

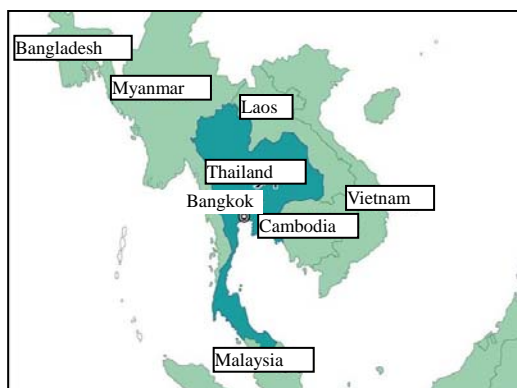
Thailand

Economic Recovery and Social Sector Program Loan

External Evaluator: Atsushi Hashimoto (Menam Advisory)

Field Survey: December 2005

1. Project Profile and Japan's ODA Loan



Map of project area: Thailand



Site photograph: A renovated temple

1.1 Background

The Thai economy achieved an average annual growth rate of 10% during the period 1986-90, mainly supported by a boom in exports. It was the result of capital accumulation and improvement in productivity and, therefore, this economic growth was well balanced from a macro-economic point of view. However, plagued by slower growth of export, the current account deficit widened during the period 1991-96. Furthermore, an excessive influx of capital in the form of short-term lending and imprudent lending by Thai financial institutions, principally for real estate, resulted in a bubble economy.

The deterioration in current account balance caused a loss of market confidence in the Thai currency and, eventually, the currency crisis occurred in 1997¹. Thailand had employed fixed exchange rate regime, and foreign investors considered the baht were overvalued and carried out speculative selling of the baht. The Thai government attempted to defend the baht by using foreign currency reserves, but the reserves fall short and the government was forced to move from a fixed exchange rate regime to floating system. In addition, foreign investors all at once withdrew the short-term funds that had been invested in Thailand. As the government was unable to roll over its short-term borrowing, there was a danger of defaulting on its debts. In order to stave off the crisis, Thailand was furnished with support such as the International Monetary Fund (IMF) standby agreement to support the international balance of payments and the crisis support package of the Japan Bank for International Cooperation (JBIC).

In response to the currency crisis, the Thai government attempted to achieve macro-economic stabilization in short-run and also implemented market-oriented

¹ The international balance of payments recorded a surplus of US\$10.6 billion in 1997.

reforms in the financial sector, such as establishment of stronger regulatory body of financial institutions and bankruptcy laws, as mid- to long-term reforms. Domestic consumption and investment fell due to tight monetary policy for curbing inflation, which resulted in that an economic growth reached minus 10% in 1998. The country fell into a severe depression. The unemployment rate rose sharply from 1.5% in 1997 to 4.4% in 1998, and the number of poor people² increased from 9.8 million in 1996 to 11.02 million in 1998. Aiming at mitigating the negative effects of the economic crisis especially on the poor stratum, the Thai government implemented proactive fiscal policies and encouraged public works projects in rural areas in align with the Miyazawa Initiative and the other similar initiatives. As a result, economic growth recovered to 2.5% in 1999 and 3.4% in 2000.

Since then, as well as steering a course of stable macroeconomics, in the mid- to long-term the Thai government has also successfully restored confidence in the financial market by implementing market-oriented reforms in the financial sector and curtailing non-performing loans. The result was that in 2002 the economy recovered to the pre-currency crisis level and had returned to a path of sustainable economic growth.

1.2 Objective

This program loan attempted to stabilize Thailand's balance of payments through the provision of foreign currency funding assistance as a part of the New Miyazawa Initiative, thereby contributing to the recovery of the national economy. In addition, through the implementation of labor-intensive public works and various types of programs by means of counterpart funds, this loan attempted to generate employment and enhance industrial competitiveness, and contributed to economic stabilization.

1.4 Borrower/Executing Agency

Kingdom of Thailand/Ministry of Finance

1.5 Outline of Loan Agreement

Loan Amount/ Disbursed Amount	30,000 million yen/29,627 million yen
Loan Agreement	March 1999
Terms and Conditions	
- Interest Rate	1.0%/year
- Repayment Period (Grace Period)	25 years 7 years
- Procurement	General untied
Final Disbursement Date	March 2003
Contractor(s)	—

² The number of people with incomes below the poverty line. The Thai government sets poverty lines per person monthly income by region. It defines the segment of the poor if their monthly income (per person) is this regional poverty line.

Consulting Service	None
Feasibility Study (F/S) etc.	Measures to Increase Public Sector Spending Program, March 1999 (Kingdom of Thailand Government)

2. Evaluation Result

2.1 Relevance

2.1.1 Relevance at the time of appraisal

The policy issues at the time of appraisal were overcoming the economic crisis triggered by the currency crisis which occurred at the end of 1997, and to restore economic stability. Specifically, countermeasures were needed for (1) the diminishing economic growth rate: sluggish demand resulting from fiscal austerity and tight monetary policies; (2) escalating prices; (3) diminishing exports; and (4) the rising unemployment rate, all of which were brought about by the economic crisis. As this project translated those countermeasures into reality, it can be deemed to have been most relevant.

The Measures to Increase Public Sector Spending (hereafter, “MIPSS”), the policy adopted to implement the above-mentioned issues was formulated in an attempt to get the country out of the economic crisis. The ODA loan provided in this project forms a part of the funding for the Plan. In order to revive the stagnant economy, the MIPSS was an attempt to inject 50 billion baht—equivalent to approximately 1% of the country’s GDP at that time—into public expenditure, with funds borrowed from the World Bank (hereafter, “WB”), the former Export-Import Bank of Japan (hereafter “JEXIM”), and the former Overseas Economic Cooperation Fund (hereafter “OECF”). It was a co-financed project among the WB and the JEXIM each providing US\$600 million, while 30 billion yen (equivalent to US\$250 million) came from the OECF in the form of an ODA loan³. The main objectives of the MIPSS were to secure a social safety net and relief for the economically vulnerable in urban/rural areas, with a strong emphasis on employment creation. As this program loan was in accordance with the MIPSS, it could be regarded that the program loan was relevant.

Implementation of subprojects in four areas—(1) employment creation; (2) improving living standards; (3) enhancing industrial competitiveness; and (4) increasing public sector efficiency—was planned and remaining in line with the public expenditure plan mentioned above. Over 90% of subproject costs were to be allocated to assistance for (1) employment creation and (2) improving living standards. In these two areas, subprojects were chosen in consideration of swift implementation and benefits for the poor. Given the above national and sector policies, the scope of the subprojects could be considered relevant.

³ This evaluation report deals with the ODA loan portion of 30 billion yen.

2.1.2 Relevance at the time of evaluation

Thailand has overcome the crisis and recovered economic growth. One could claim not only that current growth is attributable to the national and sector policies adopted at the time of the crisis, but also that this program loan based on the policies remains relevant.

The Ninth National Economic and Social Development Plan places its objective in the sustainable development based on the balance among human, social, economic, and environmental resources. In particular, by “social” and “economic” balance, the Plan has the expectation that the economically vulnerable would not be left behind. In that sense, the relevance of the policies incorporated in the MIPSS is still maintained today.

Relief for the economically vulnerable was considered the most important priority at the time of the economic crisis, and its aims were poverty reduction and an improvement in the quality of people’s lives. Even after the economic crisis is over, poverty reduction and improvement in the quality of life remain ongoing policy goals in Thailand. In that sense, one could say that the policies adopted at that time still have relevance today.

Counterpart funds were used for subproject implementation as per the original plan in this program loan. The main objectives of those subprojects were to create employment and to maintain the quality of life. Subprojects were public works within the country. It could be concluded that it was relevant to carry out such projects during the period of the economic crisis, when the economy had slumped and there was low demand from private sector investment.

2.2 Efficiency

2.2.1 Outputs

(Provision of foreign currency funds, and establishment of counterpart fund)

In addition to providing Thailand with Balance-Of-Payment support (allocation of funds for the settlement of import and other outflow) by foreign currency funds through an ODA loan, the program loan used counterpart funds to implement domestic public works subprojects.

Virtually the whole amount of the foreign currency funds (29,627 million yen) was disbursed immediately after signing the loan agreement (March-April 1998). The disbursement contributed to an increase in foreign currency reserve. The amount of Thai baht equivalent to that disbursement was 9,285 million baht, which were set aside as counterpart funds.

(Implementation of public works projects)

Projects that were planned to be carried out using the counterpart funds were those in the four areas described below:

- (1) Employment creation
- (2) Life quality improvement (water supply facilities, healthcare centers etc.)

- (3) Strengthening industrial competitiveness (consulting services to enhance efficiency)
- (4) Establishing an efficient public sector (creating databases, training regional public officials, etc.)

This program loan was intended to assist the MIPSS which the Thai government had enacted in order to revive the economy. As has already been stated, the MIPSS was a co-financed loan among the WB, the JEXIM, and the OECF. The objectives of the Plan were (1) economy stimulation through productive investment and employment creation; (2) alleviation of the negative social impact on the poor in urban and regional areas due to the economic crisis; and (3) creation of a foundation for future development. The WB and the JEXIM have not imposed restrictions on the use of the funds, as long as they are spent in accordance with the three objectives mentioned above. The OECF set the four areas described above, and approved subprojects within the scope of the four areas as eligible for loans.

The outputs of the MIPSS, including this program loan, are as follows.

- (1) Provision of 109,194 educated manpower units were employed
- (2) 4.89 million manpower units were employed
- (3) 400,000 senior citizens were provided living allowance
- (4) Lunches were provided to 439,396 children
- (5) School uniforms were provided to 957,588 children
- (6) Provision of welfare compensation for (i) 33,171 poor people and (ii) 925 households containing families of AIDS patients
- (7) 684 projects to develop an economic community system were implemented.
- (8) 156,000 people were given capital, equipment and seedling support
- (9) 117,245 people were provided vocational training
- (10) 82,437 villages were developed
- (11) 5,628 water resources were developed
- (12) 1,450 farmer groups and cooperatives were given fertilizer credit support
- (13) 88 cooperatives were provided with the necessary equipment for a central market operation
- (14) Credit support was given to more than 91,579 people in slum areas
- (15) Construction of 556 health centers, improvement of 2,289 schools

Source: Project Completion Report (Ministry of Finance Public Debt Management Office)

At the time of appraisal, since this project was a sector program loan, and since swift loan disbursement was needed, only the areas to be financed under the loan were set. Therefore, it is difficult to give detailed comparison of a planned scope and the actual. However, it is reasonably concluded that the counterpart funds were used for the purpose for which they were originally intended (i.e. the strengthening of the social safety net), and generated intended output.

2.2.2 Project period

The loan agreement was signed in March 1999. The loan was disbursed promptly with 20 billion yen provided in March 1999 immediately after the signing, and a further 9.6 billion yen given in April 1999.

The implementation period of the public work subprojects was from the third quarter of 1999 (July 1999) until the fourth quarter of 2000. The subprojects were due to be completed at the end of 2000 and the beginning of 2001 (January 2001). Although the period of the public works subprojects stretched as far as June 2001, almost all of the projects had finished by the end of 2000.

2.2.3 Project cost

While a total of 9,284 million baht was planned to be spent for public works subprojects in the four areas, the amount eventually spent was 9,336 million baht. Regarding the ODA portion, out of the counterpart funds of 9,284 million baht, 8,265 million baht was used initially, but as a result of additional projects implemented subsequently, a shortfall arose of 51.61 million baht. However, by allocating the budget from the MIPSS the all subprojects were implemented. As subprojects were implemented almost within the budget of the planned costs, it is concluded that those costs have been used effectively.

Table 1. Project Costs: Planned and Actual (only subprojects eligible for ODA loans)

(Unit: millions of baht)

Content	Planned	Actual ⁴
Total project costs	9,284	9,336
(1) Employment creation	5,096	5,096
(2) Improving living standards	3,571	3,573
(3) Enhancing industrial competitiveness	516	520
(4) Increasing public sector efficiency	102	146

(Exchange rate of 1 baht = 3.19 yen)

2.3 Effectiveness

In terms of the effects brought about through this program loan, first and foremost was the improvement in the balance of payments through the acceptance of foreign currency funds, while second was the effect of employment creation, improved living standards, enhanced industrial competitiveness, and increased public sector efficiency

⁴ On the total project costs, approximately 52 million baht is from other fund sources. The amount was allocated to 1 million baht for (1) Employment creation, 2 million baht for (2) Improving living standards, 5 million baht for (3) Enhancing industrial competitiveness, and 45 million baht for (4) Increasing public sector efficiency

as a result of implementing public works projects that utilized counterpart funds. In terms of how the counterpart funds were allocated to between the different public works projects; employment creation projects made up the majority, accounting for 55% of the total, and within projects to improve living standards, which accounted for 38% of the total, there were small-scale public construction projects carried out which contributed to employment creation. This shows clearly that employment creation was the main aim of this program loan. Therefore, it has been evaluated as effective from the perspective of improving the balance of payments, and employment creation.

2.3.1 Balance of payments

From 1985 to 1996, a surplus in the capital account offset substantial deficits in the current account. In 1996, for example, a capital account surplus of \$US19.5 billion offset the current account deficit of US\$14.35 billion. However, this capital account surplus was due to increases in overseas borrowing in the private sector. When the economic crisis occurred, the balance of payments of 1997 turned into a deficit of US\$10.6 billion. The balance of payments after the crisis is characterized with the surplus in current account and the deficit in capital account. The surplus in current account covered foreign loan repayments, which have increased since the crisis. The surplus in trade account contributed to the turnaround in the current account balance. With persistent trade deficits between 1993 and 1997, the deficit in trade account reached US\$16.1 billion in 1996. The trade balance turned into a surplus after the economic crisis, even though the capital account balance became deficit. As a result, the balance of payments has also turned to a surplus and foreign currency reserves are increasing. The balance of payments recorded a deficit (US\$1.6 billion) once in 2000 after a couple years of surplus in 1998 and 1999 (US\$1.7 billion and US\$4.6 billion, respectively). However, the balance of payments continues to be a surplus after 2001. The balance of payments in 2004 was a surplus of US\$5.7 billion.

The provision of foreign currency through this program loan has improved the balance of payments as well as helping to maintain investors' confidence in Thailand among investors. It is reasonably inferred that this program loan had some positive effects on continuous surplus in Thailand's balance of payments.

Table 2. Changes in the Balance of Payments

(Unit: millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 p
Current account balance	-14,350	-3,110	14,291	12,466	9,328	6,205	7,008	7,965	6,865
Trade and services	-11,723	-130	17,470	15,086	10,116	6,969	7,746	8,821	6,754
Trade	-16,148	-4,624	12,235	9,272	5,466	2,494	2,739	3,759	1,460

Services	4,425	4,494	5,235	5,814	4,650	4,475	5,007	5,062	5,294
Capital account balance	19,504	-4,343	-9,742	-7,908	-10,261	-4,634	-4,192	-8,000	-591
Balance of payments	2,169	-10,649	1,734	4,584	-1,617	1,317	4,234	143	5,735

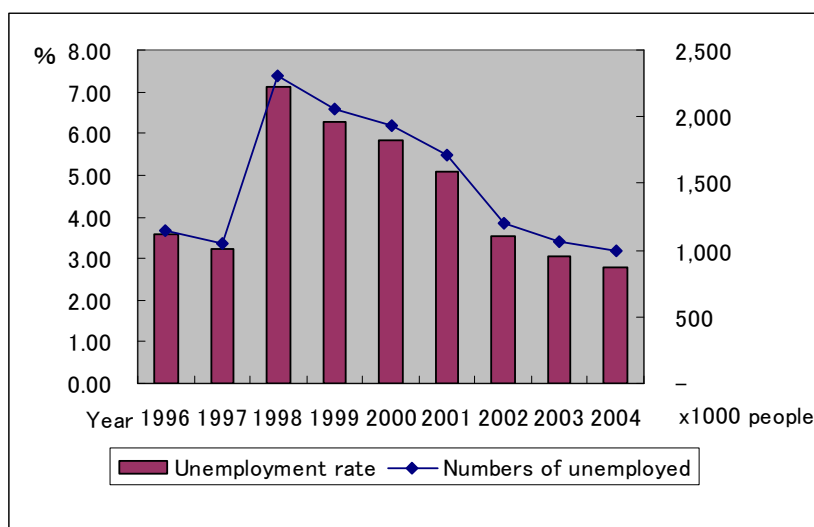
2004 p is a provisional figure

Source: The Central Bank of Thailand

2.3.2 Employment creation

Looking at shifts in the national employment situation in Thailand, one can see that in 1998, immediately after the economic crisis, the number of unemployed including seasonal workers was 2.41 million, while the unemployment rate had reached 7.1%. Although the unemployment rate began to fall after 1998, it has nevertheless continued to be at relatively high level, with figures of 6.3% and 5.8% in 1999 and 2000 respectively⁵. The executing agency estimates that the employment creation effect of this project has been approximately 950,000 man-months (a 27% increase from the planned figure)⁶. Since the public works subprojects were implemented mainly between the last half of 1999 and throughout 2000, employment was created at a time when the employment environment was extremely severe. Looking at the employment situation of the country as a whole, this project has had positive effect on employment creation.

Fig. 1 Changes in the Numbers of Unemployed, and the Unemployment Rate⁷



Source: National Economic and Social Development Board statistics

⁵ In 1997, the year of the economic crisis, the unemployment rate in Thailand, discounting variation factors owing to seasonal workers, was 1.5%. In 1998, this suddenly shot up to 4.4%. In terms of the numbers of unemployed, in contrast to the figure of 490,000 in 1997, the number of unemployed increased to 1.41 million in 1998.

⁶ The size of the labor force at the time of appraisal (1999) was 32.72 million.

⁷ The number of unemployed, including seasonal workers, and the unemployment rate

2.4 Impact

2.4.1 Economic stability and growth

Recording negative growth in 1997 (-0.7%) and in 1998 (-10.5%), the Thai economy was hit by an economic crisis in the form of a deterioration of its balance of payments, and increases in the unemployment rate and poverty rate. However, with financial assistance and pro-growth economic policies, the country has been on the path of steady economic recovery from 1998 onwards. The economy recovered to the pre-crisis level in 2002. This program could be said to have had some impact on the recovery and growth of the economy overall.

The Thailand Development Research Institute (TDRI) has estimated that this program loan had the effect of raising Thailand's GDP at the time by 0.2%. The funds from this loan were injected into the agricultural sector for employment creation subprojects, whereas for life quality improvement subprojects were injected into social services (health hygiene, waste treatment), and the support for the livelihood of the poor. These expenditures were calculated into an economic model⁸. Looking at the results in terms of major sectors, the largest economic impact was that exerted on the agricultural sector, which saw a 0.7% rise in its GDP. Increases of 0.16% and 0.15% were seen in the GDP of secondary industries and that of service industries, respectively. The TDRI has estimated that the program loan has had the effect of boosting employee numbers by 0.38%. This demonstrates quantitatively that the project has had an impact on economic growth and employment creation.

Table 3. Changes in Major Economic Indicators

	96	97	98	99	00	01	02	03	04	05 p
1. GDP Growth at constant 1988 price (billion baht)										
	3,115.3	3,072.6	2,749.7	2,872.0	3,008.4	3,073.6	3,237.0	3,464.7	3,678.5
%	5.9	-1.4	-10.5	4.4	4.8	2.2	5.3	7.0	6.2
2. GNP per capita (baht)										
	75,146	76,057	72,979	72,981	77,863	80,558	84,919	91,398	99,339
3. Consumer Price Index (2002=100)										
	84.1	88.8	96.0	96.2	97.8	99.4	100.0	101.8	104.6	109.3
%	5.9	5.6	8.1	0.3	1.6	1.6	0.7	1.8	2.7	4.5
4. Government Finance (fiscal year) (billions of baht)-Cash balance and as % of GDP										
	104.3	-87.1	-115.3	-134.4	-116.6	-107.9	-118.7	34.3	17.2	16.8
	2.3	-1.9	-2.5	-2.9	-2.4	-2.1	-2.2	0.6	0.3

The figures for 2005 are provisional ones

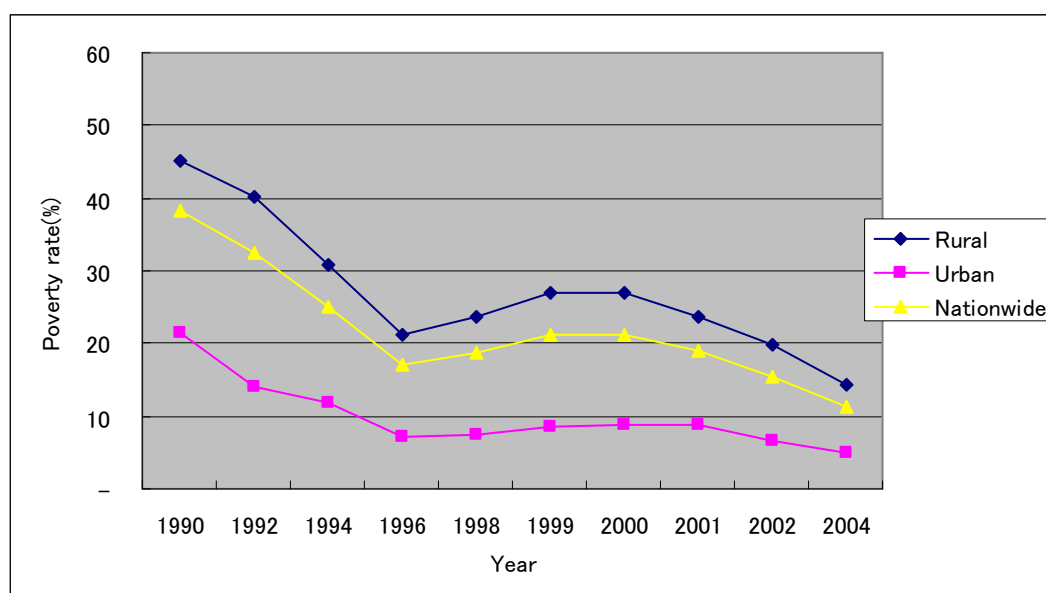
Source: The Central Bank of Thailand

⁸ The economic model has been developed by the TDRI, based on IO tables. Essentially, it involves analyzing income and expenditure, dividing the economy into individual accounts (commodities, domestic accounts, private sector industry, the public sector, other external economies), and then a model is created from the associations between the various accounts. The ODA loan funds are entered into this model, then researchers look at which sector they have an impact on and to what extent, as well as the extent of the impact they have on the economy as a whole.

2.4.2 Poverty reduction

The proportion of the population belonging to the poor stratum⁹ was 17% in 1996. after the economic crisis, it surpassed 19% in 1998 and recorded 21% in both 1999 and 2000, meaning that it has continued to increase over the three years. Then, the job market reached a turning point with 19% recorded in 2001, and a remarkable improvement in 2004 with a figure of 11%. Given that the number of poor people did not fall soon after the end of the economic crisis, it is clear that the economic crisis had a substantially negative effect on the poor. In that sense, this program loan, which was aimed at the poor and brought them benefits, had been very significant.

Fig. 2 Changes in the Poverty Rate



Source: National Economic and Social Development Board statistics

In 1997, the year of the economic crisis, the minimum wage in the private sector (per day (baht)) was 234 baht per day, and it continued to remain below the 1997 level through 1998, 1999, and 2000, with figures of 219 baht, 221 baht, and 215 baht respectively. However, it improved significantly in 2001, rising to 277 baht. This shift is virtually the same as the decrease of the numbers of the poor. With the clear trend of economic recovery seen from 2001 onwards, the living standards of the economically vulnerable have visibly improved since then.

2.5 Sustainability

⁹ The population of those living on an income which falls below the poverty line. Calculating monthly income per capita by dividing household income by the number of those making up the household, "the poor" are defined as those who fall below the poverty line (monthly income per capita in Thai baht), the setting of which varies from region to region.

2.5.1 Sustainability of the program

Following provision of this program loan, Thailand has achieved economic recovery. Since the start of the new millennium the economy has continued to show even stronger growth, so in that sense the program loan have had sustainability.

Since overcoming the economic crisis, as Thailand has consistently achieved stable macro-economic growth, diffusion of education, and expansion of the social safety net up through the Ninth National Plan, it can be said that the effects of this program loan has been sustainable.

2.5.2 Operation and maintenance of public works projects

Operation and maintenance of each public works subproject is carried out by a government agency implementing the subproject¹⁰. As the subprojects did not require a high level of engineering techniques, operation and maintenance could be carried out within the capabilities of the executing agencies. Therefore, there have been no serious problems in terms of operation and maintenance.

3. Feedback

3.1 Lessons learned

3.1.1 Timing of program loan evaluation

Short-term disbursement and the implementation of countless public works subprojects through the use of counterpart funds are characteristics of program loans. Since the injection of funds is designed to generate benefits in short-run, it has produced effects which tend to be relatively short-term and direct (such as an increase in income through payments of daily allowances). As this program loan ended in 2001, it was difficult to determine the short-term economic effects on a micro-level at the time of ex-post evaluation (for example, interviews from beneficiaries). It would be preferable to gather data related to “Effectiveness” and “Impact” of program loans immediately after their completion (or during their implementation).

3.2 Recommendations

None.

¹⁰ As of September 2004, 15 agencies or departments were responsible for operation and maintenance.

Comparison of Original and Actual Scope

Item	Plan	Actual
(1) Outputs Setting aside of foreign currency <ul style="list-style-type: none"> • Setting aside of counterpart funds • Implementation of public works projects through counterpart funds 	29,627 million yen Setting aside of amount equivalent to foreign currency (1) Employment creation: 16,195 million yen (2) Improving living standards: 11,446 million yen (3) Enhancing industrial competitiveness: 1,655 million yen (4) Increasing public sector efficiency: 331 million yen	As planned 9,284 million baht (1) Employment creation: 16,263 million yen (2) Improving living standards: 11,401 million yen (3) Enhancing industrial competitiveness: 1,661 million yen (4) Increasing public sector efficiency: 466 million yen
(2) Project Period <ul style="list-style-type: none"> • Loan agreement • Implementation of public works projects through counterpart funds 	March 1999 July 1999 to January 2001	As planned July 1999 to June 2001
(3) Project Cost Foreign currency Local currency Total ODA Loan Portion Exchange rate	--- 29,627 million yen 29,627 million yen 29,627 million yen (At appraisal:3.3yen/baht)	--- 29,791 million yen 29,791 million yen 29,627 million yen (Weighted average at disburse:3.19 yen/baht)