

Thailand's Commercial Banks' Role in Financing Dams in Laos and the Case for Sustainable Banking

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Executive Summary

Thailand's commercial banks are increasingly lending to neighboring Mekong countries, including to hydropower projects in Laos. Thai banks that have lent to hydropower developers in Laos are: Bangkok Bank; Bank of Ayudhya; Kasikorn Bank; Krung Thai Bank; Siam City Bank; Siam Commercial Bank; Thai Military Bank; and Thanachart Bank. The dams that they have financed to date, namely Nam Theun 2, Nam Ngum 2, and the Theun-Hinboun Expansion Project, have all inadequately addressed social costs and environmental impacts. In Laos, where the majority of the rural population depend on the natural resources that rivers provide, these and many more proposed dams pose risks for the environment, communities, project developers, financiers, and the Lao government.

All of the above major Thai commercial banks have some form of Corporate Governance and Corporate Social Responsibility (CSR) commitment on paper. These commitments vary between banks but include: fair treatment of stakeholders, including customers, investors, business partners, and wider society and the environment; compliance with relevant laws; transparency and information disclosure; and environmental conservation and support for local communities. Despite these commendable commitments, fundamental changes to the bank's core business practices have not occurred and therefore these policies are yet to be meaningfully implemented.

As a general trend in the global banking sector, many international banks have adopted some form of policy on environmentally-sensitive sectors, sustainability issues, and transparency and accountability, although the overall quality of these policies remains fairly poor. The Equator Principles form one global benchmark which has been adopted by 67 financial institutions internationally. Analysis of the Thai banks' policy performance compared to 45 influential international banks reveals that the Thai banks lag significantly behind these international banks.³ Yet, as the notable progress towards sustainable banking practices in China demonstrates, Thai banks could, with the right commitment, take up – or even surpass – the international banks' existing standards.

Three Thai banks lending to hydropower projects in Laos have international strategic investors: GE Money holds a 33% stake in the Bank of Ayudhya; ING Bank holds a 26% stake in the Thai Military Bank; and the Bank of Nova Scotia holds a 50% stake in Thanachart Bank⁴. These strategic investors have committed to a number of international standards that the Thai banks have not yet adopted. These strategic investors should, therefore, accept a significant responsibility in strengthening their Thai bank partners' social and environmental performance. Many more international banks with commitments to existing international standards are minority shareholders in Thai banks and could also play a positive role.

Commercial banks serve as important intermediaries that allocate resources from savers to investors across economic sectors. By adopting more sustainable banking policies and practices, Thailand's commercial banks could contribute substantially towards a prosperous, sustainable and peaceful Thailand and Mekong Region for present and future generations. This would have the added benefit of minimizing their lending risk and increasing their profits from lending to emerging lucrative 'green' businesses.

³ BankTrack (2007) "Mind the Gap: Benchmarking credit policies of international banks", published December 2007, Banktrack: Utrecht (www.banktrack.org)

⁴ As of December 2009

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1. Introduction

Thailand's commercial banks are increasingly lending to neighboring Mekong countries, including to hydropower projects in Laos. The dams that they have financed to date, namely Nam Theun 2, Nam Ngum 2, and the Theun-Hinboun Expansion Project, have all inadequately addressed social costs and environmental impacts.

Yet, in Thailand there is a growing expectation amongst investors, consumers and the general public for Thai banks to strengthen their corporate governance and commit to Corporate and Social Responsibility (CSR). Whilst all Thai commercial banks have some form of commitment on paper, they are yet to implement thorough reform or sign up to international commitments or standards, such as the Equator Principles.

This paper puts forward the case for Thailand's commercial banks to move towards more sustainable banking practices that proactively contribute towards socially and environmentally sustainable and just societies. It argues that such reforms would also benefit the banks themselves by ensuring that social and environmental investment risks are quantified and therefore minimized, whilst at the same time opening the door to previously unidentified "green" investment opportunities.

In Section 2, the paper reviews the recent history and current status of Thailand's banking sector, key policies and regulations, and actors. Section 3 provides an overview of hydropower development in the Mekong region and Laos, the role of Thai commercial banks, and describes three hydropower projects now under construction in Laos that have received financing from Thai commercial banks, namely Nam Theun 2, Nam Ngum 2, and the Theun-Hinboun Expansion Project. Details are provided of the projects' environmental and social impacts and the financing arrangements. Section 4 details the shift from international financial institution-led to Thai commercial bank-led financing of hydropower dams in Laos. Section 5 summarizes Thai commercial banks' support for power projects in Thailand. Section 6 then explains the role of the Stock Exchange of Thailand (SET) in promoting principles of good corporate governance in Thailand. Sections 7 and 8 critically evaluate to what extent these principles have been taken up by Thai commercial banks. In Sections 9 and 10, the role of strategic international investors and international minority shareholders in Thai commercial banks are respectively explored, with a focus on their commitments to international environmental and social standards. Section 11 presents an analysis of Thai commercial banks' performance compared to leading international banks. Section 12 puts forward the case for Thai commercial banks to develop sustainable banking practices, and Section 13 describes the notable progress made towards sustainable banking practices in China. Section 14 concludes the paper with a set of recommendations on how Thai banks could move towards sustainable banking practices.

2. A Brief overview of Thailand's banking sector

2.1 *The impact of the Asian financial crisis*

Since the Second World War, Thailand's commercial banks have played an influential role in shaping Thailand's economic and corporate development.⁵ Thailand's largest and

⁵ Phongpaichit, P and Baker, C. (2008) "Introduction" in "Thai Capital After the 1997 Crisis" *Published by Silkworm Books, Chiang Mai*

most prominent corporate conglomerates had a major bank at their core. The Asian financial crisis heralded major reforms for Thailand's commercial banks, which, like Thailand's business model more generally, was characterized by closely-held family firms, with no clear separation between ownership and management, non-transparent accounting practices, and close inter-linkages between business, politicians and bureaucrats.⁶

As a result of the Asian financial crisis, Thailand's banks suffered the triple challenges of: technical bankruptcy; income losses; and illiquidity.⁷ Non-performing loans (NPLs) reached almost half of the credit advanced, decimating the banks' balance sheets.

The IMF's bail-out package to Thailand required the liberalization of the banking sector, something that the World Bank had been pushing since the early 1980s. To raise new capital, the Bank of Thailand relaxed the 25% ceiling on foreign ownership of Thai banks, although maintained that the banks still be subject to minority foreign ownership.^{8,9} Whilst the largest banks survived, some with government assistance through the Financial Institutions Development Fund, many medium-sized banks were merged, sold in part to foreign owners, or allowed to go bankrupt.

The reforms fundamentally changed the earlier business style, which was based on close personal relationships and integration between the Thai banks and their major corporate clients. Corporate Governance reforms at the Stock Exchange of Thailand, where almost all of Thailand's banks were listed, reinforced these measures with new rules on ownership, boards, management, and public disclosure of information.

Thailand's banks returned to profitability in 2001 and have seen significant improvements in their asset quality and risk management systems. The most important structural reform adopted during this period was the Basel banking standards that revised the regulatory and supervisory framework towards an Anglo-American banking model, that have made Thai banks more secure within the globally liberalized financial system.^{10,11}

⁶ Wailerssak, N. (2008) "Companies in Crisis" in "Thai Capital After the 1997 Crisis" edited by Phongpaichit, P and Baker, C *Published by Silkworm Books, Chiang Mai*

⁷ *ibid*

⁸ Current maximum ownership of Thai banks is 25%, but this can be increased to 49% on approval of the Bank of Thailand and greater than 49% with the approval of the Ministry of Finance. With the exception of UOB (Thai) and Standard Chartered (Thai) that were originally Thai banks bought by foreign banks post-financial crisis, foreign banks operating in Thailand are limited by the Bank of Thailand to only having one branch. Foreign banks are generally performing best in retail banking, such as credit cards, and loans to corporate clients.

⁹ Nine of Thailand's fourteen commercial banks remain Thai-privately owned, compared to fourteen out of fifteen before the crisis. Two are currently majority-owned by the Thai Government's Financial Institutions Development Fund (Krungthai and Siam City). Two are wholly owned by foreigners: OUB and Standard Chartered. Most banks have major foreign shareholdings, including some banks that have strategic shareholders, such as GE Capital's stake in the Bank of Ayudhya.

¹⁰ Nijathaworn, B., (2008) "National Financial System and Supervisory Framework" address by Dr. Bandid Nijathaworn, Deputy Governor, Bank of Thailand at Thai Insurance Forum 2008, Grand Millennium, Bangkok, 20 October 2008.

¹¹ The non-performing loan ratio stood at an average of around 8% by 2006, declining from 50% in 1998 (Nakornthab, D. (2007) "Thai Commercial Banks One Decade after the Crisis: Assessment of Risk to Financial Stability" *Published by Bank of Thailand, July 2007*)

2.2 Strengthened Banking Practices in Thailand

Before the Asian financial crisis, Thai banks mostly earned their income from the lending business, with an emphasis on lending to large corporations.¹² As a result of Thailand's adoption of the Basel standards and increased foreign ownership, the old banking practices whereby banks primarily lent to affiliated entrepreneurs and undertook direct investment in capital ventures came to an end.

Thailand's major banks have become far more cautious in their lending¹³ and have diversified their lending portfolios.¹⁴ The banks have also shifted towards consumer banking, whereby rather than making their profits primarily from interest on loans to corporate clients, greater emphasis is now placed on fees and commissions for financial services provision such as transactional services and knowledge creation.¹⁵

This reorientation towards customer-orientated consumer banking has led to major organizational restructuring, led by Thailand's largest banks such as Siam Commercial Bank.¹⁶ As competition in consumer finance has become fiercer, including from foreign banks, better customer relations management and building public brand image has become an important priority for the banks.¹⁷

2.3 Changes in Thailand's financial system structure

The overarching composition of financing in Thailand has changed since the Asian financial crisis. The importance of loans from commercial banks and financial institutions has declined, whilst the role of capital markets financing has increased (Table 1). These trends reflect government policy to promote the capital markets and that the banks, still managing their non-performing loans, have reduced the supply of money available for lending.

	1996	2006
Commercial bank, finance company, credit financier loans, and government financial institutions*	69%	44%
Corporate bonds	2%	6%
Public sector bonds	3%	19%
Stock market	26%	31%

* Commercial banks represent 70% and 78% of these values for 1996 and 2006 respectively

¹² Between 1992 and 1996, interest on loans represented almost 90% of the banks total income (ibid)

¹³ Compared to lending peaks in 1996, as a percentage of GDP loans to industry and the commercial sector had halved by 2006, although total lending to all sectors started to increase since 2003

¹⁴ the proportion of loans to consumers and Small- and Medium- Scale Enterprises increasing from 13% in 1998 to 21% in 2006 (ibid)

¹⁵ Non-interest income to total income has increased from 10% during 1992-96 to 22% during 2002-06 (ibid)

¹⁶ Siam Commercial Bank claimed in 2007 that 60 percent of its profits were from consumer banking (*The Nation*, 8.5.07)

¹⁷ Some foreign banks, despite only being permitted to have one local branch, have done well, particularly in credit cards, including HSBC and Citibank. However, most foreign banks focus on corporate banking – lending to large and medium sized firms, foreign exchange and money market activities.

¹⁸ ibid

The growing role of the Stock Exchange of Thailand (SET) represents both a threat and an opportunity to Thai commercial banks. On the one hand, an expanding SET provides alternative financing sources for borrowers, thereby undermining the need for the intermediary lending services of commercial banks. On the other, capital market development such as SET offers new fee-based income-generating opportunities for the banks, such as dealing, underwriting and registration of domestic bonds. In addition, as all Thai banks are listed companies, a growing equity market means that the cost of equity is likely to fall and the banks can raise capital more easily.¹⁹

2.4 Thailand's Financial Sector Master Plan

The Ministry of Finance, in conjunction with the Bank of Thailand, initiated the first phase of a two-phase Financial Sector Master Plan (FSMP) in January 2004. The FSMP is a medium-term development plan for financial institutions under the supervision of the Bank of Thailand. This first phase oversaw the post-crisis strengthening of Thailand's banking sector, including oversight of mergers and acquisitions and improved risk management and operational efficiency.

The FSMP II, running from 2007-2011, addresses overarching challenges, including development of Thailand's regulatory framework, integration into the global and regional economy, and increased competition in the financial sector, in particular for the retail (consumer) banking sector and including a greater role for foreign banks. No specific reference is made to CSR, although further strengthening of corporate governance and risk management are core elements, including adopting the Basel II financial standards.²⁰

2.5 The present economic crisis and Thailand's banking sector

Compared to the largest international banks, most of Thailand's banks have had very little exposure to toxic collateralized debt obligations (CDOs) and are therefore in reasonably good financial shape.^{21,22,23} Furthermore, Thai Banks rely predominantly on local deposits for funding as opposed to the international wholesale market, making domestic financial conditions more stable and unaffected by the global credit crunch.²⁴ However, the downturn in the Thai economy, as a consequence of the global recession together with financial market volatility and domestic political challenges, have affected Thailand's exports and therefore the banks' lending and business investments.

¹⁹ In 2008, on Thailand's SET, energy companies formed around 33% of the market capacity, and second largest is Thai banks with 17% of the capacity.

²⁰ The policy frameworks three pillars are on 1) Improving the regulatory environment and reducing regulatory and legacy costs; 2) enhancing efficiency through injection of competition in an orderly manner; and 3) improving financial market infrastructure, such as legal system and information. (Nijathaworn, B., (2008) "National Financial System and Supervisory Framework" address by Dr. Bandid Nijathaworn, Deputy Governor, Bank of Thailand at Thai Insurance Forum 2008, Grand Millennium, Bangkok, 20 October 2008)

²¹ Lesova, P. (2008) "Echoes of Asian Crisis Reverberate in Thailand" *Market Watch* published 16.11.08

²² Bank of Thailand (2008) "Thailand's Banking System Performance in the Third Quarter of 2008 and Impact of the Global Financial Crisis on Thai Banks" Bank of Thailand Circular No. 42/2008, 6 November, 2008

²³ Total foreign investments by Thailand's commercial banks amounts to only 1.2 percent of their total assets, and only a small part of this was CDOs (Nijathaworn, B., (2008) "National Financial System and Supervisory Framework" address by Dr. Bandid Nijathaworn, Deputy Governor, Bank of Thailand at Thai Insurance Forum 2008, Grand Millennium, Bangkok, 20 October 2008).

²⁴ *ibid*

2.6 Key actors in Thailand's banking sector

The Bank of Thailand (BoT) is responsible for all Thailand's central banking activities, including formulating monetary policy and providing banking facilities to the government. The BoT also regulates and supervises Thailand's commercial banks and other financial institutions.²⁵ Thailand's Ministry of Finance oversees all general financial affairs. Development of Thailand's regulatory framework is overseen by the Financial Institutions Policy Committee, formed of representatives from the Bank of Thailand, the Ministry of Finance, the Securities and Exchange Commission and the Office of the Insurance Commissioner.

The Bank of Thailand Act was amended in 2007, according to the Bank of Thailand's website "to put emphasis on BOT's social responsibility, to create a mechanism to guard against economic crisis, as well as to set up BOT's decision-making process to ensure good governance and transparency in the organization." In addition to the general objective of providing a stable financial environment in Thailand for sustainable economic growth, the Bank of Thailand gives three strategic objectives for 2007-2011²⁶:

1. To strengthen regulatory and supervisory standards according to international best practices;
2. To ensure that Thai financial institutions meet international standards and are internationally competitive; and
3. To secure fair treatment for the public.

The Bank of Thailand does not have a clear position on Corporate Social Responsibility, although in its role of supervising financial institutions in Thailand commits to "Transparent supervisory practices and promoting sound corporate governance and risk management."²⁷ With regard to corporate governance, BOT states "...in addition to effective risk management, financial institutions must also manage their reputational risk attentively by setting management systems that take into account social responsibility, good corporate governance and fairness to consumers, as well as refrain from actions that are potentially harmful to society."²⁸

Professional banking associations in Thailand include the Thai Bankers Association,²⁹ and the Association of International Banks.³⁰ Furthermore, the Thai Institute of Directors (IOD), founded in 1999, is a membership organization that works to improve company directors' professionalism and to strengthen corporate governance in Thailand.³¹

²⁵ http://www.bot.or.th/English/FinancialInstitutions/Policy/Pages/SVG_Statement2.aspx

²⁶ <http://www.bot.or.th/english/FinancialInstitutions/Pages/obligation1.aspx>

²⁷ <http://www.bot.or.th/English/FinancialInstitutions/FIPolicy/Framework/Documents/InstitutionFramework.pdf>

²⁸ <http://www.bot.or.th/English/FinancialInstitutions/FIPolicy/Framework/Documents/InstitutionFramework.pdf>

²⁹ <http://www.tba.or.th/default.htm>

³⁰ <http://www.fba.or.th/default.htm>

³¹ <http://www.thai-iod.com/en/index.asp>

2.7 The Export-Import Bank of Thailand

Thailand's export credit agency, the Export-Import Bank of Thailand (Thai Exim), is a parastatal financial institution, established in 1993, that is wholly owned by the Thai Government and under the supervision of the Ministry of Finance.³²

Thai Exim's vision is "To be a prominent trade and investment financial institution in the Greater Mekong Subregion for economic development." Thai Exim offers Thai businesses short- and long-term credits to domestic and overseas markets, in baht and foreign currency denominations. Like all export credit agencies, the overarching objective of Thai Exim is to promote and support Thai investment overseas, as well as to support export-orientated companies in Thailand that earn or save foreign exchange.

Unlike some export credit agencies, such as those in OECD countries, Thai Exim does not have a clear policy for assessing the environmental and social impact of its loans. Thai Exim does, however, have a corporate governance policy.³³ In contrast to most Thai commercial banks, however, this policy does not recognize society or the environment as stakeholders. On its website, Thai Exim states that it has developed a code of ethics for its employees, which includes a responsibility to society, although further details are not disclosed.

Following a controversial loan to Burma/ Myanmar's Foreign Trade Bank (MFTB) in 2004, Thai Exim now commits to new measures of information disclosure. Thai Exim's 2007 Annual Report states: "*The Board of Directors is duty-bound to disclose both financial and non-financial information. The information disclosed must be clear, correct, timely, easy to understand, complete, adequate and reliable. Abiding by the Official Information Act, 1997 (B.E. 2540), the Bank has set up an Information Service Center for the public and stakeholders to gain access to the Bank's information and has disclosed information through various channels on a complete, adequate and equitable basis.*"

Similar to Thai commercial banks, Thai Exim sponsors Corporate and Social Responsibility (CSR) activities in Thailand, such as donating money to health and education charities.³⁴ Thai Exim also supports activities that promote regional and cultural integration in ASEAN, such as a writing competition.

3. Hydropower Development in the Mekong Region and Laos, and the role of Thailand's commercial banks

Driven by rapid industrialization, export-led economic growth, and expanding domestic consumer markets, demand for electricity in the Mekong region is growing, especially in Thailand and Vietnam. Whilst the extent of this growth and the best way to meet it is increasingly contested, exploitation of the region's hydropower resources remains high on each Mekong government's agenda. Yet, in a region where millions of people depend on the natural resources that rivers provide, many proposed dams pose risks for the environment, communities, project developers and financiers, and host governments.

³² The Financial Institutions Businesses Act permits regulators to assign supervision of specialized parastatal financial institutions, such as Thai Exim, to the Bank of Thailand. (Chandler and Thong-Ek (2008) "Banking: Developments in the Thai Legal and Regulatory Framework")

³³ EXIM Bank Thailand Annual Report (2007)

³⁴ *ibid*

Over the past five years, a new generation of hydropower developers has flooded into the Mekong Region, mainly from Thailand, Vietnam, China, and Malaysia.³⁵ The new developers have picked up many projects that were abandoned by Western corporations during the Asian financial crisis. In a complex interplay of political support, development aid, and entrepreneurial spirit, these new proponents have led the revived push for widespread hydropower exploitation, often backed by export credit agencies and commercial financiers from their own countries.

Thailand, which has already developed much of its hydropower potential and faces stiff opposition to further projects at home, plans to import at least 14,000 MW of hydroelectricity from Laos and other neighboring countries. Responding to this demand, the Lao Government has enthusiastically opened the country's rivers to project developers to build hydropower dams for electricity export, as well as domestic consumption.

Laos' mountainous topography holds an estimated 18,000 MW of hydropower potential and generating revenues from hydropower exports is a key policy of the Government of Laos (GoL). The GoL presently holds Memoranda of Understanding with Thailand and Vietnam to export 7000 MW by 2015 and 3000 MW by 2020, respectively. As of July 2009, Laos had 7 hydropower dams in operation, 8 officially under construction, 18 at a planning stage, and 50 at a feasibility stage.

In Laos, rivers provide for fish, drinking water, irrigation and transport for the majority of the rural population. Instead of bringing development to Laos, dam construction threatens to undermine the natural resource base of rural communities and cause irreparable economic losses as fisheries are decimated; fertile floodplains, forests and agricultural land flooded; and farmers and fishers migrate to urban areas in search of work.

Laos is a one-party socialist state where government criticism is rarely tolerated, press freedoms are curtailed, independent civil society organizations are restricted, and corruption is high.³⁶ These circumstances significantly enhance the risks associated with hydropower development – particularly for the hundreds of thousands of villagers poised to lose land, fisheries and other resources as a result. The political risks for project developers and financiers are also high. Hydropower development, while generating revenue for the government and generally proving profitable for private-sector investors, has incurred major environmental and social costs, a legacy of damage that remains largely unaddressed.

Many of the laws, regulations and policy developed in preparation for the Nam Theun 2 project with support from the ADB and World Bank contain important provisions to ensure participation, consultation, information disclosure, compensation and resettlement with livelihood restoration for affected communities. However, in practice, these provisions are often not being followed by the new developers and are not being enforced

³⁵ See Middleton, C.; Garcia, J. and Foran, T. (2009) "Old and New Hydropower Players in the Mekong Region: Agendas and Strategies". In Molle, F.; Foran, T. and Käkönen, M. (eds), *Contested Waterscapes in the Mekong Region: Hydropower, Livelihoods and Governance*, pp. 23-54. London: Earthscan.

³⁶ Stuart-Fox, M. (2006) 'The political culture of corruption in Lao PDR', *Asian Studies Review*, vol 30, pp 59-75

by the GoL.³⁷ These implementation failures are most evident during the development and review of the environmental impact assessments (EIAs) and resettlement action plans (RAPs) for hydropower projects.³⁸

Thailand’s government has indicated its strong support for Thai construction and energy companies to develop hydropower projects in Lao. This and the traditionally close business relationship between these companies and Thailand’s commercial banks has resulted in Thailand’s major commercial banks contributing significant financing to all three major hydropower dams under construction in Laos since 2005 by Thai companies: Nam Theun 2; Nam Ngum 2; and the Theun Hinboun Expansion Project (Table 2). Two of the projects, Nam Theun 2 and Theun-Hinboun Expansion Project, have been financed in partnership with international banks, whilst Nam Ngum 2 has been financed entirely by Thai banks.

Table 2: Thai banks financing dam projects in Laos

Project	Total value (million)	Date of financial closure/ scheduled commissioning date	Bangkok Bank	Bank of Ayudhya	Kasikorn Bank	Krung Thai Bank	Siam City Bank	Siam Commercial Bank	Thai Military Bank	Thanachart Bank
Nam Theun 2	US\$1,581	May 2005/ December 2009	X	X	X	X	X	X	X	
Nam Ngum 2	US\$832	May 2006/ 2013				X	X		X	
Theun Hinboun Expansion Project	US\$585.5	October 2008/ 2012		X	X		X			X

Thai companies are major partners in each of the above hydropower projects. These include major independent power producers such as the Electricity Generating Public Company Limited (EGCO) and Ratchaburi Generating Company, and Thailand’s largest construction companies including Ital-Thai Development Company Limited and Ch Karnchang (see Appendix 1).

Thailand’s Export-Import Bank has likewise heavily supported each project. Furthermore, in April 2009, Thai Exim Bank announced a new agreement with the Lao state-owned Banque pour le Commerce Extérieur Lao, including the establishment of an investment promotion fund.³⁹ Thai Exim’s president, Dr. Apichai Boontharawawa, said that “the cooperation will promote Thai investment projects in Lao, such as hydropower, that will benefit both nations.”

³⁷ International Rivers (2008) “Power Surge: The Impacts of Rapid Dam Development in Laos”, International Rivers, September 2008

³⁸ EIAs and RAPs have generally not been disclosed to the general public and are often of questionable quality, and the general lack of progress of the GoL to operationalize the National Policy on the Environmental and Social Sustainability of the Hydropower Sector (2005)

³⁹ Vientiane Times (3.4.09) “Lao, Thai banks strengthen cooperation”

3.1 Nam Theun 2

The 1,070 megawatt Nam Theun 2 Dam is located in Khammouane province, Central Laos. The project is owned by Electricité de France International (35%), the Electricity Generating Company of Thailand (25%), Lao Holding State Enterprise (25%) and Ital-Thai Development (15%). Presently under construction, Nam Theun 2 will export more than 90% of its power to Thailand when power production begins in March 2010.

The Nam Theun 2 project has a complex financing arrangement, involving five multilateral agencies, four export credit agencies, two bilateral governmental agencies, nine international commercial banks and seven Thai commercial banks (Appendix 1). Financing was through a combination of debt denominated in Thai baht and US dollars, bond issues, and equity financing.⁴⁰ At the time, Nam Theun 2 was the largest internationally-financed Independent Power Producer (IPP) in Asia since 1997 and the largest single foreign investment ever in Lao PDR. The World Bank and ADB were central players in brokering the agreement, because of the financing complexity and because the World Bank Group's and ADB's political risk guarantees lowered the project's risk profile to attract commercial bank financing, in particular for the US dollar international lenders.⁴¹

The World Bank and Asian Development Bank (ADB) have claimed that the mistakes of their past hydropower projects will not be replicated. Yet, as the Nam Theun 2 project nears completion, key questions remain around the project's livelihood restoration programs and whether the project will really contribute towards poverty reduction in Laos.

To make way for the Nam Theun 2 Dam, 6,200 indigenous peoples were forcibly resettled from the reservoir area on the Nakai Plateau. While they have received better houses, water supply, and electricity, the dam's large reservoir leaves these people with only one-third of the land they once used for farming, grazing and collecting forest products. Within these constraints, Nam Theun 2's developers have not yet prepared convincing plans for how these resettled people will earn income and feed their families in their new villages.

Nam Theun 2 will also affect more than 120,000 villagers living along the Xe Bang Fai River, the Mekong tributary into which Nam Theun's waters will be diverted once the dam is operational. Xe Bang Fai villagers can expect more frequent flooding, poor water quality, reduced fisheries, and inundated riverbank gardens. Solid plans to deal with these impacts have yet to materialize, so many villagers will see their fisheries and incomes decline before mitigation measures are in place.

⁴⁰ Nam Theun 2 Power Company "NTPC Signs US\$1 billion loan agreements", NTPC News Release, May 2005.

⁴¹ Multilateral Investment Guarantee Agency (2006) "Hydropower in Asia: The Nam Theun 2 Project" published June 2006, MIGA, Washington DC; and International Water and Power (2008) "Nam Theun 2 – Finance Package" published 30 April 2008, International Water and Power Magazine.

Finally, approximately 15,000 people have been affected by the project's construction activities, losing land, assets, and access to resources. The World Bank and ADB's resettlement and disclosure policies have been violated on occasion, as well as the provisions of the project's Concession Agreement. Compensation payments and replacement land for villagers affected by construction activities have been inadequate, unfair, or in some cases, non-existent.

3.2 Nam Ngum 2

The US\$832 million, 615MW Nam Ngum 2 Hydropower Project broke ground in 2006. Its shareholders are primarily Thai construction and energy companies, including Ch. Karnchang and Ratchaburi (see Appendix 1). The Nam Ngum 2 Dam is wholly financed by three Thai commercial banks.⁴² Details on the financing arrangement are unclear, although it is known that the Export-Import Bank of Thailand guaranteed a baht-denominated bond issue by Electricité du Laos totaling 1.5 billion baht for its 25% stake in the project, with the Lao Ministry of Finance acting as a counter-guarantor.⁴³

Nam Ngum 2 is being developed within the context of chaotic development within the Nam Ngum River Basin, home to 10% of Laos' population, with competition between the logging, mining and hydropower sectors that threaten the area's fisheries, tourism potential, and land and water quality, as well as the livelihoods and culture of tens of thousands of ethnic minority people.

Whilst Nam Ngum 2's EIA has apparently been finalized, it has not been publicly disclosed, in violation of National Hydropower Policy. Despite this, the project's transmission line cuts through Phou Khao Khouay National Protected Area, fragmenting the area and opening it up to timber and wildlife exploitation. The dam will block key fish migration routes and affect the quality of water entering the Nam Ngum 1 reservoir downstream, an important fishery for more than 9,000 people.

The future livelihoods of an estimated 6,100 mainly ethnic minorities resettled by the Nam Ngum 2 dam remains uncertain. Viable alternative livelihood plans have not been presented as a Resettlement Action Plan has not been publicly released. The resettlement process itself has been widely criticized with villagers from different ethnic groups being grouped into three "focal sites" 120 km to the west of their present villages with insufficient land to support their livelihoods and without their participation in the resettlement process.⁴⁴

3.3 Theun Hinboun and the Theun Hinboun Expansion Project

The 210 MW Theun-Hinboun Hydropower Project (THHP), commissioned in 1998, is the first build-operate-transfer (BOT) project in Laos. Partially funded by the Asian Development Bank (ADB) and the Nordic Development Fund, the project is owned by Electricité du Laos (EdL) (60 per cent), Norway's Statkraft (20 per cent) and Thailand's GMS Power (20 per cent), and exports 95 per cent of its power to Thailand.

⁴² AP (29.5.06) "Lao Seeks Additional Electricity Sales to Thailand"

⁴³ Export-Import Bank of Thailand (2007) "EXIM Thailand Revamps Operations to Promote Export and Investment Overseas" published February 2007, Export-Import Bank of Thailand, Bangkok

⁴⁴ International Rivers (2008) "Power Surge: The Impacts of Rapid Dam Development in Laos", International Rivers, September 2008

While initially lauded by the ADB as a project with ‘little for the environmental lobby to criticize’, widespread impacts soon emerged that the ADB later reluctantly acknowledged.⁴⁵ The project has reduced fishery catches between 30 and 90 per cent along the three rivers it affected, and has caused extensive river erosion and severe downstream flooding, resulting in repeated loss of wet season rice crops, water contamination, skin diseases and death of livestock from drowning and disease. The net result has been a severe impact upon the livelihoods of 30,000 people living downstream and upstream of the dam.⁴⁶

After sustained pressure from non-governmental organizations (NGOs), the project’s owners released a Mitigation and Compensation Program in September 2000. While the program has been able to address some of the material needs of the villagers, such as building wells, its efforts to replace lost livelihoods, such as encouraging villagers to grow dry season rice, cash crops and livestock, have been problematic and are mostly failing.⁴⁷

Although the project has made villagers poorer, it has generated windfall profits for its shareholders. Located downstream from the Nam Theun 2 Dam, Theun-Hinboun's earnings were boosted by the long delays in Nam Theun 2's implementation. To make up for the reduced water flows caused by Nam Theun 2, which started filling its reservoir in 2008, in October 2008 the company started building a new dam called the Theun-Hinboun Expansion Project on the Nam Gnouang River, a tributary of the Theun River.

The US\$585.5 million Theun-Hinboun Expansion Project is financed by four Thai commercial banks and three international commercial banks.⁴⁸ Thailand’s Export-Import Bank contributed a further US\$100 million. An earlier US\$152 million refinancing deal in April 2002 for the existing Theun-Hinboun project was covered entirely by Thai banks.⁴⁹

The Theun-Hinboun Expansion Project will displace 4,800 people and effectively double flows down the Hai and Hinboun rivers, causing more flooding, erosion, fisheries losses and resettlement. The project has been criticized for violating Lao law on resettlement and the Equator Principles, and failing to provide viable resettlement and livelihood restoration plans.⁵⁰

⁴⁵ ADB (Asian Development Bank) (1999) Loan No 1329-LAO (SF): Theun Hinboun Hydropower Project, Asian Development Bank, Aide Memoir: Special Review Mission, 9–18 November 1999

⁴⁶ FIVAS (The Association for International Water Studies) (2007) Ruined Rivers, Damaged Lives: The Impacts of the Theun-Hinboun Hydropower Project on Downstream Communities in Lao PDR, Association for International Water Studies, November 2007

⁴⁷ Barney, K. (2007) Power, Progress and Impoverishment: Plantations, Hydropower, Ecological Change and Community Transformation in Hinboun District, Lao PDR, York Centre for Asian Research Paper No 1 (June 2007), Centre for International Forestry Research, Probe International, Rights and Resources Initiative and the York Centre for Asian Research

⁴⁸ Vientiane Times (13.10.08) “Theun Hinboun Power Company Strikes Loan Deal”

⁴⁹ International Financing Review Asia “Lao Promises Deluge of Offshore Project Financings” 2 February 2008

⁵⁰ BankTrack, FIVAS, International Rivers, Les Amis de la Terre and Commission for Mission (2009) “Expanding Failure: An Assessment of the Theun-Hinboun Hydropower Expansion Project’s compliance with Equator Principles and Lao law” www.internationalrivers.org/node/2714

Box: Nam Theun 2, Theun-Hinboun Expansion Project and the Equator Principles

The Equator Principles are a set of voluntary environmental and social guidelines, based upon the International Finance Corporation's Performance Standards, adopted by 60 financial institutions around the world and applicable to project finance loans over US\$10 million. Whilst no Mekong region banks have adopted the EPs, a number of international banks financing hydropower in the Mekong region have (see tables 5 and 6), including ANZ, KBC and BNP Paribas.

Before receiving financing from an EP bank, the borrower and the bank must identify impacts, risks, and mitigation options throughout the key stages of the project cycle and assess and confirm the project's compliance with the EPs. Nam Theun 2 and the Theun-Hinboun Expansion project both have financiers that have adopted the EPs. Yet, assessments by International Rivers and others have found Nam Theun 2 to be in violation of World Bank safeguard policies⁵¹ and the Theun-Hinboun Expansion Project in violation of EP standards.⁵²

Civil society groups such as BankTrack also hold more deep-founded reservations about the effectiveness of the EPs, including:

- * *Governance*: There's no obligation on the Banks to listen to or respond to concerns from NGOs and affected communities about the projects they're considering financing. Furthermore, if a bank finances a project that is clearly not EP compliant, there's no way of holding the bank accountable for this decision.
- * *Transparency and Reporting*: There's no public release of information pertaining to the due diligence that Banks should have undertaken to ensure a project is compliant with the EPs, and therefore no independent scrutiny of the quality of this due diligence
- * *Accountability*: There's no mechanism for affected communities or NGOs to appeal to Banks in the case of non-compliance with EPs. There's no monitoring mechanisms built into the EPs that would require Banks to ensure that during a project's construction and operation stage the project continues to comply with the EPs, and to penalize borrowers for non-compliance.

4. Building dams: An expensive and risky business

For any large hydropower dam developer, securing financing is one of the most significant challenges the project must surmount. Dams require the vast majority of their total lifecycle's financing upfront during construction.

In the Mekong Region, multilateral development banks (MDBs), namely the Asian Development Bank and the World Bank, have been key financiers of hydropower dam projects because significant project development risks and technical complexity. This has especially been the case in cross-border power-export projects that entail additional

⁵¹ <http://www.internationalrivers.org/en/node/2838>

⁵² BankTrack, FIVAS, International Rivers, Les Amis de la Terra and Commission for Mission (2009) "Expanding Failure: An Assessment of the Theun-Hinboun Hydropower Expansion Project's compliance with Equator Principles and Lao law" Published by BankTrack, FIVAS, International Rivers, Les Amis de la Terra and Commission for Mission, October 2009

layers of legal and technical complexity, as well as political risk, such as the Nam Theun 2 dam.

Yet, in the Mekong region the nature of hydropower project financing is changing. As project developers from Thailand, Vietnam and China have now accumulated technical know-how and dam construction experience, and commercial banks from these countries have accumulated capital and deepened their understanding of the sector and the financing mechanisms involved, they have become increasingly willing lenders to hydropower developers, thus displacing the predominant role of the MDBs.

5. Thai Commercial Banks Supporting Power Projects in Thailand

Thailand's commercial banks, as is to be expected, also provide loans to power projects in Thailand – in addition to other controversial sectors such as plantations and extractives. For example, in December 2007, Thailand's Energy Planning and Policy Office (EPPO) announced the four successful bidders for the next round of large-scale Independent Power Producer power plants in Thailand, each project of which has evoked significant community opposition. Due to the economic downturn, three projects were postponed, and only Gheco-One, a 660MW coal-fired power station in Map Ta Phut Industrial Estate, Rayong Province, is presently under construction.⁵³ The US\$1.15 billion project is developed by Glow Energy (65%) and Hemaraj Land Development Company (35%) and has the following financing structure, closed in November 2008:

- US\$460 million from Mandated Lead Arrangers (MLA) KfW, SMBC, Standard Chartered Bank, Bank of Tokyo-Mitsubishi, Calyon, Fortis, and KBC
- THB 9.9 billion MLAs were Bank of Ayudhya and Kasikorn Bank.
- The remaining USD350 million is equity from the companies in proportion to their ownership.

In actual fact, whilst there is limited information in the public domain, a brief survey of recent large power projects in Thailand reveals the involvement of most major Thai commercial banks (Table 3). Bond issues are also an important source of financing, often under-written by Thai commercial banks, although the bond markets are beyond the scope of this research.

⁵³ The Nation (13.1.09) “Three IPPs agree to delay supply of power to Egat by a year”

<i>Table 3: Independent Power Producer financing in Thailand</i>		
Name of Project	Company involved	Financing
BLCP 1434 MW Coal-fired power station, Map Ta Phut Industrial Estate Approved 2003; Commissioned 2007	Banpu Company Limited (50%) Electricity Generating Public Company Limited (50%)	US\$1.37 billion: 75% Loan; 25% company equity. Onshore project finance (US\$40 million foreign; US\$620 local): Bangkok Bank; Krung Thai Bank; Siam Commercial Bank; Bank of Ayudhya; TMB; The Industrial Finance Corporation of Thailand; Bankthai; The Siam Industrial Credit Company; Ayudhya Investment and Public Trust Company; ACL Bank; TISCO Bank Offshore project finance: JBIC; ADB; Bank of Tokyo-Mitsubishi UFJ; BNP Paribas; WestLB AG; ANZ Bank; Fortis Bank; Sumitomo Mitsui Banking Corporation; Calyon; ABN AMRO Bank; KBC Bank
Ratchaburi Power 1400 MW gas-fired power station, Ratchaburi Province Approved 2005; Commissioned 2008	Ratchaburi Electricity Generating Holding PCL. (25%), PTT Plc. (15%), Union Energy (10 %), Hong Kong Electric (25%), Chubu Electric (15%) Toyota Tsusho (10%)	US\$640 million Onshore project finance: Bangkok Bank; Krung Thai Bank Offshore project finance: JBIC; Sumitomo Mitsui; Calyon; HSBC
Khang Koi 1468 MW gas-fired power station, Saraburi Province Approved 2004; Commissioned 2007	Gulf Power Generation Company Limited, a subsidiary of EGCO.	US\$663 million. Project financing for Thai Baht and US dollars was led by SCB and TMB.

6. The Stock Exchange of Thailand (SET) and Good Corporate Governance

Since the 1997 Asian financial crisis, the Stock Exchange of Thailand (SET) has sought to regain investor confidence through strengthening listed companies' corporate governance systems and practices. As all of the major Thai commercial banks funding hydropower projects in Laos are listed on the SET, they are therefore required to put in place corporate governance systems.

In 2002, the Thai government formed a National Corporate Governance Committee. In the same year, the SET established a Corporate Governance Center and published a set of fifteen principles and recommendations of good corporate governance for listed companies to implement.⁵⁴ These principles and recommendations were revised in 2006 so as to be comparable to the "Principles of Corporate Governance of the Organization for Economic Cooperation and Development."

The SET defines Corporate Governance as "a set of structures and processes of the relationships between a company's board of directors, its management and its shareholders to boost the company's competitiveness, its growth and long-term shareholder value with taking into account the interests of other company stakeholders."

⁵⁴ www.set.or.th/en/regulations/cg/center_p1.html and www.cgthailand.org/

The SET expects listed companies to adapt these principles and best practices to their own specific circumstances, whilst meeting internationally comparable standards.⁵⁵

Several provisions of SET's principles and recommendations for good corporate governance relate to environmental and social performance. Beyond a responsibility to the company's shareholders, SET's good corporate governance principles identify other stakeholders that should be recognized by the company and "*should be treated fairly in accordance with their legal rights as specified in relevant laws.*" These include the community the company operates in, the government, and society.

The SET principles and recommendations for good corporate governance regarding the role of stakeholders states that the company:

- "should provide a mechanism to promote cooperation between the company and its stakeholders"
- "set a clear policy on fair treatment for each and every stakeholder"
- "there should be an effective way for stakeholders to communicate to the board any concerns about illegal or unethical practices"
- "the Rights of any person who communicates such concerns should be protected"
- "In order for stakeholders to participate effectively, all relevant information should be disclosed to them."

The SET principles and recommendations for good corporate governance identify the need for companies to set clear policies on environmental and social issues and recommends that the board of directors consider all issues that directly affect their operations so that the company contributes towards sustainable development. They also stipulate that a company should develop effective mechanisms for disclosure and transparency, requiring that a company should "*ensure that all important information relevant to the company, both financial and non-financial, is disclosed correctly, accurately, on a timely basis and transparently through easy-to-access channels that are fair and trustworthy.*" SET expects that if the board has approved policies on environmental and social issues, these policies should also be disclosed as well as implemented.

7. Thai Commercial Banks and Corporate Governance

Each Thai commercial bank has prepared its own Corporate Governance Code of Conduct or Policy, largely based upon SET's principles and recommendations. These Codes of Conduct/ Policies are included within each bank's 2007 Annual Report in Thai and English, and in most cases are available on the bank's website.

A number of the banks have established a Corporate Governance Committee, chaired by a member of the board. Several banks have also written a Code of Conduct for their employees, for example, Kasikorn Bank and Krung Thai Bank.

In identifying stakeholders and their entitlements, the bank's statements are generally vague:

⁵⁵ The SET identifies 5 categories for Corporate Good Governance, namely: Rights of Shareholders; Equitable Treatment of Shareholders; Role of Stakeholders; Disclosure and Transparency; and Responsibilities of the board

- **Kasikorn Bank:** "...we view corporate governance as involving responsibility and accountability to all stakeholders regarding how we operate our business. These stakeholders include shareholders, customers, investors and employees of the bank, as well as the society, environment and our business partners." *Corporate Governance, Annual Report 2007*
- **Thanachart Bank:** "The Bank respects the rights of every group of stakeholders, regardless of whether they are internal stakeholders or not. ...The Bank also places emphasis on corporate responsibility towards the community, the society and the environment." in *Corporate Governance Policy*

Regarding social and environmental issues, largely aspirational statements are made, with few details. None of the banks have publicly released a detailed environmental and social policy, as recommended by SET. For example:

- **Krung Thai Bank:** "Making contribution to society and conserving the environment" in *Manual of Code of Conduct, Determination of Business Operation* and "The Bank must have its Social and Environmental Awareness, which is a part resulting from fair treatment to stakeholders in order to reduce or eliminate any negative impacts on the society and the environment as a result of the Bank's business operation. Such awareness will enable the members of society to live together in happiness and satisfaction with further growth and higher quality of life. Responsibility of this nature will cover respective subjects that may not be specified by the laws but prescribed by custom, tradition, culture and needs of the communities" in the *Seven Principles of Good Corporate Governance*
- **Siam Commercial Bank:** "To conduct the bank's business with responsibility towards the society and with sensitivity when dealing with issues which are related to public interest; and to regularly support and participate in activities that are beneficial to communities and the society" and "To abide by environmental laws and regulations, implement effective safety and environmental management measures to prevent negative impacts on local communities, and promote employees' awareness of and concern for the environment" in *Corporate Code of Conduct and Value Statement*

Many banks explicitly commit to following the law:

- **Thanachart Bank** "In its conduct of business affairs, the Bank considers it very important to observe the laws and to comply with the rules and regulations established by the authorities. The Bank will not join or do business with organizations or persons violating those laws." in *Corporate Governance Policy*
- **Bank of Ayudhya:** "The Bank has a policy to cooperate with and support the policies and activities of the government sector or private sector, as may be deemed necessary, to ensure its business is in compliance with the law, and to avoid providing cooperation or support to illegal businesses or activities that may have an adverse environmental impact." in *Corporate Governance, 2007 Annual Report*

Only Siam Commercial Bank explicitly identifies reputational risk as a specific consideration of the board of directors "in dealing with businesses that are subject to social criticism." The bank doesn't exclude dealing with such businesses, but lays out a decision-making chain of command to consider such lending.

Most banks claim to have actively promoted their Good Corporate Governance policies with their employees:

- **Siam City Bank:** “The Bank has continuously disseminated information and promoted campaigns on good corporate governance to educate its employees. It also organized activities with its employees’ participation to promote their understanding and need to perform duties within ethical standards for the benefits of the stakeholders under Good Corporate Governance policy.” in *Corporate Governance, 2007 Annual Report*

Some banks also make a commitment to transparency and the disclosure of information:

- **Siam City Bank:** “Transparency shall mean that the disclosure of information to the shareholders and stakeholders is made accurately, completely and timely, under the principles of clarity, regularity and comparability.” *Principles of Good Corporate Governance, 2007 Annual Report*

Of Thailand’s commercial banks, Kasikorn Bank, Siam Commercial Bank, and Krung Thai Bank have received awards from numerous banking industry magazines, associations and institutes for their corporate governance performance indicating that these banks are Thailand’s market leaders on good corporate governance.

8. Corporate and Social Responsibility (CSR) in Thailand

Corporate and Social Responsibility (CSR) is emerging as a familiar concept in Thailand, although there is a wide-ranging interpretation of the concept’s principles. In its best light, CSR is a corporate-driven strategy that aims to demonstrate corporate conscience and determination to positively change society and protect the environment. If implemented superficially, CSR is found to be little more than greenwash.

All the Thai Banks financing hydropower projects in Laos have expressed a commitment to a form of CSR and report on their CSR activities in their annual reports. Overall, however, there is a blurred distinction between Corporate Governance Policy, Statements on Business Ethics, and policies or related statements on Corporate and Social Responsibility.

Only Kasikorn Bank has a publicly available CSR Policy, posted on its website (reproduced in full in Box 1). It is, however, far from comprehensive and comparable to statements made in other banks Corporate Governance policies. The Bank of Ayudhya’s 2007 Annual Report also makes reference to a CSR policy, although it does not

Box 1: Kasikorn Bank CSR Policy

- All business units shall strictly adhere to the Statement of Business Conduct and participate in environmental preservation and social responsibility activities.
- All employees shall act in strict compliance with the Code of Conduct, being responsible for society and environmental preservation.
- The Bank shall pursue activities for public interests, society and the environment, with fair treatments to all stakeholders.
- The Bank shall pay due attention to safety and occupational health in workplace, pleasant surrounding and basic facilities for staff members and customers.
- The Bank shall promote environmental preservation activities.
- The Bank shall refrain from granting credit support to any projects that violate the environmental laws of the country.

appear to be publicly available. Krung Thai Bank has published an annual Social Responsibility Report since 2005 (although the information is largely derived from the Annual Report). Of all the banks, Siam Commercial Bank and Krung Thai Bank have the most extensive information available on their websites.

Some of the banks make commitments to CSR specifically in their mission or vision statements, or in the chairperson's statement in the annual report. For example:

- **Siam Commercial Bank:** “*Vision...For Our Community: Adhere to good corporate governance standards and actively engage in “community-orientated” development...*” and “*Mission ... to be The Premier Universal Bank of Thailand, with a strong focus on key financial markets and customer segments, maximizing leverage from the SCB Group franchise and strongly committed to social responsibility*” *from website*
- **Thai Military Bank:** “...TMB is focused on maximizing the benefits it brings to its stakeholders, customers, and the community at large” and “The Bank recognizes the importance of corporate social responsibility (CSR) by monitoring and participating with various independent organizations on the potential activities.” *TMB Philosophy, website*

According to company structures available in 2007 annual reports, not all banks have formed board-level CSR committees. Those that identify that they have established a CSR committee include Siam Commercial Bank and Krung Thai Bank.

Most Thai banks act upon their pledged commitment to society through funding social projects. These include youth education projects, environmental conservation activities such as tree planting, cultural activities, religious activities, and the arts. Some banks have committed to a specific focus; for example, Krung Thai Bank focuses on education and Siam Commercial Bank especially supports youth and community development programs, including through the Siam Commercial Foundation. The banks often encourage their staff to participate in CSR activities, aiming to encourage a sense of civic duty.

There are relatively few CSR awards in Thailand. In 2006, Kasikorn Bank won the “Corporate Social Responsibilities Awards” from the Annual SET Awards. In 2007, Krung Thai Bank won an honorable mention in the State-Owned Enterprise Award 2007 in the category of Outstanding Social and Environmental Responsibility.

In December 2008, SET announced a new US\$280,000 CSR Promotion Fund for listed companies and the business sector in general, managed by the CSR Institute. The fund aims to increase CSR awareness and implementation, based on SET's belief that “CSR is crucial for sustained business growth and Thailand's long-term economic development”⁵⁶. The Thaipat Institute will work with the CSR Institute to develop a Socially Responsible Investment Index and a CSR Academy.

Overall, competition between the banks appears to be heating up as the banks compete for market share of the domestic personal finance market, a key strategic area that the

⁵⁶ SET (2008) “Thai bourse establishes corporate social responsibility fund”, SET Press Release No.128/2008.

banks have identified for future growth. As such, the banks' CSR credentials are key messages in advertising campaigns.

Yet, it is clear that at present the banks' commitments to CSR are not rooted in day-to-day business decision-making. Rather, the focus is on funding activities that, although commendable, are only peripheral to the banks' core lending operations. Lending to the Laos hydropower projects detailed above offer pertinent examples.

There are some initiatives that appear to move CSR activities slightly closer to the banks' core operations, although details are not provided on effectiveness. For example:

- The **Siam City Bank** has stated that it will “Be responsible to the local communities where the Bank’s branches are located by supporting loans in local communities that are in line with the country’s economic development plan.”
- **Thanachart Bank** states that it has organized a project titled, “Natural Gas Vehicle (NGV) Credit from Thanachart at 0% with Repayment Period of up to 36 Months” to support members of the public who wanted to use natural gas as an alternative fuel for vehicles and to support the government in promoting its energy conservation and environmental protection measures.”
- **Kasikorn Bank** and **Krung Thai Bank** are members of the Thailand Business Council for Sustainable Development, which is working to establish a set of voluntary social responsibility guidelines under ISO26000, to be published in 2010.

At a fundamental level, CSR implies a commitment to comply with relevant laws and regulations, to act ethically, and to provide societal value and accountability, in addition to making a profit. Companies that successfully implement CSR focus on a triple bottom line of social, environmental and financial success. CSR initiatives do not just involve spending money on charitable causes, but requires more fundamental changes to core business practices and operations, a change that has not yet happened in Thailand’s commercial banking sector.

9. Strategic International Investors in Thai Commercial Banks

As noted above, the Asian financial crisis necessitated Thailand’s commercial banks to raise significant additional capital largely from foreign sources and a major restructuring of the ownership of the sector.⁵⁷ Three Thai commercial banks funding hydropower in Lao have taken strategic investors:

- GE Capital International Holding Corporation, a subsidiary of General Electric US also known as GE Money, holds a 33% stake in the Bank of Ayudhya.
- ING Bank from the Netherlands holds a 26% stake in the Thai Military Bank. According to the Chairman of the Board of Directors statement in the 2007 Annual Report “The strategic partnership with ING is expected to help strengthen the Bank’s business especially in retail banking, asset management, and risk

⁵⁷ Between 1998 and 2000, 800,000 million baht was raised. For context, in 1996, Thai commercial bank’s entire capital base was just below 500,000 million baht.

management.” Thailand’s Ministry of Finance also holds a 22.5% stake in Thai Military Bank.⁵⁸

- Thanachart Bank is 50% owned by the Bank of Nova Scotia. The remaining 50% is owned by Thanachart Capital PLC, which is registered on SET.

These strategic investors have committed to a number of international standards summarized in Table 4, although the Thai commercial banks themselves have not.

Table 4: International Commitments of Strategic Investors in Thai Commercial Banks

	The Equator Principles	UNEP-Financial Initiative	UN Principles for Responsible Investment	UN Global Compact	Extractive Industries Transparency Initiative	Carbon Disclosure Project	Wolfsberg
GE Money	No	No	No	Yes	No	No	No
ING Bank	Yes	Yes	Yes	Yes	Yes	Yes	No
Bank of Nova Scotia	Yes	Yes	No	No	No	Yes	No

As strategic investors, these international banks should accept a significant responsibility for the social and environmental performance of the Thai banks that they invest in:

- via the Bank of Ayudhya, GE Money is lending to Nam Theun 2 and the Theun-Hinboun Expansion Project
- via the Thai Military Bank, ING Bank is lending to Nam Theun 2 and Nam Ngum 2
- via Thanachart Bank, the Bank of Nova Scotia is lending to the Theun-Hinboun Expansion Project

Nam Theun 2 and the Theun-Hinboun Expansion Project are claimed to be Equator Principle compliant by their financiers – an international commitment of the Bank of Nova Scotia, but not GE Money – although an assessment by International Rivers and BankTrack concludes that Theun-Hinboun does not meet Equator Principle standards.⁵⁹

The clearest contradiction to international commitments is by ING Bank, which via its strategic investment in the Thai Military Bank is supporting the Nam Ngum 2 project, which in no way can claim to meet any of ING’s six international standards that it has committed to, including the Equator Principles.

⁵⁸ Two Thai banks funding hydropower dams in Laos are majority owned by the Financial Institutions Development Fund: Krung Thai (55%) and Siam City Bank (48%)

⁵⁹ BankTrack, FIVAS, International Rivers, Les Amis de la Terra and Commission for Mission (2009) “Expanding Failure: An Assessment of the Theun-Hinboun Hydropower Expansion Project’s compliance with Equator Principles and Lao law” *Published by BankTrack, FIVAS, International Rivers, Les Amis de la Terra and Commission for Mission, October 2009*

10. Minority International Shareholders in Thai Commercial Banks

Foreign commercial banks and investment banks are also minority shareholders of common stock in Thai commercial banks, either directly or on behalf of nominees. All Thai banks have a foreign ownership limit of common stock that ranges between 25% and 45%. However, the SET also offers a Non-Voting Depository Receipts (NVDR) service through a company, owned by SET, called Thai NVDR. NVDRs are an investment vehicle which allows foreign investment to exceed the SET's foreign investment limit. NVDR holders receive the same full financial benefits from share holdings as they would receive had they invested directly in shares (i.e. dividends, rights, and warrants), but hold no voting rights.

Similar to the major strategic investor, foreign banks that own or manage shares in Thai banks that invest in hydropower projects have typically committed to a number of the international standards. A total of 30 banks from around the world own or manage on behalf of nominees Thai common stock and even more own stocks through Thai NVDR (see Appendix 2).

Table 5 shows those foreign banks that have endorsed the Equator Principles and that therefore should indicate a particular sensitivity towards the impacts of hydropower development and yet are either investing in Thai commercial banks or are managing funds on behalf of nominees that are lending to hydropower projects in Laos that are not compliant with the Equator Principles.

	Thai banks being invested in as shareholders	Thai banks being invested through NVDR	Equator Principle	Carbon Disclosure	Wolfberg	UNEP-Financial Initiative	UN Principles for Responsible Investment	UN Global Compact	Extractive Industries Transparency Initiative
Barclays Bank	SCIB		Yes	Yes	Yes	Yes	No	No	No
Chase Nominees	BAY, BBL, KBANK, SCB, TCAP, KTB, SCIB, TMB	BBL, BAY, KBANK, SCB	Yes	No	Yes	Yes	Yes	No	Yes
Citibank	BBL	BBL, BAY, KBANK, SCB, TCAP, KTB, SCIB	Yes	No	Yes	Yes	No	No	No
HSBC	BAY, BBL, KBANK, SCB, TCAP, KTB, SCIB	BBL, BAY, KBANK, SCB, KTB	Yes	Yes	Yes	Yes	Yes	Yes	Yes
J.P. Morgan	TMB	BBL, SCB, KTB	Yes	Yes	Yes	Yes	Yes	No	Yes

Key: BAY = Bank of Ayudhya; BBL = Bangkok Bank; KBANK = Kasikorn Bank; KTB = Krung Thai Bank; SCB = Siam Commercial Bank; SCIB = Siam City Bank; TCAP = Thanachart Capital; TMB = Thai Military Bank

In principle, HSBC should be a global leader in not supporting hydropower projects with high social and environmental costs. Not only has it endorsed all seven international standards, but it also has a policy that requires any dam it finances to be compliant with the World Commission on Dams standards. Despite this, it holds or manages nominee shares in every Thai bank funding hydropower projects apart from the Thai Military Bank⁶⁰.

11. Thai Commercial Banks' Performance Compared to Leading International Banks

In 2007, the global civil society network BankTrack published the landmark *Mind the Gap* report benchmarking the world's leading 45 commercial and investment banks' environmental and social policies and performance.⁶¹ The report evaluates the banks' policies for their core financial services⁶² according to content, transparency and accountability, and implementation. This section evaluates Thai commercial banks' performance against the leading international banks.

11.1 Environmentally sensitive sector standards and sustainability issues

The report identifies seven environmentally sensitive sectors and seven sustainability issues (Biodiversity, Climate Change, Human Rights, Indigenous Peoples, Labor Rights, Taxation and Toxics) for which banks should adopt appropriate credit policies. It outlines for each sector or issue the key elements for a good bank policy, based on best international standards available. Each bank was evaluated according to these standards and given a score between 0 and 4 (Table 6).⁶³

In the case of hydropower, the best available standard, referenced by the *Mind the Gap* report, is the recommendations of the World Commission on Dams.⁶⁴ The blue ribbon commission comprised representatives from all sectors of the dams debate, including the industry, governments, civil society, and academics. The WCD concluded that while “dams have made an important and significant contribution to human development,” in “too many cases an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment.”

To improve development outcomes of water and energy projects, the WCD presented a new framework for decision-making based on recognizing the rights and assessing the risks of all stakeholders. The WCD framework puts forward seven general strategic

⁶⁰ The Equator Principles only apply to project finance, where a bank is directly lending to a project. In the case of shareholdings in a bank, this is asset management and therefore, according to the principles themselves, the signatory bank is not obliged to meet the Equator Principles.

⁶¹ BankTrack (2007) “Mind the Gap: Benchmarking credit policies of international banks”, published December 2007, Banktrack, Utrecht.

⁶² All types of credits and loans, including the underwriting of stock issuances

⁶³ For further details on a sector and issue basis, see BankTrack (2007) “Mind the Gap: Benchmarking credit policies of international banks”, published December 2007, Banktrack, Utrecht, Netherlands. <http://www.banktrack.org/show/pages/publications>

⁶⁴ World Commission on Dams (2000) “Dams and Development: A New Framework for Decision-Making – The Report of the World Commission on Dams” November 2000, Earthscan Publications, London and Sterling.

priorities each based on a set of policy principles (see Box 2).⁶⁵ Table 6 shows the BankTrack scoring for the dam sector specifically. Given the relevance of the Equator Principles to dam financing, those Banks that have endorsed the Equator Principles are awarded 2 points (unless they have in-house policies that are stronger).

<i>Score</i>	<i>General issue/ sector</i>	<i>Dams sector</i>
0	The bank has no policy on this issue/sector (or if the policy is not publicly available);	The bank has no policy on dams
1	The bank’s policy on this issue/sector is vaguely worded or aspirational, with no clear commitments	The bank’s policy is vaguely worded or aspirational, with no clear commitments
2	The bank’s policy on this issue/sector includes some important elements, but is not sufficiently consistent	The bank’s policy includes elements such as options assessment, steps to ensure dam safety, and consultation with neighboring states, but does not commit to the WCD strategic priorities and supporting principles
3	The bank’s policy on this issue/sector is fairly well-defined and consistent, but falls behind best standards available on one or two elements	The bank’s policy commits to the WCD strategic priorities and supporting principles
4	The bank’s policy on this issue/sector is completely consistent with best standards available	The bank’s policy commits to the WCD strategic priorities and supporting principles for all dams and precludes support for dam projects that are located in, or substantially impact upon, critical natural habitats.

Box 2: WCD Seven Strategic Priorities

1. **Gaining Public Acceptance:** Public acceptance of key decisions should be ensured for equitable and sustainable water and energy resources development. Where projects affect indigenous and tribal peoples, such processes are guided by their free, prior and informed consent.
2. **Comprehensive Options Assessment:** Alternatives to dams should be subject of a comprehensive and participatory assessment of the full range of policy, institutional and technical options, in which social and environmental aspects have the same significance as economic and financial factors.
3. **Addressing Existing Dams:** Opportunities should be taken to optimize benefits from existing dams, address outstanding social issues and strengthen environmental mitigation and restoration measures.
4. **Sustaining Rivers and Livelihoods:** Options assessment and decision-making around river development should prioritize the avoidance of impacts, followed by the minimization and mitigation of harm to the health and integrity of the river system. Avoiding impacts through good site selection and project design is a priority.
5. **Recognizing Entitlements and Sharing Benefits:** Mutually agreed and legally enforceable mitigation and development provisions need to be negotiated with adversely affected people. Accountability of responsible parties to agreed mitigation, resettlement and development provisions is ensured through legal means, such as contracts, and through accessible legal recourse at the national and international level.
6. **Ensuring Compliance:** Compliance with applicable regulations, criteria and guidelines, and project-specific negotiated agreements needs to be secured at all critical stages in project planning and implementation. Regulatory and compliance frameworks use incentives and sanctions to ensure effectiveness where flexibility is needed to accommodate changing circumstances.
7. **Sharing Rivers for Peace, Development and Security:** The use and management of resources should be the subject of agreement between states to promote mutual self-interest for regional cooperation and peaceful collaboration. Dams on shared rivers should not be built where riparian states raise objections that are upheld by international panels.

⁶⁵ For further information, visit International Rivers’ webpage “Water and Energy Solutions” <http://www.internationalrivers.org/en/node/598>

According to the *Mind the Gap* framework, for all sector issues and for all sustainability issues the Thai commercial banks score 0. These scores reflect the fact that Thai commercial banks have not yet endorsed any of the relevant international codes of conduct or best practices and neither have they developed specific in-house sector policies.

Table 7 presents the highest scores awarded to the 45 global banks surveyed by the *Mind the Gap* report in 2007. The individual scores of foreign banks investing in Thailand's banks are given in appendix 3.

<i>Table 7: Summary of highest score per sector and issue according to BankTrack's Mind the Gap report (2007)</i>		
<i>Policy or issue</i>	<i>Highest score</i>	<i>Banks that received highest score</i>
Agriculture	2	Fortis/ ING/ Rabobank/ Westpac
Dams	4	HSBC
Fisheries	3	Rabobank
Forestry	3	HSBC
Military industry and arms trade	3	Intesa Sanpaolo/ KBC
Mining	3	HSBC
Oil and gas	2	HSBC/ ING
Biodiversity	2	HSBC/ JP Morgan Chase/ ING
Climate change	2	ANZ/ Bank of America/ Dexia/ Fortis/ HSBC/ JP Morgan Chase/ KBC/ Morgan Stanley/ Rabobank/ Westpac
Human Rights	3	Rabobank
Indigenous Peoples	3	JP Morgan Chase/ Rabobank
Labor	3	Rabobank
Taxation	1	BBVA
Toxics	2	HSBC/ Rabobank

As a general trend in the global banking sector, many banks have adopted some form of sector-based credit policies. Generally, as a first step, many banks have signed up to one or more of the voluntary sustainability standards, such as the Equator Principles. Yet, voluntary standards are no substitute for stringent policies developed by the banks themselves. Whilst a number of banks have moved in this direction the *Mind the Gap* report concludes that "Exceptions aside, the overall quality of credit policies developed by the 45 banks is fairly poor. The content of many policies hardly exceeds a vague and aspirational level and usually lacks clear criteria and objectives." The *Mind the Gap* report recommends that "the large majority of the 45 banks need to devote significantly more attention to developing clear sector and issue policies."

Whilst Thai banks lag significantly behind the international banks' social and environmental commitments, Thai banks could readily take up – or surpass – the international banks' standards.

11.2 Transparency and Accountability

Local people that might be affected by a business's planned activity have a right to know about the potential impacts and risks, as do the wider public. As project financiers, the management staff of commercial banks are critical decision-makers in the business cycle.

Commercial banks, therefore, hold a significant degree of responsibility for the environmental and social impacts of their client's operations.

Transparency refers to the open communication of all relevant information. In the case of commercial banks, full transparency means that information should be publicly available not only about the bank's own practices, but also about the activities of the clients that they finance. Access to information, however, is not enough. By having proper mechanisms of accountability in place, the public can ensure that decision-makers are accountable for the decisions that they take.

The *Mind the Gap* report assesses transparency and accountability at the institutional level and the deal level.

Institutional transparency: “Each bank is expected to report in an open and systematic way on the steps it has taken on the road towards sustainability. Publications on sustainability should clearly describe which priorities banks have formulated on social and environmental issues, which steps have been taken towards reaching them and what have been the results so far” (*Mind the Gap*, 2007)

The *Mind the Gap* report found that 34 of the 45 banks surveyed published an externally-verified annual sustainability report that meets the basic requirements of the GRI Sustainability Reporting Guidelines, scoring two. In contrast, no Thai commercial bank publishes an annual sustainability report, therefore all Thai banks score zero.

Deal transparency: “The most convincing proof of a bank commitment to transparency and sustainability is in the disclosure of all deals the bank is involved in” (*Mind the Gap*, 2007)

Globally, very few banks are transparent about who their clients are and which individual projects they are financing. The banks surveyed by *Mind the Gap* all scored lowly, with only half disclosing any information regarding their deals at all, and then only on a sector/regional breakdown, scoring one. All Thai commercial banks disclose their lending by sector in the Annual Reports, equaling the current (weak) levels of disclosure by their international peers.

Institutional accountability: “refers to all mechanisms and procedures put in place by the bank to ensure that its sustainability commitments are implemented throughout the organization and applied to all relevant financial services” (*Mind the Gap*, 2007)

Many international banks now publish a CSR report which is either internally or externally audited, although these audits are typically weak on evaluating the banks' environmental and social lending behavior. In Thailand, only Krung Thai Bank publishes a CSR report, although the information contained appears not to be audited either internally or externally. No Thai commercial bank makes reference to their Environmental and Social Risk Management System, and it is likely that they do not have such a system in place.

Deal accountability: “The sector and issue financing policies adopted by the bank are supposed to prevent or, in some unavoidable cases, mitigate or fairly compensate negative effects on stakeholders. Therefore, mechanisms need to be in place that ensures

recourse for external stakeholders in case the policies are not properly applied.” (*Mind the Gap*, 2007)

Only four of the 45 banks investigated in the *Mind the Gap* report have an independent grievance mechanism for third-party complaints about the banks activities. A further three banks have an informal, internal complaints mechanism. The vast majority of banks have no systematic complaints mechanism.

Amongst the Thai Banks, only Siam Commercial Bank has established a clear internal complaints mechanism for all stakeholders, scoring one point. In its 2007 Corporate Governance, titled “Mechanism for stakeholders’ participation” the bank states: “*The Bank aims to operate to the satisfaction of all stakeholders. They can contact the Bank through various channels: customers can contact any branches or responsible staff/Relationship Managers, and employees can contact the HR Client Services Division. Any complaints, suggestions, or comments can also be addressed to the Board of Directors and the management... The Bank has laid down a clear policy and practical guidelines on how to handle stakeholder complaints. All stakeholder information shall be kept confidential.*”

All the other Thai banks do not have a clear complaints mechanism and score zero points, although several other banks, including Thanachart Bank and the Bank of Ayudhya, do have a clear link on their webpage to their complaints center.

Table 8: Summary of highest score on accountability and transparency according to BankTrack’s Mind the Gap report (2007)

<i>Policy or issue</i>	<i>Highest score</i>	<i>Banks that received highest score</i>
Institutional transparency	3	HSBC
Deal transparency	1	ABN AMRO/ Barclays/ BBVA/ China Construction Bank/ Credit Agricole/ Deutsche Bank/ Dexia/ Intesa Sanpaolo/ JPMorgam Chase/ KBC/ Mizuho/ Nedbank/ Rabobank/ RBS/ Royal Bank of Canada/ Saudi-American Bank/ Santander/ Scotiabank/ Societe Generale/ Standard Bank/ Standard Chartered/ Sumitomo Mitsui/ Westpac
Institutional accountability	2	ABN AMRO/ ANZ / Banco Bradesco/ Banco Itau/ BNP Paribas/ Credit Agricole/ Deutsche Bank/ Fortis/ ING/ Intesa Sanpaolo/ KBC/ Mizuho/ Nedbank/ Rabobank/ RBS/ UBS/ Unicredit/ WestLB/ Westpac
Deal accountability	3	Banco do Brasil/ Rabobank/ Standard Bank/ Westpac

12. Sustainable Banking: The roles and responsibilities of banks

Commercial banks serve as important intermediaries that allocate resources from savers to investors across economic sectors. Through their financing decisions, banks can either be positive agents for change or backers of destructive projects. They can therefore play an important role in creating a society that is socially and environmentally sustainable and just.

In general, businesses that act responsibly can benefit from improved financial performance and lower operating costs, enhanced brand image, reputation and brand differentiation accompanied by increased customer loyalty, an ability to attract high-caliber employees and higher employee morale, and reduced regulatory oversight.

To take on a positive role, Thailand's commercial banks need to develop credit policies that cover key areas of operation and that are thoroughly integrated into the day-to-day decision-making process of the bank. These policies should define the minimum standards that clients should meet before they can receive financial services from the bank. Issues that need to be addressed range from securing human rights and protecting livelihoods, to combating climate change, preventing loss of biodiversity, ensuring healthy rivers and many other sustainability issues. Implementation needs to be further supported by commitments to transparency and accountability.

In considering loans, bankers are called upon to evaluate many types of risk. Typical factors considered as lending risks include the economic viability of the project, the credit-worthiness of the project proponent, and currency and political risks. Increasingly, however, commercial banks are also recognizing the benefits of evaluating risks associated with social and environmental impacts and their mitigation and wider sustainability issues.

Large hydropower dams entail significant areas of risk, for example:

- Failure to address social and environmental issues can result in costly delays as frustrated communities disrupt project construction. Unforeseen costs may also be incurred if affected communities pursue fair compensation or modification of project design through legal proceedings.
- Historical data for river flows and rainfall that dams are designed on are now not relevant due to climate change, with more extreme weather events expected. Drought will reduce the power production of hydropower dams, whilst extreme floods could damage the dam infrastructure itself or require sudden water releases causing damage downstream of the project that would require compensating.
- Corruption is a common problem in large-scale infrastructure projects such as dams

Whilst implementation of standards for risk management and sustainable development would be costly in the short-term, in the long-term it would benefit the business strategies of both banks and their borrowers.

The global economic crisis has also raised public expectations for commercial banks to work in the interest of a sustainable society. Banks that demonstrate a commitment to sustainability will benefit from stronger, greener brand image that will be attractive to new customers. Conversely, those that are linked to destructive projects face increasingly severe reputational risks, especially as consumer-banking is one of the most important growth sectors in Thailand.

Developing green policies is not just about managing risk, however. International lenders have also stated that deepening their understanding of environmental and social issues has enabled them to identify new green investment opportunities before their competitors, resulting in highly profitable investments.

13. Sustainable Banking: Taking-Off in China

Whilst China has seen remarkable economic growth in recent years, this has been accompanied by serious social and environmental costs. In recognition of these impacts, the Chinese government has launched a series of sustainable finance regulations. In July 2007, China's Ministry of Environmental Protection adopted the "Green Credit Policy," prohibiting banks from lending to 38 blacklisted companies. This was followed by a raft of green regulations by China's financial regulators, including green securities and green insurance policies launched in February 2008, and a set of corporate social responsibility guidelines issued by the China Banking Regulatory Commission in December 2007. Several Chinese banks, led by China's Industrial Bank in October 2008, have also adopted the Equator Principles. These have been accompanied by various initiatives by Chinese NGOs, peer international banks, and the International Finance Corporation (IFC) that promote sustainable financing.

In July 2008, for example, the *Economic Observer*, a leading financial newspaper, in cooperation with Chinese NGOs awarded the first annual Green Banking Innovation award to the China Industrial Bank. The judging was based on criteria for Green Banking that put emphasis on minimizing banks' indirect environmental impacts through its financing activities, and exploring new opportunities for environment-related business.

As a result of these efforts, according to a recent report by Friends of the Earth and BankTrack "This combination of forces have dissuaded some banks from lending to *liang gao* (highly polluting and energy intensive) industries and promoted financing for environmentally-friendlier alternatives".⁶⁶ The report concludes:

"there has been significant progress in the development of sustainable finance in China, including the creation of influential regulations, internal bank compliance mechanisms, and some public reporting. In the best cases, banks have established deeper credit risk management systems that may enhance the strength of bank lending portfolios, or adopted international best practices. But overall, Chinese banks still lag behind their international peers, especially when it comes to developing comprehensive environmental and social management systems and engaging stakeholders."

These are remarkable and rapid changes in China's banking sector that reflect the growing recognition that sustainable financing can benefit Chinese business, whilst also contributing towards China's sustainable development. Thai and Chinese banks and regulators could initiate a knowledge-sharing dialogue to gain from each other's experience, ultimately informing the development of appropriate policies, regulations, and in-house standards for Thailand's banking sector.

14. Building Sustainable Banks in Thailand

Through their corporate governance and CSR policies, Thai commercial banks have already made an important initial commitment to a sustainable and just society. There is, however, a clear gap between Thai banks' intentions and commitments to sustainability and actual performance on the ground in affected communities and the environment.

⁶⁶ Matisoff, A., and Chan, M. (2008) "The Green Evolution: Environmental Policies and Practice in China's Banking Sector" *Published by Friends of the Earth and Bank Track, November 2008.*

Thailand's commercial banks need to develop in-house policies, and integrate social and environmental risk into decision-making processes at an operational level.

The World Commission on Dams report provides specific recommendations for dam project financiers, as follows:

1. Use comprehensive options assessments as a risk mitigation tool.
2. Incorporate the WCD principles, criteria and guidelines into the environmental and social policies of the financial institution and use the guidelines as minimum screens for evaluating support for, and investment in, individual projects.
3. Develop legally-binding environmental and social provisions in the insurance coverage and the debt and equity arrangements of the financial institution.
4. Develop criteria for bond-rating systems for use in financing all options, including large dams, in the water resources and electric power sectors.

The Bank of Thailand, as Thailand's financial regulator, should develop a "Green Credit Policy" for domestic and overseas lending and encourage Thai banks to develop their own environmental and social risk management systems.

It is, however, only on the initiative and genuine commitment of the banks themselves that a truly sustainable banking system will be built. A commitment to sustainability and to "do no harm" means redefining each bank's mission and strategy, revising loan portfolios to reflect these, and ultimately transforming the way that the banking business is done.

BankTrack has prepared a useful handbook – *The Dos and Don'ts of Sustainable Banking* - designed to help banks transition to sustainable banking practices.⁶⁷

An important step will be to develop sector-specific policies that reflect best international practices and local context. Training and motivating staff in the application of these standards is also critical. To ensure effective implementation of bank policies, a commitment to transparency and accountability is critical, including establishing a clear complaints mechanism that enables stakeholders to flag with bank decision-makers the impacts of any problem projects.

Through adopting sustainable banking practices Thailand's banks can play an important role in contributing towards a prosperous and peaceful Thailand and Mekong Region for present and future generations. Financing better renewable and decentralized energy solutions rather than destructive large hydropower dams would contribute significantly towards creating a sustainable modern economy without losing the benefits that healthy rivers bring.

⁶⁷ BankTrack (2007) "The Dos and Don'ts of Sustainable Banking" *Published by BankTrack*
http://www.banktrack.org/download/the_dos_and_donts_of_sustainable_banking

Appendix 1: Details of hydropower developers and financiers

Project	Project owners	Thai commercial banks	International commercial banks	Other financiers/ service providers
Nam Theun 2	<p><u>Nam Theun 2 Power Company</u></p> <ul style="list-style-type: none"> • EDF International (subsidiary of Electricite du France) 35% • Lao Holding State Enterprises (Lao Govt); 25% • EGCO (Thailand); 25% • Ital-Thai Development Public Company Limited (Thailand) 15% 	<ul style="list-style-type: none"> • Bangkok Bank • Bank of Ayudhya • Kasikorn Bank • Krung Thai Bank • Siam City Bank • Siam Commercial Bank • Thai Military Bank 	<ul style="list-style-type: none"> • Australia and New Zealand Banking Group (ANZ) • BNP Paribas (France) • Bank of Tokyo-Mitsubishi • Credit Agricole Indosuez (Calyon) • Fortis Bank • ING • KBC (Belgium) • Societe Generale Asia Ltd. (SG) • Standard Chartered 	<p><u>Political risk guarantees</u></p> <ul style="list-style-type: none"> • ADB • World Bank • MIGA <p><u>Export credit agencies</u></p> <ul style="list-style-type: none"> • COFACE (France) • EKN (Sweden) • GIEK (Norway) <p><u>Multilateral loans</u></p> <ul style="list-style-type: none"> • ADB <p><u>Bilateral loans</u></p> <ul style="list-style-type: none"> • Nordic Investment Bank • Agence Francaise de Developpement • PROPARGO (France) • Export-Import Bank of Thailand <p><u>LHSE Equity (US\$112.5 m)</u></p> <ul style="list-style-type: none"> • Agence Francaise de Developpement (Euro 5 m grant) • ADB (US\$15.5 m loan) • European Investment Bank (US\$42.5 m loan) • World Bank IDA (US\$20 m grant) • NTPC project payment (US\$28 m)
Nam Ngum 2	<p>Nam Ngum 2 Power Company, wholly owned by “South East Asia Energy” consortium, formed of:</p> <ul style="list-style-type: none"> • Ch. Karnchang (Thai) 28.5%; • EdL (Laos) 25%; • Ratchaburi Generating Co. (Thai) 25%; • Bangkok Expressway PCL 	<ul style="list-style-type: none"> • Krung Thai Bank (lead) • Siam City Bank • Thai Military Bank 		<ul style="list-style-type: none"> • Export-Import Bank of Thailand

	(Thai) 12.5%; <ul style="list-style-type: none"> • PT Construction & Irrigation Co., (Laos) 4%; • Shlapak Group (USA) 4%; • TEAM Consulting Engineering and Management Co. (Thai) 1% 			
Theun-Hinboun Expansion Project	Consortium is called “Theun-Hinboun Power Company” <ul style="list-style-type: none"> • EdL (Laos) 60% • Nordic Group [owned by Statkraft] (Norway) 20% • MDX [GMS Power] (Thailand) 20% 	<ul style="list-style-type: none"> • Bank of Ayudhya • Kasikorn Bank • Siam City Bank • Thanachart Bank 	<ul style="list-style-type: none"> • ANZ • BNP Paribas • KBC (Belgium) 	<ul style="list-style-type: none"> • Export-Import Bank of Thailand

Appendix 2: Foreign investors owning minority shares or NVDRs in Thai Commercial Banks

Key: BAY = Bank of Ayudhya BBL = Bangkok Bank KBANK = Kasikorn Bank KTB = Krung Thai Bank
 SCB = Siam Commercial Bank SCIB = Siam City Bank TCAP = Thanachart Capital TMB = Thai Military Bank

International Shareholders	Thai banks being invested in as shareholders	Thai banks being invested through NVDR	Equator Principle	Carbon Disclosure	Wolfberg	UNEP-Financial Initiative	UN Principles for Responsible Investment	UN Global Compact	Extractive Industries Transparency Initiative
AIA (American International Assurance)	TCAP	BBL	No	No	No	No	No	No	No
BARCLAYS BANK	SCIB		Yes	Yes	Yes	Yes	No	No	No
CACEIS BANK LUXEMBOURG	SCB	KTB	No	No	No	No	No	No	No
CHASE NOMINEES	BAY, BBL, KBANK, SCB, TCAP, KTB, SCIB, TMB	BBL, BAY, KBANK, SCB	Yes	No	Yes	Yes	Yes	No	Yes
CITIBANK	BBL	BBL, BAY, KBANK, SCB, TCAP, KTB, SCIB	Yes	No	Yes	Yes	No	No	No
CLEARSTREAM NOMINEES LTD	BBL, TCAP		No	No	No	No	No	No	No
DBS BANK	SCB, TCAP, TMB		No	No	No	No	No	No	No
Deutsche Bank	KTB, TMB	KTB	No	Yes	Yes	Yes	Yes	Yes	No
GERLACH & CO	BAY, SCIB, TMB	BBL, BAY, SCB, SCIB	No	No	No	No	No	No	No
GOLDMAN SACHS INTERNATIONAL	BBL, SCIB	BBL, BAY, KBANK, TCAP, KTB, SCIB	No	Yes	Yes	No	Yes	No	Yes
GOVERNMENT OF SINGAPORE	BAY, BBL, SCB		No	No	No	No	No	No	No

INVESTMENT CORPORATION									
HSBC	BAY, BBL, KBANK, SCB, TCAP, KTB, SCIB	BBL, BAY, KBANK, SCB, KTB	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ING	TMB	TMB	Yes	Yes	No	Yes	Yes	Yes	Yes
INVESTORS BANK & TRUST COMPANY	BBL, KBANK, TCAP		No	No	No	No	No	No	Yes
J.P.Morgan	TMB	BBL, SCB, KTB	Yes	Yes	Yes	Yes	Yes	No	Yes
LITTLE DOWN NOMINEES 5	KBANK, SCB, KTB, SCIB		No	No	No	No	No	No	No
MELLON BANK,N.A.	BBL, KBANK, SCB, TCAP, KTB	BBL, BAY, KBANK, SCB, TCAP, KTB, SCIB, TMB	No	No	No	No	No	No	No
MERRILL LYNCH	TCAP	BAY, SCB, TCAP, KTB	No	Yes	No	Yes	No	No	Yes
MORGAN STANLEY	BBL, TCAP, TMB	BBL, KBANK, SCB, TCAP, KTB, SCIB	No	Yes	No	No	No	No	No
N.C.B.Trust Limited	KBANK, SCIB	KBANK, SCB, TCAP	No	No	No	No	No	No	No
NORTRUST NOMINEES LTD	BBL, KBANK, SCB, TCAP, SCIB	BBL, BAY, KBANK, SCB, KTB, SCIB, TMB	No	No	No	No	No	No	No
PICTET & CIE	BBL	BBL, SCB, KTB	No	Yes	No	No	Yes	No	No
Raffles	TCAP	BBL, SCIB	No	No	No	No	No	No	No
The Bank of Nova Scotia (Scotia Bank)	Thanachart Bank		Yes	Yes	No	Yes	No	No	No
SELANGOR HOLDINGS INC	BBL		No	No	No	No	No	No	No
SOMERS(UK) Limited	KBANK, SCB, TCAP	BBL, BAY, KBANK, SCB, KTB	No	No	No	No	No	No	No
STATE STREET	BAY, BBL, KBANK,	BBL, BAY,	No	Yes	No	Yes	No	No	No

BANK AND TRUST COMPANY	SCB, TCAP, KTB, SCIB, TMB	KBANK, SCB, TCAP, KTB, TMB							
THE BANK OF NEW YORK	BBL, KBANK, SCB, KTB	BBL, BAY, KBANK, SCB, KTB	No	No	No	No	No	No	No
UBS	SCIB	BBL, BAY, KBANK, SCB, TCAP, KTB, TMB	No	Yes	Yes	Yes	Yes	Yes	Yes
UOB	BBL, SCIB	TMB	No	No	No	No	No	No	No

Appendix 3: Mind the Gap rating of foreign investors owning minority shares or NVDRs in Thai Commercial Banks

	Sectors							Issues										
	Agriculture	Dams	Fisheries	Forestry	Military Industry/ Arms Trade	Mining	Oil and Gas	Biodiversity	Toxics	Climate Change	Human Rights	Indigenous people	Labor	Taxation	Institutional transparency	Deal transparency	Institutional accountability	Deal accountability
BARCLAYS BANK	1	2	1	1	1	1	1	1	1	1	1	1	1	0	2	1	1	0
CHASE (Now J.P. Morgan Chase)	0	2	0	2	0	1	1	2	1	2	1	3	1	0	1	1	0	0
CITIBANK	0	2	0	2	0	1	1	1	1	1	1	1	0	0	2	0	1	0
GOLDMAN SACHS INTERNATIONAL	1	0	0	2	0	1	1	1	0	1	0	2	0	0	1	0	0	0
HSBC	1	4	0	3	0	3	2	2	2	2	1	2	1	0	3	0	1	0
ING	2	2	0	2	2	2	2	2	1	1	1	2	1	0	2	0	2	1
J.P.Morgan	0	2	0	2	0	1	1	2	1	2	1	3	1	0	1	1	0	0
MERILL LYNCH	0	0	0	2	0	1	1	0	0	1	0	1	0	0	0	0	1	0
MORGAN STANLEY	0	0	0	1	0	0	0	1	0	2	0	1	0	0	0	0	0	0
The Bank of Nova Scotia	0	2	0	0	0	1	1	1	1	1	0	1	0	0	2	1	1	0
UBS	0	0	0	0	0	1	1	1	1	1	1	1	1	0	2	0	2	0

Appendix 4: Thai commercial banks ranked by total assets that are funding hydropower projects in Laos

Rank	Bank	Total Asset (US\$ billion)	Brief background
1	Bangkok Bank	US\$47.5	Established in 1944, Bangkok Bank is the 5 th largest bank in Southeast Asia. It has overseas branches in 13 countries, namely: China, Hong Kong, the USA, the UK, Japan, Taiwan, Singapore, Malaysia, Vietnam, the Philippines, Indonesia, Laos and Myanmar
2	Krung Thai Bank	US\$38.1	Krung Thai Bank was established by the Thai government in 1966 by the merger of Agricultural Bank and Provincial Bank, with the Finance Ministry as the major shareholder. Currently the bank has 6 foreign branches and representative offices
3	Siam Commercial Bank	US\$34.3	Siam Commercial Bank was the first bank to be established in Thailand, in 1904, adopting its current name in 1939. It has overseas branches in Laos, Singapore and Hong Kong.
4	Kasikorn Bank	US\$30.8	Kasikorn bank was established in 1945. It has four overseas branches in Hong Kong, Los Angeles, Cayman Islands and Shenzhen, China and three representative offices in Beijing, Shanghai and Kunming
5	Thai Military Bank	US\$25.7	The Thai Military Bank was established in 1956. It has overseas offices in Vietnam, Laos and Hong Kong.
6	Bank of Ayudhya	US\$21.2	The Bank of Ayudhya, also known as Krungsri Bank, was established in 1945. It has overseas branches in 3 countries, namely: Hong Kong , Laos and Cayman Islands
8	Siam City Bank	US\$13.5	Siam City Bank, PCL (SCIB) was established in 1941. It has branches only in Thailand.
9	Thanachart Bank	US\$8.4	Thanachart bank was established in 2002. A core business of the bank is automobile hire purchases.

(as of Dec 31, 2007; http://en.wikipedia.org/wiki/List_of_banks_in_Thailand)