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## A. THAILAND AND THE WORLD BANK GROUP—AN EVOLVING PARTNERSHIP

*The Bank Group's role as a development partner is valued by stakeholders, who emphasize strongly that the Bank Group should remain engaged in Thailand.* There is, however, a clear consensus that the relationship needs to evolve from primarily a borrower-lender relationship toward a real development partnership. In that context, Thailand has clearly indicated its preference for a Thailand-World Bank Group Partnership in support of its development rather than a World Bank Group "assistance strategy." Accordingly, the Bank will engage as a development partner in a limited number of areas and mainly through policy advice, knowledge sharing both internally and externally, and support for participatory processes, complemented by IFC and MIGA transactions and very limited Bank lending. Such a partnership is seen by all stakeholders in Thailand as the most effective means for the Bank Group to help accelerate growth and reduce poverty. Thailand is also looking to the Bank Group to be more engaged in supporting region-wide initiatives for economic development, particularly for the Greater Mekong Subregion, and to help facilitate the sharing of Thailand's development experience with other countries in the region and beyond. Going forward, therefore, the Bank Group's engagement in Thailand will be limited and selective and comprised of two complementary levels:

- *Monitoring and diagnostic overview* of Thailand's key development challenges across all areas of the national agenda. The purpose of this work is to stay abreast of economic and social developments, fulfill the Bank's due diligence responsibilities, and engage with the Government and other stakeholders analytically on the national agenda, including the broad range of competitiveness and governance issues as well as the structural nature of poverty. This work will also provide the Government and Bank Group with a basis for identifying areas in which deeper support could be beneficial—in line with the recommendations of the Bank's Middle-Income Countries Task Force.<sup>7</sup>



- *In-depth implementation support* in a few critical areas, as identified through the comprehensive diagnostic overview and agreed with the Government. This implementation support (which will also be a very valuable input into the broader monitoring and diagnostic work) will be provided through:
  - *Country Development Partnerships.* These partnerships—with costs financed by the Government, the Bank, and other donors (Box 6)—will be the cornerstone of the Bank's implementation support to Thailand. Because of Bank resource constraints, there will be no more than 4-5 CDPs ongoing in any one year, and these CDPs will be selected according to the selectivity criteria. It is important to have the flexibility to engage in up to 4-5 CDPs each year in order to be able to initiate new CDPs in response to Government requests as existing CDPs are coming to an end. In line with the Government's change in focus, the CDP program is evolving from a primary focus on responding to the economic and financial crisis to addressing medium-term structural issues that are part of the national agenda and critical to sustainable poverty reduction.
  - *IFC and MIGA transactions and IBRD lending.* CDP objectives will also be supported by IFC and MIGA transactions, particularly for competitiveness. In addition, the Bank will use its ongoing portfolio, and a limited amount of new lending that may be requested by the Government in a few strategically important areas, to support the national agenda.

<sup>7</sup> Middle Income Countries Task Force Report, SECM2001-204.



### Box 6. Cost Sharing in the CDPs

The Bank's diagnostic and monitoring work does not involve financial contributions by the Government (some of the Monitors benefit from trust fund support), but cost sharing with the Government is an integral part of the CDP approach. This cost sharing does not involve direct financial contributions from the Government to the Bank. Instead, each of the partners in a CDP—the Government, Bank, and other donors—finances its own contributions to the partnership.

*Cost sharing measurement.* The Government's financial contribution is measured by the direct costs related to the CDPs. Specifically, these costs capture the time of staff working on the CDPs—for example, the time of the counterparts working on the CDP matrices and monitoring implementation progress—and other costs, such as the organization of workshops and overhead. The substantial costs of actual reform implementation, e.g. financing the cost of decentralizing government functions, will be financed by the Government and are not included in this measurement methodology. Using this approach, the Government's own financial contribution to the current CDPs over the next two to three years is estimated to be US\$4.8 million, or about one-quarter of the total partnership costs. This constitutes over three times as much as the Bank's own contributions to the CDPs, totaling US\$1.5 million over the same period. These contributions will be complemented by about US\$7.7 million from ASEM and other trust funds, as well as by significant financial support from other donors.

## B. ACHIEVING GREATER SELECTIVITY IN THE THAILAND COUNTRY PROGRAM

*The Bank's program is becoming more focused and selective in a number of ways.* First, the Bank has decided not to engage in any stand-alone, ad hoc analytical and advisory work outside the monitoring and diagnostic work and the implementation support through the CDPs. Second, the Bank's support to CDPs will also become more focused on specific subcomponents. Third, new Bank lending is expected to be limited to very few operations, and the existing portfolio of loan projects is expected to decline to one project by FY05.

*A set of explicit criteria will determine the areas in which the Bank will provide implementation support.* These criteria will guide country programming choices and determine exit from current engagements as well as entry into new ones. The first set of criteria, which cover the necessary conditions for Bank engagement, include:

- *A link to critical policy reform areas.* In the light of declining resource availability from the Bank, linking Bank support to the country's key development priorities is critical. Particular importance will be given to ensuring a strong link with poverty reduction, especially in the Northeast, for any intervention.

- *Explicit government ownership.* The Bank will engage only in areas where there is an explicit request and upfront agreement with the Government—both at the political and technical levels—as evidenced by an exchange of letters of support and the scale of resources committed. To the general public, Government commitment is demonstrated by the CDP launches, which include all major stakeholders.
- *Bank Group's comparative advantage.* Both across and within CDPs, the Bank will provide implementation support only if it has a particular comparative advantage in technical skills, resources, convening power, or ability to mobilize international expertise.

If these necessary conditions are met, the Bank will examine possible engagement through a second set of criteria focusing on the *potential impact of Bank involvement*, which include:

- *Existence of an outcomes-focused program.* The Bank will engage in a particular area only if the Government has developed a clear and specific program linked to outcomes. A detailed implementation plan with clear accountabilities, with a particular focus on addressing the Government's interagency coordination constraints, will help improve program results.

- *Scale of development impact.* Engagement will be focused on areas in which it is possible to achieve significant development impact. The likelihood of impact will be determined by the realism of the implementation plan and partner commitment.
- *Global and regional linkages.* Positive regional spillovers and the connection to regional and global public goods will be important criteria for Bank engagement.

*Decisions on areas of involvement will be based on regular dialogue with key counterparts.* A number of decisions to increase the selectivity of the Bank's engagement in Thailand have recently been made (Box 7), and the Government, Bank Group, and other partners will hold six-monthly *Country Review and Programming Discussions* to review program progress and determine the priority areas for Bank Group support in the light of the foregoing criteria.

### **Box 7. Selectivity in the Thailand Program—Examples of Choices**

The Bank has made several decisions to increase the selectivity of its engagement:

- ❖ The Bank will engage only in up to 4-5 CDPs and up to two new lending operations per year.
- ❖ The Bank has refocused its engagement in the CDP for Competitiveness because its scope was too broad and is now focusing in a CDP context only on issues of financial and corporate sector competitiveness.
- ❖ With two current partnerships nearing completion (CDP-Social Protection and CDP-Financial and Corporate Competitiveness), the Bank will phase out of these CDPs by the end of FY04.
- ❖ Some cross-cutting objectives are being addressed across CDPs rather than through separate CDPs. For example, gender issues are being given particular attention in the context of the CDPs on governance and public sector reform, poverty analysis and monitoring, and social protection rather than being considered for inclusion in a separate CDP.

## **C. THE BANK'S COUNTRY PROGRAM FY03-05**

*The Bank's country program for FY03-05* is summarized in Table 3 and includes diagnostic and monitoring work, support through up to 4-5 CDPs, a limited amount of possible new lending, and supervision of the ongoing portfolio. It will be complemented by selected IFC and MIGA transactions as well as support from other partners.

### **The Bank's Diagnostic Work**

*The Bank's monitoring and diagnostic role will be filled by the Monitor Series and by occasional in-depth analytical reports,* all done in collaboration with Thai counterparts. This work will review progress in implementation of reforms and achievement of results across various development areas, provide an analyti-

cal understanding of the coherence and consistency of the Government's ongoing program and the Bank's existing implementation support, as well as identify gaps and potential areas for future implementation support. Specifically, the Bank will prepare and publish several types of "Monitors"—economic, social, environment, and country dialogue—to review progress in the relevant area and to provide analytical and advisory services on a special topic often covering a core diagnostic area. The content of the Monitors, including the special topics, will be based on close consultations with Thai counterparts, and the work will be carried out in close collaboration with them. The Economic Monitors, timed to match the Bank's biannual "Regional Briefs," will continue to focus on progress with respect to growth, structural reform, and public sector reform and governance. Trade, decentralization, logistics and private provision of services could be among the special topics for this Monitor. Future Social Monitors are expected to



**Table 3. Country Program**

				Table 3. Country Program		
				FY03	FY04	FY05
Diagnostic/Monitoring			CEM/DPR	CEM/DPR		
			Monitor—Economic	Monitor—Economic	Monitor—Economic	
				Monitor—Social	Monitor—Social	
			Monitor—Environment	Monitor—Environment		
			Monitor—Country Dialogue	Monitor—Country Dialogue	Monitor—Country Dialogue	
				ROSC / CPAR / CFAA	ROSC*	
Implementation Support	CDPs	CDP-Financial & Corporate Competitiveness		CDP-Financial & Corporate Competitiveness		
		CDP-Governance & Public Sector Reform		CDP-Governance & Public Sector Reform	CDP-Governance & Public Sector Reform	
		CDP-Poverty Analysis & Monitoring		CDP-Poverty Analysis & Monitoring	CDP-Poverty Analysis & Monitoring	
		CDP-Social Protection		CDP-Social Protection		
				CDP-Other#	CDP-Other#	
					CDP-Other#	
	Supervision/Lending	Highways Management Project (US\$100 million)				
				Infrastructure-other (up to US\$200 million)		
					Infrastructure-other (up to US\$200 million)	
		Supervision of 7 ongoing loan projects, 1 guarantee project, and 2 GEF/ODS projects		Supervision of 5 ongoing loan projects and 2 GEF/ODS projects	Supervision of 3 ongoing loan projects and 2 GEF/ODS projects	

\* The Government is also in the process of considering a possible FSAP.

# Other CDPs could include: Education, Knowledge Economy, Environment, or Infrastructure.

cover education, vulnerability, and gender. The Environment Monitor will address solid and hazardous wastes, forestry, and biodiversity. The Bank will also publish the Country Dialogue Monitor to review progress on the Thailand-Bank Group Partnership.

*An in-depth CEM-type report planned for FY04* is expected to assess how Thailand can sustain higher

growth and ensure that the poor and the near-poor in rural areas, especially in the Northeast, benefit more from that growth. In that context, it will examine ways of improving competitiveness (building on past work) in order to sustain higher private investment, to benefit from the rapidly expanding Chinese market and to compete with Chinese exports in the global marketplace. Analysis of the factors contributing to rural poverty in

general and to poverty in the Northeast, in particular, and policies to overcome them are also expected to be part and parcel of this work.

*Financial sector and corporate governance issues are also planned to be covered.* Given the importance of financial sector issues in Thailand, the Government has established a steering committee to guide the work on a Financial Sector Assessment Program (FSAP) and Review of Standard and Codes (ROSC). In preparation for the FSAP, the committee is planning ROSCs on corporate governance, supported by the Bank, and on data and on monetary and financial policy, supported by the IMF.

*The Bank's program also focuses on "core diagnostic" requirements.* A poverty assessment was prepared and issued as a Social Monitor in 2001, and further analy-

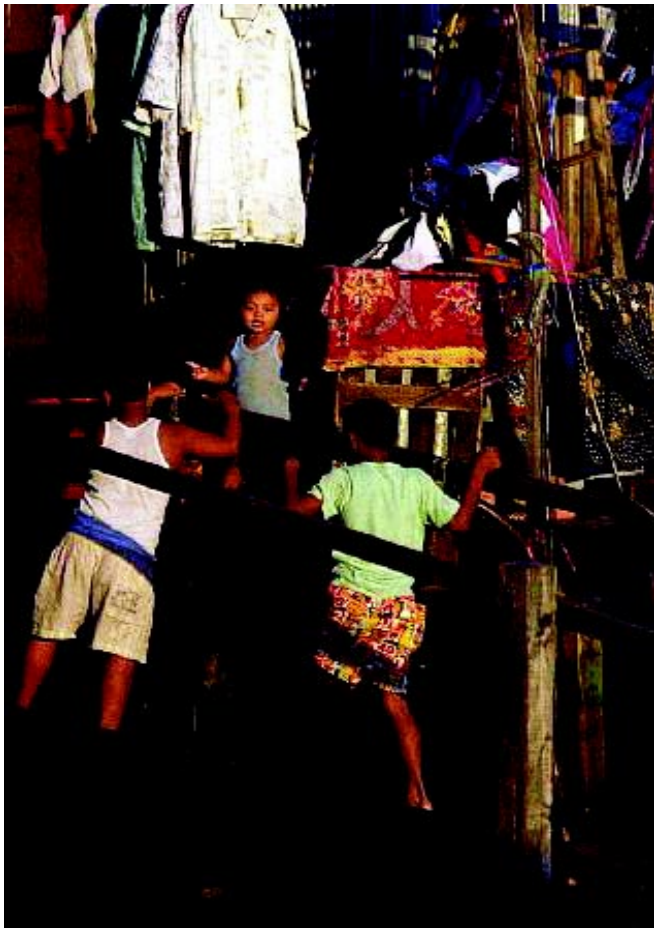
sis of poverty is being undertaken in the context of the CDP for Poverty Analysis and Monitoring. A Public Expenditure Review was undertaken in 1999, and its findings have been followed up on continually, most recently in the context of the CDP for Governance and Public Sector Reform. The latest Operational Procurement Review in 1999 concluded that the Government's procurement procedures were generally acceptable. Procurement responsibilities have recently been transferred as part of the major restructuring of the Thai Government, and the Bank is discussing with the Ministry of Finance what support might be needed and the appropriate timing of both a Country Procurement Assessment Report and a Country Financial Accountability Assessment. The work needed for a Country Environment Analysis is being undertaken as part of the Environment Monitor series. Finally, with respect to gender mainstreaming, further analytical work will be focused and undertaken only when it adds value to work being done by others and will be included in the Social Monitor series.


**The Bank Group's Implementation Support—at the Country Level**

*Implementation support will be limited and selective and will build on the Bank's diagnostic and monitoring work.* It will be based on specific requests from the Government for support in areas where the Bank can add value. As ongoing activities are completed and resources are freed up for new programs, implementation support will evolve gradually toward an increased focus on medium-term structural reform issues.

**i) Human and Social Capital**

The Bank has supported the *Human and Social Capital* agenda primarily in social protection but is exploring options for deeper engagement in education in the light of its importance in the national agenda. The Bank has not been asked for in-depth support in health, a critical area for achievement of the MDGs, but it will undertake regional work on HIV/AIDS.



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- ***The Bank will complete its current partnership on social protection.*** To help reduce gaps in equity, coverage, and efficiency in the Government's social protection programs, the Bank has supported the CDP for Social Protection since 2001. The Bank is providing assistance in the overall coordination of CDP activities, as well as technical assistance in selected areas of comparative advantage, including pension reform modeling, financial sustainability of unemployment insurance, and social assistance through enhanced program targeting and a risk and vulnerability assessment. Because the country's progress on social protection reforms is advanced and the next phase of reform would require considerable financial resources, the Bank's support to this CDP will phase out after FY04, but some of the work on issues of risk and vulnerability may be continued as part of the CDP for Poverty Analysis and Monitoring. The CDP is currently supported by ASEM trust funds, and its principal donor partners are the International Labor Organization and the Japan International Cooperation Agency (JICA). The Asian Development Bank (ADB), AusAID (Australia), UN Children's Fund (UNICEF), and German Technical Cooperation (GTZ) also play important roles in providing technical assistance and capacity building on specific components.
  - ***Education may become a priority for future implementation support.*** The Bank has been engaged in the education sector primarily through lending operations, but there is significant scope for enhancing the Bank's policy dialogue with the Government on broader sector reform issues. To advance that dialogue, the Bank will also make greater use of supervision of its two active education projects. The Government and Bank are currently exploring collaboration through a CDP for education, but a decision on whether to proceed will be made only when the specific objectives and agenda are further clarified. Thailand should also benefit from regional work the Bank will be undertaking on quality assurance and accreditation in higher education. No future Bank lending has been requested by the Government, but IFC has identified education (as well as health) as a priority area for investment.

## ii) **Competitiveness**

In addition to addressing issues of competitiveness as part of its overall monitoring and diagnostic work, the Bank will continue to provide implementation support to the *Competitiveness* pillar. However, this support will become more focused on a few priority areas to be identified with the Government and based on the diagnostic work. While the Bank's support to financial and corporate sector competitiveness will wind down in FY04, the Government has requested more support for infrastructure and for ICT/knowledge economy.

- ***The Bank will complete its current partnership for financial and corporate competitiveness.*** The Bank is supporting the Government through two ongoing technical assistance loans and the CDP for Financial and Corporate Competitiveness. Specifically, the Bank is helping to coordinate reform efforts—including support from other partners—and is providing extensive technical assistance for: setting a medium-term financial sector strategy with a focus on bank and non-bank services in urban and rural areas; resolving non-performing loans through the Thai Asset Management Corporation and through improvements to both in-court and out-of-court resolution regimes; promoting sound intermediation and investment on a risk-adjusted basis; enhancing the regulation and supervision of financial institutions; enhancing market discipline, financial accountability, and corporate governance; and improving the architecture and infrastructure of debt, equity, and derivative markets to support the growth of banks and firms. In addition, the Bank will continue its dialogue and work with the Office of Anti-Money Laundering. Work under this CDP is expected to be completed in its current form in FY04. IFC will continue to focus on financial markets and corporate restructuring and will also provide technical assistance on capital market development as well as investments in the banking sector and corporate restructuring. The IMF is assisting the Bank of Thailand with monetary and banking supervision matters. This CDP is currently supported by PHRD (Miyazawa program) and ASEM

trust funds. Other active partners are the ADB, AusAid, GTZ, and Kenan Institute Asia.

- *The Bank will further consolidate its support for infrastructure development.* The Government has requested continuing Bank support through a new *Highways Management* Project focused on road sector commercialization through private participation in infrastructure management, modernization of the Department of Highways operations, preservation of road assets, and improvement of competition and transparency in the awarding of contracts through the use of e-procurement. The project will help address the backlog of investment requirements in the sector and places particular emphasis on underdeveloped geographic areas such as the Northeast as well as on roads that will help to facilitate GMS and broader regional integration. The Government has also indicated that given the investment-intensiveness of infrastructure development, it may consider additional IBRD lending on a selective case-by-case basis and would welcome IFC and MIGA support for viable private sector investments in infrastructure. In addition, the Government is considering complementing the investment lending support with a CDP—either for the transport sector or infrastructure development more broadly—focused on modernizing the regulatory regime, enhancing private sector participation, building institutional capacity, and strengthening the network from a regional development perspective. ADB and the Japanese Bank for International Cooperation (JBIC) have substantial ongoing infrastructure projects, and JBIC plans to provide further support in the coming years. In addition, AusAid and the French government are supporting regulatory reform in the aviation and water sectors, respectively.
- *The Government has requested Bank support for ICT.* The Bank has supported a number of innovative activities in support of rural access to ICT as well as a national ICT assessment, and in the coming year, will be assisting with improvement of governance for ICT. Should this be successful, a CDP may be developed which would focus on deepening the




impact of ICT on other core areas of the knowledge economy—education and the business environment. WBI will contribute by building peer-to-peer exchange of experience between Thailand and countries that have been successful in leveraging ICT for development. Building on telecommunications sector reform, aimed at further promoting the private provision of services, IFC plans to focus on direct investments in information technology and telecommunications.

### iii) Poverty and Inequality

*The Government has requested very targeted Bank support to strengthen the analytical basis for implementing an effective national poverty reduction strategy.*

The CDP for Poverty Analysis and Monitoring, launched in May 2002, focuses on: developing a poverty database and national poverty map; improving measurement and analysis of poverty and vulnerability; fine-tuning Thailand's poverty reduction strategy for selective public actions with high poverty reduction impact; and strengthening monitoring and evaluation. This CDP will help Thailand translate the broad goals of its existing poverty reduction strategy into specific, quantifiable, gender-sensitive, and time-bound targets, including MDG+ targets; improve the targeting of interventions; and enhance the overall understanding of the dynamics of poverty and inequality in Thailand. It is also expected to support initiatives for the development of poorer border provinces in Thailand and some of its neighbors. Major partners in this CDP, supported by an ASEM trust fund, are the ADB, which is contributing through a participatory poverty assessment, and the UN Development Program (UNDP), which is helping to track progress on the MDGs. Other donors include UNICEF



and the UN Development Fund for Women (UNIFEM). The Bank's involvement in this CDP is expected to continue through FY05.

*The Bank will continue to provide some support for promoting balanced regional development in Thailand.* Through the SIP, the Bank will continue to provide support for the Regional Urban Development Fund which aims to improve basic infrastructure facilities and services and create employment in strategically important urban centers outside Bangkok, while at the same time enhancing municipality capabilities relating to administration, investment planning, project implementation, and financing. The Bank will also be assessing with the Government the experience of the very successful Social Investment Fund in supporting community initiatives in both rural and urban areas and how that experience can be of benefit to other programs in Thailand and shared with other countries. The Government has not requested any further lending for urban or rural development, but rural development, especially in the Northeast, will be a key focus of future diagnostic work.

#### **iv) Environment and Natural Resources**

*The Bank may deepen its engagement on the environment.* The Bank has been engaged with the Government on environment and natural resources issues predominantly through the Monitor series and two ongoing Global Environment Facility and Montreal Protocol operations. With the emergence of environment and natural resources as a key pillar of the national agenda and the recent creation of a new Ministry of Natural Resources and Environment, an opportunity exists to deepen the Bank's policy dialogue with the Government, including on issues that affect the GMS as a whole. The Government and Bank are exploring possibilities for deeper collaboration, including a CDP for the Environment for FY04. The U.S. Asia Environmental Partnership and JBIC have also expressed interest in working together in this area, and the former has entered into a memorandum of understanding with the Bank through the U.S. Environmental Protection Agency.

#### **v) Governance**

*The Bank will continue to support governance reform given its critical importance to all pillars of the national agenda.* Building on the PSRL of 1999, the Bank has continued its partnership with the Government through the CDP for Governance and Public Sector Reform, launched in 2002. This partnership currently covers five areas—expenditure management; revenue management; civil service reform; decentralization; and accountability and transparency. Given the significant progress in the first three areas, the Bank's engagement is expected to shift to the latter two by FY04. The Bank's engagement will comprise policy dialogue and mobilization of technical assistance for capacity building for local governments and formulation of anti-corruption strategies for national and local agencies as well as support to the Government and other organizations in building their capacity to monitor and evaluate public service delivery. Governance is a WBI priority in Thailand, and WBI will provide tailored support on accountability, transparency, and decentralization issues by strengthening parliamentary oversight and fostering information flow to rural areas and stakeholders outside government through innovative approaches such as development of ICT kiosks and community radio networks. This CDP is supported by an ASEM trust fund, and its other principal donors include: AusAID, which is actively involved in expenditure management; the ADB, which is supporting the National Counter-Corruption Commission; and UNDP, which has been active in the areas of decentralization and accountability and transparency, including promotion of civil society participation. The Bank has no lending operations in this area and does not have plans for new lending over the next few years.

#### **The Bank Group's Implementation Support—at the Regional Level**

*The Bank will complement its development partnership with Thailand with work on regional issues that will be of benefit to Thailand as well as other countries in the region.* The Bank is already involved with the Mekong River Commission (MRC) in supporting the Water Utilization Program through a GEF grant and is considering

deepening its support for this program as well as for the MRC's Basin Development Program. The Bank is also considering support for a number of activities under the GMS Program, including: supporting Flood Control and Water Resources Programs, encouraging power trade through implementation of the power trade agreement, supporting infrastructure development of benefit to the GMS as a whole, and promoting private sector development. The Bank will also support the GMS human development program, including contributions to work on the major cross-border problem of HIV/AIDS. In this context, the Bank's continued direct engagement with Thailand through monitoring and diagnostic work as well as selective implementation support will help make the Bank a more effective supporter of regional initiatives.

*The Bank will also help share Thailand's development experience with others in the region.* To promote further trilateral cooperation, the Bank will facilitate knowledge sharing and learning across countries, especially with Cambodia and Lao PDR, which face serious capacity constraints. For example, the Bank will help disseminate lessons from Thailand's very successful social investment fund and land titling programs (both supported by the Bank, the latter for more than 20 years) and arrange for Thai experts on these programs to provide advice for similar programs in Cambodia and Lao PDR. WBI will play a central role in facilitating this knowledge sharing, which will also be of broader benefit to the Bank as a knowledge creating and sharing institution.

### WBI's Approach and Engagement

*Given that the Bank's support to Thailand is principally a knowledge-sharing partnership with a strong capacity building element, the role of WBI is very important.* Within the context of WBI's institutional strategy to focus on one middle-income and one low-income country per region, Thailand will be a priority country for WBI over the next few years. WBI's principal role will be to provide access to international best practice and to facilitate knowledge sharing and dialogue on critical development issues, both within Thailand and with other countries. Support will be delivered through

two channels: first, tailored knowledge and information sharing on key development priorities and second, existing programs and courses, including those of the Global Development Learning Network (GDLN). Emphasis will go to providing tailored support, through innovative approaches, in partnership with local institutions. These interventions will be targeted at two thematic areas: governance and the knowledge economy/ICT.

*To complement the Bank's implementation support for the other pillars of the national agenda, WBI will contribute its existing program and course offerings.* GDLN will play an increasing role in the delivery of these programs, and in light of the local capacity challenge, establishment of distance learning networks within Thailand will be explored. The specifics of the WBI program will be discussed and fine-tuned in the context of the Country Review and Programming Discussions. In these programming discussions, WBI will also further explore options for enhancing facilitating knowledge sharing of Thailand's development experiences with other countries in the region.



## Summary of Bank Program FY03-05

*The current proposal for the Thailand-Bank Group Partnership presents the base case for engagement.* The base case balances Government demand for Bank services with what the Bank is able to provide in terms of its own resources (Table 3). It is based on a Bank administrative budget for FY03 that is 35 percent less than in FY00 and involves a further decline of 15 percent for FY04 and FY05. In the case of the CDPs, these resources are complemented by the Government's own resources (cash and in-kind) as well as other trust fund support (and a small amount of support from the Small Grants Program), as described in Box 6. As stated earlier, the Bank program will be comprised of up to 4-5 CDPs a year as well as diagnostic and monitoring work. In addition, one new project totaling \$100 million for Highways Management is being proposed for FY03. In FY04 and FY05, Bank lending will not exceed two projects and \$200 million each year, and these projects are also expected to focus on infrastructure development. There is only a base case scenario for the Bank's partnership with Thailand. If the Government does not sustain its commitment to the CDPs in terms of reform ownership and resource contributions, the Bank's engagement would be scaled down to only diagnostic and monitoring work and supervision of the remaining project portfolio. If circumstances change and the Government requests additional financial support beyond the numbers indicated in the base case scenario, the Bank would consider such a request in the context of a revised country strategy.

*Much of the Bank's program will continue to be managed out of the decentralized country office in Bangkok.* Going forward, the office will enhance its information sharing activities, including more dissemination of reports and other information in Thai and the development of a Thai-language website. The office now also acts as a regional hub supporting Bank programs in Cambodia, Lao PDR, Malaysia, and Mongolia. This should enable it to provide enhanced support for regional activities, particularly those associated with the Greater Mekong Subregion.

## D. IFC AND MIGA PROGRAMS FY03-05

### IFC's Approach and Engagement

*IFC's country strategy and priorities in Thailand will complement the Bank's assistance program, particularly in supporting the competitiveness pillar of the national agenda.* In the near term, IFC will focus predominantly on financial markets and support the corporate restructuring process. IFC's comparative advantage lies in its wide range of corporate finance capabilities and may be unique in Thailand in its ability to offer debt, equity and AAA-rated credit enhancement in both baht and local currency. IFC can deploy these capabilities either on its own account or in concert with local or international financial institutions. In capital markets, IFC intends to provide assistance through advisory work on developing bond markets and derivatives and on the use of credit enhancement for local bond issues. In the banking sector, IFC intends to invest in tier 1 & 2 capital of selected banks and provide partial guarantees and structured products to strengthen their balance sheets and improve their profitability. These investments in the banking sector clearly complement Bank sector reform objectives as spelled out in the CDP-Financial and Corporate Competitiveness. Investments in corporate restructuring will also benefit from and contribute to improved bankruptcy and corporate law reform.

*Over the medium term, IFC intends to support competitive, restructured companies by providing equity support and consolidating their long term liabilities.* For example, IFC recently worked closely with the local affiliate of an international investment bank to guarantee partially a long-term local currency bond issued by a large Thai telecoms company. This facilitated the financial restructuring of the company's debt while also setting a new maturity standard for the local currency bond market. Deepening the equity market is a particular concern for investors in smaller, privately-held companies because taking the company public can provide a market for the investors to sell their shares. In the long term, IFC intends to focus on direct investment in areas of competitiveness in infrastructure and infor-

mation technology. A key priority for IFC will be private investment in health, education, agribusiness and SMEs, some of which is expected to benefit from the diagnostic work of the Bank and related CDPs.

*IFC has increased its local presence.* The IFC now has more investment officers in Bangkok with expertise in its priority sectors, such as financial markets, infrastructure, power, health, education, and investment restructuring. The regional familiarity of IFC's staff should permit successful investment approaches used in neighboring markets to be adapted to the Thai context, and make IFC a valuable partner for intra-regional investments. IFC's client responsiveness will also be enhanced by an expanded Bangkok-based legal team as well as greater specialization in transaction processing. The local IFC team will focus more on needs identification and initial investment structuring, which should enhance client satisfaction and, ultimately, sustainability.



### MIGA's Approach and Engagement

*In the near term, MIGA expects demand for guarantees within Thailand to remain low, with some potential opportunities to help independent power producers,* where sponsors may be interested in Breach of Contract coverage. MIGA will therefore emphasize technical and advisory services to the Board of Investments and the Thai Export-Import Bank, with a focus on attracting foreign investments into Thailand, and assisting Thai investors looking to invest in the region. MIGA will also continue to provide advisory services to Thai EXIM to help create and launch their own political risk insurance (PRI) product, and MIGA hopes to co-insure or re-insure Thai EXIM once its product is launched. MIGA will also continue its advisory work with BOI and its training of BOI staff on on-line resources as well as co-marketing of MIGA and BOI services to Thai investors looking to invest abroad.

### E. PARTNERSHIPS

*Donor activity is declining and increasingly selective.* Donors are now focusing on providing policy advice, technical assistance, and capacity building, with financial resource transfers playing much less of a role. They are also becoming more selective, and their activities are better coordinated, more complementary, and aligned around a set of common goals. The CDPs are recognized by Thailand and the donor community as providing a good platform for coordinating reform efforts among all partners. In support of the CDP objectives, donors are lead partners with the Government in some specific CDP components (Box 8).



## Box 8. Summary of Donor Activities and Support to CDPs

### United Nations

The United Nations (UN) is finalizing the United Nations Development Assistance Framework (UNDAF) for 2002-2006, due to be published in late 2002. The UNDAF, which adheres to the Ninth Plan, focuses activities for the UN family and other donors around six central themes: (i) poverty reduction, (ii) social protection and social development, (iii) governance, (iv) international competitiveness, (v) human security, (vi) environmental management. The Bank has been actively involved in the UNDAF preparation, the Bank's program in Thailand is very supportive of the UNDAF, and several UN agencies are partners in the CDPs. ILO, for example, is a major partner in the *CDP for Social Protection*, working on unemployment insurance and occupational safety and health. UNDP is one of the leading donors on the *CDP for Poverty Analysis and Monitoring*, focusing specifically on tracking Thailand's progress on the Millennium Development Goals and in the *CDP for Governance and Public Sector Reform*, working on decentralization and promoting good governance.

### Asian Development Bank (ADB)

The ADB issued its Country Strategy and Program Update for 2002-2004 in July 2001. Its program focuses on seven thematic priorities: economic growth, human development, gender development, good governance, private sector development, environmental protection, and regional cooperation. The ADB is involved in the *CDP for Financial and Corporate Competitiveness*, where it is the lead donor partner on governance of specialized financial institutions and pension reform. The ADB is also one of the main partners in the *CDP for Governance/Public Sector Reform*, supporting anti-corruption efforts particularly by providing continuing assistance to the National Counter-Corruption Commission. The ADB participates in the *CDP-Poverty Analysis and Monitoring* through the participatory poverty assessment. Going forward ADB expects its program in Thailand to focus primarily on nonlending activities, complemented by support for private sector transactions.

### IMF

Thailand completed its 34-month stand-by arrangement with the Fund in June 2000 and began scheduled repayments in late 2000. The Fund continues to be engaged in the *CDP for Financial and Corporate Competitiveness* on supervision and monetary policy issues.

### Bilateral donors

**Japan.** JBIC is placing greater importance on knowledge assistance, including capacity building and policy and institutional improvements as a complement to its lending program which is expected to continue to focus primarily on infrastructure and total about \$400 million per year. JICA, which is focusing on human resource development, capacity building, and ICT in Thailand, is an active partner in several CDPs including the *CDP for Social Protection* where it is working on occupational safety and health and unemployment insurance.

**Australia.** AusAID's focus in Thailand is on governance, economic and financial reform, and social impacts of the crisis. AusAID is a major partner in the *CDP-Governance/Public Sector Reform*, supporting expenditure management reforms, especially those undertaken at the Bureau of the Budget. In the *CDP for Financial and Corporate Competitiveness*, AusAid and the World Bank have a joint venture in support of the Ministry of Finance to reform state-owned financial institutions. Australia also provides technical assistance and capacity building within the *CDP for Social Protection*.

**Germany.** GTZ is actively involved in the *CDP for Social Protection*, funding technical assistance for vocational guidance and employment services. In the *CDP for Financial Corporate Competitiveness*, GTZ is assisting the Bank for Agriculture and Agriculture Cooperatives. Going forward, GTZ will focus its work on two key focal areas of economic reform: the competitiveness of SMEs and industrial environmental management.

**U.S.** The Kenan Institute is working on technology and industrial issues, including industrial networks and clusters and science and technology as well as capacity building in social protection. In support of the *CDP for Financial and Corporate Competitiveness*, the Kenan Institute conducts programs in bank training, consulting services for SMEs, and leadership development, and the American Bankruptcy Institute is supporting the Bankruptcy Court. The US AEP is also supporting a number of environmental initiatives.

## F. RESULTS FOCUS AND COUNTRY PROGRAM MONITORING


To enhance the overall effectiveness of the country program, the Bank will pilot a more results-focused approach for the CDPs. This approach, detailed in Annex B16, has three overall objectives: (a) to shift monitoring of progress from inputs and outputs to outcomes and impacts, accounting for Government contributions as well as those of the Bank and other partners; (b) to improve the existing CDP Development and Partnership Matrices so that they can be used as a tool for enhanced

results-based management; and (c) to aggregate outcomes and impact across the different CDPs so as to evaluate overall program results in light of the national agenda, specific goals established by the Ninth Plan, and the MDGs/MDG+ goals. A preliminary “country scorecard” which summarizes how partner inputs and jointly prepared outputs contribute to country outcomes and impact across the CDPs is shown below (Table 4). This scorecard and the individual CDP results summaries in Annex : Results Measurement and Management are initial attempts to sharpen the country program’s results focus and will be further developed as the country program progresses.

**Table 4. Thailand Country Scorecard**

	CDP-GPS	CDP-SP	CDP-PAM	CDP-FC
<b>Impacts (by 2015)</b>	MDG+—Achieving at the National-level (aggregate) Achieving in Northeast provinces and among vulnerable population sub-groups Intermediate—Reducing poverty incidence to less than 12 percent by 2006			
<b>Outcomes (by 2006, based on National Agenda)</b>	<u>Desired:</u> A responsive public sector that is efficient and accountable <u>Intermediate:</u> Enacting new laws to reform public administration and finance; Operating fiscal decentralization mechanism; Adding skills in central and local agencies; and Improving Monitoring and Evaluation system.	<u>Desired:</u> Enhancing social insurance for all age groups <u>Intermediate:</u> Enhancing coverage and efficiency of social assistance programs; Broadening employment services; Institutionalizing the unemployment insurance scheme; Improving safety in work places; and Institutionalizing a viable pension system	<u>Desired:</u> Enhancing opportunities for the poor <u>Intermediate:</u> Implementing the poverty reduction strategy; Targeting interventions to reduce regional inequality; Standardizing techniques for analyzing poverty, inequality and vulnerability; and a Functioning monitoring and evaluation system.	<u>Desired:</u> Enhancing the competitiveness of financial institutions and firms. <u>Intermediate:</u> Strengthening the financial sector strategy and structure; Enhancing market discipline, supervision and regulation; Developing capital markets; Improving the speed and quality of corporate restructuring; enhancing legal framework.
<b>Outputs (joint products of partners)</b>	Preparing policy notes on relevant topics; Developing public service agreements; Building local capacity and training over 200 staff in new skills; Publishing monitoring note; Developing public sector monitoring and evaluation system.	Preparing policy notes on relevant topics; Developing implementation mechanism for intermediate outcomes; Over 200 staff trained in new skills; Publishing annual monitoring note.	Preparing poverty map and panel socio-economic survey; Developing guidelines for poverty measurement; Establishing poverty monitoring and evaluation system; and Building capacity and training over 100 staff; Publish annual monitoring note.	Preparing analytical reports; Conducting capacity building workshops; Implementing over fifty discrete activities with ten different line agencies; Consulting with the private sector.
<b>Inputs (FY03-05) US\$ million</b>	Bank = 0.5 Government = 1.2 Trust Funds = 1.5	Bank = 0.24 Government = 0.55 Trust Funds = 1.5	Bank = 0.25 Government = 0.95 Trust Funds = 2.3	Bank = 0.5 Government Cash = 1.05 In Kind = 1.0 Others Trust Funds = 2.4 Loan = 3.0

GPS - Governance and Public Sector Reform; SP - Social Protection; PAM - Poverty Analysis and Monitoring; FC - Financial and Corporate Competitiveness



*The Government, Bank, and other stakeholders will hold regular twice-yearly Country Programming and Review Meetings to discuss progress on the national agenda.* The meeting will review progress on the Bank's overall program in Thailand, identify the key gaps and areas where further work is needed, and help the Bank decide on where to redirect its efforts and resources. An enhanced Country Dialogue Monitor will serve as the basis of discussion. Specifically, the Monitor will give a brief assessment of country progress on the national agenda—based on the Bank's overall diagnostic work—and summarize the progress achieved through the CDPs (based on the enhanced results summaries of each of the CDPs and the overall country scorecard) and ongoing lending activities.

## **G. BANK GROUP RISK MANAGEMENT**

**Country risks.** The country risk factors in Thailand are common to many Bank Group programs and pertain in particular to political and economic risks. The key political risk is that the Government will not remain committed to difficult reforms, although it has made progress in migrating from its short-term post-election reform program to a medium-term structural reform program. Another risk is that after October 2002—the five-year anniversary of the Constitution, marking the first opportunity for constitutional amendments—potential amendments could weaken the important role of the Constitution as a catalyst of the reform process, although this risk is viewed as relatively small. The key economic risks, highlighted in Section V, include slow progress on fiscal consolidation, financial and corporate sector restructuring, and further destabilization of the global economic environment.

**Financial risks.** In the context of modest country political and economic risk, the financial risks to the Bank are limited. In addition, Thailand is currently in the process of prepaying Bank and other multilateral debt and total Bank exposure has declined from \$3.2 billion in 2001 to an estimated \$2.6 billion by the end of calendar year 2002. Overall, with modest country risk, pre-payment of Bank loans, and limited new borrowing envisaged over the country program cycle, the financial

risk Thailand poses to the Bank is anticipated to further decrease significantly.

**Bank institutional risk.** In the context of these country and financial risks, the Bank must manage a set of specific institutional risks, which in particular include:

- *Strategic effectiveness.* With declining Bank resource availability for Thailand, there are risks that the Bank's program is insufficiently focused on the highest return interventions or that the Bank would miss opportunities to support key reform efforts and/or would exit from its engagements prematurely. These risks will be mitigated in the following ways: first, the Bank will channel its support through the CDPs, which are designed to focus on the highest priorities. Second, the Government and Bank will regularly review the strategic effectiveness of the Bank's support in the twice-yearly *Country Programming and Review Discussions*. Third, through investing in its diagnostic and monitoring work and selectively supporting the Government through CDPs, the Bank will be prepared to respond to any potential new crisis in a timely and cost-effective way.
- *The CDP approach and reputational risk.* As the CDPs depend on the contributions of all partners, the Bank has little direct leverage over final outcomes. Therefore, if progress under a CDP is insufficient the Bank's reputation might be put at risk. While the CDP approach may be riskier than a traditional analytical and advisory approach, it also has significantly higher potential returns. To mitigate these reputational risks, the Bank will conduct upfront due-diligence on choosing the appropriate partners for a CDP; it will closely monitor and review progress of the CDPs—in the context of its results management framework; and, if key progress benchmarks are not met, the Bank will consider disengaging from a partnership.
- *Operational effectiveness.* The Bank's successful engagement in its new business model in Thailand requires appropriate staff skills and incentives and sufficient human and financial resources from the Govern-

ment, Bank, and other partners. Adequate trust fund resources are also critical for success. Finally, the country program's effectiveness depends on a decentralized country office, to enable close monitoring and management of the partnerships and ensure knowledge sharing across countries in the region. The Bank's risk mitigation includes in particular its commitment not to engage in in-depth implementation support unless the right financial and human resources preconditions at the Bank and all its partners are met. In addition, the role of the Bank's Bangkok office as a regional hub places it in a very good position to enable knowledge sharing and learning across projects and countries in the region—a key objective of the overall Thailand-Bank Group partnership.

## H. CONCLUSION

*Thailand has made significant progress since the economic and financial crisis of 1997-98.* However, the recovery remains fragile, and medium-term prospects for accelerating growth and addressing Thailand's paramount challenges of poverty and inequality will depend on Thailand's ability to successfully address underlying structural reforms. In this context, the Government and other stakeholders would like the Bank

Group to remain engaged in Thailand. However, there is a clear consensus that the relationship needs to evolve further from a borrower-lender relationship to a real development partnership. Thus, the Thailand-World Bank Group Partnership for Development reflects a continuing but limited and selective engagement between Thailand and the Bank Group for the period FY03-05 through knowledge sharing and policy advice, complemented by IFC and MIGA transactions and very limited Bank lending. Through this engagement, the Bank can also help share Thailand's development experience with other countries and provide more effective support to development in the Greater Mekong Subregion as a whole.

