkok. This is an organization that does a thorough job of drawing attention to the actions of multilateral lending institutions, such as the Asian Development Bank, in their engagement with recipient governments.

<sup>16</sup> CODI English page: [codi.or.th/index.php?option=displaypage&Itemid=63&op=file&SubMenu=](http://codi.or.th/index.php?option=displaypage&Itemid=63&op=file&SubMenu=)

## 7.0 CORPORATE GOVERNANCE INITIATIVES

Following the Asian economic crisis, corporate governance and recognition of the need to support the rights of minority shareholders were recognized by the Government but are still not readily embraced by Thai corporates. As in the rest of Asia, there are few companies where the majority shareholders are not the founding family.

The most important CG initiative has been that emanating from the Government under the "Capital Market Master Plan" (see Appendix 2). Corporates as a whole have been much slower to move, either because they have problems grasping the various elements that go into CG, or because the requirements of CG cut to the heart of who is in command of the enterprise in question: who has control. As most businesses in Thailand are first and foremost family vehicles for individual family ambitions, the interests of stockholders outside this group may well not align with those of the founding family's. Thai corporates object to the costs of compliance, claiming that these undermine the benefits of listing on the SET.

Thai corporates have been known to question the benefits, claiming that the costs of compliance undermine the incentives of listing on the SET.

### 7.1 Influence Of Major Shareholders

Major shareholders in Thailand, as in much of S.E Asia, have traditionally treated the publicly listed company they founded as if it were their exclusive property, and minority shareholders as simply as passive providers of capital. Take just one example, the case of Bangkok Water Resources, a company controlled by one of Thailand's wealthiest families who control one of the biggest banks in the country. Bangkok Water was set up in 1988 to supply water to factories in Sumat Prakarn, but also appears to have been used as a vehicle to siphon money out of the bank into other family-controlled businesses before finally going bust.

### 7.2 Government Initiatives On Corporate Governance

The Thai Government has been the major driver behind the promotion of CG, due in part to its recognition that Thailand must now diversify beyond an almost exclusively bank-based system of capital allocation. Total market capitalization of the SET is around US\$ 70 billion, as opposed to around US\$ 120 billion in assets in the banking system.

However, it also seems torn at times between introducing 'foreign notions' of corporate organization and trying to preserve the 'Thai way' of doing things, which is essentially based on connections rather than being rule-based.

The **Financial Institutions Act**, however, which was brought into effect in March of 2000, aimed at preventing the more egregious abuses by executive directors, administrators and major shareholders. For example, Article 48 prohibits financial institutions from offering credits to their own directors, managing directors, deputies or assistant managing directors. Article 49 prohibits a financial institution from offering more than 5% to any major shareholder, which is defined as anyone holding more than 10% of its shares, as in Germany. Credits offered to all major shareholders combined must be less than 20% of the financial institution's total credit. To prevent other abuses, such as over-investment in companies, Article 50 prohibits banks and financial institutions from buying more than 10% of the shares in other companies or

*The Thai Government has been the major driver behind the promotion of CG.*



investing more than 5% of their investment funds in one company. What's more, total investments in other companies must not exceed 20% of the financial institution's investment fund altogether.

The current Thai Government has a program to raise awareness of investing and the capital markets amongst both ordinary Thai citizens and, in particular, Thai university students. One expression of this has been the creation of a subsidiary of the Stock Exchange (SET) called "Family Know-How" ([www.familyknow-how.com](http://www.familyknow-how.com)), which aims to organize seminars, events and radio programs to help popularize knowledge of these. The aim appears to be to create a domestic source of investment capital to wean the country off its reliance on foreign investors, as well as to encourage local investors to be less speculative when investing in the stock market. The SET has also arranged a number of "investment fairs", both in Bangkok and the various provincial centers. The focus, however, is mainly on investment and saving strategies, given that many Thais are looking for alternative to bank deposits, which currently offer low rates of interest. There appears to be very little in the way of education on corporate governance issues to date. However, as the market matures, domestic awareness of these issues is likely to grow.

## 7.3 Progress On Corporate Governance

On entering office, the new government of Thaksin Shinawatra, recognizing the limitations of the existing bank-based system of credit allocation, set out an ambitious program to reform the financial system, called the "Capital Market Master Plan" (see 7.6). One of the plan's leading planks was a campaign, starting in 2002, to promote good corporate governance. By the end of 2002, the following progress on these reforms had been made:

In response to this Government initiative, a 'National Committee on Corporate Governance' (NCCG) has been established with participation of representatives of the government, the SET and Thailand's Securities and Exchange Commission. Six sub-committees have been appointed to be responsible for different aspects of governance.

The National Committee on Corporate Governance (NCCG) identified fifteen core principles of good corporate governance to be promoted as guidelines for Thai companies. These were culled from a much larger number outlined in a report on the subject commissioned by the SET in 2001:

1. Establishment of a clearly defined company policy on corporate governance
2. Protection of stakeholders' and shareholders' rights and benefits
3. Importance of Directors' Meetings
4. Importance of Shareholders' Meetings
5. Leadership, vision, and independence of directors
6. Careful handling to avoid 'conflicts of interests'
7. Promotion of business ethics amongst both directors and employees
8. A balance in the number of directors
9. A clear separation/definition of the roles and responsibilities of the Chairman, Directors, and Managers
10. Appropriate rates of remuneration for directors and executives
11. Scheduling of board meetings with appropriate meeting periods
12. Establishment of sub-committees to examine specific work practices

13. Controls and audits to mitigate against unnecessary risks
14. Directors' Reports on roles and responsibilities in the preparation of financial statements; and
15. Disclosure of all relevant information and the establishment of specific unit(s) to communicate directly with shareholders and related parties.

Unfortunately, these 15 principles are all "voluntary". The authorities feel, probably correctly, that it will take some time for a 'governance culture' to take hold in Thailand.

TRIS (the Thai Rating and Information Services Co., Ltd.) instituted a "Corporate Governance Rating Program" in collaboration with the SEC and SET to provide investors with information on corporate governance of Thai listed companies. Companies achieving high governance ratings of "good to very good" ratings in this program are to qualify for a 50% reduction from the SET on their annual listing fees for two consecutive years. However, companies have been very slow to embrace this idea, either because of the cost of commissioning a rating or because of the costs of compliance. However, many companies complain that this is still "too expensive", both to be rated and to comply with the necessary prerequisites. It will also take time for TRIS to rebuild its credibility, after its positive ratings of most of the 56 finance companies (that subsequently failed) prior to the 1997 crash.

## 7.4 Corporate Governance Organizations

### 7.4.1 Center For Good Corporate Governance [www.cgthailand.org/SetCG/center](http://www.cgthailand.org/SetCG/center)

The CGCG was established to serve as an advisory body as well as a center for the exchange of views between directors and senior management of listed companies as well as prospective listed companies. The Center organized a number of workshops and met with listed companies to exchange ideas on good governance. This was essentially aimed at raising awareness of what constituted corporate governance in this group.

A Class-Action Law, Trust Laws and other related laws, however, were still under consideration.

### 7.4.2 Thai Investors Association [www.thaiinvestors.com](http://www.thaiinvestors.com)

The SEC ([www.sec.or.th](http://www.sec.or.th)) together with SET ([www.set.or.th](http://www.set.or.th)) and TSFC Securities Ltd. ([www.tsfc.co.th](http://www.tsfc.co.th)) have given their support to the Thai Investors Association to assume the role of a Shareholders Association, to act as the chief advocate in the protection of investors' rights, provide education, and function as an information center for investors.

## 7.5 Corporate Case Studies

Three cases (see Appendix 3) illustrate some of the difficulties in instituting an environment conducive to SRI in Thailand, in particular resistance to CG. There is still a prevailing climate of denial amongst business leaders in Thailand that their way of doing business in any way contributed to the Asian economic meltdown. Nonetheless, this is likely to be part of the process of assimilation and, as they become more accustomed to dealing with the realities of selling equity rather than buying debt, these attitudes may well change. The Roynet case seems to have had a salutary effect on the Thai authorities and is likely to strengthen reforms related to the rights of minority shareholders as well as the accuracy of reported company information. The TPI and SSM cases demonstrate that powerful and well-connected local tycoons are still capable of riding roughshod over the interests of foreign investors and the Thai courts are willing to be complicit in these actions.

In fact, the government is now exploring the possibility of creating two domestic state-supported distressed asset funds (to be named "Vayupak I" and "Vayupak II") aimed at buying out foreign creditors from "strategic industries" and to be offered to Thai citizens only. They will also be used to invest in state-owned enterprises, to help prevent them falling into the clutches of foreigners. Vayupak I would be offered to the general public, with a starting investment of 50,000 baht (approx. US \$1,200) and offer guarantees on principal capital and minimum yields. The second fund would be positioned more towards institutional investors, with no guarantees on returns given and with a starting investment set at five million baht (approx. US \$60,000). Some in the local investment community worry that these funds will be used to help avoid or obviate the need for serious reform.

## 7.6 The Future Of Corporate Governance In Thailand

In a report published shortly after the Asian Economic Crisis, the World Bank identified five interrelated problems in Thailand's corporate governance and disclosure systems:

1. Concentrated ownership,
2. High levels of diversification,
3. Weak incentives,
4. Poor protection of minority shareholders, and
5. Weak information standards

However it also noted, "these problems are no more severe in Thailand than in the rest of East Asia and indeed in many developing countries."<sup>17</sup>

The question is then, have there been significant changes since this report was compiled?

The latest CSLA survey gave Thai firms only 4.6 points out of 10 for their corporate governance, whilst better than the Philippines, Indonesia and China, this ranked below Hong Kong, Singapore, India and Malaysia. However, the present government is clearly committed to corporate governance and the foundations are in place for moving forward.

<sup>17</sup> Alba, Classens and Djankov, World Bank Paper 1998; Thailand's Corporate Financing and Governance Structures: Impact on Firms' Competitiveness; p.11;

## 8.0 SHAREHOLDER ACTIVISM

### 8.1 Media Attention To Shareholder Role

The Thai press has given extensive coverage to the cases. (Roynet, TPI, SSM, see Appendix 3) In particular, the efforts of minority shareholders in Roynet to convene a meeting to elect representatives to replace members of the Yaoprukse family on the company's board enjoyed extensive reporting at the time. This, however, was very damaging to the credibility of the new small-cap market, the "Market for Alternative Investments", which had deliberately made the requirements for listing comparatively less onerous to encourage SMEs to look to the capital markets rather than banks for finance. Subsequently, many of the MAI's rules have had to be tightened.

### 8.2 Emergence Of Minority Shareholder Groups

*A Shareholder Association to protect investors' rights was formed in 2002.*

In May 2002, as part of a government initiative, a "Shareholder Association" was formed under the auspices of the Thai Investors Association. Its mandate was to act to "protect investors' rights, provide education and function as an information centre for investors...to empower investors and establish good corporate governance of listed companies, thereby reassuring the confidence of investors and enhancing the integrity of the whole capital market system". This was unveiled as part of the Capital Market Development Plan. One of its aims is to be to encourage shareholder to vote at board meetings, and to act as the representative of retail investors "in voicing their opinions to the authorities."

One of the biggest complaints of foreign investors and Fund managers that wish to take longer term positions in Thai companies is that under Thai law they can only vote their shares in shareholder meetings up to a limit of 49% for all foreign shares combined (i.e. foreign shareholders can never outvote Thais in a shareholders' meeting.) One of the effects of this is that it militates against the "disciplining" effect that minority shareholders (especially fund managers) can have on the actions of a firm's managers). This would seem to undercut any moves to encourage these fund managers to take their responsibilities as owners seriously. Unfortunately, it seems unlikely that this will change soon given local fears of "foreign domination".

### 8.3 Response To Shareholder Activism

To date, there have been a few exceptions to the generally relaxed attitude to minority shareholders by Thai corporates. One, however, is the largest conglomerate in Thailand, Charoen Pokphand, controlled by the Chearavanont family. It has long been regarded by many as one of the most secretive conglomerates in the country. However, it recently listened to minority shareholders and is now negotiating with them.

Overall, compared to some SE Asia countries there is a fairly high level of environmental activism and protesting in Thailand and there is also relatively open (although still controlled) media coverage of environmental issues.

## 9.0 CORPORATE DEVELOPMENTS AND RESPONSE

### 9.1 Level Of Environmental/ Social/ Sustainability Reporting

This is a new area for Thai corporates and ones that do report on any of these tend to concentrate on community-support programs (e.g. Thai Union Frozen Foods, [www.thai-frozen.or.th](http://www.thai-frozen.or.th)). Foreign controlled companies, such as Siam City Cement and Thai Shell are often more forthcoming. ACCA have not launched Environmental Reporting Awards in Thailand. This may be because they did not feel there was sufficient demand. However, an environmental consultant who ran training courses in Environmental Reporting in Bangkok in 2002 noted that these were well attended, suggesting an interest<sup>18</sup> that may result in more reports appearing in the near future. Furthermore, many Thai companies have attained ISO14000 standards, which also witnesses to a growing alertness to these issues (see 9.3 below).

### 9.2 Award Schemes

Six organizations (The Stock Exchange of Thailand, the Thai Institute of Directors, the Board of Trade of Thailand, the Federation of Thai Industries, the Thai Bankers' Association, and the Listed Company Association) established a "Board of the Year" Award aimed at encouraging the active development of good corporate governance.

In April 2001, the Thailand Management Association and Sasin Graduate Institute Business Administration of Chulanlongkorn University announced the Thailand Corporate Excellence Awards, which aim to promote the development of the country's management competitiveness and **that includes SRI components**.

However, it is hard to know how seriously to take these awards, given the interlocking ownership of Thai business.

According to the Thai Institute of Directors (TID)' Annual Survey of Corporate Governance for 2002, conducted by the TID in conjunction with McKinsey & Co, the majority of Thai listed companies needed to focus more on improving their relationships with customers and diversify the composition of their boards of directors. The 2002 survey ranked 234 companies, up from 133 in 2001. Its scoring criteria were based on five categories:

- Rights of shareholders,
- Equitable treatment of shareholders,
- The role of stakeholders in corporate governance,
- Disclosure and transparency, and
- Board responsibilities

Weak points were investor relations, board composition and the roles of non-executive directors in providing leadership as well as handling governance issues, according to this survey, while annual reports need to better clarify related-party transactions and be more widely disseminated. Fifty of the firms had an average score of 57 points out of a possible 100, based on information disclosure and transparency to the public. The TID and McKinsey aim to survey up to 300 listed companies this year and 400 next year.

<sup>18</sup> Carrie Johnson, [www.paiiconsulting.com](http://www.paiiconsulting.com)

*The Thailand  
Corporate Excellence  
Awards include SRI  
components.*

### 9.3 Corporates And The Environment

One important feature of the Thai industry and economy is the dominance of the small and medium scale enterprises (SMEs) with an estimated contribution up to 90% of the total industrial output. In 1999, the Department of Industrial Works (DIW) records indicated that a total of 128,350 registered industrial businesses. Of these, 127,809 were small and medium scale industries.

In the past, pollution control relied solely on command-and-control laws and regulations that set emission limits and focus on end of pipe treatment approaches to industry. These efforts are being complemented and supplemented by a strong governmental policy formulation effort. Currently, approaches are increasingly being applied to other sectors such as educational and research institutions, agriculture, farming and aquaculture, hotel and tourism industry, and local governments.

Thailand is probably at the stage of development where the worst excesses of disregard for the environment are coming to an end. Given the past abuses, this is none too soon, but there seems to be a general awareness in Thai society that business and the environment have to be symbiotic. Under the 7th National Economic and Social Development Plan, the Thai Government has given high priority to environmental issues including industrial pollution control. Cleaner Technology (CT) has been highlighted as an important means of environmental management in the 8th National Economic and Social Development Plan. A Pollution Prevention Master Plan was drafted by the public consultation approached with related stakeholders through the Thai National Pollution Prevention Roundtable in 1998, and the Promotion of Cleaner Production Policies and Practices project, conducted by TEI with support by ADB in Oct 1999-July 2000. Over the last ten years, several initiatives have been undertaken to promote the applications of CT implementation in Thai industries. International donors have supported the majority of these initiatives, with Thai universities acting as Thai counterparts.

*There has been a very high uptake of ISO 14001 in Thailand.*

There has been a very high uptake of ISO14001 in Thailand. As of June 2002, 552 companies were registered in Thailand, as opposed to 333 in Singapore, 367 in Malaysia, 199 in Indonesia & 120 in Philippines. Thai companies have embraced ISO14001 partly because they are dependent on the export market and have realized that there is a need for ISO standards to fully access these markets. This is having a beneficial knock-on effect inside Thai corporations, as once companies have an environmental policy, targets and objectives they increasingly take environmental issues on board. This process is often assisted by the appointment of environmental champions within companies who are committed to making improvements.

USAID set up and funded the Industrial Environmental Management Programme (FTI/IEM) of the Federation of Thai Industries during 1990-95. US cleaner technologies were promoted through the conducting of environmental audits in some industries such as textile dyeing, pulp and paper, food processing and chemical industries.

The Carl Duisberg Gesellschaft (CDG) in association with its South East Asian Program Office assisted small and medium sized industries in the textile, electroplating and food industries. The project was implemented with the assistance of educational institutions such as Asian Institute of Technology, Chulalongkorn University, and Chiang Mai University. A number of training, capacity building and industrial audit activities were undertaken.

The governments of Japan, Australia and Canada financed cleaner technology workshops for representatives from public and private sectors involved in industry and environment.

Promotion of Cleaner Technology in Thai Industry project, supported by the Danish Cooperation for Environment and Development (DANCED) attempted to strengthen Thai environmental auditing and CT expertise at the implementing and advisory level.

The European Union (EU) had been implementing a project jointly with TEI to encourage the "Public Participation in Environmental Management in Samut Prakarn". CT concept and practices are introduced into target industry sectors by conducting environmental audits and implementing demonstration projects.

The ADB and DANCED supported the first Asia Pacific Roundtable on Cleaner Production in Bangkok in November 1997, which was organized under the auspices of the Pollution Control Department (PCD).

Businesses based on environmental technology fabrication (such as production of solar panels and solar lighting systems) have considerable potential in Thailand.

## 9.4 Corporates And Labour Standards

Thailand's economic success in the decade preceding the Asian economic crisis was attained principally through the expeditious use of cheap labour and a focus on exports. This formula has not been sustainable for some time and contributed to the Thai economic collapse (the Baht-dollar peg dragged the price of Thai goods up to a point where they couldn't compete against lower-cost producers). For example, in reference to a recent survey of the Garment Industry, the Kenan Institute Asia noted: "The Thai garment industry faces increased competition from other garment producer countries and is struggling to compete in the international marketplace. The current trend of auditing contract factories on their labor standards has put additional pressure on the garment industry. Garment producers are facing rising costs, short delivery expectations and decreased profit margins as the multinationals are now adept at evaluating the cost of the production process." In fact, this industrial sector was one of the few experiencing negative growth rates in 2002, along with petroleum and block rubber. Textile products lost market share in the United States and Europe to their free trade area partners, particularly Mexico and the Caribbean nations. Thailand's products have faced increasingly strong competition from several neighbors that have lower production costs such as China, Indonesia, Vietnam, Pakistan and India. Textile production in the first nine months of 2002 contracted by 0.8% compared with 1.5% growth in the same period a year earlier.

Thailand now has a dilemma. In order to progress up the economic food chain, it needs to move away from reliance on industries that utilize poorly-paid, low skilled labour such as much of the garment or electronics industries that currently exist, but lacks the requisite skilled labour force to help this come about. This also creates difficulty for SRI funds, as labour standards may even fall as Thai producers struggle to compete against other countries in the region with lower cost structures. At the heart of the problem is the question of productivity. Productivity in Thai manufacturing has lagged other economic indicators. Without the requisite skills, it is difficult to see how Thai garment producers can lift the value-added component of what they currently specialize in. Restructuring education to deliver better quality at the lower levels (i.e. elementary and high school), especially for the rural masses would make a big difference, but there is little evidence of a desire to see this happen to date. The issues of a living wage and restrictions on overtime are moot if there is no work to be had.

*Labour standards may come under pressure as Thai companies struggle to compete in the region.*

## 10.0 COMMUNITY INVESTMENT AND MICRO-FINANCE

### 10.1 Local And Internationally Funded Projects/ Assessment Of Fund

In 1992, the Government of Thailand established the Urban Community Development Office (UCDO), which was placed in charge of the Urban Community Development Fund that supports activities of urban low-income communities. In 2000, the Government merged the Urban Community Development Office and the Rural Development Fund into the Community Organisations Development Institute (CODI). CODI promotes the development of community organisations and coordinates civil society efforts in the rural and urban areas of Thailand. Its objective is to improve the living conditions and increase the organizational capacity of communities through the promotion of community savings and credit groups and the provision of loans at favorable interest rates as wholesale loans to community organizations.

Thai Poverty Index 2002												
Year	Region	Poverty Line	Poverty Line: Municipal	Poverty Line: Village	Poor %	Poor %: Municipal	Poor %: Village	Number of Poor (million)	Poverty Gap	Gini Coefficient	Gini Agric Sector	Gini Non-Agric Sector
2002	Whole Kingdom	922	1090	841	9.79	4.04	12.58	6.22	2.43	0.511	0.453	0.489
2002	Bangkok Metropolis	1021	1110	886	1.45	1.8	0.92	0.036	0.37	0.464	0.554	0.458
2002	Central (Exclude Bangkok)	930	1089	866	4.34	3.16	4.82	0.515	1.03	0.463	0.431	0.457
2002	Northeast	898	1068	864	18.94	11.44	18.94	3.77	4.46	0.527	0.396	0.499
2002	North	830	1009	783	9.84	5.73	10.92	1.11	2.57	0.517	0.433	0.506
2002	South	890	1129	819	8.71	6.24	9.44	0.741	1.91	0.496	0.491	0.467

Source: NESDB

*Microfinance is largely a government-sponsored activity in Thailand.*

Micro-finance is largely a government-sponsored activity in Thailand. Micro-finance schemes have been available in Thailand for many years, but offer a cautionary note on the dangers of these types of programs becoming captive of the political process. Too often microfinance, often instigated with the best of intentions, has ended up as an extension of the vote-buying patronage chains that have helped deliver the elections in the poorer, rural provinces of Thailand, especially the Northeast.<sup>19</sup>

The Bank for Agriculture and Agricultural Cooperatives of Thailand (BAAC), and more recently, the Government Savings Bank (GSB) have been the principal vehicles for many of these schemes. First established in 1966 as a government owned agricultural development bank, the BAAC has recently been going through a gradual transformation from a specialized agricultural lending institution to a diversified rural bank that provides a range of financial services. Since 1998, with the assistance of Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, the development arm of the German government, it has been pilot testing micro-credit programs for extremely poor clients. In fact, this metamorphosis was in response to a thorough and often critical examination of the BAAC by one of GTZ's researchers.<sup>20</sup> At the end of 2000, BAAC had 406 micro-loan clients, the majority of whom were women.

<sup>19</sup> from discussions with field-workers in Isaan, NE Thailand

<sup>20</sup> Delbert Fitchett Eschborn; Consultative Group to Assist the Poorest Working Group on Savings Mobilization Bank of Agriculture and Agricultural Cooperatives; 1999



The change is in line with a shift of clients and their sources of income in rural Thailand, as it became clear that many non-agricultural opportunities are emerging, such as piece-meal work making fishing nets, etc, part-time work as taxi drivers in Bangkok, or periods working in factories. The majority of rural households in Thailand derive only 35% of their income from farming. The contribution of agriculture to the national income also declined from 36% in 1966 to 11% in 1999, significantly transforming the rural economy. Most family farms are simply too small to be economic units beyond subsistence, despite supporting over half the population of the country. The ratio of non-farm to total farm cash incomes is now above sixty percent. Off-farm opportunities generate demand for a new type of microfinance as many potential clients were women, and as they were not farmers by definition, they could not borrow from the formal banking system.

Previously, the rural financial system was (and often still this) distorted by directed credit or "special projects" implemented by the BAAC in collaboration with government agencies. In fact, many of these projects failed and the borrowers didn't repay their loans. The bank's experience shows that lending to groups collectively tends to result in high rates of default. Within Thai rural society it seems that an individual will accept responsibility for maintaining an asset and repaying a loan for it only if he or she is the sole owner. If responsibility is shared, all too often the result is that no one will accept responsibility.<sup>21</sup> In fact, cheap credit frequently does not reach the poor and low interest rates create excessive demand for loans that are often used inefficiently. As Thailand has often demonstrated, farmers obtaining cheap credit invest in lowreturn activities. As well, the borrowers were not the poor, but mainly farmers who were comparatively well off. "Special Projects", or directed credit, still account for 10% of BAAC's loan portfolio.

Looking at the BAAC's large client base and branch, network, Marie Luise Haberberger, a senior rural banking adviser from the GTZ<sup>22</sup>, argues that there is no alternative but to turn the "Peoples' Bank" into a "new" client-oriented bank offering, the right financial products to the right customers: entrepreneurs, farmers or others who need access to credit other than those offered by traditional money-lenders. The key to sustainability is charging interest rates that are able to cover all incurred costs, rather than constantly requiring government subsidies, but this appears to be a hard sell politically in Thailand. Ms. Haberberger stresses that rural and micro-finance clients are willing to pay comparatively high interest rates for this type of service because the alternative are rural loan-sharks who generally charge extortionate rates, and which are the curse of many rural families who find themselves unable to meet repayments.

*The key to sustainability is charging interest rates that are able to cover all incurred costs.*

The Government Savings Bank of Thailand (GSB) is a state bank that began as a government institution primarily for those earning low to medium incomes. Microfinance products and services were introduced to low-income clients in 1995. At present, services are offered throughout the country through a semi-independent direct lending unit, or a specialty window, to both rural and urban clients. The Government Savings Bank finances 447,709 micro clients through loans that are made to 7,265 community groups and cooperatives. Of the 8,048,000 clients that receive micro-savings services, more than 50% are women. The GSB began offering microcredit services through its People's Bank early in 2001. With 1% interest per month and a 13 month repayment period, the service attracted an impressive 200,000 applications. However, the question remains: is the 1% monthly interest rate enough for the GSB to cover all its costs, since the loan amounts are comparatively small, thus inevitably incurring high administrative costs? Rapid expansion might undermine the long-term sustainability of microcredit services given that interest rate changes are unlikely to cover the programs costs.

<sup>21</sup> John Lightfoot; BAAC Experience with Joint-Liability Lending; <http://www.gdrc.org/icm/baac.html>

<sup>22</sup> Bangkok Post article October 2, 2001

Last year, a state-owned commercial bank, Krung Thai Bank, introduced a pilot community-led micro-credit scheme in the small village of Saem Kha in Lampang Province in the N.E of Thailand. Here, the locals are nearly all engaged in basic farming and traditional handicrafts. Recent road construction and electricity connections have exposed the community to the cash economy on a new scale. The project was undertaken by KTB in response to first, a survey that discovered that the 152 households in the community were mired in debt at three times the previous estimate, and secondly, that village leaders had pushed the residents to establish a central savings pool to tackle the problem. The villagers helped establish the schemes parameters and also volunteered their time. KTB lent the community bank three million baht (approx. US\$62000) at 6% annually, as well as offering computer services and training in basic banking services. Loans would be limited to \$US2200 per person and could not be used to refinance other debt, and ultimately KTB expects the community bank to become self-sustaining. Savings deposits currently pay 1.25% annually and fixed deposits 1.5%, and are set by the bank's 14-member board. As of June 2003, there were 55 depositors with total savings of approx. US\$3000. However, the villages objected to KTB's suggestion that lending interest rates should be set at 8-9% to reflect market conditions. Instead, they insisted on just 4-5%. Even in the present low interest rate environment, it is hard to see how this can be sustained.

Other policy initiatives by the Thaksin Government include the establishment of a "peoples' bank" to facilitate small scale lending, a three year moratorium on farmers' debts, and provision of a 1 million Baht (US\$23,000) loan to every Thai village and urban community to stimulate market production. In a report released on 1 April 2003, the National Economic and Social Development Board (NESDB)<sup>23</sup> stated that most of the funds from the government's one-million-baht village fund scheme were being used for agricultural and business investments, which had increased average family income by some 7%. Less than 2% of borrowers had used loans to repay old debts, and as few as 0.1% to meet household expenses, it said. Almost 90% of villagers were claimed to have paid back their loans as scheduled, while only 7% reportedly borrowed from other sources to meet repayments. The NESDB said around 65% of villagers nationwide had borrowed from the fund, with an average allocation of about 14,000 baht.

*Around 65% of villagers nationwide had borrowed from the fund.*

However, this glowing review was immediately challenged by the Northern Farmers Alliance, which conducted its own research into the scheme and that contradicts the findings from the NESDB. Somchai Sirichai, said his organization's unofficial survey of 1,336 villages in eight provinces found more than 70% of borrowers were misusing the fund. Most villagers used the money to either buy luxury items, like mobile phones and motorcycles, or repay old debts, he said. In addition, around 12% of the surveyed villages were found to have no access to the fund. (Bangkok Post April 5 2003)

See Appendix 4 (12.4) for a micro-finance case study advocated for Loei Lottery sellers.

## 11.0 ASSESSMENT OF THE FUTURE MARKET FOR SRI

**D**rivers for SRI in Thailand

- CSR being introduced and adopted by some corporates
- Corporates reporting and adoption of environmental standards still weak but improving
- Corporate adoption of ISO14001 high for the region
- Government promoting corporate governance, notably the Capital Market Master Plan, but enforcement still quite weak

<sup>23</sup> [www.nesdb.go.th/nesdb4-eng.html](http://www.nesdb.go.th/nesdb4-eng.html)

- Very entrepreneurial society, with over 50% business run by women, who could provide potential market for SRI products
- Vibrant NGO sector and experienced development organizations
- Several NGO's working with business sector on corporate governance, environmental and social issues
- Mutual fund industry, retail investment industries increasingly sophisticated.
- Direct equity investments, such as Thai Equity Fund (TEF) by agencies such as IFC and ADB, provide vehicles to introduce corporate governance and SRI criteria into markets
- Micro-finance sector well established with several successful case-studies

### Conclusion

- Significant investor education and distinctive marketing needed in order to develop retail support for SRI. Focus towards women entrepreneurs and also interpreting and presenting SRI as a localized concept would be important
- SRI could gain support of NGO sector if shown to provide fresh perspectives on, as well as to promote and reinforce, broad development goals of equity, poverty alleviation and environmental protection
- Corporates with improving CSR and reporting standards can be identified
- Global SRI funds or Development agency direct investment could provide a best-practice model and facilitate introduction of SRI into the market.

What we appear to be seeing today in Thailand is in many ways a sea change in the character of the country. The current government under the tutelage of Thaksin Shinawatra represents the coming of age of the urban middle class. Unprecedented changes are being undertaken in regard to the endemic corruption that has for so long blighted the development of a civil society in Thailand. Generally speaking, it is axiomatic that the lower middle class in any culture has the most to lose (because they pay taxes) and the least to gain (usually they are not "well-connected") from corruption, and are thus the least tolerant of a corrupt body politic. Until recently, this sector of society has felt relatively powerless and stoically accepted this set of circumstances. However, it was this group that helped propel the party of P.M. Thaksin ("Thai Rak Thai" = "Thais Love Thais"), to power. The Asia economic crisis brought to a head their frustrations with 'business as usual', particularly the *quid pro quo* of the prevailing political culture. Thailand's new constitution helped to give expression to this frustration. Thailand appears to have gone through a "*Cultural Revolution*" of sorts in the last two years as a result. "*Dark Influences*" - mafia figures that were previously thought of as untouchable are now being arrested almost daily. Furthermore, Thaksin has emerged as the champion and a master communicator to this lower middleclass sector of society, especially in his weekly radio addresses, religiously listened to by many ordinary citizens.

It is still too early to say how deep this campaign, the "New Social Order" will run (it certainly appears selective and the P.M himself is far from above reproach) but it seems likely that this emergent urban middle class will transform Thailand over the next decade. As wage earners and small business people they will need to also make provision for their retirements/ children's education, etc, and are already looking to the capital markets to grow their savings, encouraged by the government, in the present climate of low interest rates. Just as they are strongly behind the current 'moral rearmament' campaign, they will also likely demand better governance and transparency as well as environmental and social awareness from the companies they invest in. This is where, in THE SEEDS's opinion, the future of SRI in Thailand lays. Thais are a proud people and reluctant to take advice from outsiders whose motives they suspect, but when it is their investments, their country and their future, socially responsible investing will start to make sense.

*It seems likely that this emergent urban middle class will transform Thailand over the next decade.*

## 12.0 APPENDICES

### 12.1 Appendix 1 : The Saga Of CalPERS' Revision Of Its Investment

CalPERS, the provider of pension services to California's state public employees is the largest US public pension fund, with assets of \$135 billion, The CalPERS' board is composed overwhelmingly of elected officials and political appointees; all of its board members also belong to public service unions.

Initially in 2001, CalPERS made a US\$75 million investment in the newly established Thai Equity Fund (TEF) managed by Lombard Inc. The World Bank's International Finance Corporation (IFC) and Government Pension Funds were the other co-lead investors. At the time, William D. Crist, President of CalPERS Board of Administration, hailed it as "an unprecedented opportunity", following the Asian economic crisis to "participate in the renewed growth of Thailand's leading enterprises while securing a good long-term investment for our members". The fund was only to make investments in companies that agree to comply with Government of Thailand and IFC environmental and social policies, including high standards of corporate governance and transparency.

In early 2000, Phil Angelides, the California state treasurer and a CalPERS trustee, announced that CalPERS should take into consideration labor and other human-rights standards in its emerging-nation investments. Previously, CalPERS had employed Wilshire and Associates to develop a selection process that incorporated the use of a range of commercially focused indexes, gathered from reputable published sources. These indexes measured market volatility, regulation and legal system, investment restrictions, settlement proficiency, transaction growth and growth of technology. The previous methodology also included indexes on the level of economic development and political stability. In 2001, it eliminated the growth of technology index, augmented the political stability index and added two new indexes: transparency and labor standards. The transparency index measures monetary and fiscal policy, accounting standards and stock-market listing. These are commercially relevant issues and the measures are compiled by reputable independent sources. The political-stability index measures civil liberties, judicial independence and political risk. A strong argument can be made on commercial grounds for their inclusion and they were also derived from reputable sources.

Four factors, *market regulation, settlement times and transaction costs, capital-market openness, and liquidity and volatility* weighted equally, comprise 50 percent of the index. However, the distinctive feature of the new model was that it also includes three civil-governance categories: *political stability, transparency, and labor practices*. Those factors comprise the other 50% of a country's score. The model prepared by Wilshire Associates, uses a three-point scale for each of the seven categories. For most categories, it relies on expert assessments, such as Freedom House's index on press restrictions, but ultimately it compiles subjective observations into seemingly objective numbers. CalPERS hired the consultancy arm of the NGO, Verite, to compile the measure.

In 2002, with three country categories and five market categories, Wilshire Associates recommended rating each factor equally across the board, except giving a 50 percent greater weight to Market Regulation/Legal System/Investor Protection and halving the value for Transaction Costs (in 2003, this category was combined with Settlement Proficiency to produce seven categories). Country factors would count for 37.5 percent of the total score and market factors as 62.5 percent. Wilshire also recommended a total score of 1.6 as the minimum for CalPERS portfolio investments. Under that recommended scoring system, 17 markets would have qualified, including India, Thailand and the Philippines. However, CalPERS' trustees chose to set the bar higher, at 2.0, which would exclude that trio. CalPERS agreed with the consultant's concept of over-weighting the Market Regulation category, but it wanted country and market factors to comprise equal portions of the overall total. So the three country

categories were set at 17 percent of the total score (Transparency got knocked down to 16 percent). That meant each was more important than any market factor, including the over-weighted Market Regulation category. Of the 16 countries spanning Latin America, Central Europe, the Middle East, Northeast Asia, and Southeast Asia, CalPERS decided that only four S.E Asian countries didn't make the grade. Three of these markets were ones where CalPERS already held investments: Indonesia, Malaysia and Thailand. At the time, Thailand ranked 44th out of 49 nations in management practice, according to the International Institute for Management Development (IMD), lending credence to CalPERS' divestment decision. In 2003, the number of market categories was reduced from five to four, each equally weighted at 12.5 percent, dwarfed by the unchanged values of the three country factors.

Robert Carlson, a member of the CalPERS board as well as a member of the board of the Franklin-Templeton Group of mutual funds, has claimed **"the idea of selling shares in disgust has given way to the realization that it makes better economic sense for us to become an agent for change. We believe that we have a duty to put just as much effort into being an active owner as in deciding to be an owner in the first place. Companies that are operated with long-term returns as the primary goal will ultimately reward other stakeholders. Companies driven by short-term goals do not reward anyone in the long term"**<sup>24</sup>. CalPERS' withdrawal from S.E Asia (excluding Singapore and the Philippines) contradicts this core principle of constructive engagement. Furthermore, it demonstrates the limitations of the approach of employing passive screens (as most SRI funds do) as it demonstrates that these funds do not take their responsibilities as owners (of stocks) seriously but simply treat the shares they invest in as commodities.

## 12.2 Appendix 2 : The Capital Market Master Plan

Driving the campaign was a steering committee led by the Ministry of Commerce in collaboration with the Thai Security and Exchange Committee (the SEC), the Stock Exchange of Thailand (SET), the Listed Companies Association, and all the associations of securities practitioners. The SEC was given responsible for the evaluation and ratings for good corporate governance of all market-related organizations. The ratings aimed to provide incentives for the implementation of good corporate governance within these organizations. To reinforce and promote the practice of good governance, certain privileges for those gaining good ratings were considered. Secondly, the Association of Securities Companies (ASCO) was asked to establish a guideline on prudence to aid corporate compliance officers in their effort to promote efficient corporate governance practices. Support was to be extended for the establishment and enforcement of the companies' accounting standards, in line with internationally accepted practice. The enforcement of laws related to capital market activities were to be accelerated and improved. The establishment of a 'Shareholder Association' was mooted. Laws in support of the 'Class Action' suits were to be introduced and the Law was to be clarified concerning the roles of directors and executives of issuing companies and intermediaries for those cases where they may be guilty of either criminal or commercial misconduct. Furthermore, the Ministry of Commerce and the SEC were required to hold discussions to resolve outstanding issues concerning an amendment to the Thai 'Public Company Act' to provide the SEC with a more effective and integrated regulatory coverage of listed companies.

Intermediary Institutions were to be strengthened. The SEC, the SET, the Association of Securities Companies (ASCO), and the Association of Investment Management Companies (AIMC) were to hold discussions to determine guidelines for the rating of intermediaries and to promote the acceptance of these ratings. Both the Bank of Thailand and the SEC were to study extending the scope of the business operations of the financial intermediaries in the securities business, and Bank of Thailand was asked to consider permitting appropriate fund sizes for overseas investments to be made by investment management companies, something they were previously prevented for doing.

<sup>24</sup> [www.calpers.ca.gov/whatsnew/press/1999](http://www.calpers.ca.gov/whatsnew/press/1999)

Finally, the structure of the supervision system was to be improved. The Ministry of Finance was to be given responsibility for establishing a permanent steering committee to handle policy coordination between the supervisory bodies to help ensure greater efficiency in the supervision of the financial markets. The committee was to comprise senior executives from Finance, the Ministry of Commerce, the Bank of Thailand, the Securities and Exchange Commission, and the Department of Insurance. The SEC Board was to be restructured to reflect the changing environment, and the SET was asked to establish a steering committee to determine guidelines for corporatization of the Exchange itself.

## 12.3 Appendix 3: Case Studies - Corporate Governance

### **Roynet**

Roynet, a loss-making Internet service provider listed on Thailand's recently inaugurated small-cap "Market for Alternative Investments" (MAI), has become a rallying point for investors seeking to strengthen corporate governance and the powers of minor investors and a glaring example of the continuing weaknesses in Thailand's legal framework despite efforts by the Stock Exchange of Thailand (SET) and Securities and Exchange Commission to protect shareholders' rights. As the first ISP (Internet service provider) to raise funds via the capital market, although comparatively small in its size, it was the last to receive an ISP concession, which lasts for 10 years, before the CAT (Communications Authority of Thailand) stopped granting them four years ago.

The saga began when it emerged that the holdings of the Yaoprukse family, the founders of the company, had plummeted from 60% in April last year to zero by December, without any formal notification to securities regulators, as the law requires. Many existing Roynet investors purchased shares late last year on speculation share prices would increase after the firm's positive third-quarter results. But the restated accounts showed a third-quarter net loss of 13.2 million baht and a loss of 36.7 million baht compared with the originally announced net profit of 11.87 million baht for the third quarter and 22.07 million baht for the first nine months following its IPO. The former Roynet managing director, Kittipat Yaoprukse, is now fighting criminal charges for insider trading and disclosure violations relating to these share transactions, plus he has also been accused by securities regulators of accounting fraud relating to Roynet's third quarter financial statements, which were restated after auditors discovered that sales had been incorrectly booked. Shares of Roynet were then suspended from trade leaving many investors frozen in their positions with no avenue for exiting.

A further problem emerged when it was discovered that, while Mr Kittipat had notified the Stock Exchange of Thailand electronically on April 8 2003 of his resignation from the company, no written resignation letter was received, putting the legal status of the company into question to the frustration of other shareholders and regulators. Despite publicly announcing his departure from Roynet, Mr. Kittipat remains the authorized signatory of the company and, as a result, the Yaoprukse family remained effectively in control of Roynet even though they have no shares in the firm. Since then, Roynet investors have been left mostly frustrated by their inability to convene meetings to formally appoint a new board, as the right to call a meeting under Thai law rests only with the chairman or a designated director. While the law does give investors the right to request an extraordinary meeting with a company chairman under a petition signed by more than twenty-five shareholders representing more than 25% of total shares, multiple efforts by minority Roynet shareholders to submit such a petition to company directors and management were ignored.

Eventually the shareholders decided to convene their own meeting, taking advantage of a clause within the Civil and Commercial Code. A total of 124 investors, holding a combined 21.45 million shares out of the 61 million outstanding, convened an extraordinary shareholders' meeting on April 29 2003 in attempt to dismiss nine directors, most members or connected to the Yaoprukse family, from the company board, but it remains uncertain whether the move is

legally acceptable. In fact, Commerce Ministry officials said it was likely that the meeting would be declared void.

Subsequently, the Securities and Exchange Commission (SEC) say they would file legal complaints against Roynet directors if the company board fails to convene a shareholders' meeting by June 27. Authorities also threatened to seize property and assets of the directors if any evidence of fraud was found.

The authorities agreed to push for new legal changes to strengthen investor protection, including a reduction in the threshold of shareholders needed to request a shareholders' meeting to 5% from the present 20%. The Commerce Ministry will also establish a committee to consider options in cases where a company chairman or directors refused to call a meeting as requested by shareholders.<sup>25</sup>

## Thai Petroleum Industries

One of the most notorious cases to arise from the 1997 economic crisis in Thailand was that concerning Thai Petroleum Industries (TPI), the country's largest corporate debtor. This case has been seen as a litmus test of Thailand's commitment to reform, in particular in terms of its bankruptcy regime and its new specialist Bankruptcy court, in its treatment of foreign investors. TPI entered business rehabilitation in 2000 with debts of \$3.7 billion. More than 140 creditors are involved in the case, including Bangkok Bank, Citibank, the International Finance Corp, the German development bank KfW and the US Export-Import Bank. While the domestic Bangkok Bank is the largest single creditor, foreign creditors hold 52% of total claims. Prachai Leopairatana, the founder of TPI has waged a three-year legal battle to regain control of the company, characterizing it as a nationalist struggle of Thai verses foreign interests. In this, he has the support of TPI staff, whom he has convinced that he will champion against job cuts.

At the heart of the issue for foreign investors are the difficulties in seeking legal redress when things go wrong. One major constraint is proof of bankruptcy, Thai law does not accept the cash-flow definition for determining insolvency (i.e. if a company is unable to pay its debts) recognized in western jurisdictions, instead the law insist on the much more difficult to prove asset-value test (whether company assets are worth more than its debts). When this is combined with Thai cultural preference for consensus and an abhorrence of conflict, the loss of face attached to bankruptcy, sensitivities about "foreign domination", and the generally protracted nature of achieving legal judgments, bankruptcy proceedings can be a minefield for investors.

Currently holding only 16% of the company, Prachai filed at least 36 different lawsuits against the debt-workout administrator, Effective Planners, a Thai-registered subsidiary of the Australian Ferrier Hodgson. Until recently, it appeared that the Thai Bankruptcy Court, mindful of the international interest in the case as a test of the effectiveness of Thailand's bankruptcy procedures, had given these lawsuits scant credence. In fact, the Court, newly created in May 2000, had in a landmark decision in December of that year, and much to the delight of foreign investors, found TPI technically insolvent, stripped Prachai of his managerial duties and appointed foreign consultants to oversee the company's daily operations.

However, on April 21, 2003, the Court unexpectedly reversed its decision. The court dismissed Effective Planners and accepted Prachai's claim that Effective Planners had failed to meet production targets laid out in the restructuring plan. This suggests a sea change in attitudes in favor of debtor over creditor rights, and even, some foreign investors claim, indicates that Thailand is backtracking on some of the most important reforms implemented after the economic crisis of 1997. This view would seem to be supported by the Prime Minister, who ordered the

<sup>25</sup> From reports in the Bangkok Post (April- May 2003)

state-owned Krung Thai Bank to supply new credits to TPI after the creditors refused to release an \$80 million line of credit for the company, and was quoted by *Kruntep Turakit*, the country's leading Thai-language business daily, as saying: "The Government is here to help the Thai people shake off the foreign yoke."<sup>26</sup>

Subsequently, the Prime Minister proposed that both sides name fifteen candidates (7 each plus one from the government) to form a joint committee to administer the company. This compromise was rejected by the creditors because of a reluctance to see further involvement by Prachai. The creditors proposed that Gen. Yuthasak Sasiprapa, a former deputy defence minister should head the new planner. There upon Mr. Prachai accused the creditor banks of colluding with Effective Planners to siphon off funds from TPI.

What then followed, on June 13, in a precedent-setting ruling by the Central Bankruptcy Court was the rejection of the new planner (previously the court had accepted the plan administrators as proposed by the creditors) and the appointment of the Finance Ministry as the new plan administrator. It was claimed that the TPI staff would lack confidence in a plan administration headed by Gen Yuthasak, which would make a successful rehabilitation difficult. The court threatened to impose this ruling if the creditors failed to accept this ruling. It appeared to be another victory for both for Mr. Prachai and for the position of debtors vis-à-vis creditors.

It would also appear to signal that the present government is less concerned about fostering a climate that is attractive to international investors, but is more interested in protecting the interests of the local business elite. A move to encourage local investors to enter the Thai capital markets (especially given that bank interest rates are at historical lows) as a substitute for foreign capital seems to be part of Mr. Thaksin's plan to make the country more "self-reliant". Thaksin has even suggested that the government might engineer a buyout of claims held by foreign creditors of TPI through the state-owned Krung Thai Bank, an institution frequently used to implement government policy, which, under the present circumstances, may prove irresistible to creditors. However, the risk is that future borrowers may find foreign lenders demanding a premium for lending in the Thai market.

## Siam Strip Mill

A similar case but with a different twist has been that of Siam Strip Mill (SSM). Problems started after SSM, owned by tycoon Somsak Leeswadtrakul, reported that its total debt had increased to 61.5 billion baht, with the addition of 35 billion baht owed to Sipco. Previously, SSM's debt amounted to 26 billion baht, of which 80% was owed to three Japanese creditors. Sipco, controlled by most of SSM's board members, has a contract to supply power to SSM but has yet to begin doing so. The increase in debt resulted in the three Japanese creditors losing their majority vote in creditors' meetings and effectively made Sipco a new major shareholder with a 58% vote. Consequently, a new rehabilitation plan proposed by Sipco won 58% of the creditors' vote in late May, amid opposition from the Japanese creditors - Itochu Crop, Sumitomo Corp and Citibank's Tokyo branch. The administrators were able to do this because of a loophole in the bankruptcy law that confers equal rights on secured and unsecured creditors. This rort effectively returned control of the company back to its original management.

This wheeze was possible because Sipco, an unsecured creditor of SSM, had originally proposed to build a power plant project six years ago to supply electricity to a SSM steel plant. The firm secured a gas-purchase contract with PTT Plc on a take-or-pay basis, meaning it had to pay for natural gas regardless if was used or not. Subsequently, after the Asian financial crisis, both Sipco and SSM failed to finance the projects but under the take-or-pay contract, Sipco still had to pay PTT for gas supplies in turn, that were not taken up. PTT filed a lawsuit against Sipco for debt payment. Sipco then filed a civil lawsuit against SSM for 35 billion baht to compensate for the latter's failure to buy electricity which had resulted in Sipco's inability to pay PTT. SSM's Japanese creditors, however, disputed the status of Sipco as a creditor in the civil courts.

<sup>26</sup> Reported by Shawn Crispin in FEER 8 May 2003 P47



Japanese creditors filed an objection with the Central Bankruptcy Court, arguing that a decision by official receivers to accept added debt owed to Siam Power Generation in a restructuring deal, violated the constitution. However, in November 2001, creditors voted against the plan and filed bankruptcy against SSM. In January 2002, Sipco petitioned the court to enter rehabilitation again, which was accepted in June 2002. Court receivers in August then agreed to raise the claims of Sipco to 35 billion baht, based on the damages claimed by the company for SSM's failure to purchase electricity under a previous contract. Under the new restructuring plan for SSM, creditors would receive from 28% to 50% of their claims. Total debt under the plan is 61.5 billion baht. The previous creditors say the decision by receivers to allow higher debt claims by Sipco effectively gives the company a controlling vote over the structure of the rehabilitation plan. Creditors also question the fairness of equating claims by secured lenders with that of Sipco, a company with shareholding links to SSM. Once again, on 18 June 2003, the Central Bankruptcy Court set a precedent by ruling against the foreign creditors by dismissing their claim for constitutional review and approving the restructuring plan.

## 12.4 Appendix 4: Case Study - Microcredit Scheme Advocated For Loei Lottery Sellers

Selling lottery tickets along Bangkok's streets became a popular job amongst Loei's Khao Luang residents about five years ago when pioneers in the business starting bringing home good incomes. Many of the villagers had heavy debts they had run up with the Bank of Agriculture and Agricultural Co-operatives (BAAC) as a result of an Agriculture Ministry initiative encouraging them to go into commercial cultivation of cassava. From an initial ten pioneers a decade ago, 70% of the total population of Tambon Khao Luang, (a sub-district of Loei's Wangsa-pung area (in the heart of the northeastern region of Isaan, 500 kilometers north of Bangkok) now hawk tickets in the capital's streets. This activity has become their main source of cash income.

What is most interesting about this trend, though, is not the numbers, but the villagers' attempts to link the work to a financial project organized by the Interior Ministry. The government initiative, which allocates a US\$22,000 revolving micro-credit scheme to each village, is intended to strengthen community based economies.

A former official in the credit division of the Bank of Agriculture and Agricultural Cooperatives (BAAC), Kiati-sak Seesan, currently an official of Khao Luang's Tambon Administration Organization (TAO) has been the instigator for setting up the loan system. While loans would be at a rate of only five per cent, Mr. Kiati-sak outlined, a guarantor would be required. He argued that: "Our real economic activity is lottery selling, so, why waste money on other activities."

However, the lottery business has its downsides. One is the risk the sellers are exposed to. They tell many tales of being robbed and cheated, and of run-ins with mafia gangs. Another negative is the impact on families. The sellers have more income, but less time with their families. The absence of parents has been attributed to a growing problem of premature sex among girls and drug addiction among boys. Also, lonely and tired after working in Bangkok many of the lottery sellers become addicted to gambling, especially "hi-low". Games are often being played when they arrive home. As a consequence, much of their hard-earned cash is squandered before there is a chance to use it for something worthwhile. Furthermore, it is hard to imagine that they would be in any position to service their loans from the BAAC.<sup>27</sup>

<sup>27</sup> Reported by Karnol Sukin in The Nation; 21 February 2001

This tale illustrates the difficulties of tailoring sustainable micro-credit programs that effectively meet genuine local needs and are not hijacked by often well-meaning but poorly informed local government or bank officials. One of the most difficult concepts for many, even educated Thais to grasp is that interest rates need to be high enough to cover the costs of the program if it is to be sustainable. Many feel that it should operate as a subsidy (from conversations with MBA students at Mahidol University School of Management). Microcredit schemes also need to recognize that they have a didactic role in educating rural families in the realities of managing cash, accumulating savings and acquiring a credit record that will allow them to eventually move beyond micro-credit and into the orbit of commercial banks.

In a similar cautionary tale, three officials of a cooperative in Sungai Padi district in Narathiwat Province in Southern Thailand recently disappeared with 17 million baht (\$US400000) in savings of the cooperative's 982 members. The trio had gradually siphoned money off the accounts and lied to colleagues they had won lottery prizes. The three women involved had even divorced their husbands before their disappearance so their former spouses would not have to take responsibility for their crime. Furthermore, police were forced to guard the cooperative's office for fear that the trio's relatives might try to steal key documentary evidence or make an arson attack on it.<sup>28</sup> Such stories are all too common.

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<sup>28</sup> Bangkok Post 5 April 2003

## 13.0 RESEARCH PARTNER

### **Robert Jamieson** **Joint-Founder, The SEEDS, Thailand**

Rob Jamieson was born in New Zealand but has spent more than a few years living abroad, the last nine in Thailand. He spent the first four years living there domiciled in the North East, the poorest provinces of Thailand, where he taught at the University of Khon Kaen and later at the Mekong Institute (a New Zealand-funded facility aimed at promoting cooperation in the greater Mekong sub-region). In 1998, he moved to Bangkok where he participated in the first review of the Thai Capital Markets undertaken by the ADB after the Asian economic crisis, followed by a spell teaching at Mahidol University's School of Management Science. In 2001, he joined the Stock Exchange of Thailand for an eighteen-month stint. It was during this time that, along with Sari Laaksonen and Tero Raasina that he helped found the SEEDS, an organization designed to promote an understanding of SRI in Thailand. Rob is currently working as a free-lance consultant for, amongst others, John Wiley and Sons and Prentice Hall, as well as looking for opportunities for further involvement in the development of SRI in the region.

### **The SEEDS**

The SEEDS (Social, Environmental and Economic Development) was established in 2002 to promote awareness amongst Thais of SRI and to help identify opportunities to foster technologies and business models that support the growth of a sustainable future for the societies of Southeast Asia.



## 14.0 GLOSSARY

ACCA ADB	Association of Chartered Certified Accountants Asian Development Bank
BAAC BOT	Bank for Agriculture And Agricultural Co-operatives of Thailand Bank Of Thailand
CalPERS CG CODI CT	California Public Employees Retirement System Corporate Governance Community Organizations Development Institute Cleaner Technology
DANCED DIW DMC	Danish Co-operation for Environment and Development Department of Industrial Works Developing Member Country
EPPO EU	Energy Policy and Planning Office (Ministry of Energy) European Union
FIF	Foreign Investment Funds
GEM GM GMO GSB GTZ	Global Environmental Monitor Genetically Modified Genetically Modified Organism Government Savings Bank Development arm of the German Government
IFC ISO 14000 ISP	International Finance Corporation International Organization for Standardization - Environmental Management Internet Service Provider
KTB KU	Krung Thai Bank Kasetsart University
LLC	Lombard Thailand Intermediate Fund
MAI MOF	Market for Alternative Investments Ministry of Finance, Thailand
NCCG NEPO NESDB NGO NIMBY	National Committee on Corporate Governance National Energy Policy Office National Economic and Social Development Board Non Governmental Organisation Not In My Back Yard
PCD PDA	Pollution Control Department Population and community Development Association
SEC SEEDS SEN SET SME SPP SSM SVN	Thai Security and Exchange Committee Social, Environmental and Economic Development Sustainable Energy Network The Stock Exchange of Thailand Small and Medium sized Enterprises Small Power Producer Siam Strip Mill Social Venture Network
TBIRD TEF TEI TID TPI	Thai Business Initiative in Rural Development Thai Equity Fund Thailand Environmental Institute Thai Institute of Directors Thai Petroleum Industries
UCDO UNDP UNIDO	Urban Community Development Office United Nations Development Programme United Nations Industrial Development Organisation

## **ASrIA, Association for the Sustainable and Responsible Investment in Asia** [www.asria.org](http://www.asria.org)

ASrIA is a not-for-profit membership association dedicated to promoting sustainable and responsible investment (SRI) practice in Asia. ASrIA has over 100 members including investment institutions managing over US\$2 trillion in assets. In order to raise awareness about SRI, ASrIA has run conferences, seminars and workshops, and published wide-ranging research on SRI issues. ASrIA has also created a network of people and organizations committed to developing SRI in Asia. ASrIA's website, [www.asria.org](http://www.asria.org), is the primary resource for SRI in Asia, already attracting over 1,800 page views per day and 5,000 subscribers to the regular e-bulletin.

### **What is SRI?**

Sustainable and Responsible Investment (SRI), also known as Socially Responsible Investment, is investment which allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations.

The most successful SRI funds provide investors with dual returns:

- Financial returns that compare well to, and often exceeding, the returns of conventional investments
- Social and environmental rewards that go beyond the direct financial return to the investor

SRI is therefore a positive economic choice about the way we live and the world we live in.