Policy Reform in Thailand and the Asian Development Bank's Agricultural Sector Program Loan

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POLITICAL ECONOMY OF REFORM: CASE STUDIES OF ASIAN DEVELOPMENT BANK-SUPPORTED POLICY-BASED LENDING OPERATIONS

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LIST OF ABBREVIATIONS

ADB  Asian Development Bank
ALRO  Agricultural Land Reform Office
ASPL  Agricultural Sector Program Loan
BAAC  Bank for Agriculture and Agricultural Cooperatives
BOT  Bank of Thailand
CBOs  community-based organizations
CUSRI  Chulalongkorn University Social Research Institute
DCP  Department of Cooperative Promotion
DFID  Department for International Development
DLD  Department of Land Development
DOAE  Department of Agricultural Extension
GDP  gross domestic product
GSB  Government Savings Bank
IFI  international financial institutions
IMF  International Monetary Fund
LOI  Letter of Intent
MOAC  Ministry of Agriculture and Cooperatives
MOC  Ministry of Commerce
MOF  Ministry of Finance
NAPSIN  National Agriculture Products Standard Institute
NAREBI  Natural Resources and Biodiversity Institute
NESDB  National Economic and Social Development Board
NGOs  nongovernment organizations
OAE  Office of Agricultural Economics
OWNRC  Office of the National Water Resources Committee
OPS  Office of the Permanent Secretary
OCSC  Office of the Civil Service Commission
RFD  Royal Forest Department
RID  Royal Irrigation Department
TA  Technical Assistance
TAOs  Tambon Administrative Organizations
ABSTRACT

This paper presents a case study of the Asian Development Bank's Agricultural Sector Program Loan (ASPL) that was aimed at supporting fundamental reforms in Thailand's agricultural sector, and was initiated in 1998 in the midst of the Asian crisis. The case study examines the context of the policy reforms, the design of the Program, implementation of selected reforms, and sustainability of the reform process, particularly given the change in government during program implementation. The purpose is to draw lessons that can assist in the more effective preparation and implementation of such reforms, and in particular, in the design of policy-based lending. In order to help structure the case study, a framework is introduced for the analysis of the political economy dimension of policy reform. This framework is proposed as a useful general tool both for the ex post understanding the political economy dimension of policy reform (as in the case of the ASPL), as well as an analytic tool for assisting in the ex ante design of specific policy reform programs and related policy-based lending.
FOREWORD TO THE CASE STUDIES

Research Strategy

This research focuses on exploring the political economy dimension of policy reform. The research strategy involves developing a set of comprehensive case studies of policy-based lending programs supported by the Asian Development Bank (ADB) in three countries: Indonesia, Thailand, and Viet Nam. This paper focuses on Thailand.

The case studies were designed to present detailed stories about the policy reform process, focusing on the political economy dimension of reforms. The aim of each case study is to provide not only an account of a particular ADB program, but more important, to place it in the specific—and evolving—reform context in which the program was formulated and implemented, describing the policy process involved. Since the context is so crucial with respect to policy reform initiatives, the case studies provide narratives on local conditions and historical circumstances. The focus of the cases is on the interplay between ADB’s program and the surrounding environment, with particular emphasis on the policy reform process, and its political economy dimension. The basic purpose of the case studies is to find out why and how things happened, so that this knowledge can be used to better understand the policy reform process, in particular the role of political economy factors; and more specifically, to assist in the future planning and implementation of programs supporting policy reforms.

The general preparation for the case studies has involved an extensive literature review focusing on policy reform and on the policy/reform process, with particular emphasis on the political and institutional dimensions. Examples of the literature reviewed include Grindle (2001), Grindle and Thomas (1991), Drazen (2000), Brinkerhoff and Crosby (2002), Haggard and Kaufman (1992), and Bates and Krueger (1993); and of particular relevance to Thailand, work by Doner and Ramsay (2004 and 2005), as well as a variety of case studies of policy reforms in different settings. A

“In order to learn how men will act in a given situation, or how a change in the situation will modify their behavior, it is surely more practical to observe their behavior than to attempt to discover by introspection or otherwise what they might be supposed to do if actuated by a certain motive operating alone.... Of much greater importance to the economist than any “pure” theory are the knowledge and understanding of the concrete facts of production, distribution, consumption, of the whole economic situation with all its causal processes. To most of this material the processes of specific observation, systematization, and inductive inference are applicable. To much of it, particularly in its dynamic processes, or processes of change, no other method is of any service.”

Jacob Viner (1917)
second part of the preparation for the conduct of case studies involved the development of a framework for understanding/representing the political economy dimension of policy reform. A preliminary framework, drawing on both literature review and in-depth examination of a variety of cases/examples in diverse settings, is presented in Abonyi (2002). The preliminary framework discussed in that paper was further refined prior to the case studies, including through training workshops; and is then tested through application to this set of case studies.

The Case Study

Case studies have been an accepted part of research and teaching in a wide range of disciplines, including law, medicine, management, as well as public administration and public policy. There is an extensive and growing literature focusing on the case study method (e.g., Yin 1994, Flyvbjer 2004, Helper 2000, Odell 2001); as well as many cases and related research manuals prepared in top management and public administration/public policy schools. However, the use of the case study is relatively rare in economics as a research strategy. The issues raised in the earlier quote from Viner (1917) are equally relevant today, and as Helper (2000) notes:

“Modern economics began with Adam Smith’s visit to a pin factory, which helped him explain how the division of labour worked.... However, not many economists today do much fieldwork, which involves interviews with economic actors and visits to places they live and work.”

What counts as a case can be as flexible as the researcher’s definition of the subject. In general, a case from a research perspective refers to a single instance of an event or phenomenon, such as a decision to devalue a currency, a trade negotiation, or in the particular instance here, a specific policy-based lending program of ADB involving a set of reform measures.

A comprehensive case study can make an important contribution to the understanding of a complex issue such as policy reform. It allows for concrete, context-dependent learning and presentation of a detailed and nuanced view of the world that approximates the complexities and contradictions of the reality of the reform process. Case studies complement other types of economic research such as theoretical, mathematical, statistical, and econometric inquiry. In general, the benefits of case studies include the following:

(i) A case study conveys a much fuller understanding of the particular concrete event and behavior studied—including richer evidence and reasoning about process and context than is possible through more abstract methods.

(ii) Complex processes may be most effectively documented through case studies. The world of economics is marked by significant processes such as market evolution, competition, bargaining, institutional change, regional integration, and policy reform.

(iii) Institutional and structural change can perhaps best be understood through case studies. For example, reforms involving introduction of market-based mechanisms into once centrally managed economies involve changes in institutions over time. Documenting such changes is the first step toward deeper analysis and generalization.

Preparing comprehensive case studies takes a great deal of time and effort. It requires going into extensive details on the event and its context in order to construct the “narrative” that captures the complexity and nuances of the real life situation. In particular, preparation of the case studies presented here has involved the following steps:
(i) review of key documents related to the “event”, i.e., the ADB program, including relevant ADB documents, accessible documents of other international financial institutions (IFIs) namely International Monetary Fund and World Bank, and to the extent available, documents of the Government of Thailand

(ii) review of literature, analysis, and data on the specific policy reform context, in this case, related to Thailand’s economy, agricultural sector, public administration system, nature and impact of the Asian crisis, and policy reform process

(iii) extensive interviews with key participants, including government officials involved with the policy reform process in general, and in particular those involved with the design, negotiation, and implementation of the specific ADB program; ADB staff and management; and staff of other relevant international financial institutions

(iv) application of the analytic framework to structure the information, in the process testing/refining the framework through the cases.

In summary, the case studies here are intended to generate (i) individual detailed stories or analyses that provide information about the policy reform process in a particular setting; (ii) a set of stories/analyses that can provide the basis for generalizations about policy reform; and (iii) a framework that has been tested and refined through application, and that may be used to guide future analysis, including for a better understanding of experience (ex post assessment) and in the design of more effective programs to support policy reform (ex ante analysis).

I. INTRODUCTION

A. Prologue

On 2 May 2002 the $300 million Agricultural Sector Program Loan (ASPL) provided by the Asian Development Bank (ADB) to support Thailand’s policy reforms in the agriculture sector was cancelled prematurely at the request of the Royal Thai Government. The official reason given was to reduce Thailand’s external public debt. At the time of the closing of the loan, $150 million, or half of the loan amount remained undisbursed.

It was an eventful ride. Initiated in 1998 in the midst of the Asian crisis, the ASPL saw along the way dramatic public demonstrations against the government and ADB because of strong opposition to the ASPL reform agenda; basic differences between key government ministries and departments over the approach to reform in the ASPL; and temporary stalling of negotiations between the Ministry of Agriculture and Cooperatives (MOAC) and ADB over fundamental differences with respect to the reform program embodied in the ASPL policy matrix. A newly elected government had also taken power in January 2001 with strong support in rural Thailand and a populist agenda critical of the reform program led by the International Monetary Fund (IMF) to address the crisis in Thailand, of which the ASPL was one part.

Yet, the ASPL provided an important infusion of needed external financing to Thailand at a time of deep economic crisis. Furthermore, there were significant steps taken toward agricultural reform and rural development, partly as a result of the program of action embodied in the ASPL.
Still, at the closing of the loan, many planned reforms in the policy matrix remained just that for the foreseeable future.

This paper presents a case study of the ASPL to draw lessons that can assist in the more effective preparation and implementation of such reforms, in particular, policy-based lending. In order to help structure the case study, a framework is introduced for the analysis of the political economy dimension of policy reform. This framework is proposed as a useful tool both for the ex post understanding the political economy dimension of policy reform (as in the case of the ASPL), as well as an analytic tool for assisting in the ex ante design of specific policy reform programs and related policy-based lending.

B. Policy Reform: Political Economy Perspective

Policy reforms and policy-based lending by external donors supporting reforms, such as the ASPL, are often not implemented as planned, or may lead to unexpected and at times undesirable consequences. Moreover, they may be surrounded by controversy; their role and effectiveness questioned by the very people and communities that are the intended beneficiaries of proposed reforms.

There is a tendency to group such difficulties with policy reform and policy-based lending under the all-purpose label of “implementation problems.” The implication is that the design of particular reforms is generally fine; it is the messy implementation that throws good ideas off track. Laments are often heard that all would be well if it were not for “political games”, “institutional weaknesses”, or “wavering government commitment.” Indeed, the complexities of policy reform such as stakeholder resistance and institutional constraints often become most pronounced during implementation, as the likely consequences of specific reform initiatives, including threats to particular interests, become increasingly clearer.

The message of the ASPL case is that the above perspective is misleading. Recurring problems associated with policy reform and policy-based lending go beyond difficulties of implementation: they arise because of basic attributes of the policy environment. Political “games”, institutional constraints, and uncertainties in government commitment are the usual characteristics of policy reform. This is because such reform is fundamentally not a technical exercise in “optimal policy design”, but a complicated, long-term, and uncertain process of societal change: in incentives, behaviors, institutions, relationships, and power alignments.

In this process, “political economy” factors play a critical role in shaping policy reform, and therefore in conditioning the effectiveness policy-based lending (for detailed discussion of this issue see Abonyi 2002). At the most general level, “political economy” refers to the interrelationship between political and economic processes and institutions, particularly as related to policy decisions and reforms. A “political economy” perspective signals the central role of politics

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1 An accompanying teaching case has also been prepared in Abonyi (2004).
2 For a more detailed discussion of policy reform as a process of change see Abonyi (2002).
and institutions in the policy reform process. Policy reform involves politics, because it requires making collective choices in an environment characterized by conflicting perceptions and interests, with no simple unifying incentive scheme for resolving such differences.\(^3\) Policy reform also takes place in a world of institutions that condition the initiation, design, and implementation and sustainability of such reforms.\(^4\)

The role that politics and institutions play in policy reform and associated programs like the ASPL is related to how such policies and programs are shaped as they move through the various stages of the policy reform process. This process conditions policy reform in terms of both what it is (i.e., proposed actions), and what it does (i.e., outcome and impact of reform initiatives), as reflected in the case of the ASPL, the primary vehicle for policy reform in the agriculture sector in Thailand. The stages of the policy reform process, which in practice tend to be more iterative than sequential and not particularly well defined, include the following:\(^5\)

(i) **Initiating reform**: How did agriculture sector reform get on the policy agenda as a priority, especially in the midst of a deep economic crisis when many other issues were competing for limited policy attention and resources?

(ii) **Managing the complexity of policy issues**: Policy issues are complex; and therefore the design of the ASPL program, in particular the policy matrix, is a way of reducing this complexity so that policymakers and implementing agencies can act on such issues.

(iii) **Endorsing reform**: Reforms need to be legitimized—endorsed or approved—through a process of policy-related decision making. But on closer examination of the ASPL case it is not clear when and where in the policy reform process such decisions are actually made in a way the signals the government’s binding commitment to reforms.

(iv) **Implementation**: Implementing agricultural policy reform in Thailand involves the implementation of the ASPL. However, a review of the ASPL reform initiatives illustrates that the meaning of “implementation” may not be unambiguously clear in a world of politics and institutions.

(v) **Sustaining reform**: Policy reform involves a long-term process of change. The premature cancellation of the ASPL by the new government illustrates the “political economy” risks to the sustainability of both the basic reform strategy and core reform measures—yet it does so in the context of a government whose policy agenda continues to target rural development.

The stages of the policy reform process, their relationship to the role of politics and institutions in policy reform, and how these core political economy factors constitute key sources of uncertainty and risk in reform (e.g., in government commitment) together comprise a conceptual

\(^3\) This is consistent with Drazen (2000); see also Abonyi (1986).

\(^4\) For a discussion of the role of institutions in policy reform see Rodrik (2003). At the micro level, reform is implemented by institutions and involves organizational change. The management literature is suggestive here; see for example Smith (2002).

\(^5\) This draws on Grindle and Thomas (1991).
framework for assessing the political economy dimension of reform.\textsuperscript{6} The framework is summarized in Figure 1, and serves as the organizing framework for analysis of the ASPL case. It is proposed as generally applicable to a wide variety of reforms in diverse settings: providing a useful framework for the analysis of particular cases of policy reform such as the ASPL. However, the application of the framework—both as an \textit{ex post} tool for understanding the political economy dimension of policy reform, and as an \textit{ex ante} analytic tool to assist in the design of specific policy reform programs and related policy-based lending—must proceed from a detailed and comprehensive understanding of the \textit{specific context} of policy reform programs. For example, analysis of the ASPL case must begin with an understanding—and therefore an extended discussion—of the evolution of Thailand’s agricultural sector, and the nature and role of the financial crisis in Thailand: this defines the context that shapes the evolution of the ASPL.

The rest of this paper is structured as follows. The next section (II) discusses the context of the ASPL. It begins with an overview of the agriculture sector in the Thai economy, followed by a brief introduction to the economic crisis that provides the setting and the “trigger event” for the ASPL. Section III discusses the ASPL in terms of the key stages of the policy reform process: initiating reform or getting issues on the policy agenda; making complex policy issues manageable through program design; endorsing reform via the policy decision process; implementation aimed at implanting reforms; and sustaining reforms, including sustaining the overall reform strategy and core reform initiatives. Although political economy factors condition reforms throughout the policy reform process, as noted, it is often at the implementation stage that the role of these factors becomes most pronounced. Therefore building on the overview of ASPL implementation given in Section III, a more extensive and systematic discussion of the nature and role of politics and institutions in policy reform, as reflected in the ASPL case, is presented in Section IV, including their implications for “government commitment” with respect to policy-based lending. The final section (V) summarizes key lessons learned from the case, and makes some general observations about the implications for policy-based lending and associated conditionalities.

In sum, it is politics and institutions that are the key source of recurring complications—of uncertainty and risk—in policy reform and policy-based lending. Therefore a better awareness of the role of these political economy factors, within the framework of the policy reform process, may help reduce the gap between the planned and actual outcomes of reforms. The specific purpose of this case study is then to contribute to a better appreciation of the political economy factors in the policy reform process. Hopefully this will lead to a better appreciation of the likely risks and uncertainties of reform programs and associated policy-based lending, which in turn will strengthen their design and implementation. Ultimately, the aim is to contribute to more effective policy reforms.\textsuperscript{7}

\textsuperscript{6} The framework draws on a range of developments in the literature, particularly Grindle and Thomas (1991), as well as Haggard and Kaufman (1992), Brinkerhoff and Crosby (2002), Drazen (2002), and Abonyi (1986).

\textsuperscript{7} “Effective” refers here to reforms that are both relevant and feasible; see Abonyi (2002).
II. SETTING THE STAGE FOR POLICY REFORM

A. Background: Agriculture Sector in the Thai Economy

1. Agriculture in Transition

Prior to 1980 agriculture was the primary engine of Thai economic growth. During the period 1950s-1970s surplus land and demand for food exports encouraged a wave of diversification out of rice and rubber. Farmers expanded production of upland field crops through extensification,

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8 This section was prepared with the research assistance of Anthony M. Zola, Senior Researcher, Mekong Environment and Resources Institute (see Zola 2004).
facilitated by large-scale public investments in infrastructure, including roads and primary irrigation. Bringing into cultivation surplus land allowed Thai farmers to produce new commodities in new lands and significantly increase exports, reflecting Thailand’s comparative advantage in this sector. The strong growth in agricultural production during this period was also largely responsible for the continuous decline in the level of poverty in the countryside. However, by 1980, the main source of agricultural expansion, the plentiful supply of land, was beginning to disappear, as most of the available land had been cleared and occupied.9

Beyond the disappearance of surplus land, the rapid and sustained growth of manufacturing, particularly the transition to export-oriented industries, was a second key factor in the relative decline of the role of agriculture in the economy.10 Beginning in the mid-1980s nonagricultural exports increased rapidly, overtaking agricultural exports by 1988. This was accelerated by a severe worldwide agricultural depression in the 1980s that further shifted terms of trade against agriculture. From 1985 to 1995, although there was considerable product diversification in agriculture (see for example Appendix Table 2), the share of manufactured exports expanded significantly as the primary source of export growth. Between 1970 and 1997 the proportion between agricultural and nonagricultural exports became inverted, with agricultural products making up only 27% of total exports by 1997.

As Thailand’s industrial boom took off, agricultural wages went up considerably, with relative prices of agricultural products declining under the pressure of a broader transformation of the Thai economy. Wage pressures and falling relative agricultural prices squeezed farm profits and discouraged investment in the sector. This, in turn, reduced the agricultural growth rate relative to rates of growth in the rest of the economy—providing a setting for increased labor migration off the land, and thus for a contraction of planted area. The outflow of labor also set the stage for increasing agricultural mechanization, which in turn further diminished employment opportunities in agriculture. Yet although declining in relative share of employment, agriculture continued to be the dominant source of jobs in the economy (see Appendix Table 3).

Therefore as the Thai economy grew, the role of the agriculture sector shrank: from 36.1% of GDP in 1961-1965, to 11.9% in 1991-1996, stabilizing at 10.6% in 1997 and 1998. Similarly, growth in the agriculture sector decreased from an average annual rate of 5.7% in 1960-1970, to an average of 0.3% in 1991-1996. This was in marked contrast to other sectors of the Thai economy that grew significantly during the same period (see Appendix Table 4). Agriculture was a shrinking source of income and growth by 1997.

Thailand’s rapid economic growth was accompanied by significant reductions in absolute poverty. Since most of this poverty is rural—much of it concentrated in the poorest region of Thailand, the Northeast—the ups and downs of agriculture had a major impact on the level of poverty in the country. From 1962 to 1992 the percent of the population living below the poverty line declined from 57 to 23.2%, declining further to 11.4% by 1996 (NESDB, various years). However,

9 It should be noted, however, value added in agriculture continued to grow at a remarkable 4.0% during the 1980s, and slowdown (to 2.4%) began only in 1989. See Siamwalla (1996).
10 This is known in economic literature as the Dutch Disease Hypothesis. See for example Siamwalla (1996).
this impressive trend hides an important exception that influenced perceptions of the role of the agriculture sector by policymakers. Thailand experienced a significant economic slowdown in the early 1980s, when poverty incidence actually increased. However, the 1980s slowdown was accompanied by a reduction in net rural-urban migration, indicating that traditionally, when times were hard, Thais fell back on agriculture as a source of income and jobs. Therefore in the 1980s agriculture was an important component of the economy’s safety net for the poor. However, given the structural transformation of the Thai economy, it is not clear if this was still the case in the second half of the 1990s.

2. Key Policy Challenges

Given the predominantly rural nature of Thailand’s population, agriculture remained an important sector in the Thai socioeconomy (and politics), and the focus of policy attention. Key challenges facing the sector in 1997/1998 included the following:

(i) **Discrimination in resource allocation prior to the crisis**: To facilitate the expansion of the industrial and manufacturing sectors, public investment in infrastructure (transportation, communications) was given highest priority. As a result, public investment in agriculture was relatively low, around US$1.77 billion in 1994, or around 8 percent of the Thai budget; remaining at approximately the same share of the budget in 2000 (Government Spokesmen Bureau, various years). Similarly, foreign direct investment in agriculture, already very low before the crisis, was negligible. The agriculture sector therefore had been left to fend for itself. Poor and marginal farmers, those with poor quality soils and degraded land, and those who were unable to participate in commercially oriented contract farming arrangements were in the most difficult and vulnerable position.

(ii) **Commercialization of Thai agriculture**: The Thai agriculture sector by 1997 was increasingly commercialized, dominated by large firms. Yet yields and productivity continued to be among the lowest in Asia—in an environment of stagnant agricultural commodity prices. At the same time, with the completion of the General Agreement on Tariffs and Trade and the emergence of the World Trade Organization, Thailand as a major agriculture producer and exporter was finding itself in an increasingly complex international trade environment. Within the government, the Ministry of Commerce (MOC) took the lead on issues of international trade, while the MOAC had limited capacity and experience in this increasingly important area. In the late 1990s the MOAC officials were “learning on the job” about Thailand’s obligations, trying to understand an ever more complex and formal international trading system, and to identify mechanisms to manage Thailand’s required transition with respect to a variety of issues.

(iii) **Degraded state of natural resources**: The problems facing Thailand’s natural resources were linked to the pattern of agricultural development, and encompassed forests, watersheds, coastal areas, fisheries, and the quality of water resources. For example, as Thailand’s forests were logged following World War II, forest workers, farmers from the densely populated rice plains, followed by agribusiness companies, moved into the cleared land. There were limited efforts to enforce forestry and other resource administration laws during the years of rapid growth, or to address the resulting social
and economic problems. For example, forest policy was oriented toward production forestry, even in light of a logging ban decreed in 1989 following serious flooding and landslides in southern Thailand. However, the majority of Thai farmers were relatively poor, small-scale farmers, with a high rate of indebtedness to middlemen, and increasingly to cooperatives and agribusinesses. The environment/rural poverty nexus was a key theme for the increasingly influential and vocal NGO community in Thailand.

(iv) Shift to sustainable agricultural development: Thailand’s natural resource base had been severely degraded during sustained—but relatively unmanaged—rapid growth. Deforestation, overuse of agricultural chemicals, and mismanagement of forest and water resources had left rural Thailand in a difficult state. In response to the deteriorated state of agriculture, the Eighth National Economic and Social Development Plan 1997-2001 (Eighth Plan) assigned MOAC the tasks of implementing the concept of “sustainable agricultural development.” However, the Plan provided few specifics; and the services to farmers provided by the Department of Agricultural Extension were historically geared to conventional farming methods and associated inputs.

(v) Land tenure and land reform: The basic resource for agricultural production is land (along with water). Many studies beginning in the 1970s undertaken by international donors such as the World Bank, have shown that farmers would invest in their lands and exercise good stewardship if they had clear title to land they were tilling. The land reform process under the Agricultural Land Reform Office (ALRO) established in 1975 was implemented slowly, and in collaboration with the Royal Forestry Department (RFD) that was to handle the legal process of “degazetting” national forest reserve lands, withdrawing them from the forestry sector. While progress was made in lowland areas,11 property rights remained poorly defined in the highlands. The challenge of land reform, including granting title to occupants of state land, was then an important but complex and highly charged issue confronting policymakers.

(vi) Credit and cooperatives: Approximately 4.3 million of Thailand’s 35 million farmers were members of an estimated 3,097 agricultural cooperatives, and around 4,000 registered agricultural groups. Services offered varied in quality. In general, members had not been successful in organizing collective marketing, a key constraint facing farmers throughout the country. Formal credit—for example for production, postharvest handling, and processing—was channeled through both agricultural cooperatives and the Bank for Agriculture and Agricultural Cooperatives. However, many farmers complained of conditions attached to the credit, and were heavily in debt. Poor farmers were thus caught in the squeeze of, on one hand, inadequate access to institutional credit; and on the other hand, incurring excessive debt, often from “informal” sources.

(vii) Agricultural subsidies: The government subsidized agricultural inputs and employment during the “boom” years of the 1980s-1990s to dampen the negative impacts of the rapid economic growth on agricultural production, land use, and the rate of mechanization. This included a government role in the procurement and distribution

11 Supported by a World Bank funded program, the Accelerated Land Titling Project (1985-2005). See World Bank (2003a.)
of agricultural production inputs (seeds, fertilizers, pesticides); intervention in commodity markets (through the Marketing Organization for Farmers and other state enterprises); and provision of free water for irrigated agriculture.

(viii) Water as a scarce resource: Historically, water, perhaps even more than land, has been the defining element of Thailand’s rice-based socioeconomic. This was reflected in the allocation of 60 percent of MOAC’s budget to the Royal Irrigation Department (RID) for the construction and maintenance of irrigation projects. However, it was becoming recognized that water was an increasingly scarce resource. The second half of the 20th century witnessed a dramatic growth in population, rapid urbanization, expansion of cultivated land, and significant increase in irrigated areas. The result was growing competition for water, less water available for irrigated agriculture in water-scarce regions, and recurrent water shortages in the dry season—affecting not only rice cultivation, but also prompting restrictions in urban supply (as happened in 1994). There was a growing feeling that demographic and economic changes made it no longer viable to allow free and unconstrained access to water. Thailand was transformed, in the words of a former respected Minister of Agriculture, Khun Kosit Panpiemras, now Executive Chairman, Bangkok Bank, “from a water rich to a water poor country.” Therefore the challenge facing Thailand was to develop an effective approach to managing water as a “collective resource” in a more complex world, consistent with both basic efficiency and equity standards.

(ix) Institutional reform and political change: The general institutional and political environment of the agriculture sector was also undergoing important changes. Thailand’s 1997 Constitution resulted in a period of transition, when the historically powerful role of the central government was being redefined. Under the new constitution, and reflected in the Eighth Plan, Thailand’s traditionally centralized “top-down” approach to development was being transformed into a more pluralistic and multilevel system. A new era seemed to be emerging, where farmers, communities, and local governments had been given a mandate to play a greater role. This led to significant institutional confusion, uncertainty, and tension about the role of Bangkok-based, historically powerful line agencies such as the Royal Irrigation Department (RID), provincial agricultural offices, and more generally, the role of MOAC itself. Images on television of senior government officials grilled by farmers in open hearings signalled a new world—but one whose shape was still forming.

B. Context: Thai Economy in Crisis

The economic crisis (“crisis”) was a watershed in Thai economic history. Thailand had not experienced declines in real per capita GDP since the 1950s. In fact in the two decades prior to the crisis, the Thai economy had been one of the best performing economies in the world,
characterized by sustained high growth rates, averaging 10.3% during 1985-1990, and 8% in the years prior to the crisis (1990-1996). It was growth driven by exports, especially industrial exports that grew at 24.8% in 1995, using effectively Thailand’s low-cost labor advantage. In general, exports accounted for well over 40% of GDP, growing at double-digit rates—at least until they hit the wall and contracted slightly in 1996. This growth was accompanied by relatively low inflation, an accumulation of foreign reserves, and by a dramatic decline in the incidence of absolute poverty, from 57% in 1962 to 14% in 1992, with per capita income increasing from $700 per annum in the late 1960s to $2,700 in 1996 (NESDB, various years). At the same time, rapid growth was accompanied by environmental degradation, resource depletion, and an increasingly unequal distribution of income and wealth. However, on balance, it was a remarkable record of development.

Thailand’s rapid and sustained growth, however, was also characterized by a savings–investment gap that had widened since the late 1980s, reaching 8.7% of GDP in 1995, continuing around 8% in 1996, and promising little improvement in 1997. This widening savings–investment gap had been financed by foreign savings, which in turn required the Bank of Thailand (BOT) to keep interest rates high in order to attract foreign capital inflows. However, increasing concerns about short-term capital inflows to finance the savings–investment gap led the government (BOT) in 1995 and 1996 to introduce measures both to stimulate domestic savings, and to discourage the inflow of short-term capital. The flip side of the current account deficit was very large capital account surpluses, leading to an accumulation of foreign reserves estimated at close to $40 billion at the end of 1996.

In mid-1997 it was the baht-dollar exchange rate that was of most immediate concern. The baht had been pegged to a basket of currencies since 1984, but given its weight in the basket, it was a de facto US dollar (US$) peg, maintained by the BOT at around 25 baht to the dollar. In the first half of 1997 there was speculation as to whether the baht was overvalued, for example in light of the large current account deficit; because Thailand’s inflation rate was twice that of the United States; and because appreciation of the US$ after 1995 was driving up the baht and reducing the competitiveness of Thai exports. However, the BOT had continued to maintain the peg into the first half of 1997. As export growth failed to pick up and the current account deficit continued to worsen, the baht came under increasing speculative pressure. The BOT responded by direct intervention in the foreign exchange market and open market sales in the repurchase market, leading to an outflow of reserves and driving up interbank rates.

What became known as the “Asian crisis” is deemed to have been triggered on 2 July 1997 when the BOT freed the Thai baht from the de facto US$ peg. By mid-July the baht fell to 30 to the dollar, reaching a low of 56 baht to the US dollar by January 1998, the time of the official request for the ASPL to ADB by the government.

The government had earlier turned to the IMF for assistance, and the first Letter of Intent (LOI) was signed on 14 August 1997. The primary aim of policies introduced under the IMF standby arrangement was to restore the stability of the baht, and create a balance of payments surplus by compressing domestic demand, and hence imports. This was achieved by significant fiscal tightening and suppression of credit creation. Starting at the beginning of 1998, Thailand’s balance of payments improved, foreign exchange reserves increased, and the baht strengthened and
stabilized at around 40 baht to the US$ later in the year. A second aim of the IMF program was structural adjustment, focused primarily on the financial sector. In this, the IMF was supported by the World Bank and the ADB.

In 1998, at the time of the initiation of the ASPL, although the IMF program had allowed for a more expansionary fiscal policy, there was little increase in credit creation. Risk-averse banks were not lending, and even otherwise healthy firms in the agriculture and export sectors were suffering from a worsening credit crunch. As firms reduced capital expenditures and operations, or closed down entirely, unemployment increased, disposable incomes shrunk, and consumption fell. The slump in domestic demand hurt the corporate sector further, raising bankruptcies and loan defaults. As the bad debt problem worsened, bank credit creation shrank further, worsening the credit crunch. In this environment, attempts to stimulate the economy via interest rate reductions remained ineffective, and corporate borrowing did not pick up.

The IMF advice and assistance notwithstanding, 1998 was not a good year for the Thai economy. In addition to the drastic decline of the baht, the economy contracted by over 10%, exports declined close to 7% contrary to expectations given a significantly depreciated baht, government revenues suffered, and unemployment increased (Abonyi 1999). The economy seemed locked in a downward spiral. The dynamics of the crisis and its social impact are depicted in Figure 2. To appreciate the unexpected nature of the suddenness and severity of the crisis, it is sobering to look at the growth projections for 1998 in various IMF letters of intent. This was then the immediate context for the initiation of the Agricultural Sector Program Loan. To appreciate the unexpected nature of the suddenness and severity of the crisis, it is sobering to look at the growth projections for 1998 in various IMF letters of intent provided in Table 1.

Table 1
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>1 December 1998</td>
<td>-7 to -8%</td>
</tr>
</tbody>
</table>

Sources: Various IMF LOIs; see also Flatters (1999).

13 For detailed discussion of exchange rate fluctuations during the crisis see Vimolsiri (2001).
Initial Causes

Local currency (baht) depreciation
→ Capital flight

Unviable corporate balance sheets
→ Credit crunch

Rising costs of tradable inputs
→ Falling output

Falling output
→ Falling demand for labor
→ Falling government revenue

Impacts on People / Families

Higher food prices / costs of living

Lower wages or rising unemployment / poverty

Lower budgets for a number of social programs

Note: Adjusted from Siamwalla and Sopchokchai (1998).
Source: Sussangkarn et al. (1999).
C. Summing Up

By 1997/1998 agriculture’s role as a source of income and growth in the Thai economy had been in relative decline over an extended period. Yet, it continued to play a key role as a source of employment in a country where the population was still predominantly rural. Agriculture was also in transition, becoming increasingly commercialized, mechanized, and diversified—and playing an important “feeder” role to industrial development, related in 1996 to as much as 25% of manufacturing activities, including such agriculture-based exports as frozen seafood, frozen poultry, fresh and processed fruit and vegetables, and beverages (ADB 1996, 1). Most important in the context of the crisis, based on historical experience, agriculture was looked to as a potential “shock absorber” or “safety net” for displaced urban migrant workers.

As a “lagging sector” in the context of rapid and sustained transformation of the Thai economy, agriculture and more broadly the rural sector faced a wide range of existing and emerging challenges. These included, among others, constraints on available technology, needed skills, knowledge, financing, environment and resource management, land ownership, and water; as well as new demands of a changing international trading environment. There were conflicting perceptions and interests with respect to sectoral and rural issues and their solutions. However, the responsible ministry, MOAC, was seen to have changed little over the years, with a significant perceived gap between its existing structure and operations, and the emerging demands of an agricultural sector in transition.

The broader institutional and political context of the agriculture sector was becoming characterized by growing pluralism, where civil society was playing an increasingly important and visible role in the political and policy process. This was the result of both a rural movement reacting to the decline of Thailand’s agrarian economy and increasing urban control of natural resources; and growing urban middle-class activism aimed at reforming Thailand’s institutions (see for example, Pasuk and Baker 1995). The centralized, Bangkok-based, “top down” government system was becoming increasingly decentralized, involving the devolution of powers to provincial and local governments and institutions. However, in 1998/1999 these political and institutional changes were still very much “a work in progress”, characterized by confusion, uncertainty, and tensions in an environment of continuing deep and sustained economic crisis.

III. EXPLAINING THE ODDS: POLICY REFORM PROCESS AND AGRICULTURAL SECTOR PROGRAM LOAN

A. Initiating Policy Reform: Getting on the Policy Agenda

1. “Crisis as a Window of Opportunity”

The structural problems and therefore the rationale for reform of the agriculture sector were clear. However, just because problems exist or are known to exist do not necessarily lead to

15 See Grindle and Thomas (1992) for a discussion of the concept of “policy agenda”, within the larger context of the policy process.
Policy responses (see for example Grindle 2001). Reforms are generally difficult and contentious; involving an extended, uncertain, and risky process of change in policies and institutions. Policy reforms usually involve visible and immediate (if perhaps short-term) costs for identifiable groups, “reform losers”, who have the incentive and often the means to mobilize to block or blunt proposed change. The expected benefits, on the other hand, are more often than not longer-term and therefore less certain and more diffuse, providing less of an incentive and opportunity for prospective “reform winners” to mobilize support for such reforms. Therefore policy reforms generally do not occur simply because they are a good idea—because evidence accumulates about perceived policy problems, or about the expected benefits of change.

Reform generally requires deliberate actions on the part of political decision makers to initiate change: to place problems and associated reforms on the policy agenda. These actions may be the result of domestic pressures, e.g., from a coalition of sufficiently powerful pro-reform interests; or involve a “push” from external agents with sufficient leverage, e.g., international financial institutions (IFIs) such as the IMF, World Bank, or ADB. Given the uncertainties and risks associated with policy reforms as “systemic change”, and therefore a not unusual reluctance of political decision makers to undertake such change, crises are often seen as providing “windows of opportunity” for launching such reforms.

Policy reform in the agriculture sector through the ASPL, initiated at the height of the crisis, followed this pattern. Reforms of the government aimed at restructuring the agriculture sector were a direct consequence of the ASPL, which in turn, was part of ADB’s crisis operations in Thailand within the general framework of the IMF-led recovery program. There is no clear indication that there was a strong government priority or commitment related to fundamental reforms in the agriculture sector prior to the crisis, i.e., that such reforms were on the precrisis “policy agenda” and/or reflected in budget allocations. It is therefore reasonable to conclude that the crisis provided the “window of opportunity” for initiating a comprehensive program of reform of Thailand’s agriculture sector, and in particular, through the ASPL provided by ADB.

Two issues follow from the crisis-induced nature of the ASPL as the main vehicle for policy reform in the agriculture sector: (i) why the agriculture sector is now the focus of scarce policy attention and scarce financial resources in the midst of a deep financial/economic crisis; and (ii) to what extent agriculture sector reforms launched under such turbulent conditions are likely to be implemented successfully, and remain sustainable beyond the crisis. The focus in this section is on the first issue; the second issue of implementation and sustainability will be addressed later in Sections IIIIE-F.

16 Thailand’s Eighth Plan places considerable emphasis on rural development and resource management. However, although providing a framework for policy, the Plan does not have the role of policy and associated resource commitments. The Thai Cabinet approved in May 1998 a framework for restructuring the agriculture sector. However, this was subsequent to the January 1998 request to ADB for the ASPL.

17 It is useful to note that similarly, the ADB had not been involved in the agriculture sector in Thailand for an extended period prior to the crisis.
2. Agriculture Sector as Focus of Policy Reform

The rationale for focusing on policy reform in the agriculture sector at the height of the economic crisis may be attributed to the following: (i) the perceived role of agriculture as “shock absorber” for crisis-induced social dislocation; (ii) an emphasis on strengthening agriculture to provide support for the transition from crisis recovery to sustained growth; and (iii) the politics of the broader reform process. These issues were to varying degrees in the background as the Royal Thai Government began discussions with ADB regarding an agricultural program loan as part of ADB’s crisis operations in Thailand.

(i) Agriculture as “shock absorber”: Among the most pressing issues confronting policymakers following the onset of the crisis was the perceived need to absorb urban unemployed expected to return to rural areas. With unemployment reaching 2.8 million in early 1998 (NESDB 1999) and mounting evidence of the weakening of informal safety nets based on transfers within families (see for example the New York Times 1998, 1), the human costs of adjustment were becoming of urgent concern—with potential implications for the agricultural sector, the traditional refuge of displaced Thai workers. This was especially important given the severe budgetary constraints on social programs. However, senior officials at MOAC were aware that agriculture had become more mechanized and commercialized; and that the sector had suffered from discrimination in resource allocation, leaving public investments lagging. Therefore a critical question at the time of the crisis was whether the rapid agricultural mechanization that accompanied the nonagricultural investment boom had diminished the capacity of the sector to absorb labor in the late 1990s. That is, the need for unskilled labour in rural areas may have disappeared or diminished significantly by 1997/1998, constraining the potential of agriculture to play the role of “shock absorber” in the crisis. Furthermore, the relationship is not clear between key reforms at the core of the ASPL requiring an extended time horizon for implementation, as discussed later, and the immediate crisis-related needs of the “agriculture sector as shock absorber”.

(ii) Agriculture as future source of income and growth: The primary rationale for focusing on agriculture, as reflected in the ASPL document (ADB 1999b) emphasized the longer-term role of the sector in helping to provide the necessary foundations for sustained and equitable growth beyond the crisis. This was a key policy concern, since the rapid decline in the importance of agriculture had not yet been matched by a corresponding decline in the sector’s share of employment. In 1997/1998 Thailand remained a country with a very high proportion of its population living in rural areas, with continuing dependence on agriculture. The assumption of an important long-term role for a strengthened agriculture sector in Thailand’s future economic growth was central to the ASPL. However, given the sector’s diminished role by 1997/1998 within the structural transformation of the Thai economy, it was not clear to what extent and

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18 Later studies were to show that the level of migration was less than anticipated at the time of the crisis.
19 See Appendix Table 1 for the ASPL policy matrix.
under what conditions agriculture could play a significant role as a source of income, employment, and growth over the long run.  

(iii) Politics of agriculture and the policy agenda: The predominantly rural nature of Thailand’s population was also reflected in the composition of the Thai parliament, where rural MPs constitute an overwhelming majority. Therefore a further (if implicit) rationale for the selection of agriculture as a focus of policy reform via an ADB program loan may be attributed to a perception by Thai political decision makers that the government should be seen as visibly addressing problems of the rural population in a time of crisis. This was particularly relevant in an environment where the crisis was seen as originating in the Bangkok-based financial sector, while having significant direct impact on migrant workers and the rural population. Furthermore, the IMF program-related loans (from the IMF, World Bank, and ADB) imposed a burden of repayment on Thai society as a whole, giving rise to a perception that the population-at-large (mostly rural) was in effect, financing a “bail out” of the primarily Bangkok-based financial sector and its foreign creditors. Therefore a policy reform-related loan addressing rural issues, particularly agriculture, within the framework of the IMF-led program (through ADB’s crisis operations in Thailand) could be seen as a means to dampen potential criticism of the wider adjustment program. At the same time, reform-minded politicians and senior officials saw in the crisis a “window of opportunity” to undertake structural changes and reforms in the agriculture sector—beyond just absorbing returning migrants—to introduce modern production and postharvest technologies, while streamlining agricultural institutions and reorienting the sector as a whole, in a more challenging and demanding international environment.

3. Supporting Reform: Enter the ASPL

In January 1998, at the height of the crisis, the government of Prime Minister Chuan Leekpai requested ADB to provide a program loan to assist in policy reform and restructuring of the agricultural sector. The ASPL, provided as part of ADB’s crisis operations in Thailand within the framework of the IMF-led recovery program, served a dual role. As a fast-disbursing program loan of $300 million, it provided needed financial support to the government faced with a deep and prolonged financial crisis. At the same time, the ASPL was intended to be the primary source of support in addressing key longer-term sectoral constraints through a comprehensive and detailed program of policy reform. Therefore the success of policy reform in Thailand’s agriculture sector was to
a large extent a function of the reform program in the ASPL. That is, the relevance of reforms included in the ASPL policy matrix to policy problems, and the likely feasibility of their implementation, were key factors conditioning the effectiveness of the policy reform in agriculture in Thailand.

B. Managing Complexity: Design of the ASPL Reform Program

1. Complexity of Policy Issues and Program Design

Policy problems are complex. One dimension of complexity, discussed in later sections (see Section IV), relates to the political nature of policy issues and the diversity of institutions that generally play a role in the policy reform process. A different dimension of complexity relates to the very structure of policy issues. Such issues generally involve many elements and interconnections ("feedbacks") among these elements through which change or reforms may be transmitted or cancelled out. For example, water management relates to demand factors, such as the existence of multiple uses and users, incentive framework for use of water, efficient instruments for measuring and charging for water use. It can also relate to water supply factors, including existence of efficient infrastructure for delivery, institutional capacity, and incentives for ensuring the availability of needed water. There are typically various leverage points, some of which may not be readily apparent, where reform initiatives may focus in order to help bring about desired outcomes, e.g., improvements in water service delivery. For example, water management reforms may focus on demand management or allocation through the price mechanism, and/or forms of nonprice collective social management of water use. Alternatively, reforms may focus on the management of supply, ensuring that necessary infrastructure, or institutional capacity and incentive framework, is in place for providing water particularly when there is a required public investment role. This example also demonstrates the interconnections that tend to exist among different dimensions of a policy issue, as when water management through the price mechanism involves the readiness to pay is a function of the expected availability of needed water, or credibility of supply.

Furthermore, generally there are interconnections among different policy issues, making it difficult and somewhat arbitrary to define boundaries for what should be part of a particular reform program, and what may be excluded. For example, the removal of subsidies in agriculture may be addressed in the context of international trade issues (e.g., subsidies by competitors for example in the EU or the US). The complexity of policy issues therefore relates to both their structure and boundaries.

How a policy issue is posed or structured therefore plays a significant role in shaping the approach that will be taken in attempting to respond to it. In practice, the design of a reform program is the process through which the complexity of policy issues is addressed. Political decision makers at the outset of the reform process often are unable to articulate a clear sense of the policy problem and required solutions (scope, focus, and structure of the reform program). Therefore “design teams” are often given considerable latitude early in the policy reform process in defining the boundaries of the policy issues, as well as the scope for specific reform initiatives. The design process may also include some form of public participation or consultation—that may or may not touch on the core of the reform agenda being prepared by the design team. Design of a reform
program is then often controlled, in practice, by a small group of technocrats or “policy planners”—and if donor-financed, supported by international experts who are the assumed source of knowledge on “best practice” in the policy area (see Grindle 2001).

The design process and “team” are then critically important in shaping the content and outcomes of policy reforms. They define the scope, focus, and structure of the reform program, associated gains and losses from reform initiatives—and therefore “reform winners” and “reform losers”—as well as the institutional requirements of implementing reforms. Program design decisions then shape the subsequent policy reform debate and the implementation process.

2. Design of the ASPL Policy Matrix

Following the government’s January 1998 request, ADB provided a short term technical assistance (TA) to assist in the design of the ASPL. With the support of the TA, implemented August-November 1998, a draft reform program was prepared, and reviewed December 1998-January 1999. The design of the program, in particular the policy matrix containing the required reform actions, was then confirmed by an ADB appraisal mission 2-8 February 1999, and became the basis of loan negotiations between the Royal Thai Government and ADB during July 1999, and eventual agreement in September 1999.

The participants in the ASPL design process are identified in Table 2. Within the government, MOAC took the lead in the technical design of the program, as the ministry responsible for the agriculture sector. The primary concern of the Ministry of Finance was securing critical and urgently needed ADB loan funds to help shore up a devastated financial sector in the midst of a deepening crisis. The NESDB’s role was to ensure that the sector program was consistent with Thailand’s wider development objectives and strategy. The concern of civil society representatives, which included farmers’ groups and NGOs, was to ensure that proposed reforms were in line with the interests of their constituency, the farmers and rural poor. Finally, ADB, as the source of external financing, had a dual interest in providing needed funds to Thailand as quickly as possible, on this issue dealing with MOF its formal counterpart in the government; at the same time it also wanted to ensure that the ASPL was responsive to Thailand’s agriculture sector needs, where its counterpart was MOAC.
In practice, the design of the reform program in the ASPL policy matrix involved close collaboration primarily between MOAC and ADB—mainly the team of international consultants engaged by ADB under the supporting TA. There was also an extensive stakeholder consultation process involving representatives of civil society.

(i) Ministry of Agriculture and Cooperatives: Within the government, the design of the ASPL was primarily the task of a group of senior officials in MOAC, mostly at the highest level of the ministry, the Office of the Permanent Secretary (OPS). Participation by MOF and NESDB in the ASPL inter-ministerial steering committee, chaired by the Permanent Secretary of MOAC, was at a relatively low level. The operational supervision of the day-to-day design process and preparation of the policy matrix was assigned to an Assistant Permanent Secretary whose portfolio focused on foreign affairs and included supervision of the foreign agriculture relations division, as well as foreign trade issues. Therefore there was limited central agency involvement (by NESDB and MOF). Similarly, although background meetings and consultations were held with MOAC’s implementing agencies (Royal Irrigation Department, Royal Forestry Department), their input into the design process was limited. Furthermore, political decision makers who would ultimately have to endorse the ASPL reforms through the policy decision-making process, and decide on budget allocations, were not directly involved in the design of the program, either through discussions or review. That is, there was no mechanism in the design process for building a constituency or ownership among the political decision makers for the fundamental reforms in the ASPL policy matrix. Therefore the relationship between the technical design of the ASPL—which included complex and far-reaching policy reforms—and the implementing agencies and political decision makers, was limited throughout the ASPL design process.
(ii) **Asian Development Bank:** ADB’s participation in the program design process involved both ADB staff, and international consultants engaged by ADB through the supporting TA. The involvement of ADB in the agriculture sector through the ASPL came after a prolonged absence from this sector in Thailand, except for some limited support for rural finance. Therefore although ADB had extensive up-to-date agriculture sector experience elsewhere in Asia, it did not have recent sector knowledge in Thailand. Perhaps as a consequence, the primary design role for ADB was played by the team of international consultants. Housed in the OPS at MOAC, the task of the consultants engaged by ADB was to undertake an assessment of the needs of the agriculture sector; and to formulate a policy reform matrix that addressed the needs of the sector. In general, there seem to have been limited on-going discussions during the design process between MOAC senior officials, ADB staff, and the international consultants on the details of the policy issues and their implications (institutional, political), as reflected in various versions of the policy matrix.

(iii) **Civil Society:** Stakeholder consultations were deemed an important part of the ASPL design process, with significant effort and resources spent on these consultations led by Chulalongkorn University Social Research Institute (CUSRI). Over 100 stakeholders participated in two workshops, representing farmer groups, cooperatives, nongovernment organizations (NGOs), academia, private sector, external aid agencies, and government. The workshops were supported by several countrywide rural surveys. Public consultation focused on broad issues related to the agriculture sector, rather than on specific proposed reform actions that came to be included in the policy matrix. As a consequence, public participation yielded general information on sector issues and concerns, and reflected a broad perspective of stakeholders on the scope of the ASPL. However, specific proposed reforms and issues that were to elicit very strong stakeholder reactions once details of the policy matrix became known, such as “cost recovery in irrigation”, were not submitted directly for stakeholder review. Furthermore, the TA team that generated the policy matrix moved ahead on the reform program design along with its MOAC counterparts faster than the CUSRI-facilitated consultation process. Therefore the information from the stakeholder consultations was incorporated only in a limited way into the actual design of the policy matrix.

(iv) **Finalization of the ASPL Policy Matrix:** After a debate within the ADB consulting team on the nature and scope of the policy matrix, a very detailed draft policy matrix was prepared covering a comprehensive reform program, very wide in scope. At a

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23 The consultant team consisted of the following: macroeconomist (with significant experience in formulating agricultural policy reform matrices for the ADB); sector economist; natural resources economist; financial economist/credit specialist; social economist; and, water resources specialist. An additional economist was engaged to prepare a list of externally funded technical assistance projects in the agriculture sector.

24 Based on interviews with ADB staff, ADB consultants, senior government officials.

25 The draft matrix was over 100 pages, addressing a very wide range of issues in the agriculture sector. The draft matrix did not prioritize the issues, which were analyzed in detail in the matrix itself, with further detail and analysis provided in the main report and annexes.
subsequent meeting with the Assistant Permanent Secretary, an ADB mission from Manila took back a copy of the draft ASPL policy matrix containing the extensive and detailed set of proposed policy reforms. However, prior to this, there were no systematic joint discussions of the details of the reforms in the policy matrix—including their operational, institutional, and political implications—by the key players, including ADB, its TA team that drafted the matrix, and key government participants (MOAC, NESDB, MOF). As a consequence, there were important unresolved issues related to the reform program in the policy matrix that became the basis for formal negotiations between MOAC and ADB. For example, fundamental concerns of some senior officials in MOAC related to the timing, as well as the political and institutional implications of the reforms. They felt that the ASPL provided for an unrealistic and unworkable timetable—under two years for the implementation of all reform actions in the policy matrix—given the institutional and political complexity of the actions. This concern was related to a basic uncertainty about likely political support for implementing sensitive reforms. Furthermore, there was also concern about resistance by some of the powerful implementing departments in the Ministry; as well as uncertainty about the reaction of key stakeholders (farmers, NGOs, “influential groups”) to some of the proposed measures.

These concerns surface later, during formal negotiations between MOAC and ADB over the ASPL policy matrix—leading to a temporary stalling of negotiations. However, given the key role of the program loan as a source of urgent infusion of external funds in the context of the crisis, the Minister of Finance—the central player in Thailand’s crisis management process—instructed the MOAC to reach agreement with ADB in order to ensure access to the needed funds. This “resolved” the immediate impasse between MOAC and ADB in terms of the negotiations over the policy matrix, allowing needed money to flow, but it did not address the fundamental substantive concerns of some of the key senior officials of MOAC relating to the feasibility of the proposed reforms.

3. Outcome of the Program Design Process

The ASPL design process may be summarized as follows. Within the government, MOAC as the core implementing agency took the lead in the design of the program. The ADB-affiliated international consultants played a critical operational role in the design process, working closely with selected senior bureaucrats at MOAC. There was limited input from central/policy, as well as implementing agencies; and no mechanism in the design process for building a constituency or ownership among political decision makers for the reforms in the policy matrix.

The program design that ultimately emerged, as embodied in the ASPL policy matrix, therefore did not fully reflect the position of key players within the government (or within MOAC);

26 In terms of the actual ASPL timetable, loan negotiations were conducted 12-16 July 1999; with loan agreement on 24 September 1999; loan effectiveness on 12 October 1999; and a planned program closing date of 30 September 2001. Therefore although the nominal program period was 5 years (from April 1999), the timetable for the implementation of all sector reform activities under the ASPL was just under 2 years.
nor a mutual understanding between MOAC and ADB. This became evident with the eventual stalling of negotiations between MOAC and ADB. Nor did the policy matrix reflect adequately the perceptions and preferences of key civil society stakeholders whose cooperation was ultimately essential for successful implementation of core reforms. This became unmistakably clear in the strong and sustained opposition of stakeholders to the ASPL once some of the specific proposed reforms became publicly known, such as cost recovery in irrigation. More generally, and as reflected in subsequent events, the design process placed important—if implicit—political and institutional constraints and/or demands on the ASPL reform program.27

Although there were questions raised about the feasibility of implementing the reforms, the proposed actions in the policy matrix were generally seen as relevant in addressing key policy challenges and priorities in the agriculture sector. The program design incorporated government priorities, as reflected in the framework for restructuring the agriculture sector approved by the Thai Cabinet in May 1998; and by and large responded to the policy challenges of the sector identified earlier. Therefore although the ASPL took the form of a quick-disbursing program loan to assist Thailand in addressing the immediate financing requirements of the crisis, activities under the ASPL aimed at implementing longer-term policy reforms in the agricultural sector were generally seen as consistent with policy problems and government priorities.

The ASPL was formulated by ADB as a 2-tranche loan of $300 million, with the first tranche of $150 million to be released on 12 October 1999 (actual release date was 27 December 1999)—subject to the satisfactory implementation of a set of policy reforms as “prior actions taken.” The second tranche comprised an incentive subtranche of $50 million to be released on 20 June 2000; and a final tranche of $100 million to be released on 31 May 2001—in each case release of the funds was subject to the satisfactory implementation of further specified reforms. An additional $300 million was provided by the Government of Japan through the Overseas Economic Cooperation Fund to cofinance implementation of the reform activities in the ASPL. Furthermore, ADB provided two TA grants to assist in program implementation. One TA was intended to assist the government in strengthening the institutional capacity for water resource management (ADB 1999d), a critical focus of the reform program; and the second TA to assist in reorganizing MOAC (ADB 1999f). An additional TA grant was later provided in conjunction with the ASPL in order to assist the government in reviewing agriculture sector performance and formulating a new agriculture sector strategy and policy (ADB 1999e).

Substantively, the ASPL had the following general objectives: (i) to increase agricultural productivity; (ii) to enhance the export competitiveness of agricultural products; and (iii) to restructure sector management and improve governance. To achieve its broad objectives, the ASPL was very comprehensive in scope, and included 10 areas for action: (i) water resource use and management, (ii) watershed protection and rehabilitation of degraded lands, (iii) land tenure and

27 This implies that the ASPL design process did not focus sufficiently on the political and institutional implications of the program. This interpretation, however, should be qualified. Interviews with senior government officials suggests these implications, at least in general terms, were understood by some of the key players—that key elements of the policy matrix were not likely to be implementable, at least within the ASPL time horizon. Nonetheless the ASPL design was accepted by both sides, in part because of the crisis-driven need for external financing (the MOF priority); and in part as a way of initiating from the outside difficult future policy reforms in the agricultural sector in Thailand.
management, (iv) coastal resources management, (v) improved access to credit, (vi) research and
development, (vii) extension systems and farmer education, (viii) product quality and export
promotion, (ix) subsidies and government procurement, and (x) sector management and governance
(ADB 1999b). Within this framework, a total of 70 policy reform actions were to be implemented
by the government, including: (i) 21 reforms to be completed prior to approval of the loan by
ADB Board and release of the first tranche; and (ii) an additional 49 detailed actions, of which
10 were required to be completed before release of the incentive sub tranche, and 11 actions required
to be implemented before release of the second tranche.28

In general, the ASPL required the government to implement a comprehensive and wide-
ranging program of policy reforms in agriculture in less than two years. It placed particular emphasis
on water management, which involved 22 of the total of 70 required actions in the policy matrix.

C. Endorsing Reform: Policy Decision Process and the ASPL

1. Approval of the ASPL

In principle, policy reforms are endorsed through a process of decision making about
proposed policies and changes in policies. In the policy decision process, reforms are discussed,
debated, approved, modified, or rejected by participating political decision makers within an existing
institutional framework, as in a parliamentary system involving political parties that vote in a
legislature on proposed policies. The output of the policy decision process is deemed, at some
point, to be decisions endorsing (if approved) a program that signals commitment of the government
to undertake the approved reform actions. This, in turn, is expected to lead to instructions to
implementing agencies on the priority of the reform actions, and to the allocation of the necessary
resources for implementing reform initiatives (see for example Grindle and Thomas 1992 and Grindle
2001).

In practice, the policy decision process can involve both formal and informal dimensions.
The institutionalized decision process provides the formal framework for endorsing policy decisions,
e.g., legislature and political parties to discuss, debate, and vote on the reform program; in a
nonparliamentary setting, some form of executive decision making process that is considered binding.
The informal process can include lobbying, informal bargaining and negotiations, and public
demonstrations by stakeholders aimed at influencing political decision makers participating in
the formal decision process with respect to the approval, modification, or rejection of the reform
program.

The assumption with respect to a policy decision process is that there is some “stopping
point” when reforms are deemed to have been approved (or rejected) by legislative or executive
decisions (see Grindle and Thomas 1992 and Grindle 2001). Endorsement of reforms in this process
is assumed to lead to a binding commitment by government to the approved reform program and
the basis for resource allocation through the budgetary process, followed by implementation by
line agencies.

28 See Appendix Table 1 for details of the reforms in the policy matrix, and the required timing.
A review of the approval of the ASPL suggests that in practice, it may be difficult to identify in the policy decision process a stopping point that results in a binding or irreversible commitment to reform by political decision makers.

(i) January 1998: Royal Thai Government request is submitted to ADB for the ASPL, implicitly endorsing the priority of agriculture policy reform.

(ii) May 1998: Cabinet adopts a framework for agriculture sector reform, independent from the ASPL, but suggesting endorsement of a broad reform agenda for the agriculture sector that in turn becomes the basis for the ASPL design.

(iii) September 1999: Loan agreement is signed by the Ministry of Finance on behalf of the government, deemed to constitute official endorsement of the overall reform program in the ASPL—but with background concerns raised by the key implementing agency, MOAC, that are not resolved, either internally within the government, or with ADB, during the loan negotiation process, and concerns raised by central agencies (NESDB).

(iv) September 1999-May 2002: Implementation of the reform initiatives in the ASPL policy matrix proceeds, but as will be discussed, it is not clear to what extent implementation of reforms involves nominal as distinct from actual change.

During this period key stakeholders (farmers’ groups, NGOs) demonstrate repeatedly against both specific initiatives in the ASPL policy matrix, and the ASPL reform program as a whole.

In addition, the same key stakeholders refuse to participate in consultations on the ASPL, in the context of an ADB TA supporting implementation.

(v) May 2002: Premature cancellation of the ASPL by the new government, severing the relationship between the policy reform program in the ASPL policy matrix and future policies of the government—which may or may not reflect a change in commitment to policy reform in the agriculture sector, and/or to the ASPL.

2. Elusive Nature of “Endorsing Policy Reform”

It is difficult to find a stopping point in the decision process related to the ASPL where political decision makers formally considered and endorsed the detailed reform program in the policy matrix. That is, there does not seem to be a set of policy decisions taken by political decision makers that resulted in (i) approving the implementation of each reform initiative in the policy matrix leading to: (ii) instructions to relevant line agencies to implement the reforms in the ASPL as organizational priorities, and (iii) allocation of the necessary budgetary resources for the implementation of each reform initiative. Similarly, although there appears to be a stopping point in the policy reform process with the cancellation by the new government of the ASPL, the implications of this decision for policy reform are less clear cut, as will be discussed later.

The elusive nature of endorsing policy reform seems to arise both from the nature of the reform program embodied in the ASPL policy matrix, and from nature of the policy decision process. The reform program is very wide in scope, officially including 70 reform actions, 42 of which were
required for the release of the ADB funds. However, closer scrutiny reveals that the ASPL policy matrix was even more complex and demanding, with many of the required actions involving a number of “sub-actions.”

(i) Example: “With a view to eliminating government competition with the private sector, government to (a) withdraw from procurement and distribution of fertilizer, and (b) complete a review of its intervention in other agricultural input markets. Simultaneously, establish mechanisms to monitor functioning of input markets to ensure equitable access of small and marginal farmers to inputs.”

(ii) Example: “MOAC to (a) develop, in consultation with stakeholders, systems, procedures, and a phased program for cost recovery in irrigation; (b) launch public education and awareness campaigns to promote payment for irrigation services; and (c) commence implementation of the program (ADB 1999a, 11).”

More fundamentally, as the above examples suggest, not only was the scope of reforms very wide, many reform initiatives were technically complex, politically complicated and uncertain, and institutionally demanding, at times calling for fundamental institutional changes, and/or changes in historically deeply rooted practices, often with long-standing constituencies. In this context, unless each reform initiative could be assumed to have been in some way “endorsed”—formally considered and approved by political decision makers and key stakeholders—there was likely to be some level of uncertainty about their political and institutional feasibility. This was indeed the case, as will be discussed in later sections.

In summary, although there are a number of points where the overall ASPL reform program is endorsed directly or indirectly, at no point can this endorsement be taken to be complete, i.e., explicitly involving all reform initiatives in the policy matrix; or binding, i.e., sufficient to ensure that the ASPL reform program may not be modified or even reversed at a later stage in the policy reform process. Yet the implementation of policy reforms nonetheless could and did proceed, as will be discussed in following section. The implication of the ASPL case is that the “endorsement of reforms” is an ongoing activity throughout the policy reform process, including and even beyond implementation.

D. Implementation

1. Implementing the ASPL: Overview

(i) “Prior Actions Taken”

According to ADB’s internal review (Program Completion Report, ADB 2003b), the government completed 21 actions prior to the ADB Board consideration and release of the first tranche of the loan funds (in December 1999).30 These actions can be placed into three categories: (i) decisions and resolutions of the Cabinet, e.g., “establishment of a committee to restructure MOAC, to adjust

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30 See Policy Matrix, Appendix 3 in Asian Development Bank (1999b); reproduced in Appendix 1.
functions in line with Government decentralization”; (ii) ministerial level decisions by MOAC, e.g., “instructing the Royal Irrigation Department (RID) to develop an irrigation operations and maintenance program in collaboration with the private sector”; and (iii) actions taken by the Thai Ministry of Finance, e.g., “introduce legislation to establish the National Farmer Development and Rehabilitation Fund.”

On closer inspection, the actions taken prior to disbursement of the first tranche of the ASPL are primarily administrative. They generally do not change government policies in any substantial way; and neither do they involve basic changes in the operations of key organizations such as RID. Some of the proposed prior actions taken reflect prudent policies that governments should normally adopt, following financial and economic crises of the magnitude of 1997, for example, to “improve the capital adequacy ratio” of the BAAC; or to “strengthen risk management” for the BAAC and the Government Savings Bank. It is likely that such actions would have been taken by the Ministry of Finance in any case, without the policy reform program. Though perhaps without the ASPL such reforms would have been undertaken later rather than sooner, or at a more politically convenient time of the government’s choosing.

In other cases, the prior actions could be interpreted as signals of reform intentions—“writing on the wall” of desired changes to come—for large, entrenched, and powerful bureaucracies, such as the RID, which in the mid- and late-1990s continued to claim approximately 60 percent of MOAC’s annual budget. Such signalling can play an important role in the policy reform process, demonstrating clearly to key stakeholders, including implementing agencies, government’s intent and commitment to change; and identifying the direction and nature of change.

In summary, implementation of the 21 prior actions in the ASPL did not involve substantial and difficult-to-reverse political, institutional, or resource commitments to reform in the agriculture sector. At the same time, these actions may be seen as essential prerequisites for more substantive reforms, and important signals indicating new policy directions that the government intended to pursue.

(ii) Incentive Subtranche Reform Actions

In the review of the reform process for ADB under the terms of the ASPL, the Royal Thai Government is deemed to have generally implemented all but one of the 10 key policy reforms necessary for the release of the incentive subtranche of the ASPL.31 As a consequence, the ADB Board approved the release of the $50 million on 15 February 2002.32 The 10 incentive subtranche

31 Of the 10 conditions or key policy reforms for release of the incentive tranche, the Thai government is deemed to have fully complied with seven conditions; substantially complied with two conditions; and did not comply with one condition. “Fully complied with” is defined as all activities being completed. “Substantially complied with” indicates that most activities are completed, while some remain ongoing, and loan disbursement is not affected. “Partly complied with” means that some activities are complete, while many others remain ongoing; if it is a “tranche condition” a waiver must be approved before loan release. “Being implemented” indicates a prolonged condition that is being complied with for the time being. “Not yet implemented” means no activity has been achieved for the time being (Asian Development Bank 2003b).

32 The ADB Board waived the need to comply with the condition requiring the commencement of the drafting of a legal and regulatory framework for microfinance institutions.
conditions can again be placed into three general categories: (i) decisions and resolutions of the Thai Cabinet; (ii) decisions by MOAC and its line agencies; and (iii) actions taken by the Thai Ministry of Finance and agencies under its authority.

An example of a Cabinet decision is the approval, on the recommendation of the Office of the National Water Resources Committee (ONWRC) and RID, of a national water policy, based on a resolution dated 31 October 2000. A new budget procedure was also put in place in order to ensure that the budget requests of implementing agencies are in line with the new policy. A number of projects were being implemented consistent with the new policy. Examples of actions undertaken by MOAC and its line agencies, including RID, Office of the Permanent Secretary (OPS), and Office of Agricultural Economics (OAE) included the following: (i) RID received a 15 percent increase in its budget for fiscal year (FY) 2000 over FY1999 for irrigation system rehabilitation and operations and maintenance; (ii) OPS appointed a national level Committee for Development of Agricultural Research, including a farmers’ representative as a member, and created an Office for Development of Agricultural Research as a secretariat to the Committee; (iii) MOAC established two new institutes, namely the National Agriculture Products Standards Institute (NAPSI) and the Natural Resources and Biodiversity Institute (NAREBI); and (iv) MOAC, working through OAE, developed an action plan, approved by the National Agricultural and Cooperatives Policy and Planning Committee, to establish special agroeconomic zones to promote production, processing, and export of selected high-value food and agricultural products. Examples of actions undertaken by the Ministry of Finance (MOF) and agencies under its authority, including the Government Savings Bank (GSB), and the Bank of Thailand (BOT) included: (i) establishment by GSB of a facility for medium and long-term lending to rural communities; and (ii) preparation by BOT of an action plan for improved supervision of the BAAC and GSB, including deadlines for the preparation and issuance of prudential rules for both financial institutions.

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33 These include: pilot project to organize river basin committees in the sub-basins of the Chao Phraya, which include the Upper Ping, Lower Ping, and Pasak basins; study on the establishment of the Chao Phraya Basin Organization, to take into consideration the improvement of the water sector capacity; study on the right-based allocation of water, to address some aspects of the concept of basin-based management, such as implementation policies and a pilot program for this approach; river basin management to formulate a river basin management system in the Ping River in the North, the Mun River in the Northeast and Klong Thatapao in the South, including a review of the available information and data for water resources management and watershed protection; the Thailand Integrated Water Resources Management System, which aims to promote research work and activities on water resources management; and modernization of the irrigation system, to study the conjunctive use of surface and groundwater and cost recovery in irrigation projects, and to promote people’s participation in irrigation management and the privatization of irrigation.

34 These include: (i) water allocation in the Chao Phraya River Basin during the dry season, (ii) formulation of a national water policy, (iii) installation of an integrated information system, (iv) a flood and drought mitigation plan, (v) sustainable groundwater management, and (vi) organization of river basin committees.

35 NAPSI has since become the National Bureau of Agricultural Commodity and Food Standards (ACFS) and NAREBI has become the Agricultural Technology Policy Division of OPS.

36 BOT received technical assistance from the World Bank to prepare an action plan to improve oversight of state-owned financial institutions. The State Financial Institutions Policy and Supervisory Committee assigned this task to the Fiscal Policy Office, in its capacity as secretary to the Committee.
(iii) Final Tranche Reform Actions

In the ADB review of the ASPL, the government is deemed to have implemented the 11 key policy reforms required for release of the final tranche of the ADB program loan. These final tranche conditions can be placed into two categories: (i) actions by MOAC line agencies and (ii) actions to be undertaken by the ONWRC, in most cases in collaboration with RID. Actions were undertaken by several MOAC line agencies, namely: RID, RFD, OAE, Land Development Department, Cooperatives Promotion Department, and Department of Agricultural Extension. Examples of reforms undertaken include the following:

(a) working with RID and several other government agencies, the ONWRC was responsible for completing river basin profiles, establishing interim river basin committees, and formulating an action plan for selected watersheds to serve as models for integrated basin management of water resources;
(b) RID developed a medium-term irrigation rehabilitation, operations, and maintenance program;
(c) RFD was tasked with designing and implementing a national action program for comprehensive and participatory watershed protection and management;
(d) the Land Development Department took the lead in designing and implementing a program to rehabilitate saline, acid, and eroded soils based on six participatory land use planning projects at the subdistrict (tambon) level;
(e) RID was tasked with harmonizing the cost recovery provisions of on-farm development work in irrigation command areas, with those of the Land Consolidation Office; and
(f) DOAE was restructured and began the process of devolving all regional operations to provincial, district, and subdistrict levels.

2. “Nominal Reform” vs. “Implanting Change”: The Issue

All in all, significant steps had been taken in Thailand toward agricultural reform and rural development as a result of the ASPL. Viewing policy reform as an extended process of change, however, provides a more cautious perspective on the implementation of reforms. While nominal reforms—in terms of decisions, regulations, actions specified in the ASPL policy matrix—seem to have been implemented, implanting change—in terms of fundamental changes in incentives, behaviors, organizational performance, and outcomes—has proven, on closer inspection, to be more illusive. For example, there is a substantial difference between “approving a plan” for restructuring MOAC, as required under the ASPL, and implementing meaningful and lasting organizational change.

37 In the ADB review of the 11 conditions required for release of the final tranche, eight were deemed as either completed or being implemented, and three as partly implemented (Asian Development Bank 2003b).
38 This task was achieved as part of the MOAC restructuring program, when the Land Consolidation Office was moved from the MOAC Office of the Permanent Secretary, to RID, making it possible to harmonize regulations and cost recovery procedures.
39 On the difficulties of implanting organizational change, see for example Smith (2002).
This gap between intent and outcome in the implementation of reforms reflects the critical and central role of political economy factors: the interplay of politics and institutions in shaping the policy reform process. However, before undertaking a more systematic consideration of these factors in policy reform, it is important to touch briefly on the termination of the ASPL—which relates to the broader issue of the sustainability of policy reforms.

E. Sustaining Reforms: Cancellation of the ASPL

On 6 January 2001 Dr. Thaksin Shinawatra was elected Prime Minister in a landslide victory. The Thai electorate, in voting for fundamental political change, gave Prime Minister Thaksin and his Thai Rak Thai Party-led coalition an overwhelming and unprecedented 367 to 133 majority over Mr. Chuan Leekpai’s Democrats (whose government requested the ASPL) and other smaller opposition parties. The Thaksin government was elected on a strongly populist platform that included the pledge to reverse several policy reforms introduced during the crisis under the pressures of the IMF-led program—a program that also provided the overall context for the ASPL.

On 15 February 2002 ADB approved release of the $50 million incentive subtranche of the ASPL, about 20 months later than originally scheduled. However, subsequently, at the request of Prime Minister Thaksin’s government, the ASPL was cancelled, with $150 million undisbursed, including the $50 million incentive subtranche and the $100 million second tranche. ADB closed the loan account on 2 May 2002. The official reason given by the government for cancelling the loan was to reduce Thailand’s external public debt.

Given the central role of the ASPL as the primary vehicle of reform in the agriculture sector, its cancellation introduced a fundamental element of uncertainty into the policy reform process. Furthermore, given the earlier noted gap in the implementation of ASPL policy reforms between nominal and real change, there was an even more basic uncertainty as to whether some of the reforms were likely to be implemented in the first place, in the sense of resulting in lasting change. The premature cancellation of the ASPL is a dramatic illustration of the central role of political economy factors—politics and institutions—in the policy reform process, the focus of the next section.

IV. BUMPS ON THE ROAD TO REFORM: POLITICS AND INSTITUTIONS

A. Understanding the Odds

Reform is effective if it addresses relevant issues in a feasible way. Effective policy reform is ultimately about implementation and sustainability: it should bring about lasting change. In the discussion of the implementation of the ASPL, a distinction was made between nominal reforms and implanting lasting change. This distinction leads to the essence of the political economy of

40 “Thai Rak Thai” means “Thai loves Thai”.

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policy reform and policy-based lending: the role of politics and institutions. Though often most pronounced at the implementation stage, political acceptability and institutional feasibility play a central role in shaping reforms throughout the policy reform process. It is this role of politics and institutions that transforms the reform process from an exercise in technical problem solving, or “optimal policy design”, into a process of long-term change shaped by political economy factors. Building on the earlier discussion of the stages of the policy reform process, this section examines the ASPL from the perspective of the role of politics and institutions. These factors are also the key source of uncertainty and risk with respect to “government commitment”, the assumed guarantor of reform in policy-based lending. This section therefore concludes by looking briefly at the concept of “government commitment” from a political economy perspective, in the context of the ASPL.

B. Politics: Policy Reform as “Collective Choice”

1. The Meaning of “Politics” in Policy Reform

Policy reforms are inherently political in nature, entailing a process of collective choice. Reforms are “political” in that they involve: (i) multiple interests or stakeholders, (ii) with differing perceptions, (iii) conflicting preferences, (iv) diffusion of power to influence outcomes, and (v) no easy way to align diverse and conflicting preferences. Policy reform therefore generally does not involve a single decision maker, e.g., “the government”; with well-defined objectives; making independent technical decisions; and the power to control all aspects of the policy process—including initiation, design, approval, and implementation of reform. Instead, policy reform as collective choice requires a process of mutual adjustment among diverse and conflicting stakeholders involving negotiation, bargaining, and consensus building that shape, and can modify or even block reforms at any point in the policy reform process.

The politics of reform can become especially pronounced during implementation as the likely consequences of reforms—including threats to particular interests or potential “reform losers”—become increasingly clearer (see Abonyi 2002). However, in general, “political acceptability” can play an important role in influencing any and all of the stages of the policy reform process, from inception through implementation and sustainability.

This political process of mutual adjustment among conflicting interests can take different forms. It can involve diverse stakeholders negotiating and bargaining informally (lobbying, demonstrating), or through the formal policy process through existing political institutions (such as parliament and political parties) to influence the inclusion or design of particular reforms in the program. It can also take the form of “bureaucratic politics” among institutions or organizations that make up “the government”, in particular implementing agencies whose actions determine the actual outcomes of reforms. Furthermore, the politics of reform can focus more generally on the overall strategy and direction of reform, for example aimed at changing the policy agenda through a change of government; or changing the basic institutional framework/political system. Selected examples from the ASPL case then illustrate different ways in which politics shapes the reform process.

41 For a discussion of this issue, see Abonyi (1986).
2. Politics of Policy Reform and the ASPL

   (i) Agreeing on the Reform Program of the ASPL

   (a) Reform issue: The issue involved agreement on the ASPL’s reform measures as the basis for policy reform in the agriculture sector. As touched on earlier, fundamental differences between MOAC and ADB with respect to the design of the reform program stalled agreement on the ASPL, leading to bureaucratic politics within the government at a very high (ministerial) level, involving MOAC and MOF.

   (b) Politics of the issue/events involved: The MOAC represented the government in negotiating details of the ASPL with ADB, in particular the reform program in the policy matrix. Negotiations broke down over different perspectives and preferences with respect to the details of the measures in the policy matrix. With negotiations at an impasse, the MOF stepped in and instructed MOAC to reach immediate agreement with ADB on the ASPL.

   (c) Stage in the policy reform process: The differences over the ASPL occurred early in the policy reform process, at the stage of initiating agriculture sector policy reforms, and endorsing the overall reform program. Details of the reform program in the policy matrix had been designed with the assistance of an ADB TA. However, agreement between the government and ADB necessary for formally initiating the ASPL and endorsing the overall reform program was not yet in place when differences emerged between MOAC and MOF over MOAC’s disagreement with ADB. In principle, if no agreement had been reached between MOAC and ADB, then the ASPL would not have gone ahead, and policy reform in the agriculture sector could have been significantly delayed, scaled down, and/or taken a different form.

   (d) Rationale for politics and related actions: MOAC was the line ministry responsible for the agriculture sector and therefore for implementing the reform program. It had the official responsibility of reaching agreement with ADB on the technical details of the ASPL design. As the implementing agency, MOAC’s primary focus was on the relevance and feasibility of the reforms in the policy matrix. In this context, as noted, senior officials at MOAC had serious reservations about details of the reform program as reflected in the policy matrix that was the basis of negotiations. These concerns involved what was seen as an overly optimistic timetable of less than two years for implementing the reform program, given likely political and institutional constraints. Therefore MOAC’s main focus was on pressing for changes in a program that to a large extent they had the responsibility to implement, rather than on reaching a quick agreement with ADB. Given the delay of the ASPL because of the breakdown in negotiations between MOAC and ADB, MOF stepped in to break the impasse. MOF was the official government counterpart to ADB, and responsible for overall management of the Thai economy—in particular, for overseeing management of the crisis. Its focus was on securing quickly needed external financing from ADB through the ASPL (and the accompanying Japanese funds) in the midst of an unexpectedly severe and extended financial/economic crisis. Therefore MOF’s primary concern was with securing agreement with ADB on the ASPL.

   (e) Impact on Policy Reform: Given MOF’s pre-eminent role and power in the government, MOAC had to reach agreement with ADB on the ASPL, as instructed. This led to the
infusion of needed funds from ADB under the loan, and the initiation of the policy reform program. However, although the bureaucratic political issue was resolved, concerns of MOAC about the feasibility of key measures in the reform program (in the ASPL) were not addressed. Implementation of some of the reforms in the policy matrix did run into problems because of political, institutional, and time constraints.

(ii) Water Service Delivery

(a) Reform issue: The issue related to the reform area of “Water Service Delivery.” More specifically, it involved the reform action: “MOAC to (1) develop, in consultation with stakeholders, systems, procedures, and a phased program for cost recovery in irrigation; (2) launch public education and awareness campaigns to promote payment for irrigation services; and (3) commence implementation of the program.” This second tranche release condition became the politically most sensitive issue in the reform program. To put this reform in perspective, of the 70 actions in the ASPL policy matrix, 22 related to water management. Given the critical role of water in Thai society, and in agriculture in particular, this is a politically sensitive area at the best of times, particularly when basic changes to established practice are being introduced such as “cost recovery in irrigation” perceived as imposing new fees on farmers—in the midst of an economic crisis that is seen to have originated in the Bangkok-based financial sector.

(b) Politics of the issue/events involved: When this proposed reform became public, there was strong, visible, and sustained opposition by key stakeholders—farmers and NGOs—with the objective of blocking this reform. This expanded into broader opposition to the ASPL reform program as a whole. The political opposition culminated at the time of the 2000 ADB Annual Meeting held in Chiang Mai, Thailand. The resisting stakeholders undertook two highly visible actions. The first involved holding a “People’s Forum 2000” in Chiang Mai during 3-5 May 2000, as a parallel international conference to the May 6-8 2000 ADB Annual Meeting. The second action involved holding protest actions, organized by the “People’s Network” of 38 grassroots organizations, for the duration of the annual ADB conference on 5-8 May 2000, at times involving up to 3,000 people. These were the biggest demonstrations ever held in the North and Northeast, the poorest regions in Thailand.

(c) Stages in the policy reform process: The strong stakeholder opposition created uncertainty with respect to both the design and the endorsement of the proposed reform. Furthermore, political opposition to a particular interpretation of cost recovery,

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42 The purpose of the People’s Forum was “to highlight how the projects and policies of ADB are exacerbating poverty, destroying the environment and undermining the rights, livelihoods and food security of local communities throughout” (People’s Forum, as cited by Encarnacion-Tadem 2000).

43 “Opposition to the water-pricing proposal has been growing rapidly in recent weeks, especially ahead of the May 6-8 ADB annual meeting, where the issue has been hotly debated at a parallel NGO meeting, the People’s Forum 2000. It is also one of the common issues raised at protests outside the bank meeting venue” (Asia Times 9 May 2000). “In a letter handed over to the ADB on the meeting’s opening day on Saturday, more than 3,000 protestors representing close to 40 Thai NGOs and peoples’ organizations, demanded the bank immediately stop all loans and project level funding to Thailand” (Asia Times 10 May 2000).
as will be discussed, also constrained a number of pilot projects being implemented by RID.

(d) **Rationale for politics and related actions:** The reasons for strong stakeholder resistance to the reform included: (1) perceived lack of clarity and/or differences in interpretation about what the reforms actually meant in practice, such as who will pay, for what, under what conditions; (2) concern about “lack of transparency” in the design of the reforms; and (3) fundamental differences in values—whether cost recovery of a certain type was appropriate and workable under present conditions in Thai rural society.

As to lack of clarity of meaning, at first glance, the rationale for and the corresponding meaning of “cost recovery in irrigation” seem clear, referring to introduction of a procedure to recover costs—capital and recurrent—associated with the provision of water for irrigation. The underlying (market-based) principle is that water is a scarce resource; therefore the users of water should pay for its provision; and that (presumably) the more water a customer uses, the more the customer should pay. However, within the Thai context, the meaning of the term was ambiguous. It was not clear if the reform refers in actual implementation to “cost recovery”, or some concept of “irrigation fees”—though the latter term is not used in the policy matrix. Within the Thai context the two terms have very different legal meanings and operational implications. An irrigation fee is charged for receiving water, presumably on a “permanent” basis; while a cost recovery fee is applied for a certain period of time, following completion of land consolidation. It is not clear in terms of the text of the ASPL, or the policy matrix, or subsequent public clarifications, whether the reform action refers to cost recovery as defined above, or water use charges (irrigation fees), though the latter seems to be closer to the intent of the text of the ASPL. Therefore the operational meaning

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44 The problem is expressed as follows “Currently Thailand’s water resources are being used suboptimally. There is inadequate attention to principles of supply and demand management…. Mechanisms for cost recovery of investments and O&M in irrigation infrastructure are underdeveloped.” Therefore the solution that follows is that “The Program will implement a policy for cost recovery in public irrigation schemes” (ADB 1999b, 13 and 14).

45 Cost recovery/cost sharing arrangements have historically not been a serious issue with Thai farmers, if these improved the quality of the irrigation service they receive. The Irrigation Act of 1932 provides for cost recovery, but regulations have never been written to implement the specific sections of this law. Subsequently, the 1974 Land Consolidation for Agriculture Act requires cost recovery from occupants of agricultural land that (i) has been levelled and rectangularized, and/or had improved ditches and dykes installed, under a full land consolidation program; and/or (iii) simply has had irrigation water delivery ditches and improved dykes installed on their land, under a modified land consolidation system. In both cases once the cost of land consolidation has been fully recovered through payments in cash or kind (like rice), land owners received clear and secure title to their land. In this sense, cost recovery was already being implemented at several irrigation projects in the country with the participation of agricultural cooperatives. Irrigation fees (water user charges) are fundamentally different in the Thai context. The Royal (Government) Irrigation Act of 1942, amended in 1975, authorizes MOAC to “collect irrigation fees from an owner or occupier of the land within an irrigation zone, or from a user of water from the irrigation waterway, regardless of whether he is insider or outside the irrigation zone or from a user of water for agriculture outside the irrigation zone by issuing Ministerial Regulations.” The law goes on to describe the irrigation fund to which irrigation fees should be deposited. That is, the funds were not to be remitted to the Treasury as state revenue. However, to date MOAC has never collected the prescribed irrigation fees, nor operated the associated Revolving Fund for Irrigation.

46 See the discussion in Section V.C.1. in Asian Development Bank (1999b).
of the proposed reform on who would pay, for what, and under what conditions was not clear. This led to considerable confusion on the part of the government, ADB, and key stakeholders (farmers, NGOs), and became the basis of significant opposition to the ASPL.

As to criticism of “lack of transparency” in reform program design, a second reason for strong opposition to the proposed reform related to the criticism by key stakeholders that there was a general lack of transparency by the government and ADB in the design of the ASPL program, including this basic reform action. This criticism was particularly important in an environment of institutional reform following the 1997 Constitution and the Eighth Plan that was giving a mandate to civil society to play a greater role in a more pluralistic policy process. Furthermore, the charge of “non-transparency” carried an even stronger sting against the backdrop of the ASPL’s extensive public consultation process. However, as noted, although considerable time, effort, and resources were involved, the ASPL stakeholder consultations did not focus on the specific reforms in the policy matrix. These reforms became known only after the formal approval of the ASPL. This was the basis of the charges that the reform program design process was “non-transparent”, creating a credibility gap with respect to the public consultations that were seen as raising expectations about participation in the policy reform process that were not met.

47 From Molle (2001, 12): It was successively announced that “ordinary farmers would be exempt [of water fee]”; that fees would be “collected from farmers in areas where the irrigation systems are fully available” (Bangkok Post 15 January 1999); that “only planters of so-called economic crops such as sugar cane and durians who could afford it would be made to pay” (Bangkok Post 15 January 1999); that “fees would be imposed on farmers requiring special delivery of water above the normal amount they receive through irrigation” (Bangkok Post 19 February 1999); that “the ADB has dropped a requirement that farmers pay for irrigation water in return for agricultural development loans” (Finance Minister Tarrin Nimmanhaeminda in Bangkok Post 23 February 1999); and that “the [MOAC] has agreed to start collecting money from sugar cane planters and shrimp farmers who are willing to pay for on-farm delivery of irrigation water. Small scale farmers who already have access to existing public irrigation and water distribution channels will be exempt” (The Nation 10 June 1999); that “the government and the ADB had agreed that users of irrigation facilities would have to pay the appropriate prices, but it would not be applied to small-scale farmers and the poor” (Agriculture Minister Pongpol Adireksan in The Nation 14 June 1999); that “farmers might have to pay an additional cost for water after the Water Resources Bill was approved by Parliament” (NWRC director, in The Nation 23 April 2000); that “poor, small farmers struggling to survive are exempt from water charges … Only large users of water from the irrigation canals, such as golf courses, housing estates, industrial plants and large commercial farms that make huge profits, would be targeted” (The Nation 6 May 2000); that “the fee is not a tax on water but a service charge to be paid by those who use the service” (Bangkok Post 11 June 2000).

48 “Although the ASPL poses serious impacts for thousands of farming communities, the process of negotiations between the ADB and the government were non-transparent and provided little space for public participation. The ADB and the government have not made public the conditions of the loan agreement. Although the Cabinet approved the ASPL more than six months ago, the Agricultural Ministry only recently distributed the details of the reform program” (TERRA 2000, 2).
As to differences in preferences/values about proposed reforms, beneath the confusion about the meaning of the proposed reform, there were also fundamental differences in preferences and values about the proposed reform action. There was a position taken by some of the key stakeholders (some farmers’ organizations, grassroots NGOs), that market-based fees for irrigation were not the only options in a rural Thai society that had other traditional, nonprice based cooperative social mechanisms for irrigation such as the “Muang Fai” system. There was concern that the market pricing of water would transfer control and ownership of resources and irrigation systems from rural communities to cash-rich corporations; changing irrigation from “public investment” into a “private good”, and leading to the kinds of problems experienced when logging rights were given to private companies. Along with this, there was concern that irrigation fees would add to the already high debt burden of the poorer farmers, irrespective of government and ADB assurances. Furthermore, there was also a lack of credibility that the implementing agency, RID, would in fact provide reliable delivery of the paid-for irrigation water.

(e) Impact on policy reform: The highly visible and sustained stakeholder opposition effectively derailed the planned reforms. Its impact on political decision makers contributed to delaying the Water Resources Bill required for implementation of these reforms. The opposition also added further uncertainty to the exact nature of the proposed reforms, as expressed by senior technocrats. In this context, under a supporting TA aimed at capacity building in the water sector (ADB 1999d), a key focus was on negotiating service agreements with farmer organizations, based on participatory irrigation management with service standards and performance indicators, and with cost sharing between RID, local government, and farmers. However, notwithstanding repeated efforts by both the government and ADB, a majority of NGOs refused to participate in the TA workshops, concerned that the imposition of irrigation fees, as they understood the concept, would negatively affect the poor and cause inequitable distribution of water. Furthermore, the opposition of key stakeholders to the reform action may have reinforced bureaucratic resistance by the core implementing agency, RID, including the manner in which pilot projects on cost sharing were implemented.

It should be noted, in passing, that a closer review of the TA findings in fact indicates that farmers generally seem to have no objection to cost sharing arrangements if these would improve the quality of the irrigation service they receive. This example therefore underlines the need for ensuring that there is a mutual understanding among stakeholders, government, and external donors supporting policy reform—with respect to the nature of the issues, and proposed actions. In the case of the ASPL this involved the need to build a common understanding among farmers, NGOs, government and

49 “Given strong opposition to the water-pricing proposal, the Thai government too appears to be treading warily and avoiding any quick decisions on it. “There is still time to fix things. Whether water pricing will be good or bad is not clear now, but we still have time to discuss it,” Sommai Phasi, deputy permanent secretary at the finance ministry, told Thai media recently (Asia Times 9 May 2000).

50 See Molle (2001) on cost recovery and its complexities.

51 From interviews with government officials, consultants, NGOs.
ADB about the principle of cost sharing that best ensures sustainable, equitable, and economic use of water resources—and also to assure a sceptical audience that they will get the services they pay for (irrigation water through RID).52

(iii) Watershed Protection

(a) Reform issue: The reform issue related to the area “Watershed Protection and Soil Conservation” and involved the reform action “Government to design and commence implementation of a national action program for comprehensive watershed protection and management, involving public, private, NGO and community stakeholders.” This was a second tranche release condition, and operationally it required the Royal Forest Department (RFD) to develop and implement this reform action.

(b) Politics of the issue/events involved: The proposed reform of developing and implementing a participatory watershed protection program was likely to create “reform losers.” These special interests that have benefited from exploiting watershed areas had significant power and influence, and had exercised them to block similar attempts in the past. It was also not clear how vigorously the implementing agency, RFD, was able to pursue implementation of this reform, given organizational constraints.

(c) Stages in the policy reform process: The political difficulties with this reform initiative related to the implementation and sustainability of the action. It also related back to the endorsement stage, in that—as will be touched on—implementation and sustainability of this reform is likely to require passage of strong legislation, as well as the political commitment and organizational resources to implement it.

(d) Rationale for politics and related actions: Local “special interests” (referred to in Thailand as “influential people”), often control and exploit watershed areas for economic gains. In this context, the draft report for the TA supporting the ASPL points out the challenges in implementing such a reform program.53 The RFD had attempted to protect watersheds numerous times in the past, through the adoption of a watershed classification system (never put into law but used as management guidelines); zoning of the conservation forests as national parks and wildlife sanctuaries, both of which have the strongest laws for protecting standing forests; and the passage by Cabinet of several resolutions addressing watershed management issues. RFD created a watershed management division, and established watershed management units. However, none of their actions have proven successful. In general, there was a view that without a specific law—and the commitment and means to implement it—to protect watersheds from “influential persons” who treat remaining standing forests as private preserves, the

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52 She said many irrigation projects have been abandoned and unused. “Look at the irrigation canal near my area: there is no water, nobody benefited from it,” she said, singling out the irrigation canal at the Klondo subdistrict in Dan Makhantia district of Kanchanaburi. On the other hand, some farmers don’t mind paying up for water, provided they are assured of guaranteed service. “I don’t mind paying for water service if the government can guarantee delivering us water all year round,” said Sawai Dee-nguleaum from Nakhon Ratchasima. “But what will happen if it cannot deliver us the promised water?” asked the farmer.” (Bangkok Post 11 June 2000).

53 “The Thai Forestry Sector Master Plan (RFD 1993) points out that the Forest Act of 1941 and National Reserved Forest Act of 1964 have proven to be unenforceable in the fact of uncontrollable encroachment on forest land and the insufficient manpower resources of RFD” (ADB 1998a).
tangible impact of a national action program as in the reform were likely to be limited at best.54

(e) Impact on policy reform: Without the needed legal, enforcement, and budgetary support, the proposed policy reform was not and is not likely to be effectively implemented on a large scale. Where implementation may take place, sustainability of the reform is likely to be at risk.

(iv) Government Intervention in Agriculture

(a) Reform issue: This issue related to the reform area, to “Minimize Government Intervention in Markets and Prices.” More specifically, it involved the reform action: “With a view to eliminating Government competition with the private sector, Government to (i) withdraw from procurement and distribution of fertilizer, and (ii) complete a review of its intervention in other agricultural input markets to ensure equitable access of small and marginal farmers to inputs.” This was a second tranche release condition, and operationally it required the Office of Agricultural Economics to develop and implement a mechanism for monitoring the functioning of input markets to ensure access for small and marginal farmers.

(b) Politics of the issue/events involved: This provides an example of how the boundaries of policy issues and reforms can be somewhat arbitrary. The specific reform action in the policy matrix was implemented: government did withdraw from involvement with fertilizer. However, the more general policy objective of removing government intervention in agriculture “markets and prices” remains illusive. Special interests have been able to utilize the Ministry of Commerce to intervene in the agriculture sector, in particular in the output markets, to the potential detriment of small farmers.

(c) Stage in the policy reform process: The difficulties with this reform relate to the design stage and the setting of boundaries. As noted, the original reform action was implemented. However, other government activities have taken place that are contrary to the broader reform objective. This requires the design and effective implementation of compensating measures if the more general objective is to be met of reducing the government’s role in the agriculture sector to the detriment of small producers.

(d) Rationale for politics and related actions:55 Although MOAC has withdrawn from procurement and distribution of fertilizers and other agricultural inputs, the Ministry of Commerce has intervened in commodity markets on several occasions, going beyond the customary intervention in the rice market. For example, recent interventions in the domestic trading of fruit have created disturbances in domestic markets, causing serious losses for many smaller farmers. The implication is that government intervention is not easily removed from the agriculture sector, given the politically powerful interests involved.56

54 From interviews with senior officials, members of the business community, experts.
55 See Appendix 3, Policy Objective/Reform Area 2.5: “Minimize Government Interventions in Markets and Prices” (ADB 1999b, 17).
56 This of course is not unique to Thailand, or for that matter to DMCs, as a glance at agriculture policy in the EU and North America illustrates.
(e) **Impact on policy reform:** The specific reform actions of removing the government from the fertilizer business, and identifying the government role in other input markets, have been implemented. This has resulted in partial success with respect to the broader reform objective specified in the ASPL policy matrix.

(v) **Sustaining Reforms through Change in Government**

(a) **Reform Issue:** This issue involved the continuity of the basic reform strategy and specific initiatives in the agriculture sector introduced through the ASPL. It related to how the implementation of the ASPL would be effected by the election of a new government.

(b) **Politics of the issue/events involved:** After Dr. Thaksin Shinawatra was elected Prime Minister in a landslide victory on a strongly populist platform that included the pledge to reverse several policy reforms related to the IMF-led program, which also provided the framework for the ADB’s crisis operations in Thailand, including the ASPL, on 2 May 2002 the ASPL was subsequently cancelled prematurely at the request of the Royal Thai Government.

(c) **Stages in the Policy Reform Process:** The cancellation of the ASPL injected uncertainty into the continuity of policy reforms introduced under the program. This uncertainty related to the implementation of key reforms that were not yet fully implemented in the sense of “implanting lasting change”, discussed earlier. It also raised uncertainty with respect to the sustainability of the policy reform strategy as a whole, as well as the possibility of reversal of particular reforms already implemented. Furthermore, if “endorsement” of policy reform is seen as an ongoing process as discussed earlier, then the election of a government with a substantially different policy agenda from the one that requested the ASPL raised issues whether some proposed reforms may be “re-endorsed” by new political decision makers for implementation.

(d) **Rationale for politics and related actions:** The official reason given for cancellation of the ASPL was to reduce Thailand’s external public debt. In mid-2002 Thailand was recovering from the crisis, but still had a long way to go. By the end of 2001 total external debt had fallen to $69 billion from $80 billion in 2000, mostly because of the liquidation of private sector foreign exchange liabilities. However, the Thai economy was still very vulnerable. Global economic slowdown in 2001 slowed the growth of the Thai economy to 1.8%, from 4.6% in 2000; and manufacturing capacity utilization was still at only 53.3%. The slowdown of the economy was especially evident in the 7% contraction of exports. Given weakening external demand, the government was planning to increase its deficit-spending measures to support domestic demand as a way of stimulating growth. But successive deficit-spending to stimulate the economy and support financial sector restructuring have driven up public debt to around 57% of GDP by the end of 2001. The government therefore imposed a 60% ceiling on public debt to GDP (see *Asian Development Outlook 2002* [ADB 2002]).

It is reasonable to consider, however, political and policy-based reasons for cancellation of the ASPL. As noted, Prime Minister Thaksin Shinawatra’s government was elected in a landslide victory on a strongly populist economic platform. The Thai electorate’s strong dissatisfaction with former Prime Minister Chuan Leekpai’s pro-IMF economic
policies and the slow pace of recovery were instrumental in Dr. Thaksin’s victory. He capitalized on this disaffection by campaigning on a populist platform that included the pledge to reverse several IMF policies such as the bankruptcy legislation. Furthermore, Prime Minister Thaksin promised programs designed to stimulate the economy and redistribute the benefits of growth that were not necessarily consistent with the general direction of the policy reforms of the ASPL. This program included suspension of debts owed by poor farmers; creation of revolving village funds of grants of 1 million baht for every village; and a “30-baht-per-visit” health insurance scheme.

To underline the change in policy direction from the Chuan government, one of the first acts of Prime Minister Thaksin was to have lunch with the leaders of the Assembly of the Poor,57 one of the core groups involved in the anti-ADB demonstrations. It is reasonable to speculate therefore that continuing to borrow from ADB—and for a program introduced under the IMF umbrella, strongly opposed by key rural supporters that elected him—was perhaps not high on Prime Minister Thaksin’s agenda.

(e) Impact on Policy Reform: The cancellation of the ASPL removed the primary vehicle for policy reform in the agriculture sector. It therefore seemed to put at risk key reform initiatives that were not yet implemented. And in fact the core reform of cost recovery in irrigation, and the related Water Resources Bill have stalled. Furthermore, given the new government’s stated commitment to roll back IMF-related reforms, the sustainability of even those reforms that were well on their way to implementation would seem to have been potentially at risk.

On closer inspection, however, the impact of the election of the new government for policy reform introduced under the ASPL was more mixed. Prime Minister Thaksin had criticized his predecessor for neglecting the real economy in favor of helping the financial sector, and promised to put at the top of the policy agenda reviving the real sector, with particular emphasis on improving rural living conditions and agriculture. This was not inconsistent with the basic objectives of the ASPL (see Box 1). Furthermore, key elements of the new government’s policy agenda were in line with the ASPL. For example, it included a commitment to bureaucratic reform, consistent with the ASPL’s focus on “Restructuring Sector Management and Improving Governance”, including reorganization of MOAC, as will be discussed in the next section.

57 “I am here today to listen to your problems so I can test if my policies will work,” Thaksin said. During an hour-long meeting Thaksin discussed land rights, forest conservation issues, marine life depletion, and unemployment before joining protesters for lunch and touring their makeshift encampment. He added that his government would do more than introduce new laws to alleviate problems facing the country’s poor (AFP 2001).
The new government continued to support decentralization and devolution of power mandated by the 1997 Constitution, and restructuring of provincial administration in ways consistent with the general objective of the ASPL to improve agriculture sector management and governance, and with the reorganization of MOAC. In particular, the power and authority of provincial governors have been strengthened, with reportedly significant impact on provincial civil servants, including agencies such as RID and RFD that have customarily operated using a more centralized approach. The elevation of provincial governors as chief executive officers, combined with the modification of the budgeting and disbursement processes, have changed the operating environment for agencies that in the past have managed their own funds. This is particularly the case for both RID and RFD, each having operated strong and highly centralized financial management systems for more than a century. The 1997 Constitution mandates that specific percentages of the national budget will be disbursed as grants to local governments, with targets set for several years. To do this, budgets previously allocated to line agencies in Bangkok are being given as block grants to organizations at the tambon and provincial levels, and to governors to invest in high-impact public sector projects in rural areas that conform with the current administration’s populist policies.

C. Institutions: Shaping Reforms and Implementing Change

1. Introduction

Policy reforms are fundamentally “institutional” in nature. As used here, the concept of “institutions” has two dimensions: (i) institutions as “rules of the game”, e.g. property rights, the workings of the political system, judiciary, bureaucracy; and (ii) institutions as organizations, e.g., that implement policy reform activities. Policy reform involves institutions both as rules of the game and as organizations.\(^{58}\)

\(^{58}\) The first meaning corresponds to the use of the term in “the new institutional economics” (Williamson 2000). The second meaning corresponds to the traditional use of the term in the management literature.
Institutions relate to policy reform in two ways: (i) they influence the policy process (the framework for how issues get on the policy agenda, decision making process on policy reforms such as the passing of legislation, program design) and therefore the shape of planned reforms; and (ii) institutions help determine the outcome of reforms as activities undertaken by organizations (e.g., reforms as the output of the activities of implementing agencies). Therefore policy reform takes place within the framework of an existing “institutional infrastructure” that shapes both the design and implementation of reforms.\(^{59}\) In this context, the outcome of reforms will be a function of the institutional capacity required to implement reform actions, including the capability for different agencies to coordinate and cooperate.

Furthermore, an important objective of reform may be—and often is—modification of the existing institutional context both as rules of the game and as organizations. That is, institutions are not only important in shaping the policy reform process, but may also be key targets of reform. The desired outcomes of reform therefore may include different behavior and outputs by existing institutions; creation of a different set of organizations or implementing agencies; or perhaps even more fundamentally, a different set of institutions as “rules of the game.”

2. Institutional Dimensions of Policy Reform

(i) “Institutional Intensity” of Reforms in the ASPL

The implementation of the reform actions in the ASPL policy matrix involved a large number of agencies, and required close coordination and cooperation among them. A cursory look at the policy matrix identifies the following organizations involved in the implementation of the policy reforms:

- Ministry of Finance
- Cabinet
- Bank of Thailand
- Ministry of Science, Technology and Environment
- Ministry of Agriculture and Cooperatives
- Office of the National Water Resources Committee (ONWRC)
- Office of the Prime Minister
- Office of the Permanent Secretary of MOAC
- Royal Irrigation Department (RID)
- Department of Mineral Resources
- Department of Land Development

\(^{59}\) An interesting discussion of the origins and role of institutions in selected East Asian “developmental states” can be found in Doner, Ritchie, and Slater (2005).
Furthermore, the ASPL reform program called for the creation of a number of new agencies, committees, advisory councils, and task forces, for example including among others, the establishment of a National Council for Agricultural Research, “with beneficiary representation at all decision making levels”; establishment of the National Agricultural Products Standards Institute and the National Resources and Bio-diversity Institute; establishment at RID organizational units for participatory irrigation management and public relations at its headquarters and regional offices; and establishment of at least two permanent research and development committees at the tambon level in each province.

Beyond the sheer number of existing and new institutions involved, the policy reforms in the ASPL placed extensive demands on the technical, managerial, and coordination capabilities of the implementing agencies—demands that turned out to be difficult to meet in practice.

(ii) Water Management and Organizational Culture

(a) Reform issue: The ASPL policy matrix had at its core a focus on three key reform areas related to water management. These included: establishing a “Unified Water Management System”, improving “Water Resources Management”, strengthening “Water Service Delivery.” The three reform areas, in turn, involved 22 of the 70 reform actions in the policy matrix, with extensive and demanding institutional implications.

(b) Institutional Constraint: Implementation of key reform actions required basic changes in organizational structures, systems, and culture. As research into organizational change indicates, altering organizational culture is the most difficult of all institutional change efforts (see for example Smith 2002). This is likely to be further complicated if the change in culture also involves a reduction in organizational power and influence. Therefore a fundamental constraint on the implementation of water-related policy reforms involved changes in the organizational culture of traditional and traditionally powerful institutions.

(c) Discussion: The case of the RID illustrates the scale of the challenge. As noted, RID was a key organization within the MOAC, absorbing up to 60% of its budget, and one that has been resistant to change over time. The ASPL provided an opening for
“reformists” in the government and MOAC to undertake fundamental changes at RID. For example, fully one third, or 7 of the 21 required “prior actions” involved issues related to irrigation and water management, the historical mandate of RID. In effect, the preparation and presentation of the policy matrix was at the same time a detailed critique of RID’s operations and management, and proposed alternative approaches to manage water resources and changes to RID’s traditional way of doing business. However, bringing about lasting organizational change at RID was likely to be a complex, difficult, and time-consuming challenge, as the following examples of proposed reform actions illustrate.

(d) “Establish a unified water management system by upgrading the Office of the National Water Resources Committee (ONWRC)”: RID has always felt that water management was already unified under its historically mandated authority and operations. Over the years, it has successfully resisted collaboration with ONWRC, which is an “office” located in the Office of the Prime Minister and therefore lacks within the Thai government system the kind of permanent mandate, authority, power, and resources that RID controls.

(e) “Strengthening ONWRC”: This challenged the very powerful and entrenched RID that could feel its mandate to manage surface water resources directly threatened, especially since, for example, seven of the 21 “prior actions” involved irrigation and water management.

(f) “Streamline water resources management and water service delivery through formulation of a national water policy”: ONWRC had been declaring national water policies for many years, and at least three draft water laws were in circulation during the 1990s—with little impact on actual water resource management. Therefore RID could perhaps assume that it could have significant impact on shaping such a policy, were it to be pursued in earnest.

(g) “Contract out or privatize parts of Government irrigation operations and management services”: RID turned over to local subdistrict (tambon) administrative organizations (TAO) the operation of diesel and electric powered water pumps (around 2,600) used to pump water to high-lying lands in irrigation command areas. Although in line with the intent of the reforms, this could also be seen as serving its own agenda, since costs of maintaining the pumps and their replacement would have been a drain on RID’s budget, and the process of procuring new pumps potentially risky and politically sensitive. However, operational control of irrigation system head gates and main, lateral, and sublateral canals—items that require relatively large budgets for operations and maintenance—remained in the hands of RID.

60 “Cabinet decision to establish interministerial task forces to be coordinated by ONWRC to address priority issues in the water sector, including (i) water allocation in the Chao Phya basin during the dry season, (ii) national water policy, (iii) integrated information system, (iv) flood and drought mitigation, (v) sustainable groundwater management, and (vi) river basin communities” (first tranche release condition); and “Improve, with Bank technical assistance, the capacity of ONWRC to effectively coordinate water resources management by (i) restructuring it so it can function efficiently as apex body, (ii) ensuring appropriate skills mix, and (iii) providing the needed financial resources” (Bangkok Post 11 June 2000)
(h) “Instruct the Royal Irrigation Department (RID) to develop an irrigation operations and maintenance program in collaboration with the private sector”: Although RID offered tender documents for private companies to provide canal maintenance services, to date it has not granted contracts to firms to undertake major maintenance activities. The funds for maintenance of the thousands of kilometres of canals and water gates is a significant part of RID’s budget, and a source of operational control.

(i) “Initiate a participatory process to undertake cost recovery in public irrigation schemes”: As discussed earlier, cost recovery could be interpreted to have a specific meaning as in the Irrigation Act—where regulations have never been written to implement the specific sections of this law. With cost recovery in this more narrow sense under way at several irrigation projects, RID could take the position that this proposed reform is in fact already operating successfully—if on a so far limited basis.

3. Reorganization of MOAC

(i) Reform issue: A key reform area in the ASPL policy matrix related to the “Restructuring of Sector Management and Improving Governance.” A number of specific reform actions then related to fundamental restructuring and reorganization of MOAC.

(ii) Institutional constraint: As the case of MOAC illustrates, implanting change in organizational incentives and behaviors is not the same as changes in organizational form. As noted, organizational change in this more fundamental sense is complex, difficult, and time-consuming.

(iii) Discussion: MOAC, working through the Office of the Permanent Secretary, was to seek Cabinet approval for a plan to restructure the Ministry, based on the Office of the Civil Service Commission’s (OCSC) bureaucratic reform and restructuring plan. The plan was approved by Cabinet, creating on paper a new structure for the Ministry. The restructuring was to be completed by 1 October 2001, in time for fiscal year 2002. However, the restructuring process and subsequent negotiations were long, protracted, complicated, and highly political. Negotiations took place on several fronts simultaneously: between OCSC and MOAC; within MOAC itself, to determine which line agencies would be transferred; between MOAC and the agencies designated as recipients of MOAC line agencies; and, within MOAC departments, to negotiate which technical divisions and even sections would be transferred where. As a consequence, the transfer of some of the units was not completed until 2004. Furthermore, although formal reorganization of MOAC has been implemented, there are strong indications that little has changed in terms of basic operations and quality of services provided by MOAC.61

61 From interviews with senior officials, representatives of NGOs, and farmers’ groups.
This is in part due to constraints (resistance, capacity) from line departments; as well as a general weakening of the quality of government agencies due to declining interest in public service in contemporary Thailand—a historic change from the days when being a government official was a mark of professional distinction. In addition, because of the strong operations-oriented role of elected ministers in the Thaksin administration (e.g., “CEO style”), civil servants have tended to become more cautious and risk-averse. Therefore although new structures are now in place, real change—in operations—to date has been at best limited at MOAC. It is expected that MOAC is likely to evolve, consistent with the commitment of the government to decentralization and devolution of authority to local governments, mandated by the 1997 Constitution, and with the restructuring of provincial administration, as discussed earlier.

4. Participatory Land Use Planning and Organizational Capacity

(i) Reform issue: A key reform area in the ASPL policy matrix involves “Watershed Protection and Soil Conservation. A specific reform action related to this area involves: “MOAC to design a national program to rehabilitate land affected by salinity, acidity, and soil erosion; and by 30 September 2000, commence implementation of six participatory land use planning projects at tambon level in each region to demonstrate rehabilitation approaches to the principal problem areas.” Within MOAC, the Department of Land Development (DLD) was to take the lead in implementing this reform action.

(ii) Institutional constraint: The DLD, as a technical agency, had limited organizational capacity to implement the proposed reform action.

(iii) Discussion: The DLD had little experience with the particular and complex demands of participatory and community-oriented land use planning techniques. As a technical agency within MOAC, it lacked the experience in general of working with community-based organizations (CBOs) and nongovernmental organizations (NGOs). In fact the recommendation (under ADB TA 3002 [ADB 1998a]) was for DLD to serve as a technical resource agency, advising the Department of Local Administration and NAREBI, both of which had previous experience in community level land use planning, to formulate participatory land use plans, which would take into consideration the problem soils in each location. The expectation is that left to DLD to implement the proposed reform action on its own, although short-term progress may be observed, it is unlikely that a sustainable reform program would be developed.

62 According to the Office of the Civil Service Commission (OCSC), many positions remain vacant and scholarships for foreign study (which require that successful candidates return to work for the government for a specific period of time) are unclaimed, particularly at MOAC.

63 Based on interviews with senior government officials.

64 Interviews with MOAC officials, farmers’ organizations, NGOs.
5. Institutional Capacity and Coordination

(i) Reform issue: Under the broad policy objective of “Enhanced Export Competitiveness”, a key area in the policy matrix involved reforms to “Restructure Extension Systems and Improve Farmer Education.” A specific reform action and second tranche release condition related to this area involved the “Department of Cooperative Promotion and DOAE to finalize and commence implementation of a countrywide program to stimulate the establishment by the private sector (cooperatives and farmer groups) of a network of one-stop service centers at regional, provincial, and district levels to facilitate trading of agricultural inputs and outputs, exchange of market- and technology-related information and access to credit.”

(ii) Institutional constraint: The reform action requires extensive organizational capabilities related to the design and implementation of the required program on the part of the two MOAC implementing departments, DCP and DOAE; as well as the ability to work well together on complex tasks—all within the short time frame of the ASPL.

(iii) Discussion: The implementation of this reform action implies the need for extensive organizational capabilities and knowledge on the part of DCP and DOAE to facilitate and advise on the establishment of effective “one-stop service centers.” The role of these centers is complex, serving a variety of clients with sophisticated services such as the “exchange of market- and technology-related information” and “trading of agricultural inputs and outputs.” In addition, this reform requires significant capabilities on the part of these two agencies for capacity strengthening and institution building. That is, the one-stop service centres are to be established not by MOAC, but by the “cooperatives and farmer groups”. Therefore the role of DCP and DOAE is primarily not technical but facilitative, involving capacity building: to strengthen the capabilities of these organizations and groups for the establishment and operation of such centres. Furthermore, the two departments are required to coordinate closely in the implementation of this complex reform action.

D. Government Commitment: Stability of Expectations

For policy reform and associated policy-based lending to take place, there generally needs to be in place a certain level of stability of expectations that reforms will be carried out more or less as planned. If there were no such relatively stable expectations on the part of key stakeholders, then presumably proceeding with policy reform and related lending would be judged rather risky. In this context, it is “government commitment” that is assumed to be the guarantor, particularly for policy-based lending, where planned reforms will be implemented and sustained. For example, the ASPL states that “A major assumption used in the formulation of the program is the Government’s continued commitment to the proposed reform measures during implementation (ADB 1999b,

65 See Abonyi (2002), especially Appendix 3, for a discussion of government commitment.
Paragraph 111).” This is in the section entitled “Risks”—and aptly so, since changing government commitment is a key proximate cause of risk in reform and policy-based lending.

More deeply, behind government commitment as a potential source of risk to policy reform and policy-based lending, it is the political economy factors of politics and institutions that are the key and continuing source of uncertainty and risk. That is, political acceptability and institutional feasibility influence government commitment in terms of both capability and intent to initiate, endorse, implement or sustain reforms over time. Government commitment can be subject to change at any point during the policy reform process, as new political pressures come to bear, or as constraints on institutional capacity to undertake reforms emerge. Therefore a better and earlier appreciation of the potential role of politics and institutions in the policy reform process can provide important information on likely sources of uncertainty and risk to continuing government commitment, and therefore to policy reform and policy-based lending. Selected examples from the ASPL case provide illustrations of the relationship of political economy factors to government commitment.

1. Example: Cost Recovery in Irrigation

   (i) Political acceptability: As discussed earlier, strong stakeholder opposition to implementing cost recovery in irrigation became an important source of political uncertainty and risk in the reform program. The extent of the stakeholder resistance caught both the government and ADB by surprise. However, once such opposition became highly visible, with seemingly strong grass roots support in key regions, then given the political context in Thailand—dominance of the rural vote and rural-based members of parliament—it became clear that the government’s ability to proceed with this reform was likely to be weakened. That is, even if “government commitment”—meaning the intent of the Ministry of Finance and the MOAC—to implement the reform action was initially in place, it was likely to become highly uncertain once stakeholder resistance became pronounced and politically effective. For example, this was likely to be the case for the required Water Reform Bill to be approved by political decision makers.

   (ii) Institutional feasibility: Furthermore, the seeming reluctance of RID to implement this reform action as intended, discussed earlier, provided a significant additional source of institutional uncertainty and risk to the reform. That is, even if MOF and MOAC at senior levels (Office of the Permanent Secretary) were committed to the implementation of the reform action, resistance by the key implementing agency, RID, would have been a key source of uncertainty and risk to the implementation and sustainability of the reform. Resistance, whether overt or covert, by key implementing agencies to proposed reforms can undermine government commitment by weakening capability to implement policy reforms, or at the very least affect the timing of such reforms. The juxtaposition of strong stakeholder opposition and implementing agency resistance can have particularly serious implications for reform implementation.
2. **Example: Reorganization of MOAC**

In relation to institutional feasibility, there was a strong commitment by the government, including at senior levels of the MOAC (Office of the Permanent Secretary) to the reform actions aimed at the restructuring and reorganization of the Ministry. The new government maintained this commitment to organizational reform. However, as discussed earlier, it took significantly longer than planned to implement the restructuring and reorganization of MOAC. Furthermore, even once implemented, fundamental organizational change—in terms of lasting changes in incentives and behaviors—continues to remain illusive. The implication is that even with clear and sustained government commitment (intent) to implementing reform—including through changes in government—institutional or organizational reform is a complex, time-consuming process. There has to be a readiness to recognize when delays in reforms are the product of capacity constraints as distinct from weakening of commitment in terms of intent; and adjustment of expectations to realities in the implementation of policy reforms.

3. **Example: Change in Government**

In relation to political acceptability, the Chuan government that requested the ASPL was committed to both a general reform agenda, and to policy reforms in the agriculture sector. However, elections brought in a change in government—elected on a populist and to some extent an anti-reform platform, in the context of the IMF-led program. Furthermore, the rural constituency that provided core support to the new government also housed the strongest opposition to the ASPL. The cancellation of the ASPL would seem to indicate at least a certain level of change in government commitment—change in intent—with respect to the ASPL reform program. In practice, as noted, there was in fact strong support for some of the key elements of the ASPL reform program that were consistent with the new government’s policy agenda. The implication is that even when strong government commitment is in place for a particular set of reforms, such commitment is best seen as temporary, when measured against the realities of policy reform as long-term change. Potential political change—in the government or in political decision makers—is likely to be a recurring reality during an extended process of policy reform, and involve at least some shifts in government commitment over time—both in terms of the intent and capability to implement reforms. Therefore policy reform is best approached more as an unfolding and uncertain experiment over an extended period, than quick implementation of a fixed blueprint.

**V. CONCLUSION: IMPROVING THE ODDS**

**A. Taking Stock: Outcome of Policy Reform and the ASPL**

Taking stock of the policy reform process in the agriculture sector in Thailand, and in particular the role of policy-based lending, the ASPL, the basic question is: what difference did it all make? To what extend did policy reform take place; and did the ASPL contribute in significant way?
Recalling the dual role of the ASPL, first, it provided an important infusion of needed external financing at a time of deep economic crisis. Furthermore, as discussed, important steps had been taken toward implementing policy reforms in agriculture and rural development, to a large extent as a result of actions designed into the ASPL policy matrix. All 21 “Prior Actions” required for the ASPL first tranche release were completed by the government, reflecting its basic commitment to reform. It is true that on closer scrutiny, these reform actions generally did not change government policies or operations in any substantial way. However, they can be interpreted as signals of new policy directions that the government intended to pursue—signals to both entrenched line agencies, and to external stakeholders. As preparatory actions, they set the stage for changes to follow, constituting important progress toward agriculture sector reform. There was also considerable progress on many of the “second tranche” conditions. For example, upon the recommendation of the Office of the National Water Resources Committee (ONWRC—housed in the Office of the Prime Minister), and the Royal Irrigation Department (RID), Cabinet approved a national water policy,66 followed by a new budget procedure to ensure that budget requests of implementing agencies were in line with the new policy. There were many other reform successes as a result of the ASPL, as discussed—sustained through the election of a new government with a fundamentally different policy agenda.

At the same time, there are planned reforms that did not work as had been intended—at least not as yet. The proposed “cost recovery in irrigation” that brought protestors out into the streets of Chiang Mai at the ADB Annual Meeting in 2000, remains far from resolved. The Royal Forestry Department’s “national action program for comprehensive and participatory watershed protection” has a long and difficult history, and an uncertain future. And real organizational change of the Ministry of Agriculture and Cooperatives—in terms of implanting fundamental changes in incentives and behavior, as distinct from redrawing organizational boxes—remains an ongoing challenge.

The “bumps along the road to reform” were to a large extent the result of the political economy factors conditioning the policy reform process: the role of politics and institutions. The concluding question then is what lessons may be learned from the ASPL case with respect to the political economy of reform—lessons that can be applied, if not to remove the ever present bumps to policy reform, to at least allow for more effective ways of navigating around them.

B. Lessons Learned

1. Introduction

The lessons from the ASPL case may be grouped into three categories relating to: (i) general preconditions for effective policy reform and policy-based lending; (ii) political acceptability of policy reforms; and (iii) institutional feasibility of reforms. These lessons are likely to be relevant to both governments and external donors involved in the policy reform process.67

66 Based on a Cabinet resolution dated 31 October 2000 (Government Spokesman Bureau 2000).
67 See Abonyi (2002), particularly for implications of political economy factors for donors such as ADB.
2. Preconditions for Effective Reform and Policy-based Lending

(i) **Scope of the policy reform program**: Program design defines the scope and focus of reform, and sets its political and institutional boundaries. In this, it defines the associated gains and losses from reform initiatives, and therefore “reform losers” and “reform winners.” This, in turn, shapes the political debate at various stages in the policy reform process. Similarly, designing the scope and setting the focus of reform actions delineate the set of institutions and institutional relationships that will have a role to play in the policy reform process. In general, decisions on the scope and focus of reforms are a balancing act. The ASPL case suggests that overloading the reform agenda (comprehensive policy matrix of very wide scope and detail), especially under crisis conditions, is likely to lead to problems and delays at various points in the policy reform process if it exceeds the absorptive capacity of the government and implementing agencies in terms of policy attention, political support, institutional capacity, and resources. At the same time, too modest a reform agenda, especially under conditions of readiness for change, may limit progress in addressing key development constraints. Therefore defining a deliberately ambitious but relevant reform program can be the basis for initiating important changes. Ultimately the scope of reform should be consistent with the political support that exists or may be generated over time; and the institutional capacity required to implement such reforms.\(^68\)

(ii) **Timetable for reform**: As reflected in the ASPL case, implementing and sustaining policy reforms involves a complex, uncertain and long-term process of change. As discussed, this process includes the initiation, design, endorsement, implementation, and sustainability of policy reforms; and requires associated transformations in incentives, behaviors, and institutions. For example reorganization of MOAC, or of the activities of RID, involving not only changes in organizational charts but changes in operations and even more fundamental changes in organization culture, is likely to involve an extended time horizon and some uncertainty as to actual outcomes. The time needed for policy reform as a process of change therefore must include the time required to build the necessary political consensus for particular reform actions, as well as to put in place institutional capacity needed for implementing such actions.

(iii) **Crisis as “window of opportunity”**: As the ASPL case demonstrates, a crisis can create conditions to initiate needed reforms. However, unless the necessary political support can be put in place, opposition may emerge to reforms that are not seen as relevant to the crisis at hand. For example, resistance of key stakeholders (farmers, NGOs) to the ASPL arose in part because the link was not clear to them between core reform actions (imposition of cost recovery for irrigation) and the nature and required

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\(^68\) This does not suggest that capacity constraints should be taken as “binding constraints” on reform. It does suggest that the reform strategy should either be consistent with existing institutional capacity to implement reform; or provided for the necessary resources (including time), for implementing proposed reforms.
resolution of the crisis (as they saw it, involving primarily the urban financial sector).

In general, when a crisis recedes or is seen as not being addressed effectively, government commitment to reform may change as opposition to reforms, especially to what are perceived as externally imposed reforms, begins to exert growing pressure; or as institutional constraints emerge. Therefore if reforms are introduced as part of a crisis response strategy, it is essential to ensure that the rationale for reform is clear to key stakeholders. More fundamentally, the challenge is to ensure that reforms introduced under crisis conditions continue to be seen as relevant and are sustained beyond the urgency of the crisis.

3. Political Acceptability

(i) *Political input into program design:* There were limited linkages between the technical program design process involving senior MOAC officials and ADB (primarily international consultants), and political decision makers. This resulted in a policy matrix that contained politically sensitive and uncertain reforms without sufficient consideration of likely support for such reforms.\(^69\) As noted, the policy reform process is fundamentally political in nature; endorsement, implementation, and sustainability of reforms will ultimately depend on their political acceptability as much as on their technical relevance. Therefore it is essential to bring political insights into program design, both as a source of information on potential bottlenecks in the policy decision process (especially if new legislation is needed); and to build necessary supporting coalitions (of political decision makers) for endorsing and sustaining reforms.

(ii) *Stakeholder consultation/public participation:* The ASPL paid considerable attention and resources to stakeholder consultations. Yet strong opposition emerged among some of the same stakeholders—farmers, NGOs—participating in the consultations. Furthermore, these stakeholders then accused the government and ADB of lack of transparency in the reform program design. The problem seems to have been that consultations focused on general issues in the agriculture sector, and not on the specific reform actions in the policy matrix. When details of the proposed reforms contained in the policy matrix became known—after formal approval of the ASPL—opposition coalesced around particular issues they found unacceptable (cost recovery in irrigation). Partly as a result of a loss of confidence in the policy reform process, these stakeholders boycotted subsequent attempts at consultations.\(^70\) In general, stakeholder consultations can serve two purposes: solicit information on stakeholder perceptions and preferences; and/or to build support for reforms. The ASPL example illustrates that there are two types of strategies that may be followed: general consultations on broad issues related to policy reform, as in the ASPL; or consultations focusing on specific reform actions. The more general the focus of stakeholder consultations, the easier it may be to reach

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\(^{69}\) See Appendix Table 1 for a list of such reforms in the policy matrix.

\(^{70}\) These were consultations held under the TA.
consensus. However, the risk is greater of differences emerging as details of the reform program become known at later stages in the process, as in the case of the ASPL. The more specific the focus of consultations, e.g., on particular reform actions, the more difficult it may be to reach consensus, and the more time may be needed. However, once consensus is reached, there may be less risk of differences emerging later in the reform process (Abonyi 2002). Continuing stakeholder consultation during the implementation process can also play an important role in adjusting proposed reforms in response to the changing conditions, preferences, and/or significant emergent resistance—thus increasing the likelihood of effective implementation.71

(iii) Promoting public awareness: There was a great deal of confusion in the case of the ASPL about the operational meaning of “cost recovery in irrigation.” This was an important source of stakeholder resistance to the reform action and to the ASPL. However, there are indications that farmers generally have no objection to cost sharing arrangements if these improve the irrigation service they receive.72 This would indicate that building public awareness and common understanding about Thailand’s water management issues, as well as about the principles of “cost sharing” that best ensure economic, equitable, and sustainable use of water resources could have at least reduced stakeholder opposition to reform. The implication of the case is that public awareness of issues and proposed reforms is an important part of the policy reform process. Promoting such awareness as part of the reform process provides the basis for generating a common understanding of the policy issues and proposed reforms, and can help build essential stakeholder support for such reforms.

(iv) Mutual understanding among key players: The ASPL case demonstrates that different and perhaps inconsistent or conflicting perspectives on reform may exist among key players. These need to be reconciled to ensure mutual understanding on basic issues in policy reform. Fundamental differences emerged between MOAC and ADB primarily about the feasibility of the proposed reform program, leading to a breakdown of negotiations. Related to this, key differences in perspective emerged between MOAC and MOF about the role of the ASPL. The impasse was resolved only because of the power of MOF to force a resolution, not because a mutual understanding and stable compromise was reached among the key players about the reform program. This left important question marks related to implementing agency (MOAC) “buy in” to particular reforms, and with respect to the feasibility and sustainability of proposed reforms. On closer analysis, an important reason for differences in perspective was the limited involvement of MOF and ADB as an institution73 in the ASPL program design; and the lack of a mechanism in the design process for discussion and review of the details of the policy matrix by the key players. The breakdown of negotiations between MOAC and ADB, along with the differences in perspective between MOAC and MOAF, reflect

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71 This important role of consultation was noted by Rick Doner (Emory University) in private communication.
72 Results of TA 3260-THA (ADB 1999d).
73 Given the dominant role of international consultants in program design, it is not clear to what extent ADB itself was aware of the full implications of the contents of the policy matrix—especially in light of ADB’s long absence from the agriculture sector in Thailand prior to the ASPL.
the fundamental need for ensuring mutual understanding among key players in program design with respect to the objectives of reform and relevance of proposed actions, as well as with respect to key assumptions underlying proposed policy reforms— their feasibility.

(v) Relationship between a specific reform program and the wider political context: The ASPL was designed and implemented within a broader environment of political change. At the time of the ASPL there was a growing public perception that international financial institutions (IFI) were imposing their own reform agenda on Thailand through the IMF-led program—under whose umbrella the ASPL was initiated. Stakeholder resistance to the ASPL was therefore in part a reflection of this wider dissatisfaction with the response to the crisis by both the government and the supporting IFIs, including ADB. The depth of this public dissatisfaction with the existing policy agenda was reflected in the overwhelming defeat of the Chuan government by the Thaksin-led coalition on an explicitly populist platform. The new government cancelled the ASPL. The implication of the case is that the implementation and sustainability of reforms in a particular area may be closely linked to other policy areas, including the broader political context. Therefore it is important to “scan” the wider environment, and reflect important potential shifts in program design and implementation.

4. Institutional Feasibility

(i) Assessing institutional feasibility of program design: As the ASPL case illustrates, policy reforms require institutions that are both capable and willing to implement such reforms. In fact policy reforms are generally “institution-intensive” in nature, often involving many organizations singly and in combination. Therefore a key challenge in designing feasible reforms is to assess the institutional requirements for implementing each planned reform measure, and to ensure that the necessary organizational capabilities are in place, or will be put in place. Unless there is an appreciation of the institutional feasibility of planned reforms there is a high risk that individual reform measures may not be feasible, and/or that an organizationally overambitious reform program may result in terms of both scope and timetable. If such institutional analysis reveals significant gaps between existing and required institutional capacity, then either the program design needs to be adjusted, or the capacity of implementing agencies needs to be strengthened. In the case of the ASPL institutional constraints emerged to play a significant role in constraining reform implementation. Therefore policy reform is also fundamentally about institutional capacity building, which in turn may require considerable time and resources. Furthermore, as reflected in the ASPL case, implementing policy reform goes beyond individual, isolated institutions. It is likely to involve getting different agencies to work together—multi and interagency coordination—within a common framework to implement particular reform initiatives that cross individual agency boundaries. Institutional coordination and cooperation is likely to be a complex and time-consuming challenge, and a key requirement is to identify likely bottlenecks to such cooperation/coordination with respect to particular reform actions.
Composition of the program design team: Whether or how effectively the issue of institutional feasibility is incorporated into program design is in part a function of the composition of the program design team. The preparation of the ASPL policy matrix was undertaken by a design team composed of senior officials and technical staff at MOAC (primarily in the Office of the Permanent Secretary), and ADB’s international consultants. The design team therefore was primarily composed of technocrats focusing on technical policy issues, rather than on the management and organizational requirements of implementation. The basic question: “what is needed to make this reform work in practice?” was generally not the focus of attention. Therefore it is important to have as part of the core program design team in policy reform, participants who bring a managerial and organizational perspective that addresses such issues.

Participation by implementing agencies in program design: Institutional feasibility of program design can be strengthened through the participation of implementing agencies in the design process. In the case of the ASPL, key agencies responsible for implementing reforms, although consulted, were generally not core participants in program design. Partly as a consequence, there emerged a gap between the design of reform actions, and implementation requirements—in terms of implementing agency understanding, capacity, and commitment. The implication is that it is important to involve line agencies responsible for implementing policy reforms in the design process in order that ensure that the proposed reforms are doable; and that the implementing agencies understand and support proposed reforms. It should be noted that there may also arise an “incentive problem” for line agencies—unless there is a clear link between the resource requirements for implementing reforms, and the needed budgetary resources. In the case of the ASPL, there was indication of concerns by MOAC senior officials and line department managers about a possible gap between the ASPL loan that flows into the general budget, and the required but uncertain domestic budgetary allocation of resources to MOAC and its line departments for program implementation.
EPILOGUE

“RETHINKING CONDITIONALITY”: AN ALTERNATIVE PERSPECTIVE

The effectiveness of policy-based lending has been the subject of ongoing debate since its origins in the early 1980s.74

The discussion has often focused on the nature and role of conditionalities that set out the policy measures that must be implemented by a country borrowing from IFIs to support policy reform. As a consequence, the approach to policy-based lending and associated conditionalities has evolved over time. For example, there is an extensive review of conditionality under way by the World Bank (World Bank 2005); and the British government’s Department for International Development (DFID) recently issued a fundamentally revised approach to conditionality and policy based lending (DFID 2005). The purpose of this concluding section is to suggest the implications of this and related case studies (Abonyi 2005a and 2005b) for the ongoing debate. In this, it ventures beyond the confines of the particular case study to make more general observations.

At the risk of caricaturing the very rich discussion on policy-based lending and conditionalities, some of the emerging lessons are as follows:

(i) policy reform, and therefore policy-based lending is a difficult and uncertain undertaking for both governments and supporting IFIs;
(ii) in this, policy reform is fundamentally a domestic process of change;
(iii) therefore, country ownership is critical to the success of reforms; and
(iv) emphasis is increasingly on customizing reforms to the local country contexts as distinct from a uniform focus on generic “best practice” as the basis for policy reform in very different settings.

The conclusion increasingly drawn from these lessons (Dollar and Svensson 1998, World Bank 2003, DFID 2005) is that policy-based lending should focus on outcomes and/or completed prior actions, not on reform-related intentions or promises of future action. The implication is that countries with good policies should receive support; those that have not demonstrated good policies should not.

The results of this and related case studies are consistent with the above lessons; however the implications for policy-based lending are seen somewhat differently. The stated assumption in focusing policy-based lending on countries that have demonstrated good policies is that “donors cannot ‘buy’ or induce reforms”: countries have to own reforms, which is demonstrated either through the selection of “good policies” (World Bank 2003) or by achieving “good outcomes” (DFID 2005). Therefore according to this perspective, policy-based lending will/should be given if and only if the recipient country is already implementing donor-approved reforms. The implication is that countries that do not already have key domestic factors and a certain level of capabilities in place for formulating and implementing effective policy reform will not be helped by policy-based lending.

That is, such lending and associated technical assistance can play little useful role in bringing about the transition to “good” from “bad” or problematic policies: it cannot induce change, only help in maintaining what are good (donor-approved) policies already in place.

This and related cases suggest a different perspective. It is not at all clear that there is an agreed upon standard for “good policies and institutions” in a variety of settings and circumstances, even if tailored or redesigned for local contexts. As experience of a diversity of developed economies shows, there is no one-to-one correspondence between a well-functioning market economy and a corresponding set of policies and institutions such as labor markets and state/public enterprises. Although there is a growing stock of knowledge about characteristics of well-functioning economies, and “international best practice” in selected policy areas, there is significant uncertainty and room for choice in the relationship between economies, policies, and institutions in particular settings (see for example Rodrik 2004, Nelson et al. 1997).

In this context, the perspective reflected in the case studies is that policy-based lending can indeed be more useful in supporting policy reform—even in countries that are not yet implementing “good policies” or that as yet have not achieved “good outcomes”—if it were approached differently. That is, policy-based lending can be more effective in contributing to a process of inducing policy change if the design and implementation of such programs better reflected the role of politics and institutions that condition the policy reform process. Therefore the focus of this and related cases is on how to better understand and accommodate political economy factors in the program design process in order to support policy reform more effectively. This is the thrust of the earlier section on “lessons learned.” For example, in the case of Thailand, there was both a need and a readiness to undertake policy reform in the agriculture sector. However, a better appreciation of the political economy factors conditioning such reforms (concerns of key stakeholders, institutional constraints) could have improved the likelihood of effecting change.

In sum, launching reform is a bit like a “local earthquake”: it upsets not only the existing policy mix, but sets in motion over an extended time horizon, often unpredictable and unanticipated changes in structures, systems, processes, incentives, expectations, behaviors, relationships, power alignments, and institutions. This is further complicated in times of crisis. Therefore policy reform requires a high tolerance for uncertainty and risk by both governments and donors. In this context, programs cannot be designed up front with any certainty, however extensive the preparations. Policy reform and associated programs are thus more in the nature of an unfolding experiment, where expected outcomes or conditionalities are best seen as “working hypotheses.” In this context, the implication of the cases is that a better appreciation of the role of political economy factors in particular settings can perhaps help improve the odds for reform.
## APPENDIX TABLE 1
**POLICY MATRIX OF THE AGRICULTURE SECTOR PROGRAM LOAN**

<table>
<thead>
<tr>
<th>POLICY OBJECTIVE / REFORM AREA</th>
<th>PRIOR ACTIONS TAKEN</th>
<th>ACTIONS TO BE TAKEN</th>
</tr>
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</table>
| 1. Facilitate Foreign Direct Investment  
  1.1 Unified Water Management System | ■ Cabinet to adopt resolution to establish a comprehensive, unified water management system by reforming the institutional framework and legal instruments for regulating rights to water, water allocation and distribution, licensing and costing of water extraction, determination of penalties for illegal water use, and flood protection and relief. (I)  
  ■ Cabinet decision to strengthen water resources management, and to streamline water service delivery in subsectors, through formulation of a national water policy. (I) | ■ After consultation with stakeholders, adopt and commence implementation of the comprehensive unified water management system. (II)  
  ■ Cabinet decision to establish interministerial task forces to be coordinated by ONWRC to address priority issues in the water sector, including (i) water allocation in the Chao Phya basin during the dry season, (ii) national water policy, (iii) integrated information system, (iv) flood and drought mitigation, (v) sustainable groundwater management, and (v) river basin committees. (I) |
<table>
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<tr>
<th><strong>Policy Objective / Reform Area</strong></th>
<th><strong>Prior Actions Taken</strong></th>
<th><strong>Actions to be Taken</strong></th>
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</table>
|                                 | basins with stakeholder participation. (I) | Mun, Klong Thatapao, and Bang Pakong rivers. (II)  
|                                 | ■ ONWRC to finalize a national flood and drought prevention program and commence implementation by 30 September 2000. Royal Irrigation Department (RID) to produce detailed flood and drought vulnerability maps for five river basins.  
|                                 | ■ ONWRC, in collaboration with RID and Department of Mineral Resources, to finalize by 30 September 2000 a national plan for sustainable groundwater management and conjunctive use of surface and groundwater, taking into account available experience from ongoing pilot groundwater development projects, and with priority for drought-prone areas. |
| 1.3 Water Service Delivery      | ■ Cabinet decision to promote (i) community participation in irrigation management and service delivery, and (ii) contracting out or privatizing parts of government operations in the sector. (I)  
|                                 | ■ Ministry of Agriculture and Cooperatives (MOAC) decision to develop a comprehensive program of improved operation and maintenance, selective  
|                                 | ■ RID to (i) establish organizational units for participatory irrigation management and public relations at its headquarters and regional offices; (ii) recruit 240 community organizers and related staff on a contractual basis; (iii) establish procedures for beneficiary participation in all phases of the project cycle (including identification, design, operation, and management of facilities); and design training programs, and complete training of 400 staff and community organizers.  
|                                 | ■ RID, with ADB technical assistance, to complete a review of its organization and identify functions that can be contracted out to the private sector or be privatized.  
<p>|                                 | ■ RID to design the program and commence implementation in eight pilot schemes covering 190,000 hectares (ha) including |</p>
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<th>Policy Objective / Reform Area</th>
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| rehabilitation, extension of onfarm infrastructure, and improved support services in coordination with other departments and the private sector. (I) | contracting out selected operation and maintenance functions to the private sector in three large and/or medium-scale schemes.  

■ In respect to small-scale irrigation schemes, RID will, by 30 November 1999, adopt procedures for the provision by private agencies and nongovernment organizations (NGOs) of (i) agricultural support services to farmer groups, and (ii) of construction, jointly with farmer organizations, of irrigation distribution networks on land contributed by farmers. By 30 November 2000, RID will finalize arrangements with private agencies and NGOs for such activities in 50 small-scale irrigation schemes.  

■ Increase RID’s budget for FY1999/2000 for rehabilitation and operation and maintenance by at least 15% over FY1999. (II)  

■ RID, with ADB technical assistance, to develop a medium-term program to improve the rehabilitation and operation and maintenance of existing irrigation schemes, including provision of adequate budget levels for this purpose. (II)  

■ Government to improve transparency and beneficiary participation in the selection, approval and implementation of subprojects under the national village pond construction program, which is intended to benefit poor and marginal farmers and unemployed, and to adopt by 31 December 1999 comprehensive and transparent procedures for the selection, approval, and implementation of the subprojects.  

■ MOAC, in consultation with stakeholders, to initiate a process of cost recovery in public irrigation schemes. (I)  

■ MOAC to (i) develop, in consultation with stakeholders, systems, procedures, and a phased program for cost recovery in irrigation; (ii) launch public education and awareness campaigns to promote payment for irrigation services; and (iii) commence implementation of the program. (II)
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<th>POLICY OBJECTIVE / REFORM AREA</th>
<th>PRIOR ACTIONS TAKEN</th>
<th>ACTIONS TO BE TAKEN</th>
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<tr>
<td>1.4 Watershed Protection and Soil Conservation</td>
<td>■ Government to design and commence implementation of a national action program for comprehensive watershed protection and management involving public, private, NGO, and community stakeholders. (II) ■ MOAC to design a national program to rehabilitate land affected by salinity, acidity, and soil erosion, and commence by 30 September 2000 implementation of six participatory land use planning projects at tambon level in each region to demonstrate rehabilitation approaches to the principal problem areas.</td>
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<tr>
<td>1.5 Reform of Land Tenure and Management</td>
<td>■ MOAC will (i) finalize by December 1999 a national protected area system plan setting out rules and procedures for demarcation of protected areas (criteria for various types of protected areas and permitted usages per type, procedures for community participation in demarcation, and procedures for zoning dispute resolution); and (ii) finalize and commence implementation of a 5-year action program with annual milestones to demarcate protected areas. ■ Department of Land Development to develop and implement, in collaboration with the private sector, a program to accelerate the rate of preparing 1:50,000 scale land-use and zoning maps of subwatershed areas from the current annual rate of 10 subwatersheds to 48 subwatersheds. Preparation of the zoning maps will be completed by the end of 2005. ■ Agricultural Land Reform Office to increase the annual rate of issue of land use certificates from the current annual average of 273,000 ha to 400,000 ha with effect from 31 March 2000.</td>
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<tr>
<td>Policy Objective / Reform Area</td>
<td>Prior Actions Taken</td>
<td>Actions to Be Taken</td>
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<tr>
<td>1.6 Arrest Degradation of Coastal Resources</td>
<td>Cabinet decision to promote sustainable development of aquaculture, tourism, and natural resources in coastal areas through the preparation by 31 December 2000 of a participatory coastal land-use plan. MOAC to expand the existing interministerial land-use plan development committee to include representation from the private sector. (I)</td>
<td>Government to finalize the coastal land-use plan for all 25 provinces. (I)</td>
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<td></td>
<td></td>
<td>Department of Fisheries to design and implement a program to promote private sector investment in rehabilitation of abandoned shrimp ponds in coastal areas (including measures against shrimp disease, credit for reconstruction of ponds, seawater irrigation, and introduction of alternative fish species).</td>
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<td>Department of Fisheries to finalize and implement an action program for the sustainable management of marine resources, and conservation of coral reefs.</td>
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<tr>
<td>1.7 Improve Access to Credit</td>
<td>Ministry of Finance to establish an interagency task force to make recommendations for changes in the legal and regulatory framework for the operation and supervision of grassroots-level credit and savings institutions. (I)</td>
<td>Ministry of Finance to finalize and commence implementation of a work program for drafting the legal and regulatory framework for grassroots-level credit and savings institutions based on the task force recommendations. (IT)</td>
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<td></td>
<td>Government to introduce legislation to establish the National Farmer</td>
<td>Government Savings Bank (GSB) to establish by 31 December 1999 a</td>
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### Policy Objective / Reform Area

#### 1.8 Restructure Savings Credit

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<th>Prior Actions Taken</th>
<th>Actions to be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and Rehabilitation Fund to provide credit to small and marginal farmers and other disadvantaged groups in rural areas. (I)</td>
<td>Facility for medium and long-term financing for rural communities. (IT)</td>
</tr>
<tr>
<td>- Enactment of the amendment to the Bank of Agriculture and Agricultural Cooperatives (BAAC) Act, 1966. (I)</td>
<td>- BAAC to improve its capital adequacy ratio from 4.67 to 8. (II)</td>
</tr>
<tr>
<td>- Completion of examination by Bank of Thailand of financial condition of BAAC and GSB (I).</td>
<td>- BAAC to strengthen its comprehensive risk management system by such measures as establishment of credit delinquency and emergency funds.</td>
</tr>
<tr>
<td>- Bank of Thailand to adopt, by 30 November 1999, a detailed, time-bound action plan for the supervision of BAAC and GSB. The plan will include deadlines for the preparation and issuance of prudential rules applicable to BAAC and GSB. (IT)</td>
<td></td>
</tr>
</tbody>
</table>

#### 2. Enhanced Export Competitiveness

**2.1 Strengthen Research and Technology**

<table>
<thead>
<tr>
<th>Prior Actions Taken</th>
<th>Actions to be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>- MOAC decision to establish joint research and development committees (including the private sector and community-based organizations [CBOs]) at the tambon level to make agricultural research demand driven and linked with preparation of village agricultural development plans. (I)</td>
<td>- Establish at least two joint research and development committees at the tambon level in each province.</td>
</tr>
<tr>
<td>- Cabinet decision to establish a National Council for Agricultural Research to mobilize resources, guide research quality, monitor and evaluate research programs, promote public–private sector collaboration, and develop guidelines for research priorities. (I)</td>
<td>- Government to establish the national council for Agricultural Research, with beneficiary representation at all decision making levels. (IT)</td>
</tr>
<tr>
<td>- Cabinet decision to establish by 30 September 2000 in the Office of Agricultural Economics, an Agriculture and Resource System Information Network on the basis of the proposal developed under TA No. 3002-THA, including an early warning system network, linking all departments and agencies of MOAC, other ministries</td>
<td>- Department of Agriculture, with Department of Agricultural Extension (DOAE), will reorganize the Office of Agricultural Research and Development into two institutes, based on the proposal developed under TA No. 3002-THA: (i) Institute for the Advancement of Traditional Knowledge and (ii) Institute for Adaptive</td>
</tr>
</tbody>
</table>
and international agencies, to facilitate the generation, processing, and dissemination of information connected with agricultural research, markets, process, climate change, natural disaster, government policies and plans, and international developments. (I)

2.2 Restructure Extension Systems and Improve Farmer Education

- MOAC to set up a task force for drawing up an action plan to network cooperatives, to conduct a feasibility study, and to prepare a program to promote a network of one-stop service centers for agricultural marketing and related activities. (I)

<table>
<thead>
<tr>
<th>POLICY OBJECTIVE / REFORM AREA</th>
<th>PRIOR ACTIONS TAKEN</th>
<th>ACTIONS TO be TAKEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>and international agencies, to facilitate the generation, processing, and dissemination of information connected with agricultural research, markets, process, climate change, natural disaster, government policies and plans, and international developments. (I)</td>
<td>Research and Pilot Trials. The former will capture and further local knowledge and successful traditions. The latter will enable CBOs/NGOs and farmer groups to be involved in planning and implementing adaptive research programs. Both will work closely with DOAE at farmer level.</td>
<td>MOAC, in collaboration with the Ministry of Science, Technology and Environment and the private sector, will establish a commercial technology development fund, based on the proposal developed under TA No. 3002-THA, with majority contribution and Board representation from the private sector to extend medium and long-term funding for research-based action programs and commercialization of research results.</td>
</tr>
<tr>
<td>Establish Agriculture and Resource System Information Network.</td>
<td>Department of Cooperative Promotion and DOAE to finalize and commence implementation of a countrywide program to simulate the establishment by the private sector (cooperatives and farmer groups) of a network of one-stop service centers at regional, provincial, and district levels to facilitate trading of agricultural inputs and outputs, exchange of market and technology-related information, and access to credit. (II)</td>
<td>MOAC to design and implement a national plan for farmer education in marketing, resource conservation, and export-oriented agricultural products, in consultation with CBOs, NGOs, and local authorities.</td>
</tr>
<tr>
<td>MOAC to strengthen the training function in departments within MOAC, and for the Office of the Permanent Secretary to undertake human resource development planning, strategic analysis and policy development to</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

APPENDIX
<table>
<thead>
<tr>
<th>POLICY OBJECTIVE / REFORM AREA</th>
<th>PRIOR ACTIONS TAKEN</th>
<th>ACTIONS TO BE TAKEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3 Improve Quality Assurance</td>
<td>Cabinet decision to establish the National Agricultural Products Standard Institute and the Natural Resources and Biodiversity Institute to determine quality standards for export certification to minimize application of nontariff barriers to Thai agricultural exports. The latter will also coordinate natural resource management policies. (I)</td>
<td>MOAC to establish new institutes as legal entities (IT)</td>
</tr>
<tr>
<td>2.4 Export Promotion</td>
<td></td>
<td>MOAC to develop an action plan to establish special agro-economic zones to promote the production, processing, and export of selected high-value products such as dairy, oil palm, plantation crops, and shrimps. (IT)</td>
</tr>
<tr>
<td>2.5 Minimize Government Interventions in Markets and Prices</td>
<td>Cabinet decision to withdraw from direct procurement and distribution of fertilizer. (I)</td>
<td>With a view to eliminating government competition with the private sector, government to (i) withdraw from procurement and distribution of fertilizer, and (ii) complete a review of its intervention in other agricultural input markets. Simultaneously, establish mechanisms to monitor functioning of input markets to ensure equitable access of small and marginal farmers to inputs. (I) Government to ensure that interest rates payable by individual farmers and other end users of credit under the Program will be not less than unsubsidized BAAC interest rates.</td>
</tr>
<tr>
<td>Policy Objective / Reform Area</td>
<td>Prior Actions Taken</td>
<td>Actions to be Taken</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>3. Restructuring Sector Management and Improving Governance</td>
<td>■ Cabinet decision to establish a Committee for Restructuring and Role Adjustment of MOAC so as to (i) move to a functional approach focusing on production, natural resource management, human resource development, and support services, (ii) rationalize, merge, and downsize existing department, (iii) reallocate input supply functions to the private sector, (iv) improve collaboration with CBOs and Tambon Administrative Organizations (TAOs), (v) strengthen policy research and analysis, and (vi) increase transparency of processes and prevent corruption in the sector. (I) ■ MOAC decision to establish a private sector advisory council in MOAC to integrate views of the private sector with planning and decision making in the government. (I)</td>
<td>■ Cabinet approval of the recommendations of the Committee for Restructuring and Role Adjustment of MOAC. (IT) ■ By 30 September 2000, commence implementation of the program (developed with ADB assistance) to restructure MOAC. ■ Establish a private sector advisory council in MOAC</td>
</tr>
<tr>
<td>3.2 Strengthen Community Participation in Agricultural Planning</td>
<td>■ MOAC decision to (i) strengthen CBOs to improve ability of communities to undertake agriculture sector planning and management and (ii) determine the framework within which local communities, CBOs, and TAOs will be directly enabled to participate in planning. (I)</td>
<td>■ Develop and commence implementation of a comprehensive program to build capacity in TAOs and CBOs for effectively participating in the design and implementation of rural development plans and programs. ■ Establish regional and local working groups to coordinate activities of the Institute for Advancement of Traditional Knowledge, the Office for Agricultural Research and Development, and the Institute of Adaptive Research and Pilot Trials and the TAOs to facilitate demand-driven research.</td>
</tr>
</tbody>
</table>

Note: New institutions will be established within the framework of the recommendations of the Public Service Reform Committee.
I – First Tranche Release Condition; IT – Incentive Tranche Release Condition; II – Second Tranche Release Condition
## APPENDIX TABLE 2
### MAJOR AGRICULTURE PRODUCE ('000 tons)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>20,560</td>
<td>17,026</td>
<td>19,809</td>
<td>20,184</td>
<td>19,098</td>
<td>2,0126</td>
<td>20,679</td>
<td>22,068</td>
<td>22,389</td>
<td>22,179</td>
<td>7.4% 4.4%</td>
</tr>
<tr>
<td>First Crop</td>
<td>17,930</td>
<td>14,902</td>
<td>17,518</td>
<td>17,302</td>
<td>16,483</td>
<td>18,161</td>
<td>17,729</td>
<td>17,782</td>
<td>17,893</td>
<td>18,591</td>
<td>63.5% -16.6%</td>
</tr>
<tr>
<td>Second Crop</td>
<td>2,630</td>
<td>2,124</td>
<td>2,291</td>
<td>2,882</td>
<td>2,615</td>
<td>1,965</td>
<td>2,950</td>
<td>4,286</td>
<td>4,550</td>
<td>3,588</td>
<td>63.5% -16.6%</td>
</tr>
<tr>
<td>Rubber</td>
<td>722</td>
<td>1,250</td>
<td>1,340</td>
<td>1,500</td>
<td>1,553</td>
<td>17,37</td>
<td>1,810</td>
<td>1,937</td>
<td>2,100</td>
<td>2,163</td>
<td>168.3% 11.7%</td>
</tr>
<tr>
<td>Maize</td>
<td>5,030</td>
<td>3,800</td>
<td>3,600</td>
<td>3,400</td>
<td>3,300</td>
<td>3,900</td>
<td>4,060</td>
<td>3,970</td>
<td>3,300</td>
<td>4,200</td>
<td>-21.1% 5.8%</td>
</tr>
<tr>
<td>Tapioca</td>
<td>15,255</td>
<td>19,705</td>
<td>20,356</td>
<td>20,203</td>
<td>19,091</td>
<td>15,374</td>
<td>16,050</td>
<td>17,500</td>
<td>16,800</td>
<td>18,000</td>
<td>14.7% 2.9%</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>24,000</td>
<td>40,661</td>
<td>47,480</td>
<td>39,827</td>
<td>37,823</td>
<td>50,597</td>
<td>57,974</td>
<td>56,394</td>
<td>42,200</td>
<td>46,052</td>
<td>134.1% -18.1%</td>
</tr>
<tr>
<td>Kenaf</td>
<td>266</td>
<td>191</td>
<td>139</td>
<td>151</td>
<td>144</td>
<td>125</td>
<td>79</td>
<td>74</td>
<td>73</td>
<td>72</td>
<td>72.2% -2.7%</td>
</tr>
<tr>
<td>Cotton</td>
<td>102</td>
<td>97</td>
<td>128</td>
<td>99</td>
<td>67</td>
<td>78</td>
<td>81</td>
<td>75</td>
<td>70</td>
<td>78</td>
<td>-24.5% 1.3%</td>
</tr>
<tr>
<td>Mung Bean</td>
<td>323</td>
<td>303</td>
<td>304</td>
<td>261</td>
<td>231</td>
<td>256</td>
<td>234</td>
<td>238</td>
<td>243</td>
<td>248</td>
<td>-26.3% 4.2%</td>
</tr>
<tr>
<td>Soybean</td>
<td>308</td>
<td>530</td>
<td>437</td>
<td>480</td>
<td>513</td>
<td>528</td>
<td>386</td>
<td>359</td>
<td>373</td>
<td>372</td>
<td>-14.3% 5.7%</td>
</tr>
</tbody>
</table>

Note: Crop year beginning June of the next calendar year. 1997/1998 data are preliminary. 1998/1999 data are estimates.

Sources: Bank of Thailand (Quarterly Bulletin, various years) and Office of Agricultural Economics. In some cases where BoT and OAE data do not match, OAE data have been adopted.
## Appendix Table 3

**Total Employed Labour Force and Share by Sector, 1977-1998**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Employed Labor Force (Million)</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service</th>
<th>Total Employed Labor Force (Million)</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>16.101</td>
<td>61.1</td>
<td>15.1</td>
<td>23.8</td>
<td>20.400</td>
<td>73.6</td>
<td>8.6</td>
<td>17.8</td>
</tr>
<tr>
<td>1978</td>
<td>16.820</td>
<td>63.0</td>
<td>13.4</td>
<td>23.6</td>
<td>21.807</td>
<td>73.8</td>
<td>8.6</td>
<td>17.6</td>
</tr>
<tr>
<td>1979</td>
<td>16.935</td>
<td>57.8</td>
<td>17.1</td>
<td>25.1</td>
<td>21.378</td>
<td>70.9</td>
<td>10.4</td>
<td>18.7</td>
</tr>
<tr>
<td>1980</td>
<td>20.640</td>
<td>61.0</td>
<td>14.9</td>
<td>24.1</td>
<td>22.608</td>
<td>71.0</td>
<td>10.2</td>
<td>18.8</td>
</tr>
<tr>
<td>1981</td>
<td>17.543</td>
<td>53.7</td>
<td>17.2</td>
<td>29.1</td>
<td>24.712</td>
<td>72.1</td>
<td>9.5</td>
<td>18.4</td>
</tr>
<tr>
<td>1982</td>
<td>18.616</td>
<td>52.6</td>
<td>17.8</td>
<td>29.6</td>
<td>25.369</td>
<td>68.7</td>
<td>10.6</td>
<td>20.7</td>
</tr>
<tr>
<td>1983</td>
<td>20.640</td>
<td>55.9</td>
<td>16.7</td>
<td>27.4</td>
<td>25.184</td>
<td>69.1</td>
<td>10.0</td>
<td>20.9</td>
</tr>
<tr>
<td>1984</td>
<td>22.321</td>
<td>60.0</td>
<td>14.9</td>
<td>25.1</td>
<td>25.999</td>
<td>69.7</td>
<td>10.6</td>
<td>12.6</td>
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<tr>
<td>1985</td>
<td>22.602</td>
<td>59.2</td>
<td>14.9</td>
<td>25.9</td>
<td>25.046</td>
<td>68.4</td>
<td>10.9</td>
<td>20.6</td>
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<tr>
<td>1986</td>
<td>23.481</td>
<td>57.9</td>
<td>15.8</td>
<td>26.3</td>
<td>26.691</td>
<td>66.7</td>
<td>10.6</td>
<td>22.6</td>
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<tr>
<td>1987</td>
<td>25.198</td>
<td>56.6</td>
<td>15.4</td>
<td>28.0</td>
<td>27.639</td>
<td>64.4</td>
<td>11.7</td>
<td>23.8</td>
</tr>
<tr>
<td>1988</td>
<td>25.989</td>
<td>58.4</td>
<td>14.9</td>
<td>26.7</td>
<td>29.464</td>
<td>66.4</td>
<td>11.4</td>
<td>22.2</td>
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<tr>
<td>1989</td>
<td>26.297</td>
<td>57.3</td>
<td>16.6</td>
<td>26.0</td>
<td></td>
<td>66.6</td>
<td>11.9</td>
<td>21.4</td>
</tr>
<tr>
<td>1990</td>
<td>26.297</td>
<td>57.3</td>
<td>16.6</td>
<td>26.0</td>
<td></td>
<td>66.6</td>
<td>11.9</td>
<td>21.4</td>
</tr>
<tr>
<td>1991</td>
<td>26.297</td>
<td>57.3</td>
<td>16.6</td>
<td>26.0</td>
<td></td>
<td>66.6</td>
<td>11.9</td>
<td>21.4</td>
</tr>
<tr>
<td>1992</td>
<td>29.204</td>
<td>51.0</td>
<td>21.8</td>
<td>27.1</td>
<td>32.385</td>
<td>60.8</td>
<td>15.4</td>
<td>24.2</td>
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<tr>
<td>1993</td>
<td>29.207</td>
<td>48.9</td>
<td>21.8</td>
<td>29.2</td>
<td>32.152</td>
<td>56.7</td>
<td>17.1</td>
<td>25.6</td>
</tr>
<tr>
<td>1994</td>
<td>28.234</td>
<td>43.9</td>
<td>25.1</td>
<td>31.0</td>
<td>32.095</td>
<td>56.0</td>
<td>18.0</td>
<td>26.0</td>
</tr>
<tr>
<td>1995</td>
<td>29.055</td>
<td>40.8</td>
<td>26.7</td>
<td>32.4</td>
<td>32.575</td>
<td>52.0</td>
<td>19.7</td>
<td>28.3</td>
</tr>
<tr>
<td>1996</td>
<td>30.009</td>
<td>40.4</td>
<td>27.6</td>
<td>31.8</td>
<td>32.232</td>
<td>50.0</td>
<td>20.6</td>
<td>29.2</td>
</tr>
<tr>
<td>1997</td>
<td>30.266</td>
<td>39.4</td>
<td>27.2</td>
<td>33.3</td>
<td>33.162</td>
<td>50.3</td>
<td>19.6</td>
<td>30.0</td>
</tr>
<tr>
<td>1998</td>
<td>29.413</td>
<td>39.6</td>
<td>24.5</td>
<td>35.9</td>
<td></td>
<td>50.3</td>
<td>19.6</td>
<td>30.0</td>
</tr>
</tbody>
</table>

Sources: Warr (1993, 92) and NSO (Labor Force Surveys, various years).
### Appendix Table 4

**Share and Real GDP Growth by Sector (percent)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-1965</td>
<td>36.1</td>
<td>20.4</td>
<td>37.7</td>
<td>5.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1971-1975</td>
<td>25.4</td>
<td>24.6</td>
<td>42.9</td>
<td>4.6</td>
<td>100.0</td>
</tr>
<tr>
<td>1981-1985</td>
<td>19.4</td>
<td>30.1</td>
<td>44.9</td>
<td>5.6</td>
<td>100.0</td>
</tr>
<tr>
<td>1991-1995</td>
<td>11.9</td>
<td>38.8</td>
<td>44.9</td>
<td>4.4</td>
<td>100.0</td>
</tr>
<tr>
<td>1996</td>
<td>10.6</td>
<td>40.4</td>
<td>44.8</td>
<td>4.2</td>
<td>100.0</td>
</tr>
<tr>
<td>1997</td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
<td>100.0</td>
</tr>
<tr>
<td>1998</td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>
| Source: NESDB (various years).
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