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**THE RELATIONSHIPS BETWEEN FOREIGN LOANS
AND DEVELOPMENT PROJECT MANAGEMENT
IN THE EXPERIENCE OF THE LOANS CONTROL DIVISION
OF THE DEPARTMENT OF HIGHWAYS IN THAILAND**

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ABSTRACT

This study is concerned with the relationships between foreign loans and development project management. The main focus of the study is to investigate factors that undermine the effectiveness and efficiency of the management of loan projects in the experience of the Loans Control Division of the Department of Highways in Thailand. The emphasis is on road projects funded through foreign loan schemes because roads are one main infrastructure that requires never-ending financial support, with little or no direct cost recovery. When partly financed with loan monies, road projects also add to the burden of debt repayment for the nation. Thus, one essential objective in implementing road projects is to minimize investments cost by delivering a well-managed project. As loan projects have unique characteristics and require particular management skills, a comprehensive study of the experience of the Loan Control Division will help to reveal solutions to improve the effective and efficient management of other loan projects.

The findings suggest that the Loans Control Division is presently facing three main factors that create a hostile environment for the management of loan projects. They are: the differences between local regulations and foreign guidelines; an unsupported working environment and the lack of knowledge and skills. These factors reflect a lack of understanding of loan projects at both national and personal levels. At the national level, it is evident in this study that the merger in the 1990s of local regulations for local projects with those for local projects was based on an ignorance of the requirement to have specific regulations that are compatible with foreign loan guidelines and which support the management of loan projects. At the personal level, the study suggests that the majority of the respondents need specific knowledge and particular skills to help them carry out their work efficiently. Proper orientation and training is inadequate and the knowledge and experience of individuals has not yet been transferred to the organization. It is therefore recommended that to enhance the effectiveness and efficiency of the management of loan projects, it is essential to take the unique characteristics of each loan project into account and to provide necessary resources, such as an in-house orientation and training programmes, a good working and learning environment, and a handbook or manual for work procedures.

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GLOSSARY

Baht

Thai currency

Krong kan

Projects

Krong kan nguen ku

Loan projects

Krong kan nguen ngub pra man

Local projects

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
AEs	Area Engineers
APD	Assistant Project Director
BOT	Bank of Thailand
DAC	Development Assistance Committee
DMCs	Developing Member Countries
DOH	Department of Highways
DPD	Deputy Project Director
ECAFE	Economic Commission for Asia and the Far East
GMS	Greater Mekong Subregion
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (also known as the World Bank)
ICB	International Competitive Bidding
IDA	International Development Association
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JEXIM	Export-Import Bank of Japan
LCD	Loans Control Division
LCO	Loans Control Office
MDBs	Multinational Development Banks
NESDB	National Economic and Social Development Board
NGOs	Non-Government Organizations
NICs	Newly Industrialized Countries
NSO	National Statistics Office
OCMRT	Office of the Commission for Management of Road Traffic
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund of Japan
PD	Project Director

PSs	Project Secretaries
REs	Resident Engineers
SALs	Structural Adjustment Loans
TAs	Technical Assistants
UCLA	United Nations Economic Commission for Latin America
UNCTAD	UN Conference on Trade and Development
US	United States of America
USAID	US Agency for International Development
USOM	US Operations Mission

CHAPTER 1

INTRODUCTION

This thesis focuses on the practical management of development projects in Third World countries that are partly financed by loans from external loan sources. In this chapter, the background of the study, the reason for the study, its objectives as well as the framework of the research are introduced to give a broad picture of the study. Outlines of each chapter are provided in the last part of the chapter.

1.1. BACKGROUND

Since the introduction of the first national economic and social development plan in 1961, development strategies in Thailand have been largely based on the acceleration of economic growth. Infrastructure has been heavily invested in to support the industrial expansion. Roads and highways, which are considered to be the infrastructure that helps to underpin the economic growth and social well-being of the nation, have been constructed in all regions of the country. These roads are largely managed by the Department of Highways (DOH) which is considered to be the main organization for road development throughout Thailand (Muscat, 1994: 94-98).

As road development projects require a great amount of investment - an average of 426 million *bath* or about US\$10.14 million per km (at the exchange rate of 42 *baht*: US\$1.00) for new standard highway (San, 1992: 136), many large projects have been co-financed by international financial institutions ('the loan sources') such as the International Bank for Reconstruction and Development (IBRD or generally called the 'World Bank'), the Asian Development Bank (ADB) and the Japan Bank for International Cooperation (JBIC). Foreign loans therefore play an influential part in the loan project management as the borrowers are required by the loan sources (through loan agreements) to follow their guidelines and conditions for the execution of the projects (DOH, 1995: 106).

These requirements result in the need to have a unit that is directly responsible for the work of loan projects because specific conditions, such as English language and the regulations of the loan sources, become the essential elements that make the management of loan projects different from those of local projects (projects that are

fully funded by the government fiscal budgets). The Department of Highways therefore established the Loans Control Division (LCD) to undertake the management of loan projects. From a report by the World Bank (1995: 1-9), the outcome of road projects under past loans has been considered successful in terms of schedule and budgets. However loan projects still lack adequate performance management to support the smooth implementation of the project and improvements are necessary to remedy the situation. This thesis therefore seeks to identify factors which are critical to the efficiency and effectiveness of the management of loan projects.

The research student's interest in this topic emerges under four reasons. Firstly, foreign aid (grants and loans) is one of many debated issues in development literature. The arguments for and against foreign aid and its structure are many and varied. In general foreign aid is economic assistance given to Third World countries because they have insufficient financial resources to undertake development work. However many aid critics say that aid is used as a tool for controlling Third World countries as it contains strategies for expanding the self-interest of the United States (US) and other Western countries (Hope, 1996: 53,57).

In addition, the rapid accumulation of debt burden resulting from foreign loans becomes a foreseen but not faced problem by many Third World countries. One worry about foreign debt is that the developing countries can never be freed from the external debt cycle. With the hope to be able to pay off the debt in the future, these countries continue to seek foreign loans for the implementation of what is called 'a development project'. But when the outcome of the project is something, such as roads and highways, that does not make a profit by itself, it is necessary to make sure that the project yields more benefits than the debt burden to all population in the country (Payer, 1991: 58).

Secondly, a project is considered to be an important development tool. But projects in many developing countries have failed due to the lack of good project management (Cusworth and Franks, 1993: viii). When the project does not yield the expected outcome, it means a waste of investment. And when the investment is funded by foreign loans, it means the population in the country have to pay the debt without receiving full or any benefits at all.

As loan projects require different management procedures from local projects, some practices such as using guidelines from the loan sources as well as the local regulations for loan projects can cause difficulties in the management of loan projects. This is because other relevant officials and contractors tend to employ other local regulations, which are generally used for local projects, in relation to loan projects. These procedures also create a sense of alienation towards the LCD by others divisions in the DOH as well as by the contractors since all procedures are processed differently. However as time passes by, the unique characteristics of the LCD have gradually declined and a decreased standard of work has been noticed by relevant staff (Interviewed, 6 February, 2003).

Thirdly, according to Carlsson and Wohlgemuth (2000: 7), issues of learning in development organizations by all parties involved in development projects have recently been brought to public attention. This subject is mentioned in discussions about aid effectiveness by many well-known writers such as Cassen et al. (1994), Mosley (1987), Bauer (1991), and Berg (2000). There is a general conclusion that if aid agencies and their recipients were more concerned with learning, aid would be processed in a more effective way. Both aid agencies and their recipients would be more aware that their experiences are worth learning from and using as guidance for improving their practices. This thesis puts this concept into practice, learning from the experience of the LCD.

Lastly, it appears that through years of servicing the management of loan projects, the LCD has experienced many changes that more or less affect the effectiveness and efficiency of its work. These effects can be better understood by learning from officials who have worked at the LCD long enough to see those changes. However the resources for learning are quite scarce because these officials are gradually retired or transferred to other offices. Once they are gone, the LCD loses the opportunity to make use of their valuable experience and knowledge forever. Thus, it is a high time that such knowledge and experience is passed on or documented and made accessible.

In addition, the study at a practitioner level will yield more benefits in terms of defining effective management and administration if it analyses a current loan projects rather than studying the end result of a road construction project. Officials in loan projects are

considered to be both primary and secondary stakeholders. They build roads, pay tax and sometimes use the roads they built. If they manage loan projects, mindful that such projects affect their lives as well as others either directly or indirectly, they will at least help to produce good roads rather than bad ones. I agree with a classmate who said “Once constructed, the road is there. You can’t remove it to somewhere else. Our work is to respond to a top-down policy. No matter how it happens, you still have to do your job” (Conversation with research student, Massey University, 22 July, 2002).

This thesis emphasizes issues about external loans, development project management, and the critical factors that affect or impede the management of loan projects. The study will help to promote awareness of the unique characteristics of loan projects and the requirement for particular expertise in loan project management by relevant officials at both management and administration levels. The study will also help officials who are responsible for loan project management, both inside and outside the LCD, to gain a broader understanding of development project management and of development theories; and be able to act as a tactical and discreet tool in development project management.

1.2. OBJECTIVES OF THE STUDY

This study will identify and examine the factors that affect or impede the efficiency and effectiveness of the management of loans projects. To answer the central question of the study “What are these factors?”, this thesis explores the experience of the LCD to collect a detailed account of the management and administration of loan projects. An analysis of the organizational structures as well as its management culture bring light to the study.

Subsidiary questions investigated in this study are:

- What are the officials’ perceptions of foreign loans, loan projects, and the Loans Control Division? What recommendations and criticisms exist?
- What are the effects of the foreign loans guidelines on loan project management and how are the effects managed?
- What are the influences of the organizational structure in the Loans Control Division?
- What particular expertise is needed for the management of loan projects?

The objectives of the study are:

- To explore how relevant officials perceive foreign loans, loan projects and the Loans Control Division.
- To investigate the effects of foreign loans on the management of road development projects.
- To examine the influences of organizational structures on loan projects.
- To investigate the particular expertise needed for loan project management.
- To provide a description and analysis of factors that affect the efficiency and effectiveness of loan project management.
- To form a number of recommendations based on the research findings.

1.3. RESEARCH FRAMEWORK

The thesis comprises three main research components: the literature review, the collection of data via interviews with the LCD officials, and analysis of the collected data. The survey of relevant literature to the topic provides the theoretical background and concepts about development theories, foreign loans, project management and road development in Thailand are examined in Chapters Two and Three.

The collection of data was carried out mainly in the LCD. The finding of this research analyzes loan project management on the grounds of reality and practicality. The two major approaches for gathering the information were collecting data using primary sources and collecting data using secondary sources (Kumar, 1999: 105-126). Methods used to collect the primary data were interviews, questionnaires, and observation.

A semi-structured questionnaire-based interview was conducted with present and former officials of the LCD. The researcher asked questions in the prepared questionnaire (see Appendix A) to find out viewpoints on the following issues:

- The perceptions of foreign loans, loan projects and the Loans Control Division.
- The effects of foreign loans guidelines and conditions on the management of loan projects.
- The influence of organizational structure in the management of loan projects.
- The particular expertise needed for the management of loan projects.
- How can the present situation be improved?

Data from secondary sources such as working files, final reports, annual reports, loans agreements, guidelines, and regulations for project management from both Thai government and the loan sources was also examined. As there were major changes in project management after organizational restructuring, data was collected from 1983 (the year before the organization structure was changed) to 2002. This information was used to provide the localized context for this research found in Chapter Three.

1.4. CHAPTER OUTLINES

Chapter One presents a framework for the thesis. The background of the study, the reason and objectives of the study as well as research methodology are introduced to show a broad picture of the study. Chapter Two reviews the literature about development concepts and theories. The issues surrounding modernization theory, foreign loans, and development project management are explored. The concepts of efficiency, effectiveness and learning organizations are also examined. Chapter Three concentrates on road development in Thailand. It gives a brief history of road construction in Thailand. This is followed by the work of the LCD with relevant loans sources. Chapter Four presents the research methodology in detail and the problems and limitations that apply to data collection. Chapter Five examines and describes the experiences of the LCD. The collected data is analyzed to find out the results from field work. Chapter Six draws conclusions from the study. The main issues from previous chapters, discussions, and recommendations are provided as the final episode this study.