Session 10
Case Series (A-D):
Thai Agricultural Sector Program Loan (ASPL)

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Introductory Course on Economic Analysis of Policy-Based Lending Operations
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Part A

Thailand, April 1997: On the Edge...

Basic issue: Why the Agriculture Sector?

Thai economy: Context for Policy Reform and role of the ADB’s ASPL

What is John’s ‘dilemma’

• Why does John have a ‘dilemma’
  • Why is there uncertainty re the Thai economy
    • What is the source of this uncertainty
Overview of Thai Economy
Prior to the Crisis

Structure: Overview
- strengths
- weaknesses

Performance
- Overall impression
- Current account deficit
  - What is the issue
  - So what
- Exports
  - What is going on
  - So what
- Exchange Rate
  - What is going on
  - So what

What additional information would you like to see?
Efficiency of Investment

Figure 2: Thailand: ICOR (1997-96)

Source: From Chen-Frascoll et al. [6]
Source: Abonyi *Thailand: From Financial Crisis to Economic Renewal*, ISEAS, 1999

**Figure 13: Change in ROA for Selected Sectors (1994-96: 1997)**

- Average
- Building & Furnishing Materials
- Communication
- Electrical products & computer
- Household Goods
- Pharmaceutical Products
- Property Development
- Pulp & Paper
- Textiles & Clothing

Source: Based on SET data.
Source: Abonyi (1999)

**Figure 9: Change in Debt:Equity Ratio for Selected Sectors (1994-96: 1997)**

- Average
- Building & Furnishing Materials
- Chemicals
- Communication
- Electrical products & computer
- Health & Services
- Household Goods
- Pulp & Paper

Source: Based on SET data
Targeting Policy Reform in a Crisis: Agriculture Sector?

Should the agricultural sector be the focus of policy reform and policy-based lending by ADB in Thailand at this time (1998)?

- What factors should be considered in making this judgment?
  - By the Government
  - By ADB
- Thai economic context (from part A) Crisis
  - Characteristics
  - Impact
  - Expected evolution (in 1998)*
### GDP Growth Projections for 1998 in the IMF LOIs

<table>
<thead>
<tr>
<th>IMF Letter of Intent (#)</th>
<th>Date</th>
<th>1998 Growth Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOI #1</td>
<td>14 August 1997</td>
<td>+6.5%</td>
</tr>
<tr>
<td>LOI #2</td>
<td>25 November 1997</td>
<td>0-1%</td>
</tr>
<tr>
<td>LOI #3</td>
<td>24 February 1998</td>
<td>-3 to -3.5%</td>
</tr>
<tr>
<td>LOI #4</td>
<td>26 May 1998</td>
<td>-4 to -5.5%</td>
</tr>
<tr>
<td>LOI #5</td>
<td>25 August 1998</td>
<td>-7%</td>
</tr>
<tr>
<td>LOI #6</td>
<td>01 December 1998</td>
<td>-7 to -8%</td>
</tr>
</tbody>
</table>

[1] Various IMF LOIs, see also Flatters (1999)
Pathways of Financial and Economic Crisis to Social Impacts

**Initial Causes**

- Local Currency (Baht) Depreciation
- Unviable Corporate Balance Sheets
- Rising costs of tradable inputs
- Falling Output
- Falling Demand for Labor
- Falling Gov't Revenue
- Capital Flight
- Credit Crunch
- Other Currencies Depreciation
- Increasing Export Competition and Falling Export Demand

**Impacts on People / Families**

- Higher food prices / Costs of living
- Lower Wages or Rising Unemployment / Poverty
- Lower Budgets for a number of Social Programs

**Source:** From Sussangkarn, C. Flatters, F. and Kittiprapas, S (1999).

**Note:** Adjust from Stamvalla and Sepchokchat (1998).
Agricultural sector’s likely relative contribution:

- Responding to crisis
- Transition to restoring sustainable growth

‘Political economy’ of agriculture as focus of reform and PBL

- At this particular time
- Politics of agriculture sector
- Can we ‘infer’ anything about this
ADB’s institutional capacity
  • In country
  • In sector

  ➔ *Is ASPL likely to be (most) effective contribution to*
  • *Crisis response*
  • *Restoring longer term performance*
  • *Addressing key/critical related issues*

*Other options—beyond agriculture?*
  • On what basis do you decide where to focus
    ➢ As the Royal Thai Government
    ➢ As the ADB
  • How to compare
Skirmish on the Front Lines of Agricultural Reform

Is ASPL likely to be effective in supporting policy reform in agricultural sector?

- Relevant
- Address right issues at this time
- Feasible
- Implementable in this particular setting
Skirmish on the Front Lines of Agricultural Reform

General impression of policy matrix

- As ‘reform agenda’
  - Scope
  - Focus
  - Timetable
Stakeholder consultations

- Significant attention, resources
  - Yet strong critical opposition emerged after ASPL finalized
    - Why?

Context for stakeholder consultations
Design Process

Breakdown of negotiations between MOAC and ADB (over reform timetable)

- WHY?

Resolution: MOF instructed MOAC to reach agreement with ADB

- Implications for policy reform process?

Where is Royal Irrigation Dept. (RID) in the process? Where should it be?
Design Process

When, where and by whom is the policy reform program (reforms in ASPL policy matrix) ‘endorsed’ in the policy process?

- “Binding commitment” to implement
- Commitment of ‘line agencies’ to implement
- Allocation of required resources
1. Water

1.1 Unified Water Management System
- E.g. “...reforming the...legal instrument”
- What does this mean
  - Implications?

1.3 Water Services Delivery
- “MOAC to (i) develop, in consultation with stakeholders, systems, procedures, a phased program for cost recovery in public irrigation schemes”
  - What does this mean?*
  - Why the fuss???
Institutional Example

How many actions involve fundamentally new activities by existing institutions

• Examples
  ✓ Implications

How many actions involve creating new institutions

• Examples
  ✓ Implications

How many actions involve directly or indirectly more than one institution/organization

• Examples
  ✓ Implications
End of a Program Loan

Why did Thailand cancel the ASPL?

- Does it matter?

Should the reform program/ASPL have been modified?

- Strong public opposition
- Problems of implementation
  - Could it have been modified?
    - Implications?
End of a Program Loan

Was ‘The Government’ committed to the policy reforms in the ASPL?
  • How can we tell

Was this Crisis an Opportunity?

Was the ASPL a success?
  • How can we tell?

What could have been done differently (by Government, ADB), under given conditions, to make the policy reform process more effective?
Back Where We Started: The ASPL Reconsidered

How did the ASPL get on the policy agenda
How was the policy “issue” defined (e.g. boundaries)
What was the result of the programme design process
  • Reform strategy
  • Programme structure/key characteristics
Was Government commitment in place
  • Did it stay in place
Implementation
  • How and what resources were allocated to PBL
  • What institutions/organizations were involved
  • Was there sufficient institutional capacity to implement
Sustainability
  • “did it last – beyond the Crisis?”

Role of politics and institutions at each stage