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Thailand's 'IMF Program': An Elusive and Disappointing Target

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Thailand's so called IMF program has been the target of much criticism. In fact, the target is extremely elusive and so is very hard to hit. It has undergone such transformations over its short life that it is no longer recognizable.

The first part of the program was a macroeconomic policy regime whose history is now well known. In early 1997 the Thai government ignored IMF warnings and advice. By the time the IMF was called in, the government had depleted its foreign exchange reserves by almost $40 billion and indebted itself, through the FIDF bailouts, in a roughly equal amount.

In November 1997 the new government fully embraced the IMF prescriptions of tight monetary and fiscal policies, and Thailand became the IMF's star pupil. By mid-1998, in response to growing domestic concerns about the deepening recession, the program was turned on its head. The IMF agreed to the government's 5th LOI which signaled a fundamental shift in monetary policies from exchange rate to monetary growth targets. At the same time, the fiscal deficit was enlarged, further expanded in the 6th LOI, and once again in the most recent 7th LOI.

Since mid-1998, the government of Thailand has been in full control of the so-called IMF macro program. Policies have been dictated entirely by the government's desires and its response to domestic political pressures. The IMF and other international and bilateral agencies have been passive participants.

The second part of the IMF program has been a set of tough structural reforms aimed primarily at the financial sector, but also at more general problems of governance in the public, corporate and financial sectors. Unlike the IMF programs in other countries, especially Indonesia, there has been relatively little emphasis on regulatory reform except where it has a direct impact on financial institutions and on the accounting, fiduciary and reporting standards of corporations. Nevertheless, in areas such as privatization and the markets for basic social services, the emphasis has been on transparency, accountability and market orientation. Except where necessary for social safety net reasons, subsidies and monopolies were to be eliminated.

Progress has been slower than promised in almost all key areas of structural reform. As with the macroeconomic program, however, policies have evolved according to the timetables and constraints of the government, and international agencies have been reluctant to criticize or press the government for speedier action.

Issues of macroeconomic management and structural reform have come face-to-face in recent agreements for large foreign loans to provide immediate macroeconomic stimulus. Reflecting the government's anxiety to speed up the fiscal program, and the donors' desire to support their star pupil, the World Bank and Japan have offered almost $1.5 billion, or about 1% of Thai GDP, for additional expenditures over the next six months. The expenditures are meant to support a variety of activities and objectives, including even programs for "state management efficiency improvement." But the main goal is simply to pump massive amounts of public expenditures into the economy in a short period of time.

How can such a huge new expenditure program meet this deadline and at the same time achieve even the most basic standards of transparency and accountability, let alone ensure that the expenditures will have any long term social or economic value?

- All expenditures under this new program are funded by offshore loans and hence are off-budget. Were the World Bank and OECF officials even aware of this when the loans were negotiated? The government has replied that, even though the expenditures will be off-budget, it will abide by budget procedures in planning and making disbursements. No matter how sincere the government is in this commitment, it will be impossible to meet. If Thai ministries could meet these deadlines and adhere to proper budgetary rules and procedures, there would be no need for assistance in 'state management efficiency improvement'!

- The expenditure allocations across ministries have been made without public or parliamentary discussion. There has been no explanation of criteria used. The Ministry of Interior, long reputed for the political influence of its budget allocations at the provincial and local levels, has been given over one-third of the funds under the program.

- The World Bank has agreed to make its part of this loan with absolutely no conditions for pre-approval of the expenditure program. This is entirely unprecedented in Thailand. The World Bank has simply told the government to take $600 million and, subject to few constraints, spend it as it wishes. The Bank will not interfere with or even require the right of prior approval of procedures or the substance of any of the expenditures. Senior cabinet ministers are privately gloating, as well they should.

- Despite the goal to eliminate subsidies from government programs (except to assist the poorest and the neediest in society), the cabinet recently agreed to subsidize interest rates on a foreign-funded SME loan program. Similarly, the government refuses to accept ADB conditions that an agricultural sector loan be tied to reductions in costly subsidies on irrigation water, to the introduction of more market-oriented pricing systems for agricultural products, and the elimination of interest rate subsidies.

Where are the guardians of transparency and accountability in government spending? The government plays lip-service to the concepts but embarks on measures which violate them. The IMF, World Bank, ADB and other bilateral agencies have abrogated all responsibility in efforts to achieve what they feel to be more important objectives, or simply to avoid offending and to continue to bask in the reflected glory of their star pupil.

Transparency and accountability are not abstract moral values. They are devices to ensure that public policy is made in the public interest. Without transparency and accountability, government programs are subject to capture by vested interests. Programs are developed and expenditures made to benefit these interests, and the public unwittingly bears the inevitable costs.

The people of Thailand have already suffered enormously from the economic crisis. Huge costs were incurred in 1996 and early 1997 because of a government's ignorance, cover-ups and denial of obvious danger signals. The current government is now committing to large foreign loans whose burden will also be borne over many years. The loans will be worthwhile only if they generate long term benefits that exceed their costs. Without accountable and transparent procedures, there is no way for the people to evaluate whether this is likely. Meanwhile, special interests fight over the use of the funds, knowing that the future costs will be borne by others, regardless of how the money is spent.

The government's principal interest is political survival, which means winning an election some time in the next year. In the absence of transparent and accountable procedures to evaluate the costs and benefits of its policies, they know that most people will see only the immediate benefits, if any, of 'gifts' from the new expenditure programs. Transparency and accountability are necessary to ensure a longer and more informed view of government policies.

This is what accountability is all about, and it is why until recently the IMF, World Bank and other international agencies have made it such a high priority. It is a mystery why they have chosen to back off at this time. The 'IMF Program' is an elusive and a disappointing target. It is not only Thailand that is amazing; so, it appears, are the IMF, the World Bank and a number of other international organizations.

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