

This document provides a framework for a new and innovative partnership between Thailand and the World Bank Group for FY03-05.¹ In recent years, the relationship between Thailand and the Bank Group has progressed from primarily a borrower-lender relationship toward a true development partnership. Financial support remains an important part of the partnership, especially for IFC and MIGA transactions, but the Bank's role has evolved more toward facilitating knowledge sharing and providing policy advice on medium-term structural issues. Building on this evolving approach, the new Thailand-Bank Group partnership focuses on diagnostic and monitoring work and a limited amount of implementation support for selected critical issues in Thailand's overall national development agenda.

Economic and Poverty Dynamics

Thailand has made significant progress since the economic and financial crisis in 1997-98. Macroeconomic stability has been restored, access to international capital markets has been reestablished, inflation remains low, and real GDP growth is projected to be about 4 percent this year, up from 1.8 percent in 2001. The recovery is driven mainly by consumption growth, prompted by rising consumer confidence, low interest rates, and fiscal measures to stimulate consumption. However, due in part to uncertainties in private investment, public debt, and global economic prospects, the recovery remains fragile. Thailand's medium-term prospects now depend on its ability to address underlying structural reforms—such as completing financial and corporate sector reforms and improving the country's competitiveness. Thailand must also address the paramount challenges of poverty and inequality. Income inequality is among the highest in Southeast Asia, and although poverty has declined from its crisis peak of 15.9 percent in 1999 to 13.0 percent in 2001, it still remains above the 1996 level of 11.4 percent. Poverty continues to be

predominantly a rural problem, with nine of ten poor people living in rural areas, two-thirds in the Northeast.

Thailand's National Development Agenda

Thailand's new Constitution in 1997 was a landmark in the country's history. Widely accepted as a "People's Constitution," it sets out an ambitious vision for Thailand's future, driving fundamental changes in the country's political, economic, and social fabric. To realize this vision, Thailand has formulated a national development agenda—built around four pillars.

- *Human and social capital*, particularly education reform, has been highlighted as a top priority. While Thailand has made impressive gains in primary education, the quality of schooling and enrollment rates in higher education remain major challenges.
- *Competitiveness* has emerged as a key concern after the crisis. This challenge goes beyond restructuring the financial and corporate sectors and building infrastructure; it includes strengthening innovation systems, moving to a knowledge-based economy, and improving the business environment, especially for small and medium-size enterprises.
- *Poverty and inequality* worsened during the crisis. Because economic growth alone will not be enough to address this challenge, more balanced development and better targeted support are needed to address persistent urban-rural disparities.
- *Natural resources and the environment* have come under stress due to Thailand's rapid economic development. Their management was overlooked in the high-growth years, but natural resources and the environment have now emerged as key policy priorities.

¹ In the light of feedback from the Thai Government and other stakeholders, this document is called the "Thailand-World Bank Group Partnership for Development" instead of "Country Assistance Strategy" to reflect the changing nature of the Bank Group's engagement in Thailand.

Across these four pillars, governance is the underlying theme—the foundation for sustained progress in the other areas of the national agenda. Progress on governance is required for the public and private sectors, as well as civil society, and encompasses greater transparency, accountability, and decentralization. In addition, given Thailand's central role in Southeast Asia and the Mekong sub-region, in particular, Thailand also needs to continue deepening its regional cooperation and integration.

Previous CAS for Thailand – Key Lessons

Feedback received through stakeholder consultations—including with the Government, civil society, private sector, Parliament, and other donors—a recent client survey, and OED and QAG assessments point to a number of important lessons. When well-designed and integrated, the Bank's policy advice and knowledge sharing can be a viable standalone form of development assistance. However, this assistance must be focused, selective, client-owned, and adequately resourced, with clear progress benchmarks and monitoring. Through its policy advice, the Bank has also been effective in raising awareness of and advancing the debate on key development issues. However, the Bank needs to help facilitate greater participation of all stakeholders in the design and implementation of actual reform programs and place greater emphasis on making the work it supports widely accessible.

Highlights of the Partnership for 2003-05 and Risks

Thailand and the Bank Group have developed a real partnership, with the Government setting the agenda and the Bank Group focusing its interventions on areas where it can play a catalytic role. The Bank Group's engagement 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. This diagnostic and monitoring

work will cover the key economic and social developments and fulfill the Bank's due diligence responsibilities. It will include a regular series of economic, social, environment, and country dialogue monitors as well as support for further in-depth work on issues of competitiveness and their links with poverty reduction in the rural areas of northeast Thailand. It will also give the Government and Bank Group 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.

- *In-depth implementation support* in a few critical areas, as identified through the comprehensive diagnostic overview and agreed with the Government. This implementation support will be provided through:
 - *Country Development Partnerships (CDPs)*. The CDPs are knowledge-based partnerships which set out medium-term integrated frameworks for reform programs. The CDPs are led by the Government, with the Bank and other partners supporting the development of the overall reform framework, analytical work, capacity building, and provision of technical assistance. The Government and Bank will engage in CDPs very selectively and in only a few specific areas. Given the emphasis on knowledge sharing, the World Bank Institute (WBI) will play a key complementary role.
 - *IFC and MIGA transactions and IBRD lending*. The CDP objectives can also be supported by IFC and MIGA transactions, particularly for the competitiveness pillar in the national agenda. In addition, the Bank will use its existing portfolio—and limited new lending if requested by the Government—in a few strategically important areas.

During FY03-05, the Bank Group will provide implementation support by:

- *Completing its work in ongoing partnerships with the Government.* The Bank will complete its support to the current CDPs for Governance and Public Sector Reform, Social Protection, Financial and Corporate Competitiveness, and Poverty Analysis and Monitoring by FY04-05. Over this period, the Bank's support to each CDP will become more focused on a progressively narrower set of issues. IFC will continue to concentrate on financial markets and corporate restructuring, and MIGA will help build capacity for investment promotion services.
- *Selectively engaging in new partnerships, including financial support.* As the Bank phases out its engagement in the current CDPs, it may engage in a limited number of new CDPs, possibly for education, knowledge economy, environment, or infrastructure. The Government has also requested one IBRD loan in FY03 for Highways Management and has indicated that it may ask the Bank for more investment lending in infrastructure in view of the backlog of investments, the need for reform, and the importance of infrastructure development for growth and poverty reduction. Decisions on where the Bank should focus its limited resources will be based on diagnostic work and an explicit set of criteria for selectivity. These criteria include an outcomes-focused program, strong government commitment, and linkages with the most critical policy reform areas—particularly poverty reduction. Specific directions for Bank Group support will be discussed in the regular, twice-yearly *Country Programming and Review Discussions* with the Government and other development partners. IFC will complement its current strategic focus with greater emphasis on infrastructure and ICT investments. It will also help catalyze private investments in health, education, agribusiness, and SMEs, investments that are expected to benefit from Bank-supported policy and advisory work. MIGA will strengthen its capacity building efforts and explore guarantee opportunities. To enhance overall effectiveness and impact, the Bank Group is adopting a results-oriented approach for its program in Thailand. Specifically, progress on the

CDPs will be measured by outcome benchmarks and impacts, complementing the traditional monitoring of outputs and inputs. However, it should be noted that measuring the results of the Bank's engagement in a CDP is particularly difficult given the complementary contributions of numerous partners.

- *Complementing this development partnership at the country level with work on regional and global public goods.* The Bank is already actively involved in a number of regional initiatives, such as the Mekong River Commission and the Greater Mekong Sub-region Program and will strengthen its support for these programs in the coming years. The Bank will also help share Thailand's development experience through trilateral cooperation with other countries in the region, especially with Cambodia and Lao PDR. Disseminating lessons from Thailand's highly successful social investment fund and land titling programs are two examples of such cooperation. WBI will play a central role in facilitating this knowledge sharing.

In the context of modest country political and economic risks, the financial risks to the Bank are limited and expected to decrease further as a result of the limited new borrowing envisaged over the country program cycle. There are a set of Bank institutional risks which relate to: strategic effectiveness and whether the Bank program is focused on the highest-return interventions; the CDP approach and the reputational risk to the Bank of insufficient progress on one or more CDPs; and operational effectiveness, including the need for appropriate staff skills and incentives and sufficient human and financial resources. These risks will be closely monitored in the context of the Country Programming and Review Discussions, and the Bank will consider disengaging from specific partnerships if key progress benchmarks are not being met or resources are inadequate. The Bank's decentralized country office in Bangkok will also help facilitate close monitoring of overall country developments and management of the CDP program as well as help to ensure knowledge sharing across countries in the region.