

**MANAGEMENT RESPONSE ON THE PROGRAM PERFORMANCE AUDIT REPORT  
ON THE SOCIAL SECTOR PROGRAM IN THAILAND  
(Loan 1611-THA)**

On 8 July 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. The memo of 25 May 2005 from OED requested Management response to this report. We appreciate that OED consulted with ADB departments and held detailed discussions in preparing this PPAR. We also note that an evaluation workshop was conducted by the Operations Evaluation Mission with the Government of Thailand and key stakeholders in finalizing the findings of the PPAR.

2. Management reviewed this report and supports the important lessons identified, particularly the manner by which ADB responded to the challenges and tensions of the Asian Financial Crisis affecting Thailand. As the report mentioned, urgent liquidity support was needed and ADB expeditiously acted to support the IMF-led rescue package. In addition, the Social Sector Program (SSP) triggered the Government to institute the much needed reforms to address the shortcomings and vulnerabilities of the social sectors in Thailand. However, the SSP loan may have lacked some of the key features of standard program loans that normally have a long-term reform agenda with carefully planned and sequenced reforms fully owned by the Government. Formulating social sector policy reforms requires good knowledge of the legislative system and political economy, as well as deep sector expertise, which can be drawn upon during preparation. Adequate sector analysis, extensive needs assessment, broad consultation, and a well defined monitoring and evaluation system were requirements for the success of program loans.

3. ADB has learned that standard program loans are not necessarily the best lending modality to respond to situations such as the Asian Financial Crisis, as long-term structural reforms need to be addressed in separate, subsequent interventions. Thus, in October 2003, ADB adopted a special program loan (SPL) lending modality to assist ordinary capital resources-eligible developing member countries (DMCs) or graduated DMCs affected by unexpected crisis. Large-scale SPLs can be provided as part of an international rescue effort in cooperation with developing partners when the crisis has significant structural dimensions and is likely to have significant social impacts. The lessons learned from the SSP are very relevant and will be taken into consideration in the design of new initiatives in the sector, not only in Thailand but in region.

4. The PPAR states on the design of the SSP (para. 21) that “given the severity of the (financial and economic) crisis, the formulation and design of the SSP entailed a necessary trade off between a rigorous design review that would delay the provision of urgently needed liquidity, and speed in providing assistance to prevent further damage to Thailand’s balance of payments and financial sector; and to ameliorate the adverse impact on civil society, particularly

the poor.” We agree with this assessment that the SSP achieved a reasonable balance between speed of processing and depth of preparation. We also agree to the point made by the PPAR stating that “on the positive side, the Government demonstrated strong commitment to the reform process at the highest level,” and its “ability to implement the Program in a timely manner, and its overall compliance with the policy matrix and covenants of the loan were positive outcomes (para. 85).” The PPAR found out that the Government continues to implement a broad range of policies that are consistent with the achievement of these objectives (para. 84).

5. Management noted the difference between the rating given in the Program Completion Report (PCR) of 2001 as Highly Successful and in this PPAR rating of the Program as Partly Successful. Management agrees that SSP’s implicit objective to provide budgetary support to the Government during the financial crisis, thus mitigating the short-term impact on the most vulnerable groups, was achieved at that stage. However, the PPAR found out that with the election of the new Government and appointment of new leadership in various ministries in 2001, many of the SSP projects and activities were dropped and replaced by new initiatives.

6. As recommended by the PPAR, ADB will continue monitoring and supporting the reform process that was in progress at the time of OEM. ADB’s recently-opened Thailand Resident Mission will highlight the lessons learned from this Program and share the knowledge with the Government.