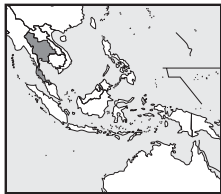


Unsound government policies, successful grassroots solutions



Over the past five years, the Thai government’s financial policies have served to benefit a small wealthy elite while failing to promote genuine development or create a sound welfare system. They also pose the risk of another economic crisis like the one that hit the country in 1997. In the meantime, an emerging grassroots movement has helped communities to meet their own financial management and welfare needs.

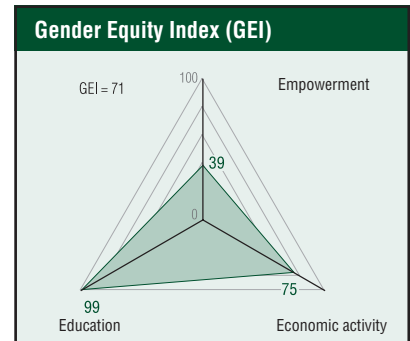
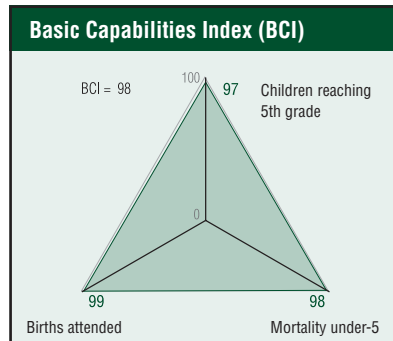
The Social Agenda Working Group
Ranee Hassarungsee / Poonsap S.Tulaphan / Yuwadee Kardkarnklai

This report addresses the negative effects of populist “Thaksinomic” financial management to point out the importance of public participation in the management of national resources in a democratic and fair political system. It presents the case of savings groups created at the grassroots level to achieve self-sufficiency in local communities. These grassroots social financing groups have been led astray by the mainstream populism of the government. The Social Agenda Working Group believes that only strong determination can ensure the survival of these local initiatives.

Monopoly of finance and politics

The government of the Thai Rak Thai (Thais Love Thais) Party (TRT), a right-wing party formed in 2001 by telecommunications billionaire Thaksin Shinawatra, has combined populist policies with strong support for US foreign policies. Thaksin became prime minister in 2001 when the TRT was swept into power on a populist platform aimed at winning rural votes. In 2005, he became the first prime minister to lead an elected government through a full four-year term and was reelected in a landslide TRT victory in the general elections held in February of that year. However, when Thaksin’s family sold its entire 49% share in the Shin Corporation telecommunications conglomerate to the Singaporean government investment house Temasek Holdings on January 2006, it prompted an angry outcry and protests from urban middle-class opponents, who viewed the deal – a tax-free windfall profit of THB 73 billion (USD 1.9 billion) – as the epitome of his sophisticated corruption and a betrayal of his proclaimed nationalism. The resulting controversy forced Thaksin to call a snap election in April, which was boycotted by opposition parties. In May 2006, a Constitutional Court ruled to invalidate the April election and ordered a new election to be held in October. In the meantime, Thaksin and his Parliament have retained their hold on power, despite rising opposition and unrest.

Many academics agree that from the beginning, Thaksin’s government represented a group of powerful domestic capitalists who had survived Thailand’s 1997 financial crisis. They believe that the TRT sought to “capture” state power through general elections in



order to protect, promote and provide privileges for this group and their allies, who are engaged in telecommunications, entertainment, mass media and manufacturing, and control an estimated 42% of the total stock value on the Thai stock exchange.¹ Both the 1997 Constitution and the country’s election laws are seen to favour big political parties, and the TRT is widely considered to represent Thailand’s capitalist elite.² According to some critics, all of the components of democracy, including the elected government, Parliament, independent organizations, the judicial system, Constitutional Court, Election Commission, and government bodies such as the Revenue Department and Stock Exchange Commission have been transformed into “puppets” used by Thaksin to rake in further profits.³ During the TRT’s first four years in power, between 2001 and early 2005, its cabinet ministers were reshuffled 10 times. This was viewed as a new approach adopted by Thailand’s chief of the executive branch, whose party was further strengthened by the country’s new Constitution.⁴

Money politics

According to some observers, the TRT administration has been marked by the emergence of an integrated policy of corruption, formed through

the synchronization of economic exploitation with administrative malfeasance and political nepotism.⁵ The Government gained control over ministries, state enterprises and banking and financial institutions, including the government-run Bank for Agriculture and Agricultural Co-operatives and the Government Savings Bank.

The rise of such a highly autocratic government made the government budget the current largest source of income for corrupt politicians. A second source of corruption money was foreign loans. The third was non-budgetary spending, or quasi-fiscal measures. For example, the Government Savings Bank, which had agreed to join the so-called SML Programme by providing small, medium and large community funds, was instructed to allocate these funds to various constituencies two days before the April elections took place. In addition, part of the government budget was used to increase the price of rice to an artificial high, which subsequently plunged to its actual level after the elections. Almost none of the public could understand how the price of rice had risen so high, but the farmers and parties involved were happy. The Thaksin administration has also reportedly been involved in stock exchange speculation.

The high risk of quasi-fiscal activities

The Thaksin government has used populist programmes and quasi-fiscal measures⁶ to gain political popularity since 2001. According to influential social critic and academic Thirayuth Boonmee, “The government in fact set aside THB 780 billion (USD

1 Phongpaichit, Pasuk (2004), *Matchon Daily*, 17 March.

2 Sathitniramai, Aphichart and Laowakul, Duangmanee (2005). “Dual-Track Development Strategy: Successes and Failures”. A commentary presented to the 2005 annual conference of the Faculty of Economics, Thammasat University.

3 Boonmee, Thirayuth, *Matchon Daily*, 5 March 2006.

4 Charoenmuang, Thanate (2005). “The Reformation of the Thai Bureaucracy”. Annual conference of the Faculty of Economics, Thammasat University.

5 Piriya-rangsan, Sungsit (2005). In a conference on International Anti-Corruption Day 2005, held on 9 December 2005.

20.8 billion) for the restructuring of bad debts by the Thailand Asset Management Corporation. THB 2 trillion (USD 53.4 billion) would be required for the construction of new cities and mass transport system; another USD 2.56 billion was to be given to the Vayupak Fund to support the stock market; and USD 17.95 billion was earmarked as a fund for public utilities. All these projects amounted to about USD 91.79 billion. In the meantime, health care got USD 1.46 billion while USD 1.71 billion was given to the village fund. USD 365 million went to the farmers' debt relief project. Altogether, about USD 4 billion of the budget was allocated to support the low-income people, 20 times lower than the money set aside for big troubled business companies and financial institutions.⁷ No economic cost-effectiveness evaluation of these schemes has been conducted.

Most of the budget allocated to quasi-fiscal activities every year is aimed at providing economic opportunities by giving loans to particular groups that the government wants to support, especially through the SME (Small and Medium Enterprise) Programme run by government financial institutions. The budget funds used for this purpose totalled USD 12.5 billion in 2004, an amount 137.9% higher than in 2003. This was a greater increase than in any other budgetary allocation that year.

The use of quasi-fiscal measures could cause potential negative impacts, such as operational risks for state-owned financial institutions, particularly the Krung Thai Bank, Government Savings Bank and Bank of Agriculture and Agricultural Co-operatives, which have been indirectly compelled to provide loans to individuals and groups of people that the government wants to help. Even more troubling are the risks posed by these practices to the country's fiscal and macroeconomic stability. As the money used in these activities was non-budgetary spending, the Parliament had no power to examine these measures. The Parliament was also prohibited from cutting the government's spending.

No welfare system

Over the past five years, the Government has done nothing to effectively promote any viable social welfare system, and has focused on adopting policies to stimulate domestic consumption. A survey by the National Statistical Office found that in 2002, Thailand's nationwide household debt was USD 1,918.3, which rose to USD 2,681.3 in 2004.⁸

6 Quasi-fiscal measures are activities that may be operated by the government or agencies not directly controlled by the government such as state enterprises and the country's central bank. Even non-budgetary funds can be administered in quasi-fiscal activities. The implementation of quasi-fiscal activities varies and includes implicit uncollected taxes, subsidies, or public enterprise expenditure through either financial or non-financial institutions. Such institutions will serve as government representatives to provide particular support for those economic sectors that the government wants to help.

7 Boonmee, Thirayuth (2004). *Analyzing the Thai Rak Thai's Politics*. Midnight University.

8 <www.iseas.edu.sg/viewpoint/sm24aug05.pdf>.

TABLE 1

Quasi-fiscal activities in relation to GDP and the annual budget (in million THB)			
	2002	2003	2004
Funding provided through quasi-fiscal activities	103,669.0	295,993.0	569,597.9
Percentage of GDP	1.9%	5.0%	8.7%
Percentage of annual budget	10.1%	29.6%	49.0%
Gross domestic product	5,446,043.0	5,930,362.0	6,576,023.0
Annual budget	1,023,000.0	999,000.0	1,163,500.0

Sources: Fiscal Risk Management Group, Fiscal Policy Office, Ministry of Finance; Budget Bureau; National Economic and Social Development Office; calculations by the research team of Aphichart Sathitmiramai.

A range of populist programmes have been implemented as a means of increasing the governing party's popularity. However, they have typically not involved adequate cost-effectiveness evaluations or included appropriate means to reach their stated target groups. Their main goal has been to gain votes and financial power for the TRT and its allies, not to achieve any overall economic benefit for the country. Such populist policy implementation could lead to an inefficient and socially unfair use of national resources. It could also overshadow other programmes with greater socio-economic impact, such as educational reform, which could be a key factor for increasing the productivity of Thailand's labour force and is still a weak point of the Thai economy. Better educated workers would help increase the country's competitiveness in the long term. But a reform of the educational system was difficult and would take too long a time to achieve. To quickly gain electoral votes, populist programmes and quasi-fiscal activities, which fundamentally waived fiscal discipline, were an easier option.

The Village Fund, through which BHT 1 million was given to each village to be borrowed by the community members, has now become a tool for local politicians. Community members have become divided and forced to compete with each other for these funds. In the area of health, civil society had initially advocated the government's 30-baht-per-visit health scheme before the TRT adopted it as a policy platform during its election campaign in 2000. Once elected, the TRT immediately put this scheme into practice to obtain popular support. But because the government did not provide the required budget to support it, hospitals have had to shift their other non-budgetary income to cover its costs.

A community approach to financial management

Many communities have adopted the concept of "community capital" and organized a variety of "community financing" organizations, such as savings groups for production, integrity savings groups, credit union co-operatives, and village banks. The main objective of such community financing groups is for people to "help each other" within their communities. Their ultimate aim is to promote disciplined and regular savings and make use of the money involved so that it benefits the groups' members in times of trouble and saves them from having to take out informal loans.

In addition to serving as a grassroots-based source of credit for community residents, programmes

like these also help to promote greater discipline in spending, develop community financial management skills, and generate employment. In addition, any profits made can be directed towards welfare benefits for the groups' members.

This first fund of this kind was started up 20 years ago by teacher Chob Yodkaew in the southern province of Songkhla.⁹ The first step was the organization of a Contractual One Baht Per Day Savings Group, to which the group's members were committed to contribute regularly. Subsequently, 50% of the interest earned on the savings deposited were used to create a welfare fund. The concept behind the Savings Group was to encourage people to reduce their expenses while using the money thus saved to provide for community welfare. These funds could be used to improve the quality of life of community residents and promote a sense of sharing. Efforts are now being made to promote the implementation of this bottom-up initiative throughout the province of Songkhla and its adoption as an official public policy within the provincial strategic development plan.¹⁰

Conclusion

The Thaksin administration has been criticized for its corruption, rapid self-expansion, and crafty self-protection. It has been accused of passing laws favourable to certain business groups, such as the Special Economic Zone Act. The TRT administration has also signed numerous corrupt business deals with private companies, which could be entitled to sue the State and receive compensation or to demand arbitration that would rule on the side of the companies if their operations did not succeed.

The Thaksin administration's financial management has been so cunning and complicated that the country's principal accountability mechanism, the Parliament, has been powerless to intercede, while the public has had no way of participating in the budget allocation process.

(Continued on page 261)

9 Yodkaew, Chob (2005). *Project the Public Policy Practices for a Good Quality of Life: the Case of the Contractual One-baht Per Day Savings Fund for Public Welfare. First Phase Progress Report* (16 September 2005). Under the Plan on Development of Public Policy for Good Quality of Life.

10 Songkhla province's directive No. 223/2548.

PERU

(continued from page 239)

But the road ahead is still long and difficult. There has been some progress and there is a climate of rejection for the economic and political system, but the movements for concerted action that have sprung up are lightweight compared to the whole framework of economic, coercive and symbolic power that perpetuates a system that is unjust and intolerable for the majority of Peruvians. ■

References

- Campodónico, H. (2005). "Las remesas del capital y las remesas del trabajo" (with data from the Peruvian Central Reserve Bank). *La República*, 28 November.
- Herrera, J. (2004). *Macroeconomic figures and living conditions in households*. Institute de Recherche pour le Development (IRD/DIAL).
- Instituto Nacional de Estadística e Informática (INEI) (2006). *Condiciones de vida en el Perú: Evolución 1997-2004*. Lima.
- Ministry of Economy and Finance (MEF) (2006). *Proyección del los recursos del Presupuesto del Sector Público 2006*.
- Multilateral Investment Fund (Fomin) (2005). "Encuesta de opinión pública de receptores de remesas en el Perú". Bendixen and Asociados. *La República*, 6 December.
- Superintendencia Nacional de Administración Tributaria (SUNAT) (2002). *Estimación del efecto de los convenios de estabilidad jurídica sobre la recaudación*.

PHILIPPINES

(continued from page 241)

Additional sources of financing

Social Watch Philippines does not limit itself to exposing problems in financing for social development. It has analyzed the budget rigorously and has identified specific expenditure items which can be utilized for social development, such as the special purpose funds of the President, the unprogrammed funds in the budget, and the pork barrel allocations to legislators. It has also proposed revenue sources other than regressive taxes, as well as measures to improve revenue administration. At present, it is working closely with selected legislators towards a more people-oriented budget. It continues to monitor the country's debt and works with the UNDP on feasible solutions.

The Philippines' financial problems are formidable. Social Watch Philippines continues to campaign for the interests of poor Filipinos through mass actions, information campaigns, rigorous research and the formulation of viable alternatives. ■

ROMANIA

(continued from page 243)

Since 2005, NGOs have been involved in the process of developing a Romanian platform of non-governmental development organizations (NGDOs), within the framework of TRIALOG, a project of the European NGDO platform CONCORD (the European NGO Confederation for Relief and Development). Throughout 2005 and 2006, NGOs were involved in the elaboration of the National Strategy for Development Cooperation drafted by the Ministry of Foreign Affairs (MFA).

The priorities for NGOs in this respect are to ensure that the Government meets its commitments with regard to ODA expenditure levels, and that ODA spending is based on genuine partnership with communities in the beneficiary countries, addressing their specific needs and respecting their concerns. Another focus is on building capacity for civil society to become more aware and to engage more actively in the field of international development and humanitarian aid. Due to the lack of previous interest in this area, a considerable amount of effort has to be dedicated to increasing public awareness through development education campaigns. ■

References

- Marginean, I. (2005). *Necesitatea reorientării politicilor sociale în România*, in *Calitatea Vieții* XVI, No. 1-2.
- Chivu, L. (n.d.). *New strategy promoted for social services*, at European Industrial Relations Observatory on-line. Available from: <www.eiro.eurofound.eu.int/2006/01/feature/ro0601103f.html>.
- Balasa, A. (2004). "Contributia sectorului neguvernamental la realizarea unor obiective ale politicilor sociale si la ameliorarea calitatii vietii populatiei". *Calitate Vietii*, XV, No. 1-2.
- Civil Society Development Foundation (CSDF) within CIVICUS Civil Society Index process. (2005). *Dialogue for Civil Society. Report on the State of Civil Society in Romania – 2005*. Available from: <www.fdsc.ro/PDF/Romania%20Country%20Report.pdf>.
- Grünberg, L., Borza, I. and Vacarescu, T. (2006). *The Black Book of Equal Opportunities between Women and Men in Romania*. Bucharest: AnA Society for Feminist Analyses. Available from: <www.anasaf.ro/en/index.html>.

SPAIN

(continued from page 245)

It is clear that Spanish trade policy is still operating exclusively to promote the interests of Spanish enterprises and strategic sectors, and this leaves little room for manoeuvre when it comes to adopting policies to support the Southern countries in line with agreed plans for international cooperation. Probably the biggest challenge facing the Spanish government in this sphere is how to change this trade policy, but it has to be changed because this is the only way Spain can progress from cooperating in development to actively fostering development.

Conclusions

The Spanish government has made an economic contribution to international cooperation for development, and it is increasingly showing signs that it will back up its declared political intention to help the countries of the South. This is certainly an improvement on the policies of previous governments and it is a good sign, but not enough is being done.

What is needed is a courageous and far-reaching reform in foreign policy so that the extremely urgent needs of developing countries will no longer be subordinated to Spanish economic interests, and this involves a lot more than mere political posturing or a percentage increase in the development cooperation budget.

The present government has raised high hopes not only among civil organizations in Spain but also on the international stage. Now it is time to move on from gestures and take real effective action. If development is to be fostered, there is still a lot to be done in spheres like agricultural, investment, trade and development policies. And this applies not only inside the country but also in the international ambit, where Spain has the opportunity to follow through on her commitments and pull her European partners in the same direction. This is the least we might expect from one of the members of the Quintet Against Hunger and Poverty.² ■

2 A joint initiative on the part of Brazil, Chile, Spain, France and the United Nations aimed at cutting poverty indicators by half before 2015.

THAILAND

(continued from page 251)

Civil society's proposals

There should be public participation in the budget process at all levels. People must be provided with more information and increasingly take part in national financial management. At the same time, horizontal networks of financial management for public welfare must be expanded in earnest.

Every effort should be made to promote a widespread and effective social welfare system, as well as the passage of the National Health Security Act to ensure that all Thai people will be equally entitled to health services. ■