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REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO \$27.5 MILLION
TO
THE KINGDOM OF THAILAND
FOR A
REGIONAL CITIES DEVELOPMENT PROJECT

April 4, 1985

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CURRENCY EQUIVALENTS

Currency Unit	=	Baht (B)
\$1	=	B 28.0
B 1	=	\$0.035
B 1 million	=	35,714

(The Bhat, since November 1984, has been pegged to a basket of currencies and the rate is established daily. The exchange rate used in the SAR is \$1 = B 27.0 based on the rate which prevailed at the time of recalculations made in preparation for loan negotiations. The change in cost estimates since that time as a result of exchange rate movement has been insignificant.)

MEASURES AND EQUIVALENTS

1 meter (m)	=	39.37 inches (in)
1 square meter (sq m)	=	10.8 square feet (sq ft)
1 cubic meter (cu m)	=	35.3 cubic feet (cu ft)
1 kilometer (km)	=	0.62 mile
1 rai	=	0.16 hectare or 0.395 acre
1 hectare (ha)	=	6.25 rai or 2.471 acres

ABBREVIATIONS AND ACRONYMS

ADAB	-	Australian Development Assistance Bureau
BMA	-	Bangkok Metropolitan Administration
DOLA	-	Department of Local Administration
DTCP	-	Department of Town and Country Planning
FMO	-	Fish Marketing Organization
MDF	-	Municipal Development Fund
MOF	-	Ministry of Finance
MOI	-	Ministry of Interior
MWWA	-	Metropolitan Water Works Authority
NESDB	-	National Economic and Social Development Board
NHA	-	National Housing Authority
ODD	-	Office of Urban Development
PWA	-	Provincial Water Works Authority
PWD	-	Public Works Department
UNDP	-	United Nations Development Program

THAI FISCAL YEAR

October 1 - September 30

THAILAND

REGIONAL CITIES DEVELOPMENT PROJECT

Loan and Project Summary

Borrower: Kingdom of Thailand.

Beneficiaries: Municipalities of Chiang Mai, Khon Kaen, Nakhon Ratchasima, and Songkhla

Amount: \$27.5 million.

Terms: 20 years, including 5 years of grace, at the standard variable interest rate.

Relending
Terms: Grants to the beneficiaries.

Project
Description: The proposed project has been designed to support Government efforts to stimulate economic development and regional growth in the three poorest of Thailand's six regions by: (a) improving selected basic infrastructure in the four project cities including: (i) road and drainage improvements, (ii) wastewater disposal, (iii) solid waste collection, (iv) flood protection, (v) new roads and bridges, and (vi) road maintenance equipment; (b) provision of a combined fishing port and commercial/industrial zone in one of the cities; and (c) institutional development through policy measures and technical assistance which would strengthen municipal administration and the Ministry of Interior in carrying out development programs.

Risks: The main project risks are an untested implementation capacity of the project cities for a project of this magnitude and the uncertainty of the cities' ability to collect adequate revenue to repay their share of the project loans. The principal implementation risk is related to land acquisition. Technical assistance and other measures proposed under the project to strengthen the involved institutions and to improve municipal finances are expected to minimize these risks.

<u>Estimated Cost:</u>	<u>Category</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
		(US\$ million)		
	Drainage and sanitation	4.3	2.9	7.2
	Urban transport	7.2	4.0	11.2
	Revenue earning facilities	3.8	1.8	5.6
	Slum improvement	0.8	0.4	1.2
	Land	6.0	-	6.0
	Technical assistance	2.5	4.0	6.5
	Project administration	1.2	-	1.2
	<u>Base Cost</u>	<u>25.9</u>	<u>13.1</u>	<u>39.0</u>
	Physical contingencies	2.6	1.6	4.2
	Price contingencies	4.8	2.9	7.7
	<u>Total Project Cost /a</u>	<u>33.3</u>	<u>17.6</u>	<u>50.9</u>
	<u>Bank Front-End Fee /b</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>Total Financing Required</u>	<u>33.3</u>	<u>17.6</u>	<u>50.9</u>

Financing Plan:

IBRD	14.9	12.6	27.5
ADAB	-	5.0	5.0
Government	5.6	-	5.6
Project Cities	12.8	-	12.8
<u>Total</u>	<u>33.3</u>	<u>17.6</u>	<u>50.9</u>

Estimated Disbursements:

<u>Bank FY</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(US\$ million)				
Annual	1.5	4.5	9.4	8.1	4.0
Cumulative	1.5	6.0	15.4	23.5	27.5

Rate of Return: 30% (weighted average)

Staff Appraisal Report: No. 4673-TH, dated March 8, 1985

Map: IBRD-17451

/a Including estimated taxes and duties totaling US\$5.1 million.

/b Bank Front-end Fee is 0%.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO THE KINGDOM OF THAILAND
FOR A REGIONAL CITIES DEVELOPMENT PROJECT**

1. I submit the following report and recommendation on a proposed loan to the Kingdom of Thailand for the equivalent of US\$27.5 million to help finance a Regional Cities Development Project. The Australian Development Assistance Bureau (ADAB) would cofinance part of the technical assistance and training costs associated with the project. The loan would have a term of 20 years, including five years of grace, at the standard variable interest rate.

PART I - THE ECONOMY

2. An economic report entitled "Coping with Structural Change in a Dynamic Economy" (Report No. 3067-TH) was issued on December 23, 1980. It proposed a medium-term strategy to deal with the adjustment problems resulting from the two oil price shocks of the 1970s. Subsequently, the Royal Thai Government initiated a program of structural adjustment policies, which the World Bank supported with two structural adjustment loans. An economic report entitled "Managing Public Resources for Structural Adjustment" (Report No. 4366-TH) was issued on August 31, 1983. It reviewed progress in the implementation of structural adjustment policies and proposed directions for further action, especially in regard to the mobilization and management of public resources.

Recent Political Developments

3. Since the early 1970s, the political process in Thailand has broadened and matured significantly. Initially, this was accompanied by frequent and sometimes abrupt changes in government leadership. Since the 1977 general elections, however, Thailand has enjoyed a period of greater political stability and continuity of policy. Cabinet shuffles have continued to take place, reflecting shifts in the makeup of the coalitions of political parties, military and business leaders, and technocrats, which have governed the country for the past five years. However, only one change in Prime Minister has occurred during this period. General Prem Tinsulanonda was appointed as Prime Minister in March 1980 and has been successful in mobilizing support for a major program of economic structural adjustment, embodied in the Fifth Five-Year Plan, 1982-86. Senior civil servants supporting this program were given key positions in the public sector. Although there are continuing internal debates on the details and speed of policy implementation, overall, a broad public consensus on national policy priorities has been maintained.

4. National elections were held again on April 18, 1983, in which candidates from ten parties were elected to Parliament. No party secured an outright majority, but Prime Minister Prem succeeded in forming a new four-party coalition which includes two of the three leading parties and has the

backing of approximately two-thirds of the elected representatives. As part of a gradual constitutional reform aiming at increased representative government, transitional arrangements had been in place for a five-year period to permit serving military, civilian and other non-elected officials to continue to play a stabilizing role in both the legislative and executive branches of government through their appointment to the powerful senate and to Cabinet posts. These transitional arrangements were allowed to lapse, curtailing the senate's powers and prohibiting military and civilian officials from participating in the Cabinet. These changes, when combined with the current coalition's diversity, and the Prime Minister's lack of an independent political power base, have made it hard to achieve a consensus on difficult economic issues since the April 1983 election. However, the Government has endorsed the Fifth Plan's objectives of improved economic management, structural adjustment and poverty alleviation and has moved cautiously in continued Plan implementation. Continuation of ongoing policy and institutional reforms is therefore expected.

Past Economic Trends

5. Thailand's economy grew rapidly over the past two decades and developed successfully by most standards of international comparison. Its per capita income growth of almost 5% per annum during 1960-1980 was among the highest sustained rates among developing countries. The reduction of poverty was substantial for a country still among the lowest third of middle-income developing countries, as the overall incidence of poverty dropped from about 57% in the early 1960s to about 31% in the mid-1970s. Despite its continuing reliance on agriculture, Thailand experienced a far-reaching transformation of its economic and social structure during the past two decades, with a high growth in modern industrial and service sector activities, extension of transport and communications infrastructure throughout the country, rapid modernization, and a significant increase in the openness of the economy to trade and capital flows, tourism and international labor migration. The rapid growth in Thailand's exports played a particularly important role in stimulating aggregate demand and providing the necessary means to finance imports. Moreover, because of this rapid export growth, the Thai debt service burden remained moderate.

6. However, because of its increased openness, its heavy dependence on imported oil, and an expansionary fiscal stance in the late 1970s, the Thai economy was substantially affected by the two oil price shocks and by the ensuing international economic upheaval. A relatively high rate of overall growth was maintained initially but this was accompanied by accelerating inflation, large fiscal and external deficits and growing dependence on foreign borrowing. Consumer prices increased by 10% in 1979, by 20% in 1980, and by 13% in 1981. The Central Government deficit on average exceeded 4% of GDP in the period 1979-82. Notwithstanding continued rapid export growth, the current account deficit amounted to 7.7% of GDP in 1979, 6.2% in 1980, and 6.9% in 1981; consequently, there has been a rapid accumulation of Thailand's traditionally low external debt.

