

Central-Local Government Relations in Thailand



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Improving Service Delivery

Thailand Public Financial
Management Report 2012



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TABLE OF CONTENTS

Preface	1
Acknowledgements	2
Glossary And Abbreviations	3
Executive Summary	4
Tensions In The Central-Local Relations Architecture	5
Fragmentation	6
Fostering Local Accountability	6
Policy Recommendations For Addressing Identified Issues	7
The Reform Of Central-Local Fiscal Relations In Thailand	9
Introduction	10
Central–Local Relations In Thailand	12
Local Government Organization	25
Own Source Revenues And Tax Sharing	32
Intergovernmental Transfers In Thailand	35
Intergovernmental Transfers In Thailand: An Analysis	41
General Purpose Transfers	41
Specific Purpose Transfers	45
Reforming Intergovernmental Finance In Thailand: Possible Options	47
Local Budgeting And Public Financial Management	53
Local Borrowing	57
Local Public Management	59
Performance Monitoring And Local Accountability	63
Summary : Towards Responsive And Accountable Local Governance In Thailand	66
Annex 1: Summary Of Issues And Options	69
References	72

PREFACE

Fifteen years ago, Thailand joined a growing number of countries around the world in reexamining the various roles of different levels of government in providing services, managing public finances and creating mechanisms for citizen voice and accountability. With the enactment of the 1997 Constitution and subsequent 2007 Constitution, Thailand embarked on a series of public sector reforms that would have a profound impact on both the structure of government and the delivery of public services throughout the country.

The decision to transition towards a decentralized unitary system of local self-government was undertaken with the goal of strengthening democratic participation, bringing service delivery and decision making closer to the people, addressing regional disparities and enhancing central and local accountability for service delivery performance. Now, after more than a decade of decentralization reforms in Thailand, we have an opportunity to take stock in order to acknowledge the program's many achievements, identify the challenges which have emerged, provide options for overcoming these issues, and build consensus around key focus areas for Thailand's service delivery reform program looking ahead.

This report reviews how Thailand's public financial management system supports delivery of effective and accountable public services at the local level. It was undertaken in partnership with the Royal Thai Government for over two years. This partnership has resulted in a body of work which not only serves to provide meaningful insight into Thailand's public financial management system and service delivery framework, but also to identify current and future challenges and provides options for addressing these issues.

Additionally, by presenting the Thai experience to the international community, this report advances the World Bank's agenda of knowledge sharing and learning from cross-country exchanges. Thailand has made commendable progress in moving towards more efficient, responsive and accountable service delivery at the central and local levels. We believe sharing Thailand's achievements as well as its challenges will be of great benefit to countries in the region and further abroad. We therefore hope this report will be useful both to inform the ongoing reform program in Thailand, while serving as a resource to policy makers and practitioners at large.

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GLOSSARY AND ABBREVIATIONS

BMA	Bangkok Metropolitan Authority
BOB	Bureau of the Budget
CGD	Comptroller General's Department
Bt	Thai Baht
CGR	Consolidated Government Revenues (Total (central + local) pool of revenues)
DOLA	Department of Local Administration
DOPA	Department of Provincial Administration
e-LAAS	Electronic Local Authority Accounting System
ESA	Educational Service Area
GDP	Gross Domestic Product
GPP	Gross Provincial Product
LAO	Local Administrative Organization
LQM	Local quality management
MBB	Municipal Bond Bank
MOE	Ministry of Education
MOI	Ministry of the Interior
MOPH	Ministry of Public Health
NDC	National Decentralization Committee
NESDB	National Economic and Social Development Board
OCLR	Office of Central Local Relations
OBEC	Office of Basic Education Commission
OECD	Organization for Economic Cooperation and Development
PAO	Provincial Administrative Organization
PDMA	Public Debt Management Act
PFMR	Public Finance Management Review
PMO	Prime Minister's Office
RTG	Royal Thai Government
TAO/SAO	Tambon/Sub-district Administrative Organization
UNDP	United Nations Development Program
VAT	Value Added Tax

EXECUTIVE SUMMARY

ES.1 This discussion paper¹ analyzes the institutional basis of central-local government relations in Thailand and presents policy options to support the Royal Thai Government's (RTG) on-going review and revision of the legislative and institutional framework governing the decentralization reforms.

ES.2 Motivated by a desire to bridge economic and social inequities and increase public participation in the planning and delivery of services at the local level, Thailand established decentralization as a national policy priority under the 1997 Constitution. By moving decision making closer to people, Thailand sought to: (a) increase public participation in decision making at the local level; (b) improve local service delivery by fostering greater bottom up accountability; (c) improve social and economic outcomes for citizens through local economic development; and (d) make public services responsive to local needs. These objectives were laid down in the Decentralization Act 1999 and were to be achieved through the gradual transformation of the intergovernmental fiscal architecture. During the past decade, Thailand has taken a number of important steps to transform the intergovernmental fiscal relations system to achieve these objectives.

ES.3 Regional and local authorities in Thailand are now governed by locally-elected councils and executives, subject to significant oversight by centrally-appointed officials. The government has also assigned about 25 percent of net central government revenues to LAOs. Basic structures for local participation and accountability have also been put in place. A range of responsibilities, especially related to municipal service delivery have been successfully devolved to local authorities.

ES.4 However, at this time Thailand's central-local relations system remains in transition and the objectives and expected outcomes from the decentralization reforms are yet to be fully realized. While a number of important issues have been identified in this Discussion Paper, three broad inter-related themes emerge as key concerns that ought to be resolved in order for Thailand to achieve its stated development objectives from the Decentralization program. These are as follows:

- While structures of local governance have been created, the central government has retained a high level of control, leading to tensions within the central-local relations architecture. Ensuring seamless integration of different levels of government is necessary for effective service delivery in a unitary state;
- Fragmentation within institutions, fiscal management and functions leading to coordination problems and in some instances competitive overlaps in provision of services. It is important that institutions are integrated so that coordination on provision of service delivery can be fostered; and
- Lack of effective local accountability because the current tools for performance monitoring and evaluation of local administration finances (e-LAAS) and services delivery (LQM) are not able to provide appropriate information on the application of public finances or service delivery quality or quantity. Availability of information is needed to improve accountability to citizens, local and national legislatures and to central government agencies.

¹Prepared by Anwar Shah, Robert Boothe, Nattaporn Triratanasirikul, Shabih Ali Mohib (World Bank) and Sakon Varanyuwatana (Thammasat University). Invaluable guidance and collaboration was provided by Weerachai Chomsakorn (Office of the National Decentralization Committee, Prime Minister's Office).

TENSIONS IN THE CENTRAL-LOCAL RELATIONS ARCHITECTURE

ES.5 Government responsibilities in Thailand are divided into central administration, regional administration and local administration. Decentralization reforms focused at strengthening of local administration by giving local authorities a broader mandate in service delivery and access to increased revenues to discharge these responsibilities.

ES.6 As a result of these reforms, two parallel systems of public administration have emerged – central and local administration. The central administration has deconcentrated field offices – the so-called “**regional administration**”²- at provincial (76), district (878) and sub-district (5,770)³. These offices have a dual role of delivering centrally administered services as well as providing coordination and oversight functions for local administration.

ES.7 Local administrative organizations (LAOs) number about 7,853⁴, of which 76 Provincial Administrative Organization (PAO) constitute the higher tier of local government. Urban population within each province is demarcated into city (Nakorn), town (Mueng) or sub-district (Tambon) municipalities (2,007) depending on population size, density, level of revenue collected by local authorities and administrative capacity for municipal development. Rural population is assigned to a tambon administrative organization (5,770 TAOs). Additionally, Bangkok Metropolitan Administration (BMA) and Pattaya City exist as special administrative organizations. All LAOs have directly elected local councils, indirectly elected council chairs and directly elected chief executives.

ES.8 Regional administrations are managed by provincial governors appointed by the Cabinet with the endorsement by the King. The provincial administrations carry out and supervise the administrative process for the province, supported by the district and sub-district officers at the lower levels. The district officer is the top civil servant position within the district. The head of the sub-district is a civil servant position reporting directly to the district officer. Additionally, the head of district exercises significant de facto control and oversight over the LAOs which lie within her/his jurisdiction, irrespective of these having independent elected councils and executives. Rules and regulations relating to financial management and service delivery standards are determined by the Ministry of the Interior and elaborate compliance checking systems have been set-up to monitor local administrative organization performance.

ES.9 So, whereas LAOs have elected councils with significant de-jure mandate, the de-facto management control is vested with officers of the central government. This stifles the concept of local self governance within a unitary state, as top down control trumps bottom up service delivery responsiveness, and increases the feeling of LAO subjugation to the central administration. This tension is further exacerbated by the lack of clearly demarcated service delivery mandates for central and local administrative arms of government.⁵

²Comprising central administrations of line agencies and departments under the supervision of deconcentrated field offices.

³Announced by Department of Provincial Administration as of April 20, 2011

⁴Announced by Department of Provincial Administration as of April 20, 2011

⁵The Decentralization Act 1999 purposefully assigns overlapping functions to central and local administrations.

FRAGMENTATION

ES.10 Of the 7,853 LAOs, more than 3,000 have populations of less than five thousand people, and many of these have less than one thousand people. The result is that some of these LAOs may be too small to be administratively viable because after accounting for the fixed cost for administration, very small LAOs will have few resources left with which to provide services. The sheer number of LAOs also makes it difficult for DOLA to monitor performance, finances, and coordinate effectively. In addition, it is not economically feasible particularly for smaller LAOs to provide the whole range of 150 plus functions assigned (though in an overlapping manner) by the Decentralization Act. Fragmentation in numbers and overlapping assignment of functions means that central government agencies continue to provide a range of social service delivery including health and education, while LAOs spend their resources on other functions.

ES.11 Fragmentation is also present in local public financial management. Intergovernmental transfers as currently constituted provide an incentive for LAOs to fragment, as a sizeable portion of general purpose subsidies is allocated on an equal basis between all LAOs. While local tax and financing autonomy remain highly constrained, each individual LAO can mount their own tax administration for collection irrespective of efficiency considerations. Mandated responsibilities for LAOs are also characterized by fragmentation—a blanket approach has left smaller LAOs allocating minimal resources across a broad spectrum of functions, making it difficult to achieve results. Health and education responsibilities are especially fragmented, with a legal mandate for both local and regional provision by LAOs of all sizes that is unmatched in practice. A number of stumbling blocks have led to only a tiny fraction of health centers and schools being transferred to local authorities.

FOSTERING LOCAL ACCOUNTABILITY

ES.12 An important component of effective accountability (including at the local level) is a functioning system for tracking local financial management and monitoring local service delivery performance. Managing data such that is collected efficiently, analyzed in a timely fashion, and made available to citizens, policy makers and to LAOs themselves is necessary for effectiveness and accountability of the government.

ES.13 In Thailand, significant effort has been placed on data collection and performance monitoring and evaluation. However, these efforts have not yet yielded desired results. The DOLA has been in the process of implementing an electronic Local Authority Accounting System (e-LAAS) for local authorities to use for budget management purposes since 2005. However about 1,200 out of 7,853 LAOs are using e-LAAS because of a combination of connectivity, capacity, and enforceability problems. At the same time in order to monitor performance of local authorities a comprehensive review is conducted annually by DOLA but the results are not consolidated or analyzed. Therefore, there is very little is known about local government finances and fiscal health. Even less is known about service delivery outcomes at the local level, as the existing monitoring and evaluation effort is focused largely on ensuring compliance with processes rather than on quality of services and outcomes.

ES.14 Without information being available on the financial performance of local authorities and corresponding service delivery outcomes in absolute and comparative terms, it is impossible for citizens to hold their respective LAOs accountable for the appropriate use either of public monies or of quality of services provided. Also, lack of functional financial and performance monitoring systems also inhibit the ability of central government, and especially the National Decentralization Committee to determine how effectively the decentralization program is working. Regular collection of information will support other tools to improve accountability such as citizen scorecards and legislative discussions.

POLICY RECOMMENDATIONS FOR ADDRESSING IDENTIFIED ISSUES

ES.15 As Thailand reviews its decentralization experience and revises the legislative framework, the overarching recommendation is to focus on a comprehensive package of reforms that holistically considers all aspects of the system rather than piece-meal reforms so that all interrelated issues can be addressed to ensure internal consistency between the intergovernmental fiscal relations system and the unitary nature of government. In this spirit the Government's comprehensive review of the existing laws and regulations governing Decentralization reforms in Thailand is the best way to proceed.

ES.16 This Discussion Paper has endeavored to review the system and make recommendations across the entire component-structure of central-local fiscal relations system so that all interrelated issues are captured within the reform net. Some of the key recommendations for consideration by the authorities are:

- **Consider moving towards a decentralized unitary model of government which would be consistent with the Constitution and strengthen local authorities.** Under this model, a centrally appointed governor would assume the position of provincial chief executive for a period of four years. The governor will exercise his executive functions through the Office of the Provincial Administrative Organization (OPA) comprising merged offices of the provincial administrative organization (PAO) and the provincial administration (PA) and headed by a permanent secretary. The appointment of the governor and the permanent secretary will be done by the Royal Thai Government (RTG) subject to confirmation by a majority of the members of the Provincial Council- provincial legislative body comprising ex-officio directly elected heads of local administrative organizations (LAOs). The governor could also be removed by a no-confidence vote of the three-fourth majority of the Provincial Council. All LAO heads with population above 10,000 would serve for the full term of the council whereas LAOs with population below 10,000 would serve on a rotating basis with one fourth represented in any given year. The Council will elect its own chair.

The Provincial Council would have legislative authority on provincial functions and providing oversight on the provincial executive headed by the governor. The provincial governor would prepare the provincial budget for approval by the Provincial Council. All legislation approved by the Provincial Council would have the force of the law unless overturned by an act of national parliament or by courts. LAOs would have wider powers subject to home rule and would be considered equal partners with the PAO comprising Provincial Council and the provincial chief executive (governor). Central transfers would not pass through PAOs or the Ministry of Interior but would flow directly from the Comptroller General's

Department of the Ministry of Finance to individual accounts of LAOs. All field offices within provincial administrations would have dual reporting and accountability channels – to the central administration as well as the LAOs. The positions of district and sub-district officers will be realigned and remapped to LAOs. The district officers will transition to municipal coordination officers (MCOs) and sub-district officers will assume the positions of tambon coordination officers (TCOs). The MCO/TCO will serve under the LAO chief executive and will assume the coordinating role with the Center and the PAO and other LAOs. The appointment of MCOs/TCOs by the provincial governor will be subject to confirmation by the LAOs. They will have dual reporting responsibilities i.e. local and provincial governments. This model of government would also help alleviate tensions by clearly defining roles and responsibilities for provincial versus local governments such that they do not inadvertently compete over the same functions. Reviewing and streamlining supervisory controls over local public financial management, local personnel management and local administration will also help to ensure a system that functions more efficiently, subject to the proper checks and balances.

- **Consider an orderly administrative consolidation of local authorities into larger and more viable LAOs to provide services effectively.** In this regard the government may consider determining a threshold in terms of citizens and/or revenue potential that constitutes a ‘viable’ LAO unit administratively and then preannounce gradual administrative amalgamation plans. If this is not feasible, it may be useful to consider asymmetrical decentralization of service delivery responsibility with larger LAOs providing a larger set of services while for smaller LAOs the central government would maintain responsibility for service delivery. This action will deal with issues relating to fragmentation highlighted earlier.
- **Improve accountability of LAOs on financial management and service delivery quality and responsiveness by:** (i) DOLA publishing an annual report on the financial performance of LAOs and services rendered – both by LAO and comparatively for all LAOs (like done in Ontario, Canada, and the UK and Indonesia – mostly fiscal , starting 2012); (ii) mandating LAOs to publish information on procurement for goods and services, especially on a unit cost basis; (iii) implementing instruments like citizen score cards for enhancing voice and accountability to influence the final outcome of a service through meaningful participation or feedback; and (iv) the Office of the Auditor General publishing audit findings from the annual audit of the LAO accounts.

However, in order to achieve this, there will be need to ensure that the financial reporting system (currently e-LAAS) is able to report financial information for at least 85 percent of LAOs annually, that the Local Quality Management system captures information on service delivery performance and compliance for all LAOs in a timely manner, and that an audit framework is put in place that allows for audited statements of LAOs to be available annually. Finally, there would also be need for building analytical capacity at the central government and at LAOs to analyze the information and use it for fine-tuning policies as appropriate.

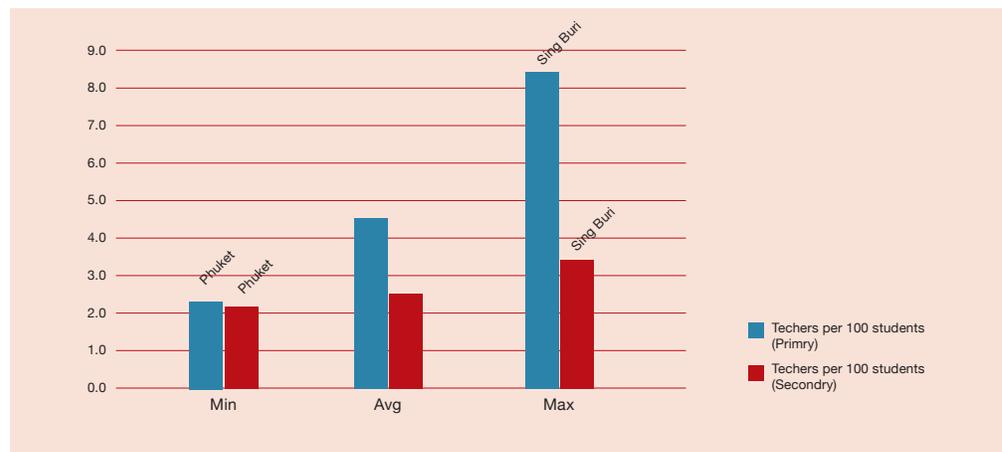
**THE REFORM
OF CENTRAL-LOCAL
FISCAL RELATIONS
IN THAILAND**

INTRODUCTION

1. Thailand is a unitary democratic country and a constitutional monarchy. Until the 1990s, the country maintained a centralized unitary structure with an emphasis on equality and uniformity of services across the country. Under this centralized regime, Thailand experienced rapid economic growth and significant improvements in the living standards of its people. However, the benefits were unevenly shared and goals of equality and uniformity of public services were not met. Thailand experienced wide regional disparities in access to education (measured by student-teacher ratio) and health care (measured by physicians per 10,000 people and

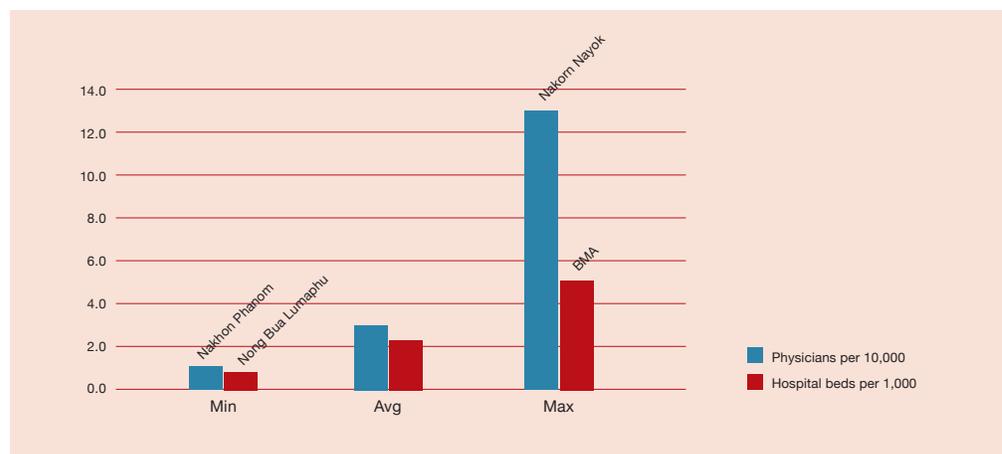
hospital beds per 1,000 people – see Figures 1.1 and 1.2). Like many countries experiencing rapid growth, regional income inequalities also developed, as was demonstrated by Thailand ranking (World Bank 2011) among the most unequal countries in the world. Rising prosperity and growing literacy also manifested itself in mostly peaceful grass-roots movement for enhancing democratic participation and empowering people to hold government to account. This movement climaxed into an incident in 1992 known as Black May, with massive public protests and a subsequent violent crackdown⁶.

Figure 1.1 : Access to education is uneven across Thailand



Source : UNDP Human Development Report 2009

Figure 1.2 : Access to basic health varies substantially across the nation



Source : UNDP Human Development Report 2009

⁶Black May is the name given to the public protests following the attempt of Army General Suchinda Kraprayoon, leader of a military coup which overthrew the previous government, from ignoring demands for elections and instead acting as appointed Prime Minister. In the violent crackdowns which accompanied the protests, some 52 deaths were officially acknowledged, with hundreds of injuries and thousands of arrests.

2. Recognizing these concerns, the 1997 Constitution enshrined the citizens' rights to participate in government affairs and identified decentralization as a key national priority to make this happen. The 1997 Constitution was followed by the Decentralization Act of 1999 that detailed the decentralization program to be implemented over the coming years. The 2007 Constitution reaffirmed the vision of Thailand as "one and indivisible kingdom" with decentralized governance and sovereign powers resting with the Thai people. The 2007 Constitution strongly embraces the principles of home rule or community governance for local government

organization, and citizen-centered local governance for local accountability. Article 281 of the 2007 Constitution asserts home rule by stating that "...the State shall give autonomy to local government organizations in accordance with the principle of self-government based upon the will of the people in the locality." Citizen-centered governance was enshrined by Article 287 which empowers citizens to oversee government operations. Several new pieces of legislation to consolidate gains from decentralization reforms and enhance local government accountability to citizens are currently in draft stages.

3. Since 2001, the Royal Thai Government (RTG) has been implementing the Decentralization Act. To accomplish this, local governments have been empowered to assume a greater role in service delivery, especially education and health at the local level. To facilitate this transformation, the level of access of local governments to net (net of tax sharing transfers to provincial and local governments) central government revenues was to be raised from about 11 percent in 1999 to about 35 percent in 2006. However, in 2009 this target was

subsequently revised to 25 percent in view of slow progress made in decentralization of education and health services, and transfer of personnel from central to local administration. The process of decentralization reform is overseen by the National Decentralization Committee in the Prime Minister's Secretariat, with the Department of Local Administration (DOLA) in the Ministry of Interior having implementation coordination responsibilities to ensure a smooth transition of power from central/provincial administration to local administration.

4. This discussion paper presents an analytical perspective on these reforms by identifying strengths and weakness of institutional design and practice in specific areas which the reforms

target. In addition, the paper outlines pathways to overcome observed impediments to the implementation of the reform agenda.

5. In subsequent sections the discussion paper considers the different dimensions of the central-local fiscal relations system and assesses the strengths and weaknesses of each dimension. Then based on international experience and its relevance for Thailand, the

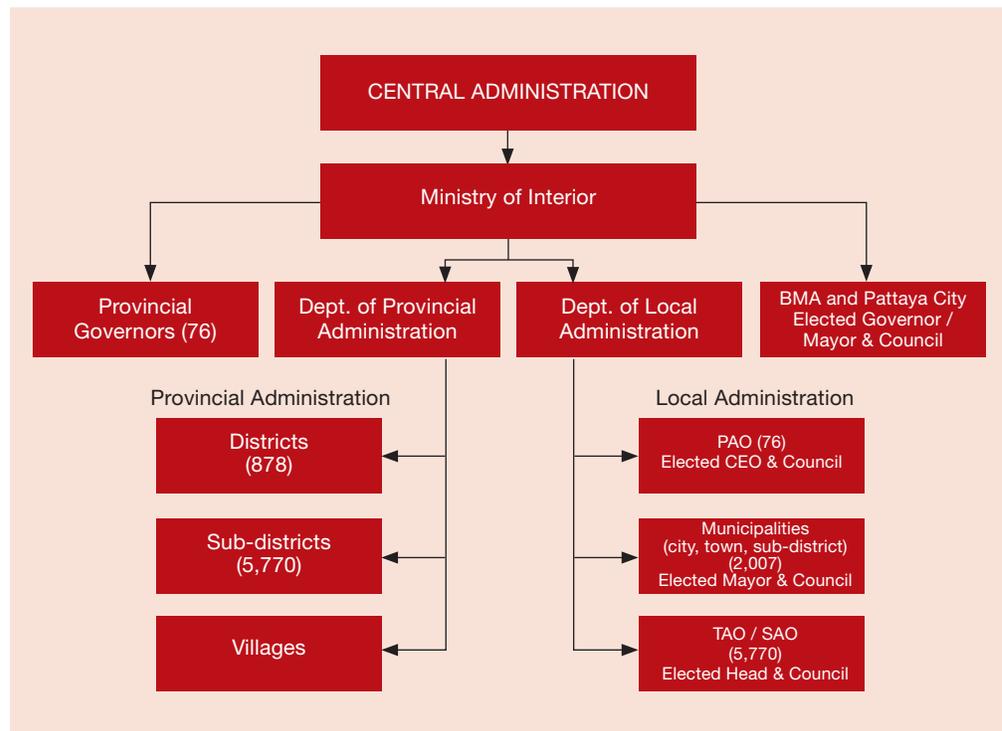
paper presents some policy options for the RTG to consider as it reviews and revises the legislative framework governing central-local relations. The paper concludes with a summary of key issues and recommendations.

CENTRAL-LOCAL RELATIONS IN THAILAND

6. Prior to 1999, government responsibilities in Thailand were divided into central, provincial and local administration. However local administration (local self-government) had a narrow range of responsibilities with constrained autonomy, and was subject to strict control through the MOI's Department of Local Administration for most activities including finance, service provision and local public management. Decentralization reforms have sought to strengthen local administration by giving local authorities a broader mandate in service delivery and access to increased revenues to discharge these responsibilities. As a result of these reforms, two parallel systems of public administration have emerged – central and local administration. The government view of these parallel systems is relatively straightforward in principle (see Figure 2.1). The central administration has deconcentrated field offices – the so-called “provincial administration” - at provincial (76), district (878) and subdistrict (5,770) levels and representatives

(kamnan or district officer) at the subdistrict level (by voting among village headmen). These offices have a dual role of delivering centrally administered services as well as providing coordination and oversight functions for local administration. For local administration, Thailand is subdivided into 76 changwat or provinces, which constitute the highest order of local government. Urban population within each province is demarcated into city, town or sub-district municipalities (2,007 tessaban) depending on population size, density, level of revenue collected by local authorities and administrative capacity for municipal development. Rural population is assigned to a tambon administrative organization (5,770 TAOs/SAOs). All local governments have directly elected local councils, indirectly elected council chairs and directly elected chief executives. In Thai local administration there is a clear separation of legislative authority (vested in the elected Council) and the executive powers (vested in the elected chief executive).

Figure 2.1 : Government Organization in Thailand - de jure - 2010

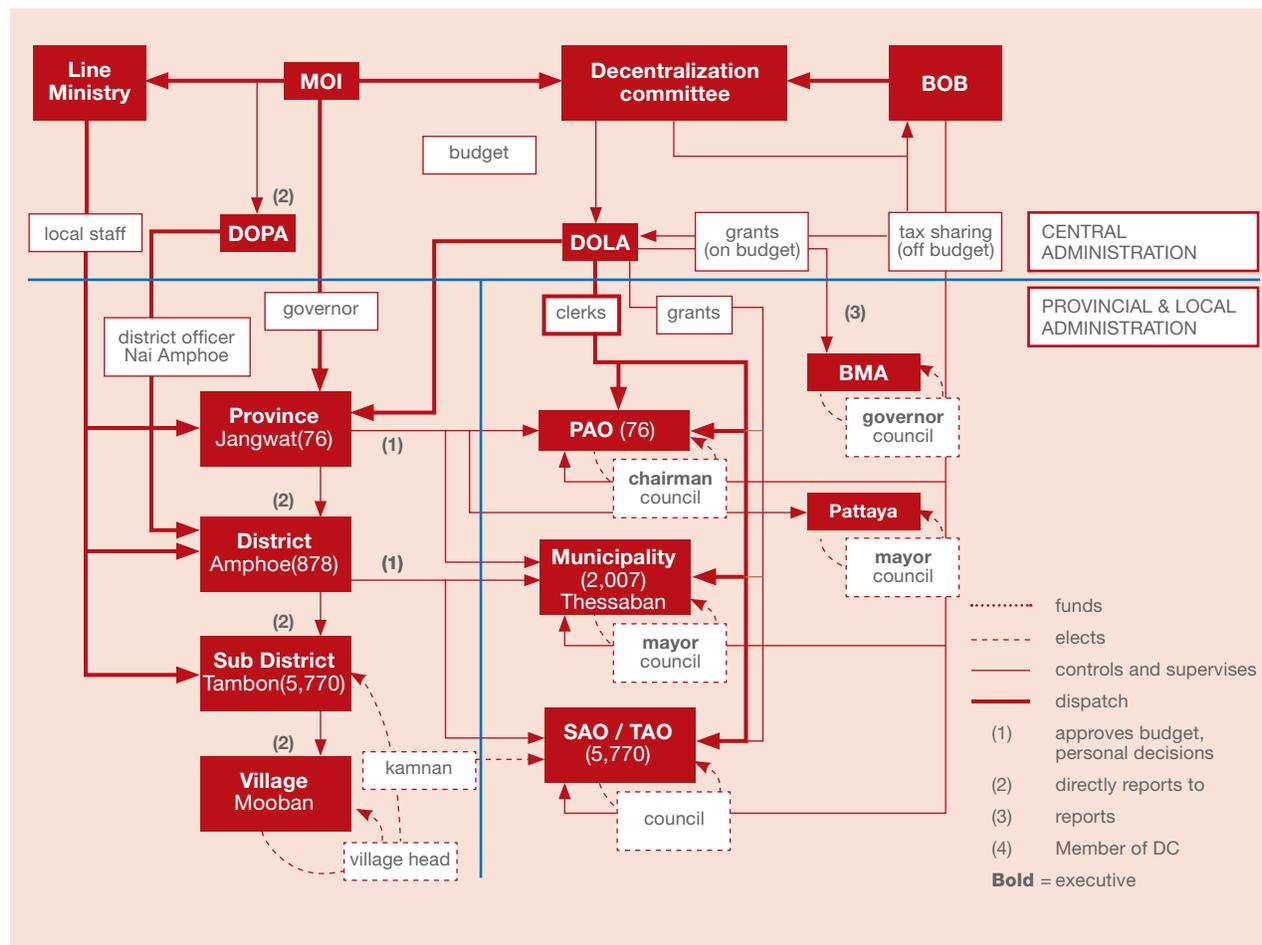


Source : DOLA

7. However, in practice, the picture of central-local relations is considerably more complex (see Figure 2.2). Taking into account the supervising and financing roles of different central governing bodies, line agencies, and the deconcentrated central administration at

the regional and local level, what emerges is a very complex system with a confusing mix of accountability and financing dimensions, resulting in heavy administrative burdens and duality throughout the system.

Figure 2.2 : The Practice of Local Administration in Thailand - de facto



Source : Budget in Brief (BOB), Comptroller General's Department, Fiscal Policy Office, and LAO Survey estimates (World Bank)

8. The provincial administration discussed above exists parallel to the local administration or local self-government, but the two systems do not operate entirely independently of one another. At the upper level of local administration, the Ministry of Interior and the Department of Local Administration within the MOI represent the highest source of authority. They are responsible for overseeing and regulating

the activities of lower levels of the local administration, implementing Thailand's decentralization program, assessing the readiness of local authorities for transferred responsibilities, overseeing the allocation of funding to local authorities, and evaluating progress in decentralization. The central administration has a deconcentrated presence at the provincial level.

9. Provincial governors are appointed by the cabinet with the endorsement from his majesty the King. Provincial governors exist as representatives of the central administration at the provincial level, but who also perform an oversight function for the local authorities. Provincial governors carry out and supervise the administrative process for the province, supported by the district officer at the lower levels. The district officer is the top civil servant position within the district, with the head of sub-district report directly to him/her. Additionally, the district officer exercises significant de facto control and oversight over the administration of TAOs or sub-districts which lie within her/his jurisdiction, irrespective of TAOs having independent elected councils and executives. The head of sub-district is elected directly by villagers in the sub-district for a five-year term of

office; however, in practice they are considered to be government officers under the central administration, and are upwardly accountable to the district officer. They must balance representing the needs of their sub-district constituents with overseeing the administration of centrally-defined priorities and policies in their jurisdiction. At the lowest level of the provincial administration, the village headman is another elected official with a five year term. However, like the sub-district headman, the village headman is regarded as an officer of the central administration, and is paid a salary from the central administration, not local authorities. The village headman shares a similar role to the sub-district headman in that they must balance upwards accountability to the central administration and downwards accountability to constituents, albeit on a more localized level.

10. Policymakers continue to refine the decentralization program to ensure that expenditure assignment is consistent with the constitutional mandate and appropriate given levels of revenue devolved to LAOs and 'capacity' of LAOs to dispatch the more than 150 functions concurrently assigned to them. The "assignment challenge," or the appropriate allocation of expenditure and tax functions to various levels of governments, is the most fundamental issue in any decentralized country. International good practice literature recommends that finance should follow function or assigning responsibility for spending must precede assigning responsibility for taxation, because tax assignment is generally guided by spending requirements at different levels and cannot be determined in advance. Under current decentralization reforms, the primary focus of expenditure assignment to LAOs has been on municipal services, as well as some social programs targeting different groups like the elderly and the disabled. Social services are still envisioned as a shared responsibility, but the lines demarcating the assignment of service

provision responsibilities between central, regional and local governments are not always clear (see annex Table A.1 for constitutional assignment of functions and annex Table A.2 on actual allocation of functions among different orders of government). In part this is by design, as Thailand has chosen to engage multiple orders of government in different aspects of service delivery, recognizing that even within specific types of LAOs, a range of capacity levels exist. In education, local governments may assume responsibility for primary and secondary schools and in health for primary health care and public health promotion. In order to assume these responsibilities, however, they must meet stringent readiness criteria put forward by the central administration. Most local governments have been unable to meet these criteria and as a result the process of decentralization of health and education has proceeded at a snail's pace with only 160 out of 7,853 LAOs assuming responsibility for primary schooling and only 28 out of 4,000 health centers being devolved to LAOs to-date (World Bank 2009).

11. On the revenue side, the focus of decentralization reforms have been on the assignment question, attempting to give local governments access to a greater share of net central government revenues with only modest attention paid to strengthening taxing powers or enhancing local tax autonomy. The 2007 Constitution is silent on tax assignment to various orders of government and tax assignment is primarily determined by central legislation. Under the existing legislation, Thailand has continued to maintain a centralized tax regime where almost all productive taxes are assigned to the central government. Taxes on income (personal and corporate), value added, external trade, petroleum excises, specific business taxes, stamp duties, excise taxes - all come within the domain of central government. These taxes and charges amount to nearly

94 percent of consolidated revenues of the general government whereas central direct expenditures account for 85.7 percent of consolidated expenditures (see Table 2.1). PAOs can levy taxes on business, hotels, petrol stations, liquor, gambling and impose mineral and petroleum royalties, parks and recreation fees/charges, underground water tax, fishery tax, and taxes on retail sales of tobacco. Local authorities below the province can, following central legislation, levy land and housing taxes, land development tax, local development tax, signboard tax, slaughter tax and swallow bird's nest duty. In addition, they can collect licensing and other fees and fines, parking fines and charges. Local tax autonomy remains highly constrained as central legislation typically determines the base and the rates (or range) for most local taxes.

Table 2.1 : Revenue and expenditure shares by level of government – 2009

Government Order	Own Revenue Collection share	Government Order
Central	93.7%*	85.7%
BMA	2.4%	2.5%
Pattaya City	0.09%	0.1%
PAOs	0.6%	1.6%
Municipalities	2.0%	4.3%
TAO/SAO	1.2%	5.8%

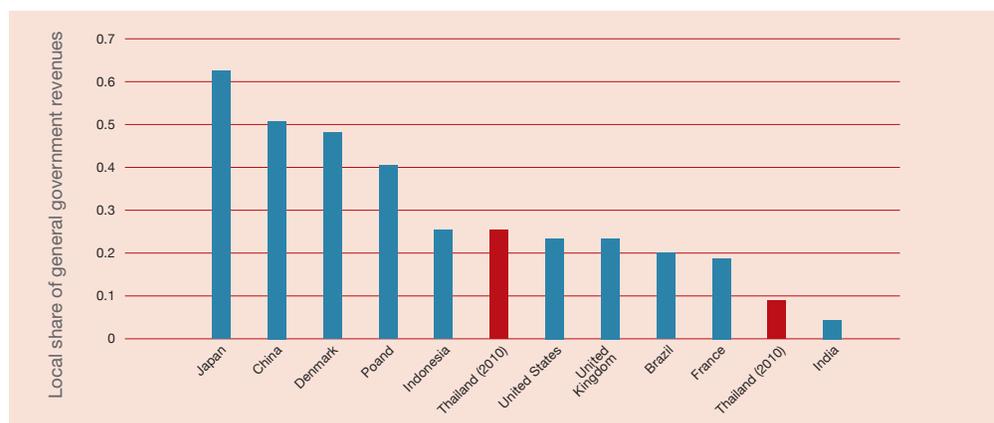
*Does not include deficit financing through seignorage

Source : CGD 2009 and LAO survey (World Bank)

12. During the past decade, Thailand has transferred a greater share of net central revenues to local administration. As Figure 2.2 shows, in terms of the relative importance of local governments (as shown by the local share of consolidated government revenues) Thailand is now well placed in internationally

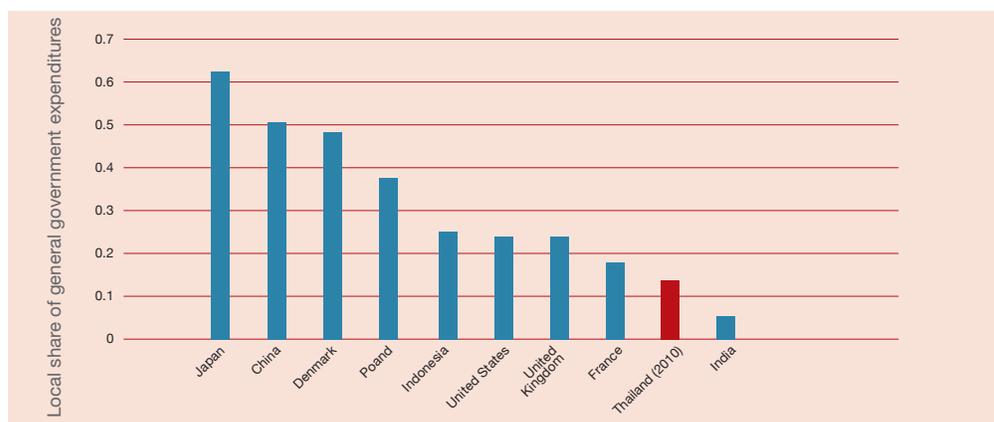
comparative perspective. However, beyond provision of municipal services, there has been a limited transfer of expenditure responsibilities to LAOs, especially in education and health. In this regard there are several issues that deserve further reflection and discussion.

Figure 2.3 : A Comparative Perspective of Local Share of Consolidated Government Revenues



Source : Boadway and Shah (2009)

Figure 2.4 : A Comparative Perspective of Local Share in General Government Expenditures



Source : Shah (2006, 2007), Mochida (2008)

Issues in central-local relations requiring further attention

13. **Coexistence of institutions of centralized control with institutions of local self-government leads to complexity, confusion and costly administration.** While Thailand has developed new institutions of local self-government, it retains old institutions of centralized control. In order to promote self-government at the regional level, Thailand has strengthened LAOs without rolling back deconcentrated central administration (the so-called provincial administration). This single feature of central-local relations has far-reaching consequences for many different aspects of the decentralization program, including significantly increased cost and complexity of local

government, reduced accountability, lack of attention to regional issues and general tensions within the central-local relations system. For example, while typically LAOs have the authority on paper to plan their budgets, they are also required to receive approval for planning and budget activities from the deconcentrated provincial administration. This undermines local autonomy and creates unclear lines of accountability. This has also resulted in an uncoordinated, costly dual administration at sub-national levels creating coordination problems with high transaction costs both for government officials and citizens.

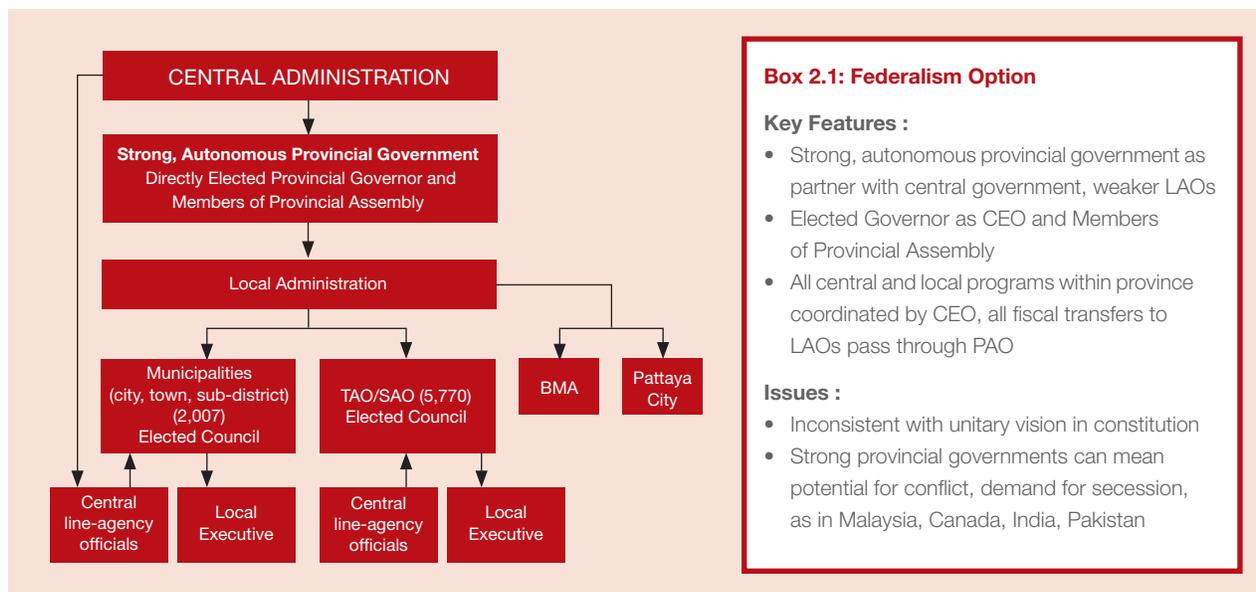
14. This structure is also incompatible with the constitutional vision of a seamlessly integrated unitary form of government.

Options to streamline all government operations at the provincial level and create a unified government structure would reduce costs and improve central-local coordination. There are many alternatives to accomplish this but only two relevant alternative scenarios are discussed below: (a) a federation option with

strong provincial governments that assume responsibility for local government oversight in their jurisdictions, but which may prove impractical for Thailand; (b) a decentralized unitary government option where provincial government simply acts as an agent of local governments to deal with inter-local issues requiring the least change by drawing on existing system components while still effecting a major reduction of cost, confusion and inefficiency.

(a) Federation Option : Under the federation option (see box 2.1), provincial government would comprise a directly elected provincial governor who will act as the chief executive of the province and an elected provincial assembly to perform legislative functions. Local governments would be entities of the province and subject to provincial legislation. Each provincial government would decide for itself the powers it will assume and powers of local government and their jurisdictional boundaries. Under this scenario PAOs assume an autonomous role in each province. The position of a centrally appointed provincial governor, district, sub-district officers will become redundant as the same roles will be assumed by elected chief executives. The field offices of all central agencies within the province will have dual reporting responsibilities – to the centre and the chief executive (directly elected governor). The provincial government will have significant taxing and spending powers. Provincial government will be responsible for provincial infrastructure and most social services and providing fiscal transfers to LAOs. All central and local programs within the province will be coordinated by the chief executive of the provincial government. LAOs will deal with municipal functions and will be subject to provincial oversight. All central transfers to LAOs will pass through the provincial government. Adoption of this model will result in strong provincial governments and relatively weak local governments. There will be a shift in the public decision making from the centre to the provinces. If Thai people largely identify themselves with their provinces rather than cities, towns and villages, this model may be more appropriate. Also if the provincial boundaries are synonymous with economic regions then it could be helpful in better economic planning. This option has been practiced in India, Pakistan, Russia, Canada, USA and other “federal” countries.

However, this model also poses some risks and is not consistent with the vision of a seamlessly integrated unitary government. If there are significant differences in ethnic, linguistic or religious composition across provinces, or if significant gaps exist in income or political power, empowerment of provinces as opposed to local government exacerbates potentials for conflict and demands for secession. Experiences of Canada, India, Pakistan, Russia, Sudan, Indonesia and Malaysia support this argument. This may be the reason that Indonesia in its 2001 decentralization program sought to weaken the role of the provinces and strengthen the role of local governments. China has also followed a similar policy consistently. This model may not be a feasible option in Thailand as it negates the constitutional dictum of decentralized unitary state



Box 2.1: Federalism Option

Key Features :

- Strong, autonomous provincial government as partner with central government, weaker LAOs
- Elected Governor as CEO and Members of Provincial Assembly
- All central and local programs within province coordinated by CEO, all fiscal transfers to LAOs pass through PAO

Issues :

- Inconsistent with unitary vision in constitution
- Strong provincial governments can mean potential for conflict, demand for secession, as in Malaysia, Canada, India, Pakistan

(b) Decentralized unitary government. This option provides a shorter-term compromise that alleviates some of the problems of the current dual administration without requiring radical changes such as the creation of new bodies or positions, or the elimination of old ones. Under this option (see box 2.2), a centrally appointed governor would assume the position of provincial chief executive for a period of four years. The appointment of the governor would, however, require confirmation by a majority of the members of the provincial council. The governor could also be removed by a no-confidence vote of the three-fourth majority of the Provincial Council. He/she would be supported by a permanent secretary appointed by the Provincial Council. Provincial Council would comprise the elected heads of LAOs in the province and the chair of the council would be indirectly elected by the members of the Provincial Council. All LAO heads with population above 10,000 would serve for the full term of the council whereas LAOs with population below 10,000 would serve on a rotating basis with one fourth represented in any given year. The Provincial Council would have legislative authority over regional functions and providing oversight on the provincial executive headed by the governor. The provincial governor would prepare the provincial budget for approval by the Provincial Council. All legislation approved by the Provincial Council would have the force of the law unless overturned by an act of national parliament or by courts. Local authorities (LAOs) would have wider powers subject to home rule and will be considered equal partners with the PAO comprising provincial council and the provincial executive. Central transfers will not pass through PAOs or the Ministry of Interior but will flow directly from the Comptroller General's Department of the Ministry of Finance to individual accounts of local governments. All field offices central line agencies would be integrated with PAOs and LAOs and will have dual reporting and accountability channels – to the central administration as well as the LAOs. In this regard, the Department of Provincial Administration (DOPA) at the Center and area-based bodies continue to exist, but are meant to assist rather than solely regulate LAOs. Positions within the deconcentrated central administration, such as the district and sub-district officers will transition to municipal/tambon coordinating officers, will continue to be appointed by RTG, but would be subject to confirmation and annual review by elected bodies of the LAOs, with the option to recommend on transferring officials elsewhere, subject to a three-fourths majority vote. The LAO chief executive would play a growing role in coordinating with the Center and the PAO and other LAOs.

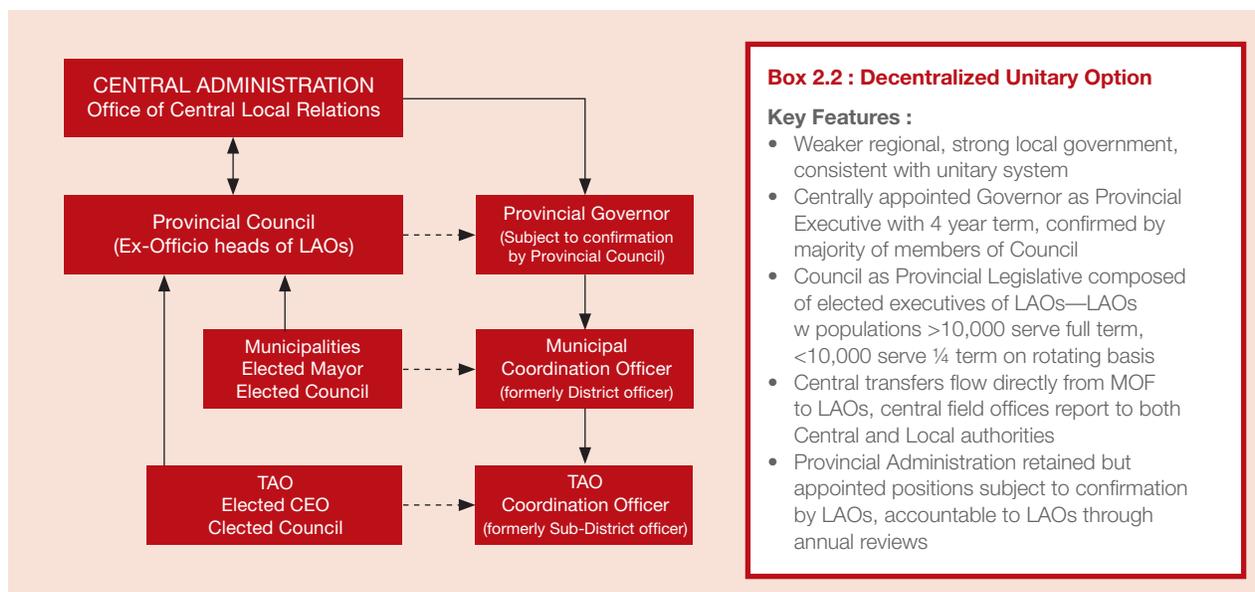


Table 2.2 : Current and proposed structure of central-local relations

Order	LEGISLATIVE		EXECUTIVE	
	CURRENT	PROPOSED	CURRENT	PROPOSED
CENTER	House (Directly elected) Senate (Appointed)	No change	Prime Minister (Indirectly elected)	Prime Minister-no change Proposed new Office of Central-Local Relations
PROVINCE	PAO	Provincial Council (comprising ex-officio heads of LAOs)	Provincial Governor PAO Chief Executive	Provincial Governor (appointed subject to confirmation by Provincial Council)
DISTRICT	N/A	N/A	District Officer	N/A
MUNICIPALITY	Municipal Council	No change	Mayor	Mayor-no change District officer transitions to municipal coordination officer
TAO	TAO Council	No change	Sub-district Officer TAO Chief Executive	TAO CEO-no change Sub-district officer transitions to TAO coordination officer

This option represents a move towards the constitutional dictums of a unitary state with home rule and citizen-centered accountability. It will also likely to lead to substantial savings in administration costs and lead to a seamlessly integrated unitary government. An important merit of this option is the coordinating forum it creates at the provincial level for all government operations. In the medium- to longer-term, as LAOs demonstrate increasing capacity and appropriate accountability mechanisms are in place, this model can also transition towards a fully unitary approach, where the area-based bodies of the deconcentrated central administration are phased out. This fully unitary model is successfully practiced in a number of decentralized countries, including South Africa and Chile.

15. Actual authority for the central delivery of services at the local level has been retained by central government; local governments have limited information and authority over how service delivery takes place locally. Thailand has already gone a long distance in empowering local authorities and giving them greater spending responsibilities while following central mandates. The area that has not received sufficient attention is the oversight

of central agencies in their service delivery responsibilities in a local area. Such oversight is only possible when either the central government operations are integrated with local operations or there is a high degree of coordination. Both conditions are non-existent at present. A decentralized unitary governance option outlined earlier can help overcome these concerns.

16. Ambiguity in the respective roles of institutions of central-local coordination contributes to slower progress in building capacity at the local level. As noted earlier two central institutions – DOLA and the National Decentralization Committee⁷ (NDC) play somewhat overlapping roles in central-local coordination. The NDC is entrusted with overall implementation responsibility for the decentralization program. It also is responsible for design and allocation of central transfers and oversight of local governments. Implementation and monitoring of the policies established by the NDC is vested with DOLA. This entails appointments and transfer of personnel, decisions on local government status and annexation and amalgamation issues, oversight of LAO administration, review of financial and service delivery operations at the local level and acting as a custodian of LAO reserve fund. It also administers grants and monitors local government financial and operational performance. Under a vision of decentralized local governance, their respective roles require re-examination to improve central-local coordination and a place greater emphasis on strengthening capacity for local self-governance. Their roles ought to be revised in line with the vision of decentralized local

governance. The status of the Office of the National Decentralization Committee at the Prime Minister's Permanent Secretary Office may be upgraded to an Office of Central-Local Relations (OCLR) in the Prime Minister Office. This office will serve as a one stop shop on all central-local relations matters and would coordinate central responses to LAOs concerns. It will serve as a secretariat for the Central-Local Commission that sets policies for local government organization and finance. It will provide analytical and policy support to the Commission and the Central Cabinet on all policies affecting LAOs. It will also coordinate with central (Ministry of Finance, Bureau of the Budget, Ministry of Interior) and all line agencies central government policies and programs for LAOs. It may also be entrusted with responsibility for developing a comprehensive database that links all central and local data bases on organizational, financial and operational performance of all LAOs. DOLA may consider adapting to a more specialized role of a facilitator or enabler as opposed to its traditional role of a manager. This recommendation is consistent with the development experience of Japan and France (see Box 2.3 for similar transformation in UK, Japan and France).

⁷NDC is chaired by the Prime Minister and comprises of Ministers for line and sector agencies. The Office of the Decentralization Committee (division level) provides the Secretariat to the NDC. d b

Box 2.3 Adapting the Role of the Central Oversight Agency to Decentralized Local Governance – The Experiences of France, Japan and the UK

Several industrial countries have attempted to reshape the role of their central agencies responsible for oversight over local government to conform to the new paradigm of decentralized local governance – some of these attempts were successful whereas others failed.

In France, the role of the Ministry of Interior transitioned gradually over two decades from one of control, tutelage and active management of local governments, which were perceived to be incapable of self-administration, to one of coordination, oversight and providing a regulatory framework around which partnerships could be built. The institutional density which arose during decentralization has resulted in a demand for a strong coordinating and oversight body, which the Ministry of Interior has been able to fill. While their role remains important, it also respects the high degree of autonomy that local governments possess in fiscal and administrative matters.

In Japan, the role of the Ministry of Interior has also changed dramatically over the period of decentralization. Prior to and in the early years of decentralization, the central administration exercised strong control over local governments, to the extent that locally elected executives were required by law to act as agents of the central government and could be dismissed for failing to do so. However, over the past decade, reforms have begun to eliminate this and other controls that undermine local autonomy, and have begun to restore some balance to the intergovernmental relationship, moving away from command and control and towards a partnership approach. In addition, the Ministry of Interior was transformed into the Ministry of Home Affairs, and later entrusted with other functions to form the Ministry of Internal Affairs and Communication. Their role has transitioned from one of control to one of fiscal supervision and more importantly, representing local governments interests within the central administration and protecting local government finances from other competing central ministries. In this way, the interests of the local governments and the Ministry have become much better aligned.

In the United Kingdom, the past several decades have actually seen a reduction in local autonomy through a number of channels. The Home Office has attempted to resume tighter fiscal controls over local governments, who are already confined by the ultra vires doctrine which prohibits local governments from taking on additional responsibilities other than those expressly permitted by law. Furthermore, while local executives are elected, many local officials are still appointed by the Home Office, which also sets cross-cutting personnel management regulations for local governments throughout the UK. Finally, the Home Office exerts strong regulatory and supervisory control over the quality of service provision, to the extent that they can reduce funding to local governments who they deem to be performing poorly. Thus, the United Kingdom represents the opposite end of the spectrum, where the central administration through the Home Office has tightened controls over local government and reduced local autonomy.

Source : Prud'homme (2006), Jun and Moto (1998), Mochida (2008), King (2006), Cole (2006). Thoeing (2005)

17. **Expenditure assignment reflects that Thailand's system is in transition, with many responsibilities gradually shifting away from central government and towards local**

authorities based on capacity of LAOs to assume such responsibility. Currently, Local authorities account for approximately 15 percent of consolidated government

expenditures, spanning a wide variety of functions ranging from municipal services to health and education to social programs targeting the elderly and disabled. However, more clarity is needed in the lines demarcating spending responsibilities within different orders of LAOs, especially with respect to the provision of social services, where a lack of clear understanding and overlaps can lead to inefficiencies and drive up coordination costs. As currently constituted, service provision responsibilities are shared, and financing also comes from multiple sources. For example, for education, different central agencies provide some share of financing, while transfers are also made to local governments to support education programs—additionally, LAOs may supplement this with own-source revenues allocated towards different components of education. This is partly by design, as the RTG recognizes the wide range of capacity levels for

different local authorities. However, especially within different orders of LAOs, clarifying expenditure assignment constitutes an important objective. While LAOs of different orders have a theoretical mandate to exercise choice in the type and levels of public services they provide, it makes less sense for a TAO to attempt to provide secondary health care than a large municipality or PAO. Clarification is also necessary in order to evaluate the appropriateness of revenue assignment to local government. The share of LAOs from net central government revenue has been adjusted a number of times to reflect changes in the understanding of LAO service provision responsibilities, especially in health and education. Clearly establishing the assignment of spending responsibilities for various orders of government will also enable policymakers to determine the appropriateness of revenue assignment.

18. Given the clearly stated constitutional dictum to decentralize service delivery, lack of progress in primary education and public health center decentralization poses significant risks for credibility of the decentralization program. As noted earlier decentralization programs in education and health are stalled. This undermines the

credibility of the entire decentralization program as education and health decentralization was a major component of this reform agenda. Both the reasons for this lack of progress and possible options to help overcome these roadblocks are discussed in the following paragraphs.

19. Public health center decentralization. A lack of progress in devolving public health centers and health promotion to local government can be attributed to a number of factors. First, the readiness criteria include stringent requirements regarding capacity and performance which most LAOs find it difficult to meet. Especially difficult to satisfy is the requirement that a majority of health center staff must agree for a transfer from central to local administration as most health professionals perceive a transfer to local government as a demotion. Second, the central Ministry of

Health has no incentives to expedite this process as they stand to lose personnel and more importantly budget. Third, local authorities have limited incentive to take control of these centers as they have no assurance of receiving full financing from the central budget. With these hurdles, it seems clear that the health decentralization agenda is unlikely to be completed in the foreseeable future. Maintaining the credibility of the decentralization reform agenda suggests that it is important for the Government of Thailand to rethink its options for feasible reforms.

20. Both conceptually and empirically, health decentralization to LAOs is neither necessary nor sufficient for improving quality and access to basic healthcare especially given that the rationale and the need for central financing would still remain paramount. Local government involvement is mainly advocated to tailor these facilities to local needs as local participation and

direct accountability, may lead to improvements in performance in some dimensions. France has accomplished improved healthcare at the local level through a centralized regime whereas Brazil, Canada, Denmark, Finland and Sweden has accomplished the same through decentralized regimes.

Box 2.4: Healthcare in International Comparative Perspective

In Poland, healthcare has moved from a highly centralized system in the past towards a model of devolved responsibility for healthcare provision and management. Prior to the 1990s, public health care centers were administered and financed by the central government under the Ministry of Health. In 1991, the Health Care Institutions Act allowed for the ownership of healthcare organizations by different bodies including central, provincial and local authorities, the non-profit sector, and private-for profit ownership, with the latter two being required to meet basic technical standards to ensure quality of service. Expenses for private care were typically paid out of pocket. In 1992, financing of healthcare was taken over by the Ministry of Finance under the National Health Fund (NHF)—this fund manages general (universal) healthcare contributions. In 1995, the Ministry of Health issued a regulation on conditions of the transfer of budgetary resources to self-managing health institutions, giving them the power to manage their own budgets. As currently constituted, management of health services remains largely vested with sub-national units, with local units largely responsible for primary care and regional units more commonly involved with the provision of secondary care—thus management of health care provision takes place at all tiers of sub-national government with varying responsibilities. These units receive grants from the central government as well as raising their own taxes to finance health programs. The central government remains responsible for national health policy, implementing health programs, training personnel, funding medical equipment and monitoring provision as well as maintaining financing for the healthcare scheme under the NHF.

Healthcare in Sweden has a long history of decentralized management dating back to the 1860s, when regional political units were given the responsibility for operating hospitals in the country. Planning, provision and financing of healthcare services were among the responsibilities gradually taken on by regional or ‘county’ bodies. In 1955, Sweden introduced a policy of national public health insurance obliging all such regional bodies to provide health services at heavily subsidized costs. In later years, health ‘districts’, which are typically responsible for primary care provision, have taken on increasing autonomy especially for resource allocation within their geographic jurisdiction. As currently constituted, responsibility for managing and financing both primary and secondary health care provision is vested in the county-level of government, which typically each administer at least one major hospital and a number of smaller primary care units (divided into health districts). Financing comes mostly through county taxes with additional resources from state grants and user fees. Hospitals are managed directly by elected county politicians and their staff of civil servants. Provision is overwhelmingly public, with a small percentage of primary care provision (5-10 percent) administered by private organizations.

In contrast to the decentralized models of healthcare provision presented above, the French model of healthcare provision can be thought of as State-led managed care, under which the central government maintains the primary role of financing, and a significant role in provision and management. This system is viewed by the French as a realistic compromise between the UK's National Health Scheme, which they believe requires excessive rationing and offers insufficient choice, and the American model, which presents tremendous choice but fails to ensure widespread access to services. Under the French system, healthcare provision is financed by the compulsory National Health Insurance scheme. While in principle NHI funds private organizations responsible for the provision of a public service, in practice they are quasi-public organizations overseen by the government agency responsible for social security. The French healthcare provision landscape comprises a mix of private solo offices, private group practices, occupational health services and large public providers, affording a variety of choices for consumers. Ambulatory care is dominated by private solo offices, while hospital care is dominated by large public hospitals managed by the Ministry of Health and its regional agencies. Local governments play little role in the management, provision or financing of health services under public organizations. Thus, a system emerges which preserves the right of patients to choose physicians, the right of physicians to practice how and what they chose, and direct payment to physicians by patients, the majority of which expenses are then reimbursed under the universal health scheme. This system can be characterized as a bilateral monopoly whereby physician associations accept the monopsony power of the NHI system in return for the state's sanctioning of their monopoly power.

Source : Saltman et al. 2007, Rodwin 2003, Rodwin and Le Pen 2004

21. Given that Thailand has opted for a decentralized public health system, it has many alternative options to achieve this. First, taking a radical view, Thailand could transfer control and financing of all existing health centers to LAOs and give health professionals an option to be assigned to a surplus pool if they choose not to transfer. This move will be resisted by health professionals, could cause significant disruption in delivery of services, and therefore may not be practical. A second alternative is an asymmetric approach to public health center decentralization where urban municipalities with population in excess of 50,000 be given an option to establish direct management and control over local health center, contract it out to private sector or do it in partnership with a neighboring municipality (as done in Finland) or remain part of a centralized network. For those choosing to exercise this option of local control, some different financing mechanisms be made available, such as receiving central health grants based upon service population. Alternatively, Thailand could maintain the existing Universal

Care (UC) scheme of healthcare financing while decentralizing only service provision to the local level. It is important to distinguish between the decentralization of service provision and the corresponding financing mechanism—further discussion will likely be necessary to determine the appropriate instrument. However, any financing mechanism should be subject to appropriate controls to ensure basic minimum standards are met (see the transfers section for more details). All urban local authorities below this size, on the other hand, would remain part of the centralized system until they could assume such responsibility by meeting the existing readiness criteria as specified by the Ministry of Public Health (MOPH). For TAOs/SAOs, the decentralized system would not be an option and central government would continue to maintain centralized provision with LAO oversight. In smaller municipalities and TAOs and SAOs, public health centers run by the central government would have oversight committees constituted by local authorities.

22. **Primary school decentralization.** Three kinds of reforms have been implemented in Thailand with varying degrees of success: transferring ownership of schools to LAOs; devolving aspects of administration to local units of the central ministry of education; and school based management. The transfer of schools to local administrative organizations has not

happened to any significant level - there are various explanations for the limited implementation of the first reform thrust. These include reluctance on the part of the MOE which needs to authorize the transfer, reluctance on the part of teachers who prefer to remain central government employees, and lukewarm demand at the grassroots level.

23. **Educational Service Areas (ESAs):** There are 175 Educational Service Areas in Thailand which are deconcentrated offices working closely with local government office and responsible for supervising the day to day management of schools at the sub-provincial level. ESA's are well staffed in general and they receive funding from the central level's Office

of Basic Education Commission (OBEC) to carry out their mandate of administration and management of the school system. Scholars of educational decentralization in Thailand appear to have overlooked the low-hanging fruit of benefits of decentralization to be found in shape of the ESAs.

24. **School Level Autonomy:** The third and most successful part of the decentralization reforms concerns the financial, administrative and pedagogical autonomy provided to schools. The considerable level of autonomy enjoyed at the school level shows a deepening trend since the reforms began. The increasing level of autonomy across time at the school level would also explain the reluctance of teachers

and school authorities to agree to transfers from the MOE to local government. Local government authorities could perceive themselves to be closer to the context and population and may not devolve more power to schools. The effect of this autonomy on educational performance is an issue that requires a systematic investigation.

LOCAL GOVERNMENT ORGANIZATION

25. Local self-government is officially termed as local administration in Thailand and comprises of two tiers: province and sub-province local authorities which includes six types of legal entities: (i) special administrative areas (Bangkok Metropolitan Administration and Pattaya City only), (ii) provincial administrative organization, (iii) city, (iv) town, and (v) sub-districts municipalities, and (vi) tambon administrative organizations (TAOs). All local governments

are required to have a local council, a chief executive and a chief administrative officer. All local government council members and the chief executives are directly elected by local residents for a four year term. All chief administrative officers are appointed by relevant chief executives in accordance to the criteria set by respective PAO, municipality or TAO local personnel committees.

26. An interesting feature of Thailand local administration is that, at all tiers, there is a separation of the executive power from the legislative functions. The executive power is exercised by a directly elected chief executive and the legislative and oversight functions are the domain of a directly elected council.

This is a laudable feature of the Thai system as several studies in the USA have shown that local governments with separation of powers are more efficiently run than those with a council that combines executive and legislative functions (see Inman, 2006).

27. Local government in Thailand is characterized by a large number of individual units, the distribution of which is skewed towards both smaller populations and areas. Tables 3.2 and 3.3 provide some indication of where Thailand falls relative to other decentralized countries. For example, we see that at almost 20 times the population of

Thailand, China has only 5 times the number of local governments; furthermore, the average population for a local government in China is approximately 100,000, compared with Thailand's approximately 8,000. Poland, Japan, Indonesia and Denmark all have much lower numbers of local governments than Thailand.

Table 3.1 : Number and characteristics of LAOs

Type of LAO	Number	Population		
		Min	Avg	Max
BMA/Pattaya City	2	104,318	2,881,636	5,658,953
PAO	75	182,729	769,061	2,565,117
City Municipality	24	50,000	99,922	264,245
Town Municipality	142	4,448	26,854	77,976
Sub-district Municipality	1,841	288	6,870	104,922
TAO	5,770	376	6,321	52,795

Source : Department of Local Administration, Ministry of Interior (2010)

Table 3.2 : Size distribution of local governments comparative perspective

Number of inhabitants	China (2004)	Denmark (2002)	France (1999)	Indonesia (1990)	Japan (2000)	Poland (2003)	Thailand (2009)	United States (2002)
0-4,9999	43,258	134	35,758	1,237	1,577	604	3,055	32,070
5,000-9,999	↓	↓	↓	62	↓	1,049	3,678	↓
10,000-19,999	↓	125	802	↓	1,220	731	865	3,125
20,000-24,999	↓	↓	↓	↓	↓	↓	143	↓
25,000-49,999	↓	↓	↓	7	↓	↓	↓	↓
50,000-99,999	↓	12	82	↓	224	54	26	461
100,000-199,999	↓	3	32	6	206	22	8	219
200,000-499,999	374	↓	↓	↓	↓	13	2	↓
500,000-999,999	283	1	3	↓	11	5	0	22
1,000,000 or more	50	0	2	↓	12	↓	1	9
Total number local governments	43,965	275	36,679	1,312	3,230	2,478	7,778	35,906

Note : An arrow indicates that the value is an aggregate and covers the range included

Source : Shah (2006, 2007)

Table 3.3 : Average population per local authority comparative perspective

Country	Average population per local authority
France	2,068
Indonesia	5,915
Thailand	8,014
Poland	18,881
India, urban	68,027
UK	106,904
China	107,334

Source : Shah 2006, UK Gov 2008

28. Special Administrative Areas: Bangkok Metropolitan Area (BMA) and Pattaya City.

These two jurisdictions are considered unique - Bangkok due its large size and cosmopolitan nature and Pattaya City because of its need to develop local economy based upon tourism - and have been given greater autonomy than most LAOs under special legislation. BMA is governed by a legislative council that is directly

elected by proportional representation and a directly elected chief executive (governor) – both for four year terms. BMA is further divided into 50 districts for administration of local services. Each district has its own council comprising directly elected representatives and a district officer (chief executive) appointed by the Governor of BMA.

29. Provincial Administrative Organizations (PAOs).

Provincial Administrative Organizations (PAOs) are the higher tier of the local administration in provincial area. There are 76 provinces or changwat in Thailand (excluding Bangkok, which has quasi-provincial special administrative status) ranging in population from 178,000 to 2,546,000 and ranging in size from 416 km² to 20,494 km². The PAOs origin dates back to 1933 when the country was administratively divided into provinces and headed by the centrally appointed governor. The governor was guided by an advisory

body, the so-called Provincial Council, which was comprised of selected officials posted in the province. Local demands for greater political participation led to the enactment of the Administrative Organization Act of 1955 which required local oversight on central operations managed by the centrally appointed provincial governor through a directly elected council. Subsequently, the 1997 PAO act made PAOs an autonomous tier of local administration with directly elected council and a directly elected chief executive.

30. Municipalities.

Urban areas are designated as (a) city municipality if population size is greater than 50,000, area has a good economic and social development potential and the jurisdiction has sufficient local revenues to discharge responsibilities under the Municipality act; (b) town municipality, if population exceeds 10,00 and the jurisdiction has sufficient local revenues to discharge town functions; and (c) sub-district municipality if it has more than 7000 people and local revenues exceed 12 million baht. At present there are 24 city municipalities

with an average size of 100,000 people, with populations ranging between 50,000-264,000. There are 142 town municipalities with an average size of 27,000 people and population range of 4,000-78,000. There are also 1,841 sub-district municipalities with an average size of 6,900 people and the population range of 288-105,000. This suggests that there are a number of municipalities that do not meet the formal criteria but have been granted the municipal status.

31. Tambon Administrative Organization (TAOs).

Rural areas are organized into Tambon (sub-district) Administrative Organization or TAOs. To date there are approximately 5,770

tambons throughout Thailand, with an average population size of 6,000 people and a population range of 375-53,000.

Responsibilities of Local Administrative Organizations in Thailand

32. Prior to Thailand's push towards decentralization, local governments had limited autonomy and simply delivered services financed and mandated by the central government. Local authority expenditures represented less than 10 percent of consolidated government expenditures and the ratio of local personnel to central personnel was extremely low (Nagai et. al 2008). Central government was responsible for the appointment of local chiefs, determining local salaries and approving or amending local

- Public infrastructure investment (87 programs);
- Improvement of Quality of Life (103 programs);
- Order, and Security of Communities and Society (17 programs);
- Planning, Local Investment Promotion, Commerce and Tourism (19 programs);
- Conservation and Management of Natural Resources and Environment (17 programs);
- Local Culture, Tradition, and Local Wisdom (2 programs).

budgets. Central government line ministries played an active role in administration and service provision at the local level, while the role of local authorities was largely confined to a limited number of municipal functions such as street cleaning, waste disposal, holding markets and fairs. The Decentralization Act of 1999 therefore represented a marked shift from the past duties of local authorities. The Act mandated the transfer of responsibilities primarily across six different functional areas. These include:

33. The Decentralization Act also mandated transfer of primary education and basic health (public health center) responsibilities from central to local administration. However, the de facto responsibilities undertaken by LAOs depend very much on DOLA's view of the absorptive capacities of different types of local authorities as well as the mechanisms that each government has in place to ensure

that minimum standards of service quality are met and maintained. To this extent, the process of transferring responsibilities to local authorities has been graduated, with fiscal and administrative assessment indicators used to determine the readiness and capacity of specific local authorities to take on decentralized responsibilities.

34. As noted earlier, Thailand has successfully transferred most municipal functions to local jurisdictions whereas progress on the transfer of basic social service responsibilities has been restricted. Thailand also has a well structured system of local government tiers,

yet significant further refinements would help provide a clear demarcation of responsibilities and accountabilities of various tiers. The following paragraphs highlight areas requiring immediate attention for further reform.

Outstanding issues in reforming the organization and structure of local government

35. *Local administrations at the provincial level (PAOs) increasingly deliver local functions to the relative neglect of their primary role of coordinating and delivering regional services.* The PAOs were created to deal with regional functions, with primary responsibilities including creating local development plans, coordinating and enhancing LAOs within their jurisdictions (Decentralization Act 1999) and to deliver local services only if the lower level LAOs were unable and they were requested to do so (DOLA 2009, DOLA 2007). In practice, however, they are increasingly delivering local services at the cost of dealing

with inter-local issues and services. In Thailand, regional governments (PAOs) are autonomous directly elected units and are assured significant financing. As a result they are increasingly assuming direct service provision roles in education and health, competing with local and central service provision. Such direct provision role distracts them from focusing on interjurisdictional issues and dealing with interregional infrastructure and inter-local spillovers. This also limits the financing available to local authorities to meet critical local needs. In view of this, it may be important to rethink the role of PAOs.

36. The role of a provincial government in a federal country is quite obvious as the federal system of government typically treats provinces as partners in a federation but local authorities as creatures of provincial government. In a unitary system of government, however, the role of self-government at the provincial level is less clear especially when central government has parallel provincial level administration. In fact, provincial self government can be a source of conflict rather than harmony. For example, it is for this reason that Indonesia's 2000 Decentralization Act sought to limit the powers of provincial governments while expanding the roles of local authorities. Similarly in China, provinces play a relatively insignificant role compared to local governments. In both federal and unitary countries, the role of provincial (regional) government is quite important in delivery of regional services as well as dealing

with inter-municipal issues. Finland represents an important exception as it does not have intermediate order governments and regional functions are delivered through partnership agreements among local governments. In Thailand, local administration at the provincial level (PAOs) are expected to perform a dual role in coordinating central-local and inter-jurisdictional relations at the regional levels as well as pooling resources to develop regional infrastructure and dealing with inter-jurisdictional conflicts. Such a role is best handled by creating an upper tier government comprising elected chief executives of local authorities in the province. In view of this, consideration may be given to restructuring local self-government (PAOs) at the provincial levels to better target coordination objectives while also creating a seamless integration with the central government operations at the provincial level.

37. **Unitary governance structure for Bangkok Metropolitan Authority limits voice and choice options for local residents.**

Bangkok is a large metropolitan area with a service population of 6 million and a service area of 7,761.50 km². It is governed by a directly elected council and a directly elected mayor. For administrative purposes, BMA is currently divided into 50 districts, each with its own district council – a directly elected advisory body to oversee the work of district officer, who remains an appointed official. This system has served Bangkok residents well, and the city is largely well run. However, given the large size (population in excess of 6 million) political participation could be enhanced and further improvements in municipal services such as street cleaning, garbage collection, sidewalk maintenance etc. may be possible. The BMA could do so by devolving municipal functions (e.g. fire protection, refuse collection, neighborhood parks and recreation, street cleaning and maintenance, local libraries etc) to a district government while retaining metropolitan wide functions such as land use planning, transportation, water and sewer and refuse disposal, metropolitan planning, education, health (public health and hospitals) and social welfare, police protection, utilities,

environmental protection and metropolitan parks. Such arrangements exist in Seoul, South Korea, Melbourne Australia, Vancouver, Canada and Stockholm, Sweden. The experience of Seoul (with a population of 12 million) is particularly relevant as it had a unitary structure and administrative districts similar to Bangkok till the 1980s. By instituting local self government at the district level (25 gu/districts with population range of 140,000 to 630,000 and area range from 10 to 47 square km) and making them autonomous in municipal functions, it experienced enhanced participation in civic affairs as well as improved delivery of municipal services. If Bangkok were to consider a two tier structure then it could be subdivided into 12 lower tier municipalities comprising about 500,000 residents each. These city municipalities would have directly elected mayors and council members and would be autonomous in municipal functions. The metropolitan government (BMA) would assume regional functions and would have a directly elected governor as the chief executive and the council membership would comprise ex-officio municipal mayors from lower tier municipalities. Such a system of metropolitan government is expected to enhance voice and choice options for metropolitan residents.

Table 3.4 : Metropolitan governance: a comparative perspective

Number of inhabitants	Bangkok	Seoul	Melbourne	Vancouver	Stockholm
Population (millions)	6	12	3	2	2
Lower tier municipalities	None. (50 administrative districts)	25	57	18	25
Metropolitan / Regional government functions (upper tier)	All local functions	Health and welfare, environment, transportation, air quality, culture, housing, planning, fire and disaster management, balanced development	Water and sewer	Hospital, utilities (water, sewer, gas, electricity), transportation	Hospital, utilities (water, sewer, gas, electricity), transportation
Municipal functions (lower tier)	None –only advisory role at district level	All municipal functions	Recreation, culture, roads, Waste collection and disposal	All municipal functions	All municipal functions

Source : KRILA (2010), McMillan (1995)

38. Local authorities are numerous, small and fragmented with inadequate capacity to deliver local services. Thailand's effort to ensure that each local jurisdiction has the opportunity to exercise some degree of control over its own affairs is commendable. However, it may be useful to reconsider the number and size of units of local authorities in Thailand. Currently, there are a total of 7,853 units of local government, including 2,007 municipalities and 5,770 TAOs for a country with a population of 66 million. Most sub-district governments have a small area, small population size (3,055 LAOs with less than 5,000 people and 6,733 LAOs with less than 10,000 people) almost non-existent tax base but costly council and bureaucracy and a wide range of service delivery responsibilities. In contrast, South Korea with a population of 49 million has only 234 local government units and China with a population of 1.3 billion has only 3,203 local governments up to the municipal level and a total of 47,270

local government units including townships. In developed countries the average size of local government usually falls in the range of 10,000 to 30,000 population range. A minimum size of 10,000 is considered essential to deliver a range of local services and effective in political representation. Most TAOs in Thailand fall below this threshold; in terms of average local government size, Thailand falls among governments with the smallest population size of local government such as France (see Figure 3.1). The small size and deficient revenue base can put TAOs at risk of spreading resources too thinly, trying to accomplish too wide a range of mandates and being unable to devote sufficient resources to maintain quality or perform well. For example, Ban Chiang TAO spends annually less than a dollar per person on health care and environmental protection (World Bank 2009). Such a system could create distrust in the local authorities among residents in the long run.

39. It may be helpful to have a closer look at TAO/SAO governments and explore opportunities for administrative consolidation and have a narrower focus on priority local services. If small local government units are unwilling or unable to consolidate or form partnerships to carry out some of the more demanding responsibilities, it may be necessary to consider redefining the scope of duties for tambons. Several European countries in recent years have carried out municipal consolidation programs. Finland instituted a special grant program to induce consolidation of smaller local governments on a voluntary basis. This grant program was

responsible for reducing the total number of local governments from 416 in 2005 to 326 in 2010 (see Moisiso, 2010). Other European countries such as Norway, Sweden, Denmark, Germany and Netherland had achieved a more dramatic consolidation of local government through non-voluntary programs in the past (see Table 3.4). Thailand may consider reviewing these experiences to develop own program for local government consolidation. Alternately it could treat all LAOs below the population size of 10,000 as unincorporated local jurisdictions. This would create strong incentives for local consolidation.

Table 3.5 : Median/average size of local governments in comparison

Country	Total Population (millions)	No. of LGs	Average LG Pop. Size (thousands)
Thailand	69	7854	9
UK	62	386	123
China	1300	44000	107
Indonesia	238	502	485
Brazil	192	5560	31
East Asia and Pacific			171
South Asia			71
SS Africa			172
Middle East			112
LAC			63
Europe and CA			29
North America			12

Source : Shah (2006, 2007)

Table 3.6 : Local government consolidation in Nordic countries: 1950:2010

Country	1950	1992	2005	2010
Finland	547	460	416	326
Sweden	2,281	286	290	290
Norway	744	439	430	430
Denmark	1,387	275	270	98

Source : Moisiso et al. 2010

OWN SOURCE REVENUES AND TAX SHARING

40. Thailand has opted for a highly centralized and harmonized tax regime. Such a system is advantageous in avoiding an overly-saturated “tax jungle”, as well as limiting wasteful tax competition. However, it has the disadvantage of creating a local accountability void for local governments, who depend primarily upon central transfers to finance expenditure programs, absolving the need to raise taxes locally. If given the responsibility and actual power to implement significant own-source revenue collection, the distance is dramatically shortened between a citizen paying taxes and a government providing services using those taxes—relying on a distant central government blurs this line of accountability considerably. Local authorities in Thailand have their total income guaranteed to equal approximately 25 percent of net central government income. Of these, about 25 percent of revenues

received from local surcharges on central taxes and the rest are received as tax shares and transfers. The only productive revenues available to municipal governments is 0.7 percent surcharge on the central value added tax, housing and land taxes and land development tax and local development tax from tobacco, petrol station and hotels. Table 4.1 lists major tax instruments and their revenue intake. It is worth noting that for locally collected taxes, with the sole exception of local development tax, center defines the base and the rate and local authorities collect these taxes (see Table 4.1 for details). In this context, proposed new legislation for land and built structures tax giving local government greater autonomy in its administration is a very welcome initiative but the draft legislation could be further strengthened by following a number of critical refinements listed in Box 4.1.

Table 4.1 : Local revenues by own source (2009)

Source	Amount (Bt Million)
Locally collected taxes	22,777.0
Land and Housing Tax	17,164.8
Local Development Tax	1,274.9
Signboard Tax	1,640.6
Animal Slaughter Tax	89.7
Swallow Bird's nest Duty	202.2
Local Development Tax from Tobacco, Petrol Station and Hotels	2,404.9
Locally collected non-tax revenues	9,434.8
Fees, Fine and License	3,819.3
Revenue from Assets	1,972.5
Revenue from Local Utility Services	811.1
Miscellaneous Revenue	5,843.8
Local surcharges on central tax	13,086.2
Specific Business Tax Surcharge	4,000.0
Liquor Tax	9,243.2
Liquor and Gambling License	145.0
Total own source revenues	45,600

Source : CGD 2009, Local Authority Survey (World Bank)

41. Among LAOs, PAOs have access to revenues from relatively productive taxes such as vehicle registration fees, hotel rooms, petroleum and tobacco taxes. There are four primary taxes that municipalities and TAOs are entitled to levy and collect themselves. These taxes include the Housing and Land Tax, the Local Development Tax, the Signboard Tax and the Animal Slaughter Tax. These taxes are directly administered and collected by local authorities-however, tax rates and exemption rules are generally governed by centrally mandated legislation.

The size and share of these taxes has shown some variation over the years, but has generally declined since the beginning of Thailand's decentralization program. In 2000, locally-levied taxes represented 11.4 percent of total local authorities' revenues. This gradually fell to 6.3 percent in 2005. In spite of a brief spike back to 8.6 percent in 2006, in 2007, they fell again to just 5.6 percent, and held at 6.0 percent in 2008 (DOLA 2008).

Box 4.1 The Land and Built Structures Tax Act (2011 draft)

This draft law is intended to repeal the existing Land and Housing Taxes and the Local Maintenance Taxes and replace these with the new Land and Built Structures Tax. This tax will be assigned to LAOs, thereby raising their revenue autonomy. The new tax is to be assessed on the market value of land and structures and all revenues will accrue to local LAO. Properties owned by Crown and state and public enterprise assets, foreign embassies, religious sites, cemeteries and Thai Red Cross will be exempt from this tax. The tax will be assessed by each LAO based upon a survey of local properties and also the LAOs may follow centrally recommended tax rates or impose own tax rates provided such tax rates do not exceed 0.5% of assessed price for commercial properties, 0.1% of assessed price for residential and 0.05% of assessed price for agricultural land and property. The LAOs may collect these taxes on

their own or ask a public agency to collect such taxes on their behalf for a fee not exceeding 5% of total value of tax collections. The Ministry of Finance will set up a Land and Built Tax Collection Data Center that will issue tax invoices on behalf of LAOs and maintain an up-to-date tax collection database for the nation as a whole. The Land Department will prepare a digital map for the country linked with property registration data. For the purpose of assessing properties all LAOs will conduct a survey of local land and structures. These survey data will be passed on to the Central Treasury Department to deliver estimated prices to each LAOs.

A Central Committee chaired by the permanent secretary of MOF and comprising the DG Budget Bureau, DG DOLA, DG Land Department, DG Public Works Department, Director Fiscal Policy office (secretary), Director NDC, Governors of Bangkok and Pattaya, three experts, mayors of municipalities and Chief Officers of TAO represented on the NDC would be entrusted with setting rates on a bi-annual basis for a four year cycle. Provincial subcommittees chaired by the governor and comprising local Revenue Office, Local Treasury Officer, Local Public Works and Town Planning Officer, 3 mayors and 5 chiefs of TAOs will compile data and make recommendation to the central committee on proposed rates by August. LAOs will submit survey results by May and data on assessments and past collections to their provincial sub-committees by July. The Central Committee will make its recommendation on rates known to LAOs by October and to Bangkok by November. All LAOs will notify individual tax payers by January 1 regarding the taxes due that year.

The draft law is a welcome initiative as it will enhance local revenue adequacy and autonomy by giving LAOs significant autonomy in setting base, determining rates and collection of this tax. Its implementation will result in developing a comprehensive database of land and structures, ownership, estimated values and taxes paid. The proposed law broadens the tax base to include most properties and by eliminating the owner-occupied exemption for residential properties, it has sought to limit exemptions. The law also aims to improve tax administration by improving the information base on property assessments and tax collections. The proposed law also makes provisions for updating of assessments on a four year cycle. It has also attempted to unify various land and property taxes under a single legislation.

Further refinements to strengthen the proposed legislation

The draft law could be further improved by requiring maintenance of a shadow roll of the value of all exempt properties. Exempt state and public enterprise properties could be required to pay “grants-in-lieu of taxes” (in equivalent value to assessed property taxes if they were not tax exempt) to local governments as done in USA and Canada. Furthermore, any exemptions granted by local government due to special circumstances must have a sunset provision of not more than four years. There is also a room for further broadening the base of this tax by bringing the assessed value of power, gas, electric, cable and telephone lines and water pipelines and communications towers under this tax net as done in industrial countries. Preferential taxation of built structures over land would also help more intensive use of land in urban areas and therefore it is desirable to tax land component at a higher rate than the building component. Setting up an Equalization Board at the national level that ensures that the assessed values of property across various jurisdictions are comparable would be another important step.

42. Decentralization reforms in Thailand have not addressed the issue of opening up greater opportunities and incentives for local self finance

to enhance local government accountability to local residents. These and related issues in local self finance are discussed below.

43. **Local governments have little incentive to raise revenues from own sources and be accountable to their residents.** Thailand's decision to assure local governments that their total income be at least 25 percent of net central government income, including own-source revenue, shared taxes, general and specific purpose transfers, has led to some unintended perverse consequences. Because the central administration is required to meet the 25 percent target of net central government

income, there is little incentive for LAOs to increase their own tax efforts and raise more revenues from own sources, as such efforts result in reduced central transfers exactly by the amount of additional local revenues raised. Such a perverse incentive limits local government accountability as well as places greater financial burden on central government. This anomaly can be easily corrected by linking the fixed target to net central government income excluding own source local revenues.

44. **Local tax autonomy is weak or non-existent and undermines accountability of local administration to local residents.** Raising revenues at the margin locally is critically important for accountable local governance. In Thailand local government tax autonomy is highly constrained. Furthermore, local authorities are inadvertently discouraged from raising revenues at the margin from own sources because of the overall cap on local government revenues as a share of net central government revenues. Even for locally collected taxes, central government exercises control over the base and oversight on setting rates. This may be desirable to maintain the uniformity of tax system and overcoming race to the bottom especially when local authorities are

guaranteed a fixed share of net central government revenues. However, in the interest

The Decentralization Act allows LAOs to set-up local tax collection agencies – leading to administrative inefficiency. Given that the current level of locally-sourced revenues are so small relative to centrally-collected shared taxes and central transfers, setting up tax administration capability by each LAO would be costly for smaller LAOs. Tax contracting to central government revenue collections agencies (on a performance contracting basis) or the private sector or partnership arrangements with other LAOs might offer cost savings alternatives.

INTERGOVERNMENTAL TRANSFERS IN THAILAND

45. In 2011 intergovernmental transfers represented approximately 54 percent of local authorities' revenues in Thailand. Table 5.1 provides a breakdown of local authority revenues including intergovernmental transfers from central to local authorities, such as the VAT

under the Decentralization Act, general purpose subsidy and specific purpose subsidies. There are some auxiliary transfer instruments, such as the Thailand Village and Urban Revolving Fund, the SML fund, the sufficiency fund and the contingency within the Central Fund

⁸For more detail, see Thailand PER Discussion Paper 1: Planning, Budgeting and Fiscal Trends

however, these are small in volume on a per-LAO basis, and operate through unique parallel mechanisms administered solely by the central government outside of the decentralization mandate. As such, these instruments are distinct from the standard transfers discussed below. For example,

the Village Fund Bt 200 million provides a revolving credit of Bt 1 million to 74,000 villages and over 4,500 urban communities across country with borrowing demands for small projects and is administered centrally by the Village Fund Committee.

46. Formula based general purpose transfers constitute 49 percent of these transfers and the remaining 51 percent of these transfers are intended for specific purposes i.e. to finance expenditures in specified activities such as education, health, social services, water and environment and general administration. OECD average for local authorities is conditional grants at 60 percent and unconditional 40 percent. In developing countries unconditional revenue sharing grants dominate. Output based conditional grants can possibly be superior to unconditional transfers as they preserve local autonomy while strengthening local accountability. Under the classification system used by the RTG, the general purpose transfers breakdown includes some Bt 45 billion earmarked for specific purposes, officially this is just for the purposes of calculating the

expenditure needs component of the allocation criteria, and LAOs are not required to account that these transfers have been used for the proposed purposes. However, the Department of Local Administration provides annual guidance to LAOs on how these funds have been budgeted, and as a result, funds are spent as they have been earmarked. While recognizing the theoretical potential for discretionary spending, the practical realities of these grants would have them labeled as specific purpose under international definitions; accordingly, we have treated them as such for the purposes of this analysis. Currently, no data is available to distinguish between operating grants and capital grants; as such, our analysis has not drawn a distinction between these two different categories.

Table 5.1 : Sources of local authority revenues in Thailand (2009)

Source	Amount (Bt Million)	Share
Total own source revenues	45,600	16%
Total shared taxes	116,016	41%
Central government transfers	124,100	43%
General Purpose Transfers	94,062	33%
Specific Purpose Transfers	30,038	10%
Total local authority revenues	285,716	100 %

Source : CGD 2009 and Local Authority Survey (World Bank)

General Purpose Transfers

47. Two general purpose transfers are currently in use under the Thai system: (a) formula based sharing of a specified portion of central

government VAT revenues and (b) the so-called general duty transfer. The following paragraphs discuss these transfers.

(a) The Value Added Tax Transfer according to the Decentralization Act

⁹This distinction, is however, is not very useful for analytical purposes and for good practice. Conditional grants are "bad" when they are input control based as they undermine local autonomy. Unconditional revenue sharing grants on the other hand undermine local accountability.

48. Under the 1999 Decentralization Act, local authorities are entitled to receive a share of not more than 30 percent of VAT collected by the central administration. The VAT transferred to local authorities constitutes about 18.5 percent of total local revenues, making it the second largest revenue source for local authorities.

Allocation of this tax is undertaken by the National Decentralization Committee and is subject to amendment on an annual basis. As such, allocation changes from year to year, but the criteria typically used to determine allocation includes population, area, revenue and or budgetary need (KPI 2008).

Table 5.2 : Allocation of VAT under decentralization act (2009)

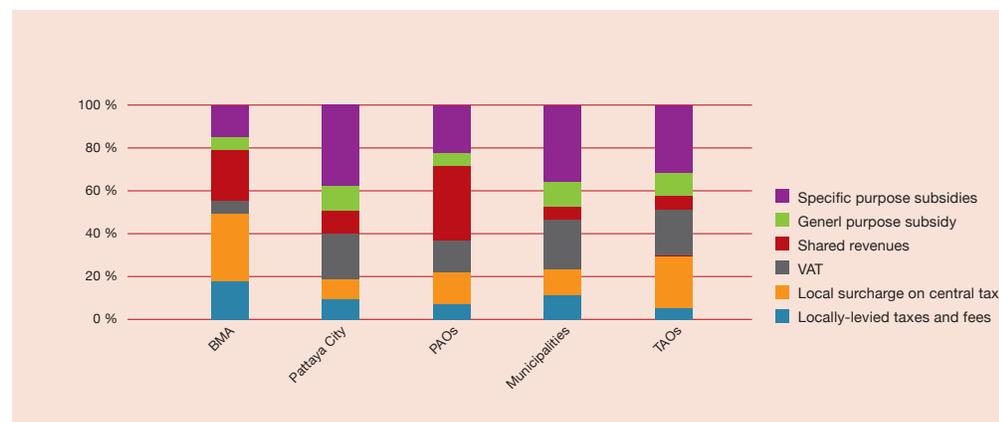
LAO	Amount	Share
BMA	3,789.0	5.8%
Pattaya City	639.2	1.0%
PAOs	6,456.8	9.9%
Municipalities	22,448.0	34.5%
TAOs	31,667.1	48.7%
Total	65,000.0	100.0%

Source : CGD 2009, Local Authority Survey (World Bank)

49. As presented in table 5.2, transfers of VAT under the Decentralization Act are targeted most heavily towards TAOs and municipalities, at 48.7 percent and 34.5 percent of the total VAT transfer respectively. PAOs receive approximately 10 percent, while the BMA and Pattaya city receive 5.8 percent and 1 percent each. Figure 5.1 shows the relative importance of different local revenue sources across types

of LAO. From the graph, it is clear that BMA has the greatest own source revenue potential (almost 50 percent of total revenue) and also benefits from shared revenue sources (which bring the total to more than 70 percent). VAT transfers under decentralization play a much more important role in other LAOs, especially Pattaya city, municipalities and TAOs.

Figure 5.1 : Relative importance of different local revenue sources - 2008



Source : CGD 2009, Local Authority Survey (World Bank)

(b) The General Purpose Transfers

50. While under government definitions the general purpose transfer constitutes the largest share of local government revenues, under conventionally accepted definitions (which exclude earmarked funds), the general purpose transfer comprises approximately 8.3 percent of total local revenues, and approximately

15 percent of central government transfers (as indicated in table 5.1). The primary objective of the general purpose subsidy is filling the financing gap and allowing local authorities to meet their mandated expenditure responsibilities.

51. After the total pool for general purpose subsidies is determined, 5 percent of the total is set aside as deficit grants and allocated according to the difference between revenue and expenditure in basic public service provision of the LAOs. Of the remaining 95 percent, 90 percent is allocated to municipalities and TAOs, and 10 percent is allocated to PAOs. 65 percent of the 90 percent share to

municipalities and TAOs is allocated on a per capita basis; the remaining 35 percent is divided equally between the local authorities (NDC 2009). The 10 percent share that was allocated to PAOs is divided as described above. Table 5.3 gives the breakdown of how the general purpose subsidy has been allocated. Table 5.4 illustrates how the 29.1 billion baht are allocated across LAOs.

Table 5.3 : General purpose subsidy – 2010

Allocation	Transfer (millions of baht)
General (residual)	29,062.6
Earmarked component	45,209.1
Train fare subsidy	2.0
Healthcare services	890.0
Survival subsidy for AIDS patients	223.6
Survival subsidy for the disabled	1,909.3
Survival subsidy for elders	10,970.7
Quality of life (Southern Provinces)	273.1
Income subsidy (Southern Provinces)	949.8
Sport facility management	134.6
Lunch services	13,030.8
Supplements (Milk)	11,287.5
Babycare center	5,071.8
Social service center	3.5
Nursery homes for elders	93.7
Education management capacity improvement	368.6
Total (excluding expenditure need component)	29,062.6

Source : Translated NDC meeting minutes 2009

Table 5.4 : General subsidy allocation

Total	29,062.6
City planning	102.5
Remaining general subsidy	28,960.1
95% to LAOs	27,512.1
10% to PAOs	2,751.2
40% to municipalities	11,004.8
65% allocated per capita	7,153.1
35% allocated equally	3,851.7
60% to TAOs	16,507.2
65% allocated per capita	10,729.7
35% allocated equally	5,777.5
5% to LAOs based on revenue-expenditure gap	1,448.0

Source : Translated NDC meeting minutes 2009

Specific Purpose Transfers

52. There are currently 30 specific purpose transfers, accounting for some 50.6 percent of the total transfers to local authorities and approximately 27.5 percent of total local revenues. These are targeted towards meeting central mandates in social and environmental policies and/or the achievement of specific nationally-set policy objectives. Specific purpose subsidies targeting environmental

programs are a matching transfer, where 90% is provided by the central administration and 10 percent is provided by local authorities. However, others such as the subsidy for the elderly are allocated strictly on a per capita registered elderly basis, 500 baht per registered recipient. Specific purpose subsidies cover a wide range of different policy objectives, ranging from health and education to social welfare.

53. Allocation of specific purpose subsidies can follow a number of different rules, but most typically, subsidies are allocated on a per-capita eligible basis. Thus, with some exceptions such as disaster relief funds or environmental subsidies, special purpose subsidies are more commonly used to cross-subsidize specific government priorities than to target specific areas or districts. While some of these subsidies are directed towards infrastructure investment, many are targeted towards social service and welfare provision. These transfers are attractive to the central administration because control

remains firmly entrenched at the central level, allowing for central prioritization of different policy objectives. Table 5.5 provides details on the allocation of specific purpose subsidies across functions. A total of 96,402.9 million baht is allocated to local authorities across 30 different categories (including those categories earmarked under the “general purpose grants” pool), within six different groups. To receive specific purpose subsidies, local authorities must commit to spending the funds on the centrally-defined programs to which they have been attached.

Table 5.5 : Specific purpose transfer allocation (includes earmarked general purpose transfers)

Functional allocation	Transfer (millions baht)	Share
Health Subsidies	19,451.9	20.2%
Healthcare services (fixing infrastructure)	21.1	0.0%
Primary care unit innovation project	7,029.7	7.3%
Healthcare services	890.0	0.9%
Survival subsidy for AIDS patients	223.6	0.2%
Supplements (Milk)	11,287.5	11.7%
Education Subsidies	28,497.3	29.6%
15-year free education	2,881.4	3.0%
Mandatory education (healthcare cost)	500.0	0.5%
Mandatory education (rent)	80.0	0.1%
Mandatory education (pension)	1,743.6	1.8%
Teachers' salary	9,892.8	10.3%
Education management capacity improve	368.6	0.4%
Lunch services	13,030.8	13.5%

Functional allocation	Transfer (millions baht)	Share
Social services subsidies	41,923.8	43.5%
Social support for the disabled	1,374.1	1.4%
Babycare center	5,071.8	5.3%
Babycare center by religion department	1,765.6	1.8%
Elders' insurance project	19,512.2	20.2%
Social service center	3.5	0.0%
Nursery homes for elders	93.7	0.1%
Survival subsidy for the disabled	1,909.3	2.0%
Survival subsidy for elders	10,970.7	11.4%
Quality of life (Southern Provinces)	273.1	0.3%
Income subsidy (Southern Provinces)	949.8	1.0%
Water and environment subsidies	3,948.3	4.1%
Water problem Nakorn Ratchasima	595.4	0.6%
Electric water pump	809.1	0.8%
Environmental action plan project	2,543.9	2.6%
General administrative subsidies	2,445.1	2.5%
Supporting personnel transfers from central to local government	1,503.6	1.6%
Community development plans' implementation	839.0	0.9%
City planning	102.5	0.1%
Miscellaneous subsidies	136.6	0.1%
Sport facility management	134.6	0.1%
Train fare subsidy	2.0	0.0%
Total	96,402.9	100.0%

Source : Translated NDC meeting minutes 2009

Allocation of transfers across provinces and types of LAO

54. Narrowing the focus of analysis from the total pot of transfers to individual levels of the local administration, it is also useful to consider what resources are being transferred to the different provinces and to different types of LAOs within the provinces. Table 5.6 provides some detail on total transfers per capita to the provincial level, broken down into PAOs, Municipalities and TAOs. It quickly emerges that there is significant variation in per capita transfers across all three types of LAOs, most exaggerated in the municipalities and TAOs. This is at least partly explained by the prominent role of specific purpose transfers, which are allocated using a variety of criteria—for example, some transfers use a per-capita of affected population targeting scheme, while others

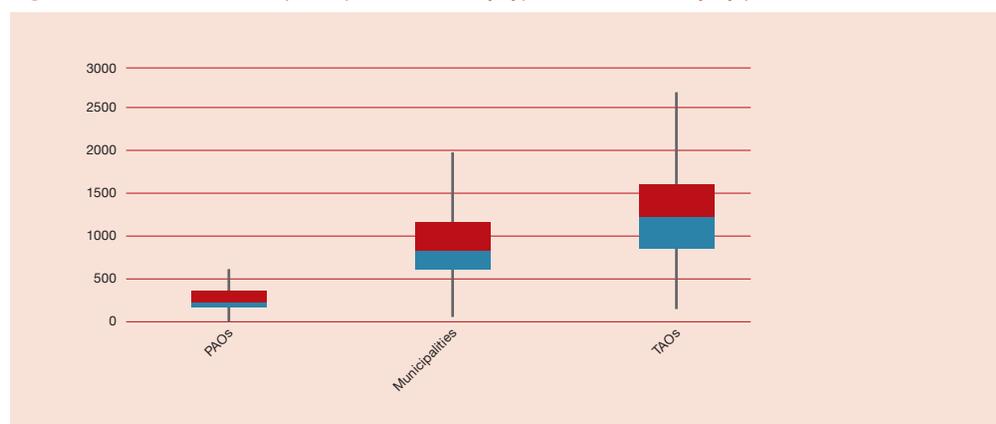
target specific projects, regions or objectives. As such, per capita variation of transfers across LAOs itself does not necessarily constitute a problem. However, it does draw attention to the balance between general and specific purpose transfers—the heavier weighting towards specific purpose transfers, which helps account for the variation in total transfers, leaves less space for local-autonomy promoting general purpose transfers. Furthermore, even within general purpose transfers, formulas are subject to change—the criteria use remain fairly stable (population and equal allocation components), but the relative weighting of these criteria may change depending on the year—thus, some degree of instability exists within the general purpose allocation.

Table 5.6 : Total per capita transfers by type of local authority by province – 2009

Type	Min	Avg	Max
PAOs	5.9	277.5	736.9
Municipalities	65.6	916.6	2,198.3
TAOs	175.9	1,426.8	11,700.5

Source : Local government survey 2010

Figure 5.2 : Variation in total per capita transfers by type of local authority by province—2009



Source : Local authority survey (World Bank)

INTERGOVERNMENTAL TRANSFERS IN THAILAND : AN ANALYSIS

General Purpose Transfers

VAT under Decentralization Act

55. *Sharing of VAT as mandated under the Decentralization Act has several merits...*

It provides significant amount of resources to local authorities in a transparent manner while maintaining a uniform tax base and using the superior tax collection capacity of the central

government. The allocation criteria mostly use fiscal need factors and therefore are expected to have an equalizing impact. It also rewards tax effort by distributing a small percentage of funds as an incentive for enhanced tax effort.

56. *... As well as some important limitations.*

First, the total pool of the program is not defined by law and varies from year to year. This introduces some degree of uncertainty in local planning. Second, both the general purpose subsidy and the VAT transfers programs as currently constituted share the same objectives and the VAT transfers program uses a somewhat more complex formula than the general purpose

subsidy. Rationale for having two separate general purpose programs administered by the same institution- the Central government's National Decentralization Committee – is unclear. Third, combining fiscal need compensation with rewards for fiscal effort in the same formula implies that various factors work at cross purposes and limit the achievement of overall objective of the transfer.

57. **Revenues from VAT surcharges are not shared equitably.** Under current rules, the share of VAT that is distributed to local authorities is based on the tax jurisdiction in which the company selling the good or services is registered, rather than the jurisdiction in which transaction takes place. This creates a bias in

favor of major urban centers where company headquarters may be located at the expense of smaller jurisdictions. This inequity could be overcome by allocating VAT share by point of sales or other macro indicators such as consumer expenditures.

General Purpose Subsidy

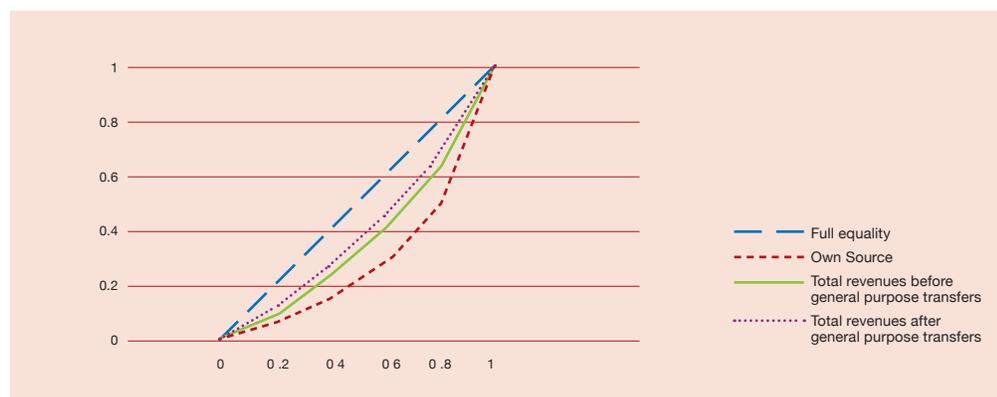
58. The stated objectives of the general purpose subsidy is the same as that of the VAT transfers namely filling the vertical fiscal gap in view of limited revenue raising powers with local authorities while having extensive service delivery responsibilities. The program as currently constituted has important merits. The determination of total pool, as a top up of local resources to bring local authorities' share of net central government revenue to 25 percent, is done transparently and objectively. The program transfers significant amounts of resources to local authorities in an unconditional

manner thereby strengthening local autonomy. Further, the program recognizes the differential responsibilities of various tiers of the local administration especially among provinces, urban municipalities and rural local self-governments and attempts to take this into consideration in allocation criteria. Thus the allocation criterion for provinces is justifiably at variance with other types of local authorities. Allocation criteria are simple, objective and transparent - this represents a departure from more complicated formulae in practice in other countries.

59. The program uses mostly need factors and has very little equalization impact if equalization is simply defined as equal per capita revenues per jurisdiction. Traditionally equalization is defined in terms of the ability of each jurisdiction to provide reasonably comparable level of public services at reasonably comparable levels of tax burdens. This concept however could not be implemented here due to data limitations. The simpler concept used here is, however, consistent with the concept used under the German Fiscal Equalization program. Figure 5.3 presents a Lorenz curve which looks at the cumulative distribution of revenues across provinces divided into quintiles. From the curve, we see that the equitable distribution of local revenues improves from own source to own-source and shared source revenues, and then

improves only very slightly more when general purpose transfers are added to the total. Under the German equalization system all states must be brought up to at least 92.5% of national average standard in per capita revenues. The Thai program as depicted in Figure 5.1 falls far short of such a standard. Figure 5.6 suggests that there is only a weak negative relationship between GPP per capita and general purpose transfers per capita. Figure 5.8 (presented later) also suggests that when looking at total transfers across different orders of government, both PAOs and municipalities demonstrate a positive relationship between GPP and total transfers. As such, our analysis suggests that general purpose transfers have only a very modest impact on equalization across provinces.

Figure 5.3 : Cumulative distribution of local revenues per capita across provinces including general purpose transfers (2006)



Source : CGD 2009, Staff Calculations

The program also faces the following limitations:

- **Deficit grant component may have adverse incentive effects.** 5 percent of the general purpose transfer is used to finance deficits of local authorities. International experience has shown that such grants typically encourage higher and higher deficits into future.
- **Fiscal capacity indicator in provincial grant allocation rewards richer provinces.** Provincial allocation criteria distributes 10 percent of the funds by nominal GDP. Therefore it provides a reward (albeit small) to richer provinces. This neither serves the gap filling or equalization objectives – the two objectives frequently stated for the general purpose transfer program. If on the other hand, grant funds were to vary inversely with the per capita GDP, then it would at least partially address the equalization objectives.
- **Weighty equal per capita component discourages municipal consolidation.** Equal per jurisdiction grant component distributes 35 percent of grant funds to municipalities and TAOs. Economic rationale for this component is that all local authorities regardless of size require a minimum size of general administration. This argument, however, has to be weighed against some perverse incentives introduced by this component. First, municipalities and similarly TAOs vary significantly by population size and service area and therefore minimum size of general administration should incorporate these considerations. Second, and more importantly, a large weight (35 percent) of equal per jurisdiction component, would vitiate against municipal consolidation – the importance of which reforms in Thailand are identified in section 2. International experience has shown that such a component creates incentives for municipal fragmentation. Brazil had 3,000 municipalities prior to the introduction of equal per municipality component in its general purpose transfers. Now Brazil has more than 5,000 municipalities – (Rezende, 2007) most of these as a result of breakup of existing jurisdictions. Some would argue that such a concern in the presence of appropriate legal framework for redrawing municipal boundaries would be of minor significance. Brazil suggests otherwise, as it has had such processes in place but local politicians could not resist the temptation of receiving higher levels of transfers through the breakup of existing units.
- **Limited achievement of equalization objectives.** Thailand has large fiscal disparities across provinces (see table 5.7). Bridging this economic divide is an important policy goal of the Government of Thailand. While the grant allocation formula is equalizing, its impact is quite small as shown by Figure 5.1. Table 5.8 further shows that grant funds vary positively with most fiscal capacity indicators and negatively with the poverty related needs indicator. This is contrary to the objectives of this grant program.

- **Lack of special attention to poverty stricken areas.** Table 5.8 shows that general purpose transfers are negatively correlated with local incidence of poverty as the Spearman's rank correlation of these transfers with the poverty index is negative and significant.
- **Size of the pool is inadequate to meet the ambitious objectives of the program.** The general duty transfer amount to 8.3% of revenues and is a much smaller program than the VAT sharing. Given the small pool of resources devoted to this program, expected of this program regarding equalization may be quite unrealistic.

Table 5.7 : Fiscal disparities between provinces

Type	Min	Avg	Max
Own source revenues per capita (2006)	78.0	355.9	2,150.7
Shared source revenues per capita (2006)	280.1	1,444.5	4,905.0
GPP per capita (2008)	31,431	132,954	1,202,042

Source : CGD 2009

Figure 5.4 : Per capita general purpose transfers and own source revenues

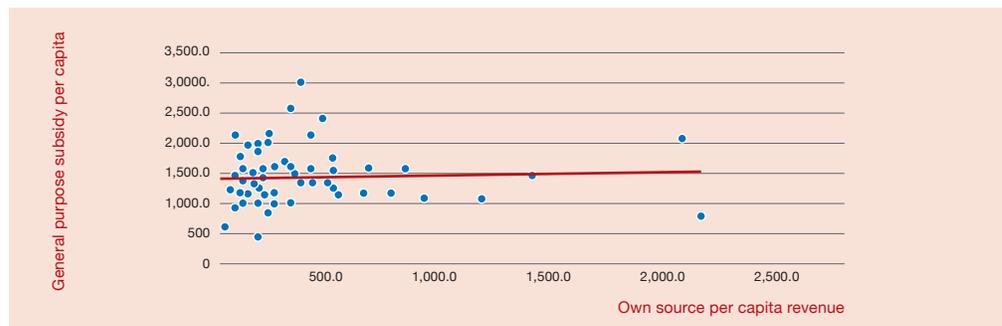


Figure 5.5 : Per capita general purpose transfers and shared source revenues

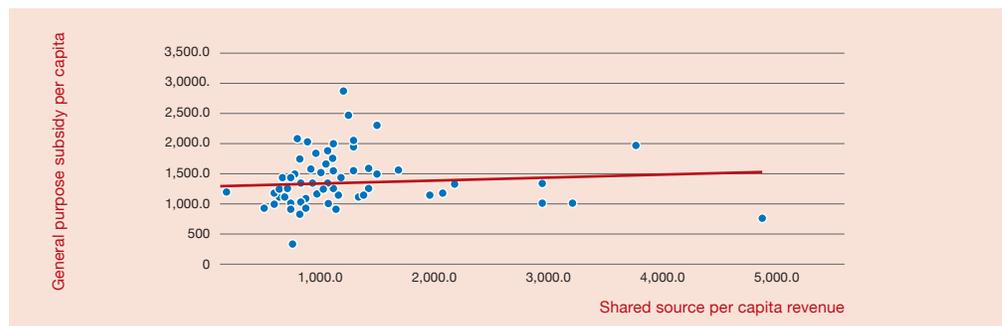
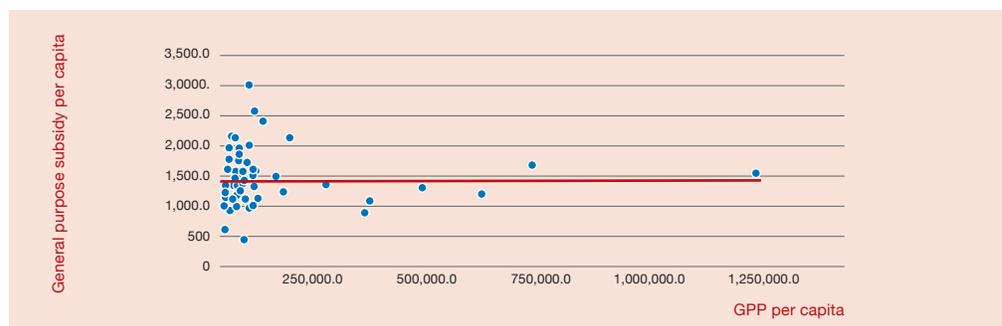


Figure 5.6 : Per capita general purpose transfers and GPP per capita



Source : CGD 2009, Staff calculations

Table 5.8 : General purpose transfers in relation to other indicators

Spearman rank correlation coefficients between per capita general purpose transfers				
	All provinces (N = 76)		Provinces excluding BMA (N = 75)	
Per capita GPP	0.181	*	0.222	*
Per capita own source revenues	0.185	*	0.229	**
Per capita shared source revenues	0.369	***	0.421	***
Per capita own source + shared source revenues	0.354	***	0.405	***
UNDP Human Achievement Index poverty incidence	-0.527	***	-0.521	***

Source : CGD 2009, UNDP 2007, Staff Calculation

Specific Purpose Transfers

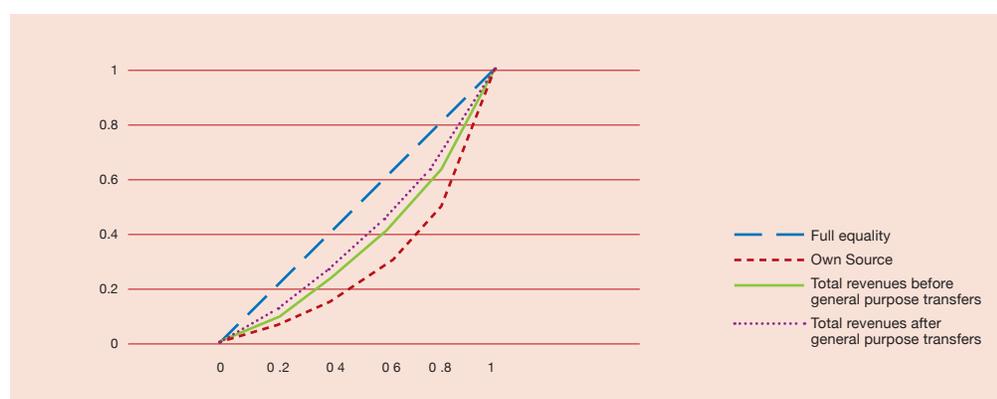
60. Specific purpose transfers in Thailand provide financing to local authorities for centrally mandated programs. With few exceptions, overall objectives of these programs are to

ensure that central mandates in education, health and social welfare are fully funded and do not impose additional tax burdens on local residents.

61. Financing is provided mostly on non-matching per capita basis for the service population. A notable exception is the Environmental Action Plan which is matching grant program with 90 percent of the funding provided by the center and the remaining 10 percent raised locally. The purpose of this

small match is to induce local ownerships of these programs. In aggregate these programs have a small positive impact in equalizing local revenues across various provinces as shown by Figure 5.2. The specific purpose transfers as currently constituted have a number of drawbacks.

Figure 5.7 : Cumulative distribution of local revenues per capita across provinces including specific purpose subsidies (2006)



Source : CGD 2009, Staff Calculations

Specific purpose transfers limit local autonomy. Specific purpose transfers account for about 51 percent of central transfers and 27.5 percent of local revenues (see table 5.1). This implies that slightly over a quarter of local expenditure are directly controlled by the central government. For these expenditures, local authorities simply act as a deconcentrated arm of the central government. If carefully designed, output-oriented specific purpose transfer can improve accountability for the delivery of nationally identified priorities while still allowing for local autonomy in the pursuit of these objectives, the input-control oriented nature of current specific purpose transfers leaves little room for local autonomy. In view of the large presence of central government in deconcentrated field offices, the immediate need for such local mandates is unclear, especially when local authorities are afforded little flexibility in the implementation of most of the programs.

- **Specific purpose transfers have the potential to undermine local priorities.** This may well be the objective of national programs where such programs receive lower rankings in local priorities. However, it appears that education, health and social services are high local priority as well. In that event, central mandates could override alternate possibly more cost effective locally designed programs that would have to be fully financed by local authorities themselves.
- **Specific purpose transfers are not well targeted to poorer local jurisdictions.** In terms of their aggregate impact, specific purpose transfers vary directly with fiscal capacity and inversely with fiscal need factors although the latter correlations are quite weak (see Table 5.9).

Table 5.9 : Specific purpose subsidies in relation to other indicators

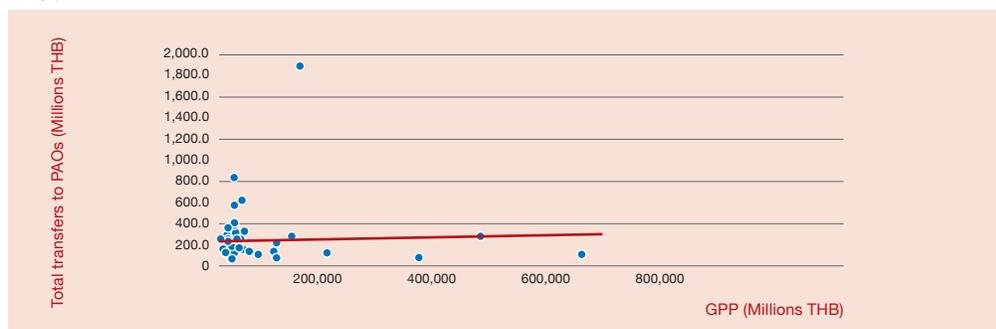
Spearman rank correlation coefficients between per capita specific purpose subsidies :		
All provinces (N = 76)		
Per capita own source + shared source revenues	0.514	***
UNDP Human Achievement Index-Health index rankings	0.176	*
UNDP Human Achievement Index - Education index rankings	0.307	**

Source : CGD 2009, UNDP 2007, Staff Calculation

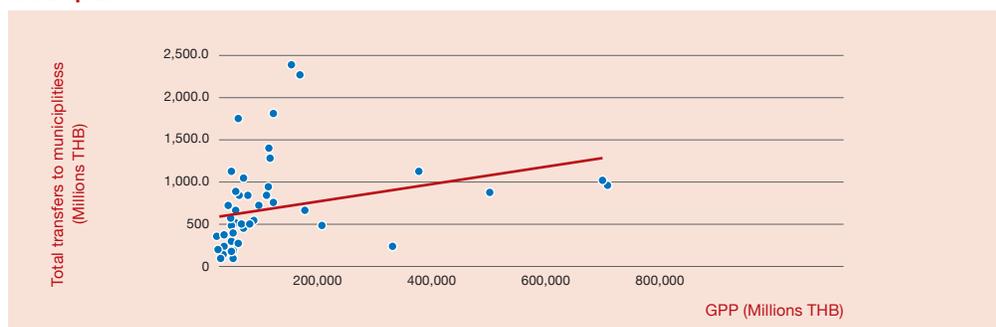
- **The design of these transfers is not linked to accountability for results.** In their design, specific purpose transfers are focused on input conditionality and therefore expenditures of local authorities are subject to monitoring and audit but the design provides no incentives for service delivery performance.
- **Uniform matching of environment programs could disadvantage poorer local jurisdictions.** While the matching rate is quite small and should not pose significant burdens on poorer local jurisdictions provided the assisted environmental protection program is of high local priority. If on the other hand, the program is primarily of national importance, local council may see even a 10% burden too onerous.
- **Limited focus on setting national minimum standards in social services and infrastructure.** Specific purpose transfers can play an important role in creating a level playing field across the nation by setting national minimum standards for social services and infrastructure. Thailand has wide divergence in these standards and major infrastructure deficiencies in various local jurisdictions. These concerns, however, are inadequately addressed in current transfers.

Figure 5.8 : Distribution of transfers across type of LAOs

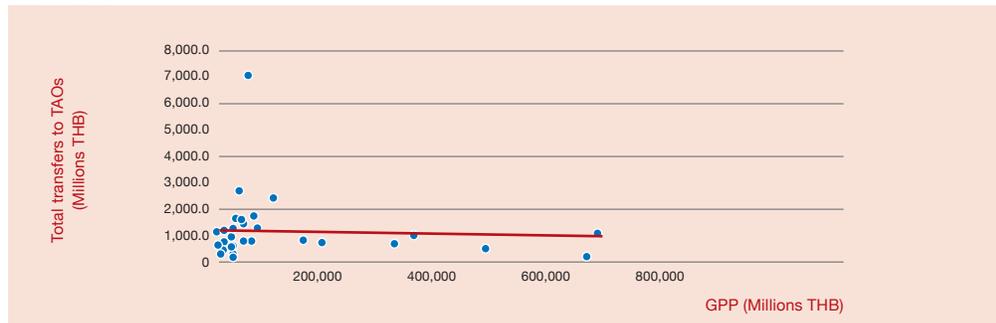
PAOs



Municipalities



TAO/SAOs



Source : NESDB 2010, LAO survey (World Bank)

Reforming Intergovernmental Finance in Thailand: Possible Options

Reform of General Purpose Transfers

(a) To provinces

62. The allocation criteria to the PAOs are relatively well structured. Given the less-important role PAOs are intended to play in service delivery, the share received (10 percent) is appropriate—additional share could further exacerbate risks of overlapping service responsibilities between regional and local governments. Furthermore,

the regional coordination functions intended to be performed by PAOs are best carried out using a medium-term planning framework; thus a simple, predictable and transparent allocation criteria such as is used for general purpose transfers is an important achievement. It is suggested, however that weight for equal

allocation component may be decreased to 20 percent and that for population component may be increased to 50 percent – in order to address the issues presented earlier. In addition, provincial per capita GDP component allocation may be made to vary inversely with the nominal GDP as opposed to positively, as is currently

the case. This may be achieved by making the funds for this component available only to provinces that have below provincial average per capita GDP. Total pool for provinces may be a fixed percentage of central revenues – say 1 percent of total.

(b) To urban and rural municipalities

63. The previous section highlighted a number of concerns relating to the two general purpose transfers, including the adverse incentives of deficit grants. Also the total pool for the VAT transfers is not fixed and for the general duty transfer it is determined as a residual and is relatively small. The allocation criteria also

embody fairly high weight for the equal allocation component limiting the positive impact of population factor on equalization. To overcome these limitations, there are various options that should be examined closely for their implementation in Thailand.

Option 1: Comprehensive Fiscal Equalization Program.

64. The Decentralization Committee of the Government of Thailand has made equalization as the primary objective of such a program and has shown an interest in implementing a comprehensive fiscal equalization program that includes both the fiscal capacity and fiscal need equalization components. The impetus for this objective emerges in the fiscal disparities noted

above, supported by the finding of greater central and local spending in richer provinces than poorer that was revealed in this PFMR's chapter on benefit incidence, widening existing fiscal gaps. The objective under a comprehensive fiscal equalization program is to help address some of these inequality concerns.

65. A formal fiscal capacity equalization program, the so-called representative tax system approach, is justified when local government has independent access to a wide array of productive tax bases on which they levy own rates. In Thailand, local access to independent tax bases is weak or almost non-existent, most of the tax bases are determined by the central

government and most productive tax bases are taxed by the central government on its own behalf and on behalf of local authorities. Thus the tax bases are uniform with minor divergence of rates. In such a situation, results from representative tax system would not be very different those simply using a simpler approach of equalizing per capita revenues.

66. While justified in theory, a formal program of fiscal need equalization for Thailand would be difficult to implement in practice. Determining expenditure needs based on past data is a cumbersome and a highly controversial topic even when using state of the art quantitative techniques. For Thailand, many difficulties exist. Accurately calculating differential expenditure needs of nearly 8,000 local authorities, even

if reliable data were to be made available, would be a daunting challenge. A more realistic approach to achieving fiscal need equalization in Thailand could be through the use of output-based specific purpose transfers for merit goods. Such transfers preserve local autonomy and enhance local accountability while achieving equalization objectives as discussed in the following sub-section.

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Option 2: Refining the existing allocation criteria.

67. A simpler approach for improving the equalization performance of the transfer system is to refine existing allocation criteria. This has the benefit of retaining the strengths of the existing system, namely transparency and predictability, but tailoring formulas to better target reduced fiscal inequality. As discussed above, some two thirds of the general purpose transfer as currently constituted is allocated on a per capita basis (approximately 65 percent), with the remaining 35 percent allocated equally amongst municipalities and sub-districts. Increasing the size of the pool and re-weighting the allocation criteria more heavily towards a per

capita scheme should both reduce the incentive for fragmentation as well as increase the equalization impact of the transfers. Total pool. It is suggested that the total pool be defined by combining the existing VAT transfer and General Duty transfer programs, and defining that combined pool in law as a fixed percentage (say 10 percent) of total central government revenues. The pool may be divided among urban and rural municipalities based upon their relative population size. Note that current deficit grant components should be eliminated altogether.

(a) Allocation among urban municipalities

Allocation criteria : Equal allocation -10 percent weight; Equal per capita by size class of municipalities – 90 percent weight. Municipalities should be grouped by population size class as follows:

Population size class : 0-25,000, 25,000-50,000, 50,000-75,000, 75,000-100,000, 100,000-250,000, 250,000-500,000, 500,000-1 million, over 1 million

(b) Rural municipalities

Allocation criteria : Equal allocation -10 percent weight; equal per capita allocation 70 percent weight; equal per square kilometer of service area – 20 percent weight.

Hold Harmless clause. As the new formula is implemented all local authorities will receive at least the amount received in the previous year.

Stability clause. In the event of a decline in central revenues, total pool available for general purpose transfers will not be less than the pool in the previous year.

¹⁰Thailand PFMR Discussion Paper 2: Distributive Analysis of Fiscal Policy

Predictability clause. The formula will be frozen for a period of five years and revisited in the last year of operation for renewal.

Sunset clause. The total pool and the allocation formula will be operational for a period of five years and renewed after a review for subsequent 5-year period. No modification of the formula in the interim will be allowed.

68. The above suggestions are intended to preserve the simplicity, transparency and objectivity of existing criteria while improving

its equalization impact and enhancing predictability and stability of grants as a source of local finances.

Specific Purpose Transfers

69. Specific purpose transfers in Thailand are primarily motivated by a desire to set national minimum standards in social services. As noted earlier, current design of these transfers simply serves to deliver central mandates and is intrusive while at the same time lacking any effective incentive mechanisms to ensure local authorities

are accountable to citizens for results in service delivery performance. The redesign of these specific purpose transfers offers important opportunities in strengthening local finances and autonomy while creating an incentive environment that fosters accountability for results.

70. **Capital transfers to deal with infrastructure deficiencies.** This is best done by instituting planning grants based upon the minimum infrastructure standards decided centrally by taking into account availability of funds over the planning horizon. The grants should be awarded to local authorities based upon central planning determination and not on an ad hoc basis by application. Grants should preferably be matching with matching rate varying inversely with the fiscal capacity as

measured by per capita own source revenues. Richer local jurisdictions will be expected to provide a higher matching rate as opposed to poorer jurisdictions. The Indonesian experience may be relevant here, where Indonesia instituted such transfers in the 1970s and 1980s to achieve a network of roads and schools with defined distance from residents. Local authorities were asked to contribute land and decide on location of school buildings.

71. **Output based operating transfers for setting national minimum standards for merit goods (education, health, social welfare and infrastructure).** As discussed above, the universal objectives of specific purpose grants are to promote merit goods and target national priority areas without overly infringing on local autonomy and flexibility. This is an especially important objective in Thailand given the relative weight of specific purpose transfers (more than 50 percent of total transfers). Output

based operating transfer offer the possibility of maintaining national priorities and ensuring minimum standards for merit goods while allowing local authorities the flexibility and autonomy necessary to achieve those objectives in a way best suited to their specific locality, and preserve local accountability to constituents. Thailand may consider instituting half a dozen or so output based block grants. A few illustrative examples are discussed below.

a) ***Output based school grants to encourage competition and innovation in education.***

Output based grants create incentive regimes to promote the results based accountability culture. Consider the case where the national government aims to improve access to education by the needy and poor as well as enhance quality of such education. A commonly practiced approach is to provide grants to government schools through conditional grants. These grants specify the type of expenditures eligible for grant financing as is currently the practice in Thailand, for example, books, computers, teachers' aides etc and also financial reporting and audit requirements. Such input conditionality undermines budgetary autonomy and flexibility without providing any assurance regarding the achievement of results. Such input conditionality, in practice, is difficult to enforce as there may be significant opportunities for fungibility of funds. Experience has also demonstrated that there is no one-one link between increase in public spending and improvement in service delivery performance (see Huther, Roberts and Shah, 1997). To bring about accountability for results, consider an alternate, output based design of such grants. Under the alternate approach, national government allocates funds to local authorities based upon school age population. The local authorities in turn pass these funds to both government and non-government providers based upon school enrollments. Conditions for receipt of these grant funds for non-government providers are that they must admit students on merit and provide tuition subsidy to students whose parents do not have sufficient means to afford such fees. Conditions for the continuation of funds for all providers will be to improve or at the minimum maintain baseline achievement scores on standardized tests, improve graduation rates and reduce dropout rates. Lack of compliance with these conditions will invite public censure and in the extreme case a threat of discontinuation of funds with perpetual non-compliance. In the meanwhile reputation risks associated with poor performance may lead to reduced enrollments and associated reduction in grant funds. There are no conditions on the use of funds and schools have full autonomy in the use of grant funds and retain unused funds. Such grant financing would create an incentive environment for both government and non-government schools to compete and excel in order to retain students and establish reputations for quality education, as in the final analysis it is the parental choice that would determine available grant financing to each school. Such an environment is particularly important for government schools where typically staff have life-long appointments and financing is assured regardless of school performance. Budgetary flexibility and retention of savings would encourage innovation to deliver quality education. Thus output based grants preserve autonomy, encourage competition and innovation while bringing strict accountability for results to residents. This accountability regime is self enforcing through consumer (parental choice in the current example) choice. Such a school financing regime is especially helpful for Thailand where several local jurisdictions are plagued with poor quality of teaching and worse teacher absenteeism or lack of access to education in rural areas. The incentive regime provided by results based financing will create market mechanism to overcome these deficiencies over time.

(b) ***Output based grants for local health financing.*** A similar example of such a grant in health care would allocate funds to local authorities based upon weighted population by age class with higher weights for senior citizens (65 years and over) and children (under 5 years). The distribution by local authorities to providers would be based upon patient use. Minimum standards of service and access to health care will be specified for the eligibility to receive such transfers.

(c) **Output based grants for social welfare.** Such grants would provide matching assistance to local authorities based upon the relevant service population e.g. elderly without care, single mothers, orphans etc. Matching rate would vary with the fiscal capacity of the local jurisdiction with higher matching rate for richer jurisdictions.

(d) **Output based transfers for road maintenance.** Such a grant would be based on classification of roads by types and traffic use and provide per kilometer grants differentiated by the type of road classification. Minimum standards of up-keep service for such roads will be specified and future grant releases will depend upon local authorities certifying those standards are being met and providing information on road conditions and use. Indonesian experience with the use of such transfers in the 1990s is worth examination.

Table 5.10 : Principles and better practices in grant design

Grant objective	Grant design	Examples of better practices	Examples of practices to avoid
Bridge fiscal gap	Reassignment of responsibilities, tax abatement, tax-base sharing	Tax abatement and tax-base sharing (Canada, Finland, Thailand)	Deficit grants, wage grants (China), tax by tax sharing (China, India)
Reduce local/ regional fiscal disparities	General non-matching fiscal capacity equalization transfers	Fiscal equalization with explicit standard that determines total pool as well as allocation (Canada, Denmark, Finland and Germany)	General revenue sharing with multiple factors (Brazil and India); fiscal equalization with a fixed pool (Australia, China)
Compensate for benefit spillovers	Open-ended matching transfers with matching rate consistent with spill-out of benefits	Grant for teaching hospitals (South Africa)	Closed-ended matching grants
Set national minimum standards	Conditional non-matching output-based block transfers with conditions on standards of service and access Conditional capital grants with matching rate that varies inversely with local fiscal capacity.	Road maintenance and primary education grants (Indonesia before 2000) Education transfers (Brazil, Chile, Colombia). Health transfers (Brazil, Canada), school finance, health and social transfers in Finland, “standard cost” allocation criteria in Finland Capital grant for school construction (Indonesia before 2000), highway construction matching grants to states (United States)	Conditional transfers with conditions on spending alone (most countries), pork barrel transfers (USA), ad hoc grants Capital grants with no matching and no future upkeep requirements
Influence local priorities in areas of high national but low local priority	Open-ended matching transfers (preferably with matching rate varying inversely with fiscal capacity)	Matching transfers for social assistance (Canada before 2004, Finland)	Ad hoc grants
Provide stabilization and overcome infrastructure deficiencies	Capital grants, provided maintenance possible.	Capital grants with matching rates that vary inversely with local fiscal capacity	Stabilization grants with no future upkeep requirements

Source : Adapted from Boadway and Shah, 2009

Local Budgeting

72. Local budgeting in Thailand follows detailed guidelines on budget process, budget planning, budget formulation and execution issued by the MOI. Budget planning mandates preparation of both long-term strategic planning as well as preparation of a three-year rolling local development plan. These guidelines impose formal requirements for citizen participation in the budget planning and formulation process.

The guidelines dictate an operating budget format that shows line items by objects (salaries, travel, purchase of equipment etc) of expenditure and revenues by source. The guidelines do not require line item presentation by function, by program or by organizational unit. The capital budget is prepared separately and covers all investment expenditure financed by reserve funds, project grants and borrowing.

73. According to guidelines, the chief executive of a LAO is responsible for preparation of the budget and its presentation for approval to the local council. Upon council's approval, the budget must be ratified by the relevant central government executive who is designated as a supervisor for the respective LAO. If the supervisor declines to ratify, then budget must either be amended following supervisor's comments and resubmitted for his approval, or the decision of the supervisor overturned by approval of the same budget for a second time by the two-third majority of the council. During the fiscal year, any deviation from the budget requires approval from the local council. There are also several fiscal rules in place to ensure fiscal discipline in budget execution. First, there

is a requirement that for all LAOs, a three year moving average of their expenditures must not exceed 97 percent of their gross revenues. Second, personnel expenditures for each LAO cannot exceed 40 percent of total operating budget. Third, procurement for investment expenditures can only take place against available reserve funds at hand. All LAOs take these guidelines seriously and comply fully with the requirements of an orderly and timely budget preparation and execution cycle. All LAOs have fully complied with fiscal rules. In general, the budget process in Thailand has worked well. However, a number of further improvements are desirable in the interest of improving budget transparency and citizen-based accountability (see also Box 6.1).

Box 6.1 : Desirable Features of a Local Budget System

- The budget process is comprehensive, including all fiscal entities associated with or connected to local Government and there are no extra-budgetary funds to interfere with fiscal discipline, transparency, accountability, and the struggle against corruption.
- The budget minimizes the use of earmarked funds.
- The budget is executed as enacted.
- The budget process is annual to maintain control but is part of a multi-year financial framework.
- The budget is based upon realistic forecast of revenues and expenditures.
- The budget serves as a statement of local policy.
- Expenditures are reported by administrative unit and according to basic purpose.
- The budget format is user friendly.
- The budget process is focused on service delivery performance.
- The budget process incorporates incentives for law makers to respond to citizen demand for services and for agencies to economize on the use of resources.

Source : Mikesell (2007), p.27-28

74. **Current budget format is not helpful in either managing local operations or being accountable to local citizens for service delivery performance.** Current line item expenditure by objects budget format is useful for planning and financial control over inputs. It is less useful in setting local priorities as it does not present expenditure by function. But its major limitations lie in its lack of potential to serve as a tool for managerial oversight on operations and its irrelevance as a tool for bottom-up accountability. To overcome these limitations, city municipalities only may be encouraged to gradually over the long term (over the next decade) phase in first program budgeting and ultimately performance budgeting (see Table 6.1 for a definition of the concepts and Table 6.2 for an example from Montgomery County, USA). Doing so will constitute an important movement away from central controls and towards bottom

up accountability. A comprehensive move towards program and performance budgeting for all municipalities can dramatically improve constituents ability to hold local government accountable for spending, as citizens can easily read budget data on quality and efficiency for their government-but more importantly, can benchmark against other similar local governments. In the short run all LAOs may be encouraged to present a unified budget that identifies capital and operating expenditures as well as operations of the extra-budgetary funds are presented as an annex to this budget. All LAOs in the short run may be encouraged to present line item budget by objects of expenditures, as already done but also, by function, by programs and by organizational unit. This will help transparency of the budget as well as provide a better view of the local government operations.

Table 6.1 : Features of alternate budget formats

Feature	Line item	Program	Performance
Contents	Expenditures by objects (inputs/resources)	Expenditures for a cluster of activities supporting a common objective	Presenting a results based chain to achieve a specific objective
Format	Operating and capital inputs purchased	Expenditures by program	Data on inputs, outputs, impacts and reach by each objective
Orientation	Input controls	Input controls	Focus on results (service delivery performance)
Associated management paradigm	Hierarchical controls with little managerial discretion	Hierarchical controls, managerial flexibility over allocation to activities within the program	Managerial flexibility over inputs and program design but accountability for service delivery output performance

Source : Shah and Shen (2007)

Table 6.2 : Montgomery County, Maryland – Solid Waste Services

PUBLIC WORKS AND TRANSPORTATION						
PROGRAM: Refuse Collection - Residential	Program Element:					
PROGRAM MISSION: To provide reliable, convenient curbside residential collection in designated areas of the County while achieving a high degree of customer satisfaction						
COMMUNITY OUTCOMES SUPPORTED: Improved environment Enhanced quality of life Healthy children and adults						
PROGRAM MEASURES	FY02 ACTUAL	FY03 ACTUAL	FY04 ACTUAL	FY05 ACTUAL	FY06 ACTUAL	FY07 ACTUAL
Outcome/Results						
Service Quality:						
Number of missed collection complaints	1,686	3,245	2,614	3,135	1,741	3,000
Number of other customers complaints	507	652	485	650	422	600
Complaints per 1,000 households served	6.0	7.7	5.7	7.6	4.9	6.9
Efficiency						
Average cost per household served (\$)	60.03	63.02	63.08	62.79	57.73	63.05
Average cost per ton collected (\$)	68.74	67.75	64.51	73.75	61.87	63.07
Workload/Outputs:						
Number of households served	84,788	85,085	85,034	85,192	86,252	86,410
Tons of refuse collected	74,044	79,153	83,158	72,531	80,472	86,382
Number of service requests	23,492	26,529	25,005	24,300	24,414	25,000
Number of calls for information	10,118	9,482	8,678	9,650	6,621	10,000
Inputs:						
Expenditures (\$000)	5,090	5,362	5,364	5,349	4,979	5,448
Workyears	12.3	11.9	10.7	11.4	11.7	12.9

Source : Montgomery County Office of Management and Budget 2006

75. *Central government supervisory control over local budget approval undermines local autonomy.* The requirement for central government endorsement is based upon the rationale of assuring that local government follow fiscal rules and do not undertake undue fiscal risks to create liabilities or potential for the central government bailouts. In practice this provision is subject to abuse by the central government officials as it gives them an entry point to reformulate budget consistent with their own rather than local priorities. To overcome

potential for this abuse, supervisory endorsement must be automatic after the lapse of one week upon council's approval unless the supervisor intervenes to identify breach of specific laws and regulations by the local government. In the latter case, local government would be empowered to executive first quarter of its budget pending review of supervisor's observation by the proposed Local Government Supervisory Commission.

Local Public Financial Management

77. Local governments in Thailand operate under clear guidelines for financial accounting and reporting, cash management, procurement and debt management. Local governments are also subject to internal and external controls to ensure integrity of operations. There is also

external audit of all local governments conducted by the Office of the Auditor General (OAG) on a three year cycle. However, actual practice often differs to the issued guidelines. In order to improve local financial management in Thailand, a few of issues require further attention.

78. **Local authorities could increase fiscal transparency by publishing annual financial accounts** with information on budget-to-actual

performance for each service delivery unit and on a functional basis.

79. **Publish public procurement information by unit cost** in order to ensure that there is no cost escalation in the procurement of goods and services --- as this is an indicator of the robustness of the procurement system. In

addition, information on the name of the contractor winning tenders should also be made available to the public as well as be assessable to the Ministry of the Interior and the office of the auditor general.

80. **Smaller LAOs and TAOs do not have the technical capacity to comply with DOLA guidelines.** This requires an active role by DOLA

to build capacity in public financial management for smaller LAOs and the TAOs.

81. **At the present time there is no performance and corruption auditing program for the LAOs. Thai LAOs** are audited by the OAG for compliance with laws and regulations (compliance audit) and for having adequate internal controls to ensure the quality of accounting information and financial reporting (financial audit) but are not audited for value for money-ensuring the best use for taxpayers monies in delivering services or to detect corruption (performance and corruption audits). For external compliance and financial audit, complete coverage on a three year cycle is probably unnecessary. In any case, such audits are ill suited to discover waste, mismanagement

and corruption in the use of public funds. It may be better to require LAOs to submit commercially audited financial statements on a yearly basis within three months after the end of the fiscal year as part of the pre-requisite for continuing to receive central grants as done in Brazil and most industrial countries. However OAG may conduct a desk review of 100 percent of externally audited financial statements but focus on comprehensive audits in any given year of only 1-5 percent of LAOs selected using a stratified random sampling approach and applying performance and corruption audit techniques. The results of these audits should be made publicly available.

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LOCAL BORROWING

82. Capital finance needs of local authorities especially in urban areas in Thailand are quite large and are likely to remain so in order to accommodate increasing pressures on infrastructure from urbanization and growth. This point is well recognized in Thai legislation. All tiers of local administration are authorized to borrow from “public and corporate agencies” subject to the approval by the Ministry of the Interior (MOI). In addition, BMA and Pattaya City are authorized to issue bonds subject to clearance from the Ministry of Interior. In practice the clearance from the Ministry of Interior is rarely granted. This reflects one of the key

concerns of sub-national borrowing: the moral hazard issue surrounding the degree of implicit and explicit support provided by the central government in relation to local borrowing, and the question of how to enforce it. Lenders are more likely to lend to even a fiscally irresponsible local government if they believe the central government will bail them out. To this extent, the MOI’s reluctance to sanction local borrowing is understandable. Even the BMA with its bond rating of AA+ from The Thai Rating and Information Service (TRIS) could not receive such clearance from the MOI.

83. Aside from the moral hazard issues involved with obtaining MOI approval for local borrowing, another key question is what the binding constraints are for LAOs to access credit markets, and what can be done to eliminate these constraints. One possibility is a lack of credit worthiness due to limited tax decentralization and uncertainty in grant finance in view of frequent changes in grant allocation criteria. However, in an environment starting from zero borrowing, it is unclear whether these, or other factors, act as key constraints. In part, local borrowing is complicated by uncertainty on the clarity of roles of different institutions. Depending on whether borrowing is explicitly guaranteed by the central government, different institutions may play a role in pricing and evaluating creditworthiness. For example, the PDMO is the most appropriate body to

determine the creditworthiness of LAOs for local borrowing if and where an explicit guarantee is involved-however, this raises additional questions around establishing a clear framework (with criteria, fees, etc.) for granting of explicit central government guarantees. This could further include some type of a fiscal responsibility law which deals with the question of enforcement -for example, punitive measures against irresponsible local administrators. On the other hand, non-guaranteed borrowing from the financial markets, if allowed, should not be approved or analyzed by PDMO; the rating agency (TRIS or other private rating) and lender analysis should be sufficient. The PDMO is currently the process of investigating local borrowing issues in more detail to inform any policy decisions.

84. Infrastructure finance in Thailand is, therefore, primarily based upon reserve funds generated locally from yearly revenue surpluses. Local governments are able to retain 90 percent of yearly surplus as reserve fund and the remaining 10 percent goes as a contribution to a central pool maintained by DOLA of the MOI. The central pool currently stands at about Bt100 billion baht. Local governments can make applications to borrow for a 15 year term at

below market interest rates (currently in the range of 4-8 percent with 4 percent for municipal infrastructure projects and a higher rate of 6-8% for commercial operations) from the central pool. These applications are reviewed by a committee with LAOs and central administration membership and chaired by the MOI. The central pool is laudable but both local revenue surpluses and the central pool leave a large unmet demand for capital finance in Thailand.

85. As noted earlier, local access to credit requires well-functioning financial markets and creditworthy local governments. Although these prerequisites are easily met in industrial countries, traditions of higher level governments assisting local governments are well established in these countries. An interest subsidy to the state and local borrowing is available in the U.S. as the interest income of such bonds is exempt from federal taxation. Needless to say, such a subsidy has many distortionary effects: it favors richer jurisdictions and higher income individuals; it discriminates against non-debt sources of finance such as reserves and equity; it favors investments by local governments

rather than autonomous bodies and it discourages private sector participation in the form of concessions and build-operate-transfer alternatives. Various U.S. states assist borrowing by small local governments through the establishment of municipal bond banks (MBBs). MBBs are established as autonomous state agencies that issue tax-exempt securities to investors and apply the proceeds to purchase collective bond issue of several local governments. By pooling a number of smaller issues and by using superior credit rating of the state, MBBs reduce the cost of borrowing to smaller communities (see World Bank 1996 and El Daher 1996).

86. In Canada, most provinces assist local governments with the engineering, financial and economic analysis of projects. Local governments in Alberta, British Columbia and Nova Scotia are assisted in their borrowing through provincial finance corporations which use the higher credit ratings of the province to lower costs of funds for local governments. Some provinces, notably Manitoba and Quebec, assist in the preparation and marketing of local debt. Canadian provincial governments on occasion have also provided debt relief to their local governments. Autonomous agencies run on commercial principles to assist local borrowing exist in Western Europe and Japan.

In Denmark, local governments have collectively established a cooperative municipal bank. In the U.K., the Public Works Loan Board channels central financing to local public works. An important lesson arising from industrial countries' experience is that municipal finance corporations operate well when they are run on commercial principles and compete for capital and borrowers. In such an environment, such agencies allow pooling of risk, better utilization of economies of scale and applying their knowledge of local governments and their financing potentials to provide access to commercial credit on more favorable terms (see McMillan 1995).

87. In conclusion, the menu of choices available to Thai local governments for financing capital projects are quite limited and available alternatives are not conducive to developing a sustainable institutional environment for such finance. However, as an initial step, the key issue appears to be either establishing a framework where one accepts that a guarantee will always exist - in which case that guarantee should be explicit, and in which case PDMO would always be involved to assess and price creditworthiness, or alternatively pursuing a framework where LAOs are allowed to borrow

without a guarantee, in which case there is no reason to involve PDMO. Given the context in Thailand, the first option appears much more realistic. Tax decentralization is also important to establish private sector confidence in lending to local governments and sharing in the risks and rewards of such lending. It should however be noted that for smaller municipalities and TAOs capital finance may not be viable option at the present time and instead they would have to rely on central capital grants to finance local infrastructure needs.

88. ***The “MOI fund”, described above, is a traditional source of fund for local borrowing.***

The MOI Regulation for the Fund to Promote Municipality’s Affairs (2009) provides broad powers to the MOI in the management of this fund. The fund committee is chaired by MOI’s permanent secretary and is mandated to determine rules and criteria on the fund’s management and administration as well as is authorized to approve loans and budget expenditure of the fund office. The sub-committee of the fund chaired by DOLA’s director general is mandated to scrutinize proposed project loans and provide opinions to the fund committee.

The fund comprises 10 percent of reserves contributed by municipalities, returns on capital donations and others. The fund is deposited and held within a commercial bank. Withdrawals from the fund can only be made under three scenarios; (i) municipalities borrowing with a debt payment schedule limited to 15 years; (ii) investment purposes by the fund office without exceeding 50 percent of gross revenue of the fund; and (iii) operational expenses to the fund office. As of February 2010, capital accumulated under the fund totals Bt 12 billion, of which Bt 10 billion are loans approved to municipalities and Bt 1.9 billion is under scrutiny process.

LOCAL PUBLIC MANAGEMENT

89. Prior to decentralization, Thailand’s system of local public management was highly centralized. After the promulgation of the 1997 Constitution with its focus on decentralization, local public management began to change. In particular, section 284 of the constitution provided for greater local autonomy in personnel management, and section 282 set a number of

guidelines including autonomy over appointments and dismissals of personnel and increasing the share of local representatives in personnel commissions. To meet these constitutional mandates, parliament enacted the Local Personnel Management Act of 1999 which created a new framework for public management by local authorities.

90. Each of these units of local administration operates under their own independently elected council and executive, and each local authority operates their own system of public management with civil servants employed by the local authorities. The civil service workforce is typically divided into four different categories of personnel: loaned central government officials,

constituting approximately 43 percent of the total local civil service, permanent local authority employees at 15 percent, temporary employees at 5 percent and local temporary employees at 37 percent (OCSC 2008). These civil servants perform a variety of tasks, both technical and administrative.

91. On the service provision side, where local authorities have assumed control over schools and medical centers, nurses, doctors and teachers are considered local civil servants and are officially employed and remunerated by the local authority. Local authorities are entitled to appoint officers for all manner of duties, ranging from tax assessment and collection to everyday administration of local programs in infrastructure and quality of life improvement. Local executives are entitled to design organizational structure including manpower planning and budget allocation, control the selection process and appointment as well as supervise probationary periods, approve promotions and transfer personnel as needed. However, it is important to note that while local authorities exercise some autonomy in these areas, the regulations and standards which govern how local authorities go about managing local civil servants are defined by the central administration's Local Personnel Management Standards Commission, and are standardized across local authorities.

This means that while local authorities have autonomy in the above categories, the criteria by which they evaluate and make decisions regarding local public management are passed down by the central administration. This includes fields of responsibility, grades of positions, and salary levels. It also includes criteria by which local personnel are evaluated and the discipline codes aimed at ensuring performance and accountability. Table 8.1 summarizes the role of national and local governments in public management. The central administration sets ceilings for total personnel costs at 40 percent of total local budgets. The Local Personnel Management Standards Commission also directs local authorities to provide for human resource training and for the career development of local officials; however, the central administration set the standards and guidelines for career development, and provides much of the training and capacity development themselves.

Table 8.1: Responsibilities in Civil Service Management

Responsibility	National Government	Local Government
Wage Policy	Sets salary grades across local authorities	Some discretion for merit-based pay increases or bonus within the 40% cap
Wage Expenditures	National budget for national civil service, including civil servants in local administrations (governor, district officer, headman)	Local budget for local civil servants
Job Classification and Standards	National civil service standards and classifications, local civil service standards and classification	
Staff Accountability	National accountability, local accountability	Local accountability
Career Development	National civil service standards and classifications, local civil service standards and classification	Promote local civil service career development, lower level
Recruitment	Approval for national and local administration appointments, sets standards for hiring for local authorities, administers knowledge test for potential candidates for local authorities	Identifies potential candidates for local civil service, hires within centrally defined criteria and standards
Relocation	Within national civil service, within local administration, interprovincial relocation for local civil service	Within a province for local civil service
Training	Nationally defined standards, implementation	Limited local civil service implementation
Pension Scheme	National civil service, personnel transferred to LAO	Local civil service

Source : DOLA 2008

92. In addition to setting regulations and standards for local civil servants, the central administration continues to play a significant oversight role in public management. The Department of Local Administration undertakes a number of responsibilities to ensure that local authorities are using effective and efficient public management in everyday administration. For example, local authorities have to pass an annual public administration assessment by DOLA, where

they are assessed in planning, service delivery, budget execution and disbursement. TAO councils and executives are also subject to the oversight of the centrally-appointed district officer in a number of matters in spite of the relative theoretical autonomy prescribed by the constitution and Decentralization Act. The district officer has a long history of active involvement and prestige in rural settings, and the position is still treated with a great deal of respect and deference.

93. The Decentralization program sought to transfer personnel with resources for the devolved program. It was reasonably successful in achieving both these objectives. Local share of net central government income rose from 10% to about 25% in 2008. During the same period, local share of employment rose from 5% to 17.5% - local personnel size grew from about 57,000 in 1996 to about 242,000 in 2008 (see Table 8.2). This transformation is laudable but does not compare well to a similar transformation in Indonesia where the local government employment share was

transformed from about 12% (486,000 local employees) 76% (3 million local employees) while local expenditure share rose from 17% to 40% in just three years from 1999 to 2002 (see Eckardt and Shah, 2006, p. 263). This lackluster performance can partially be explained by the roadblocks encountered in decentralizing basic health and primary education services – the two most labor intensive local services. The second important reason is the superior security of tenure and employment and retirement benefits offered by central government employment.

Table 8.2 : Personnel by level of government (2008)

Level of government	Number	Percent
Central and provincial administration	1,155,881	82.7%
Local authorities	241,596	17.3%
PAOs	13,909	1.0%
Municipality	95,853	6.9%
Ordinary	70,259	5.0%
Teachers	25,594	1.8%
TAOs	93,334	6.7%
BMA	38,500	2.8%
Ordinary	22,813	1.6%
Teachers	15,687	1.1%
Total	1,397,477	100.0%

Source : OCSC 2008

94. Overall, while there has been some relaxation of central controls over local hiring and firing decisions and significant progress has been made in having adequate staffing at the local level but much more remains to be done. Given that local governments command 25% of revenues, as a rule of thumb, it is expected that they will have a share of public employment at about 37.5% or more due to labor intensive nature of local services. However, such an

indicator of understaffing is faulty in the event local government contract out or have task done by temporary workers. Therefore, we cannot reach any firm judgment on the consistency of local government staffing with their responsibilities as the choice of management paradigm determines the appropriate staffing level. A couple of issues which would benefit from immediate attention are as follows.

95. ***Local government's ability to hire and fire and set terms and conditions for local employment remains constrained.*** Such freedom is critical in delivering local services consistent with local preferences and being accountable to local residents. In Thailand such freedom is bounded due to central government concerns about patronage and corruption at the local levels. However the latter concerns can be addressed by setting eligibility criteria and professional entry requirements such as professional examinations

to qualify for an accounting, auditing or engineering positions. These examinations and standards are best set by relevant national professional associations. Central government may have a regulatory role for these agencies. Beyond this, local government should have complete autonomy in hiring and firing decisions. These decisions should not be subject to review by the central government or its agencies and commissions but would of course remain open to court challenges by individuals.

96. ***As with the central administration, local governments in Thailand make life-long rotating appointments that work against results based accountability.*** The success of local governments in industrial countries is due to the flexibility they exercise in staffing. Staff have specialized task based appointment subject to continuation based upon the continuation of tasks and successful delivery of desired results. Staff have substantial managerial flexibility but are strictly accountable for results in service delivery. Persistent failures lead to termination. Promotion is done on a competitive basis and there is no possibility of rotation to another job within or beyond specific local government. Staffs are compensated for uncertainty in tenure by having better emoluments. This 'managing for results' paradigm should be encouraged in local administration in Thailand. This can be

accomplished by giving each local authority flexibility in local hiring and firing and setting terms of conditions of service. To attract qualified personnel, they may have to offer competitive wages and benefits to selected professionals. In this they should not be constrained by central rules. The central fiscal rule capping local personnel expenditures is desirable and in the long run it may encourage local administration to seek alternative service delivery arrangements for more cost effective delivery of local services. A case can be made for extending the same rule to the central administration. However, the local cap may be raised to 50% to overcome any identified understaffing. Incidentally, Brazil has a similar yet more thoughtful fiscal rule that caps personnel expenditures at 60% for local administration and 50% for state and central administration.

PERFORMANCE MONITORING AND LOCAL ACCOUNTABILITY

97. Good local governance requires local administration to have freedom and responsibilities within a framework of central oversight and local accountability. There are multiple channels of central government oversight over local administration in place in Thailand. DOLA provides guidelines on managerial and service delivery standards, monitors compliance of local government with financial controls, and administers “Local Quality Management” assessments which are intended to serve as tools for organizational development for LAOs. In addition, various central line agencies such as education, health and infrastructure have their own specific reporting requirements from local administration. The National Decentralization Committee monitors progress on a number of performance indicators for its annual awards for local

participation and accountability. Individual LAOs conduct extensive consultation on budget and also have established local monitoring and evaluation committee for local development plans. Beyond government, the King Prajadhipok's Institute (KPI) conducts an annual review of local government performance for its Good Governance awards. Additionally, there is also occasional ad hoc monitoring by the development community in Thailand, including the UNDP and the Japanese International Cooperation Agency. All these efforts are laudable yet they do not yield a meaningful and timely review of the state of local governance in Thailand to inform policy and operational debates. A comprehensive review of existing approaches is warranted to address the following issues.

98. The Department of Local Administration has also developed since 2005 an electronic Local Authority Accounting System (e-LAAS). This is a full enterprise resource planning system for budgetary management. However by 2010 out of 7,853 LAOs only about 1,200 were using this system. Because of this it is not possible for DOLA to provide any consolidated financial reports on performance of LAOs and

thus Thailand is unable to report on general government operations and as well as remains constrained in terms of fiscal transparency at the local level. The importance of data on financial performance of LAOs cannot be understated and efforts are required to establish a functional financial management system that is able to report both disaggregated and aggregated financial performance of local authorities.

99. ***Improving performance monitoring to strengthen local accountability entails focus on two key interrelated objectives: moving from top-down compliance oriented assessments towards basic performance assessments which can be easily benchmarked against similar LAOs and understood by constituents; and strengthening data collection and***

organization in key areas to support making performance information available in a timely fashion. At its core, performance monitoring is a tool to support greater local accountability for service delivery. By focusing on the two areas above, Thailand has the opportunity to re-orient performance monitoring in line with this objective. Specific issues which should be addressed include the following.

100. **Local administration faces a reporting overload but no feedback on benchmarking performance with other LAOs. In spite of this, at the present time central administration has little timely knowledge of the fiscal health and service delivery performance of local government. Central agencies and think tanks have legitimate needs for financial and operational data-such data are essential to inform policy debates and to ensure accountable local governance.**

However, to avoid duplication and overload, a central committee having line agency and LAOs membership may review all such requirements to come up with a plan to collect essential

information in a coordinated manner. To obtain such data one needs to have an appropriate framework of analysis (as an example see Table 9.1) and timely collection, analysis and dissemination of data and analysis. While we have earlier argued for the creation of an Office of Central-Local Relations (OCLR) in the Prime Minister's Secretariat which would be ideally suited to overseeing these efforts, improving monitoring of local fiscal health and service delivery performance need not wait for such an institution. Current efforts under DOLA's LQM program can be refined to provide useful and timely data without requiring a complete overhaul of the system.

101. **Current reporting under DOLA's LQM focuses predominately on subjective assessments of compliance with central regulations.**

Under the current LQM program, LAOs are mostly evaluated on the degree to which they comply with central regulations. Such assessments are highly subjective, and are largely process-focused. Furthermore, they provide little basis for comparison or benchmarking against other local authorities. In order to improve the usefulness of local data collection, the following steps could be taken. LQM forms should be refined to use a simple check list (yes or no) for compliance related items, removing all subjectivity from the assessment. Additionally, basic local service performance indicators should be defined across the range of locally-provided public services. For example, in waste management, LAOs could record the number of days per week waste was collected, and the volume collected. For infrastructure, LAOs could record the kilometers of roads built or repaired. Such indicators would be defined by DOLA in consultation with both central line agencies (especially Education and Public Health) as well as with LAOs themselves. Where LAOs did not provide certain services, fields could

be left blank. LAOs would also be responsible for reporting basic revenues by source, and expenditures by function, creating a complete picture of both the cost of service delivery and the quantity and quality received. Data would be self-reported annually to DOLA, which is already prepared for such a task as it has teams in the field engaged in LQM monitoring work. DOLA would be responsible for consolidating and organizing the data, and making it publically available-this allows for an important accountability check, as local populations can ensure the self-reported data from their governments accurately reflects reality. Data could be simply coded to allow sorting by type of LAO (urban municipality vs rural municipality vs tambon) and by population size (0-25,000; 25,000 to 50,000; 50,000-100,000; >100,000). Doing so would allow DOLA to determine averages for class and size of LAO. Benchmarking would be a simple exercise in looking at deviations from the mean. Additionally, the adoption of tools such as citizen scorecards can supplement this performance data and help to ensure the availability of channels for citizen voice, allowing the public to influence the final outcome of a service through meaningful participation or feedback.

102. *Both top-down and bottom-up accountability is stifled because the financial monitoring and performance measurement systems are unable to consolidate information and disclose publically.* At the moment information on public finances and performance remains fragmented and not systematically consolidated. Without information on public finances, public procurement, and

service delivery, it is not possible for citizens to hold their respective local authorities accountable. This is the most glaring weakness in the current system and one that will be addressed as the systemic issues with the performance monitoring systems are addressed. Therefore accountability remains piecemeal and based on individual accounts and perceptions.

Table 9.1 : A Framework for Accountability at the Local Level

Responsive and fair governance	Responsible governance	Accountable governance
<ul style="list-style-type: none"> • Has subsidiarity and home rule • Has direct democracy provisions • Has budget priorities consistent with citizens' preferences • Specifies and meets standards for access to local services • Improves social outcomes • Offers security of life and property • Offers shelter and food for all • Has clean air, safe water, and sanitation • Has a noise-free and preserved environment • Offers ease of commute and pothole-free roads • Has primary school at a walking distance • Has acceptable fire and ambulance response times • Has libraries and Internet access • Has park and recreation programs and facilities 	<p>Follows due process :</p> <ul style="list-style-type: none"> • The principle of ultra vires or general competence or community governance • The procedure bylaw • Local master plans and budgets • Zoning bylaws and regulations • Funded mandates <p>Is fiscally prudent :</p> <ul style="list-style-type: none"> • Operating budget in balance • Golden rule for borrowing • New capital projects that specify upkeep costs and how debt is to be repaid • Conservative fiscal rules to ensure sustainable debt levels • Major capital projects that are subject to referenda • Maintenance of positive net worth • Commercially audited financial statements <p>Earns trust :</p> <ul style="list-style-type: none"> • Professionalism and integrity of staff • Safeguards against malfeasance • Streamlined processes and e-governance • Complaints and feedback acted on • Honest and fair tax administration • Strict compliance with service standards • Citizen-friendly output budgets and service delivery performance reports • Participatory budgeting and planning <p>Works better and costs less :</p> <ul style="list-style-type: none"> • All tasks subjected to alternative service delivery test—that is, competitive provision involving government providers and entities beyond government • Financing that creates incentives for competition and innovation • Comparative evaluation of service providers • Public sector as a purchaser through performance contracts but not necessarily a provider of services • Managerial flexibility, but accountability for results 	<p>Lets the sunshine in :</p> <ul style="list-style-type: none"> • Local government bylaw on citizens' right to know • Budgetary proposals and annual performance reports posted on the Internet • All decisions, including the costs of concessions, posted on the Internet • Value for money performance audits by independent think tanks • Open information and public assessment <p>Works to strengthen citizen voice and exit :</p> <ul style="list-style-type: none"> • Citizens' charter • Service standards • Requirements for citizens' voice and choice • Sunshine rights • Sunset clauses on government programs • Equity- and output-based intergovernmental finance • Citizen-oriented performance (output) budgeting • Service delivery outputs and costs • Citizens' report card on service delivery performance • Budget, contracts, and performance reports defended at open town hall meetings • All documents subjected to citizen-friendly requirements • Open processes for contract bids • Mandatory referenda on large projects • Steps taken so that at least 50 percent of eligible voters vote • Citizens' boards to provide scorecard and feedback on service delivery performance • Provisions for popular initiatives and recall of public officials • Bylaw on taxpayer rights

Responsive and fair governance	Responsible governance	Accountable governance
	<ul style="list-style-type: none"> • No lifelong or rotating appointments • Task specialization • Budgetary allocation and output-based performance contracts • Activity-based costing • Charges for capital use • Accrual accounting • Benchmarking with the best • General administration costs subjected to public scrutiny • Boundaries that balance benefits and costs of scale and scope economies, externalities, and decision making • Boundaries consistent with fiscal sustainability 	

Source : Shah and Shah (2006, 2007)

SUMMARY : TOWARDS RESPONSIVE AND ACCOUNTABLE LOCAL GOVERNANCE IN THAILAND

103. During the past decade, Thailand has made important steps in moving from a highly centralized regime to a relatively decentralized system of local governance. It has continued on course with this reform agenda in the face of both domestic political instability and the global financial crisis. At this time, the inter-governmental framework remains a system in transition-while some key objectives have been accomplished, achieving the mature system

envisioned by Thailand will require continued refinement of the current institutions, systems and processes. This discussion paper has carried out a comprehensive overview of current efforts with a view to identifying the next steps in completing the desired transformation. International experience suggests that Thailand can keep reforms on track by focusing on the following three key areas.

Resolving emerging tensions within the system

104. In order to ensure a 'seamless' integration of central administration and LAOs the recommendation is to adopt a decentralized unitary model of government which would be consistent with Constitution and strengthen local authorities. Under this model, a centrally appointed governor would assume the position of provincial chief executive for a period of four years. The appointment of the governor would, however, require confirmation by a majority of the members of the Provincial Council. The governor could also be removed by a no-confidence vote of the three-fourth majority

of the Provincial Council. He/she would be supported by a permanent secretary appointed by the Center and confirmed by the Provincial Council. Provincial Council would comprise the elected heads of LAOs in the province and the chair of the council would be indirectly elected by the members of the Provincial Council. All LAO heads with population above 10,000 would serve for the full term of the council whereas LAOs with population below 10,000 would serve on a rotating basis with one fourth represented in any given year.

105. The Provincial Council would have legislative authority on regional functions and providing oversight on the provincial executive headed by the governor. The provincial governor would prepare the provincial budget for approval by the Provincial Council. All legislation approved by the Provincial Council would have the force of the law unless overturned by an act of national parliament or by courts. Local authorities (LAOs) would have wider powers subject to home rule and will be considered equal partners with the PAO comprising Provincial Council and the provincial executive. Central transfers will not pass through PAOs or the Ministry of Interior but will flow directly from the Comptroller General's Department of the Ministry of Finance to individual accounts of local governments. All field offices central line agencies would have dual reporting

and accountability channels – to the central administration as well as the LAOs. The positions of district and sub-district officers would transition to municipal coordination officer and tambon coordination officer. The LAO chief executive would assume the coordinating role with the Center and the PAO and other LAOs. This model of government would also help alleviate tensions by clearly defining roles and responsibilities for regional versus local governments such that they do not inadvertently compete over the same functions. Reviewing and streamlining supervisory controls over local public financial management, local personnel management and local administration will also help to ensure a system that functions more efficiently, subject to the proper checks and balances.

Fragmentation

106. Fragmentation can be another barrier to a well-functioning intergovernmental system. Thailand currently faces some degree of fragmentation in institutional arrangements, fiscal management and local government functions. Thailand has a large number of local government units relative to other decentralized countries, many with populations too small to make service provision economically viable. A blanket approach to devolve responsibilities to local authorities has resulted in fragmentation of local government functions, with smaller LAOs spreading too few resources across too many functions. In particular, the vision of decentralized provision of public health and education expressed in Thai legislation has been fragmented and incomplete remains incomplete.

To keep reforms moving towards the next decade's mature system, reducing this fragmentation constitutes an important task. International experience has shown that the number of local government units may be reduced over time using fiscal incentives to consolidate, altering the general transfer allocation criteria to eliminate the incentive to fragment, and imposing more demanding criteria for local governments to be formed and to operate. The scope of responsibilities for different sizes and type of LAOs could also be refined to ensure that smaller units focus on providing a few key services well-this is especially relevant for the design of health and education decentralization.

Local Accountability and Performance Monitoring

107. In order for local accountability to work, it is necessary to have functioning systems for tracking local financial management and monitoring local service delivery performance. Such information can prove critical to inform policy decisions, ensure good fiscal health and uphold basic minimum service delivery standards at the local level. Thailand's ambitious efforts on data collection can be further refined to yield desired results by consolidating data collection and analysis responsibilities in a single central body. While this could eventually be the responsibility of the proposed Office of Central-Local Relations, refining current LQM efforts under DOLA to remove subjectivity and orient towards key service delivery indicators

would allow for a more meaningful analysis and comparison between different LAOs. Streamlining existing upwards reporting requirements, which currently impose a heavy burden on smaller LAOs, can improve the quality and usefulness of data collected while freeing resources for service provision at the local level. Moving from a process-oriented monitoring system towards an output and outcome oriented monitoring system can strengthen accountability and allow for benchmarking against other local jurisdictions. All these efforts will provide citizens with appropriate information to hold their respective LAO accountable for use of public funds and service delivery.

Towards a mature system

108. The first decade of decentralization in Thailand has seen important strides in bringing services and decision-making power closer to people. As Thailand moves towards the mature system envisioned in the coming decade, our analysis suggests that reducing tensions in the system, minimizing fragmentation, and ensuring

appropriate performance monitoring and data collection systems will help to consolidate reforms. International experience supports the conclusion that refining these key areas will help keep reforms on track as Thailand moves towards truly effective, efficient and accountable local self-government.

**ANNEX 1:
SUMMARY OF ISSUES
AND OPTIONS**

Issues	Options
<p>Central-Local Relations</p> <ul style="list-style-type: none"> • Coexistence of institutions of centralized control with institutions of local self-government leads to complexity, confusion and costly administration—structure is incompatible with constitutional vision of seamlessly integrated unitary government 	<ul style="list-style-type: none"> • Move towards decentralized, unitary system of government comprised of a council of elected executives from local governments fulfilling legislative function with appointed governor serving as executive (subject to council majority approval)
<ul style="list-style-type: none"> • Local governments have limited information and input into central delivery of services at local level 	
<ul style="list-style-type: none"> • Ambiguity in the respective roles of institutions of central-local coordination contributes to slower progress in building capacity at the local level 	<ul style="list-style-type: none"> • Consider consolidating coordination responsibilities in Office of Central-Local Relations (upgraded from NDC), allow DOLA to move towards a more specialized role of a facilitator or enabler as opposed to its traditional role of a manager—focus on capacity building and technical assistance
<ul style="list-style-type: none"> • Strong vision for devolved expenditure assignment in public provision of health care and education in Decentralization Act is unmatched in practice, threatens to undermine legitimacy of decentralization program 	<ul style="list-style-type: none"> • Consider asymmetric approach for public healthcare and basic education provision at local level
<ul style="list-style-type: none"> • Overlap between expenditure assignment of PAO and other local government units 	<ul style="list-style-type: none"> • Clearly distinguish between those functions that overlap between local jurisdictions and which are best dealt with at the provincial level, and those functions which are best dealt with at a municipal or sub-district level
<p>Local Government Organization</p> <ul style="list-style-type: none"> • Local administrations at the provincial level (PAOs) increasingly deliver local functions to the relative neglect of their primary role in delivering regional services 	<ul style="list-style-type: none"> • Implement decentralized unitary government system discussed above (executive council composed of executive heads of lower tiers of government with appointed governor as chair), clearly define roles of PAOs
<ul style="list-style-type: none"> • Unitary governance structure for Bangkok Metropolitan Authority limits voice and choice options for local residents 	<ul style="list-style-type: none"> • Devolve municipal functions to district level while retaining metropolitan-wide functions at upper level of BMA
<ul style="list-style-type: none"> • Local authorities are numerous, small and fragmented with inadequate capacity to deliver local services 	<ul style="list-style-type: none"> • Explore opportunities for municipal consolidation, narrow focus to priority local services • Consider introducing special grant program to provide fiscal incentives for consolidation
<p>Own source revenue and tax sharing</p> <ul style="list-style-type: none"> • Local tax autonomy is weak or non-existent and undermines accountability of local administration to local residents 	<ul style="list-style-type: none"> • Relax constraints, allow innovative financing such as bond financing or public-private partnerships for infrastructure investment • Examine other financing choices such as congestion taxes, environmental taxes, etc
<ul style="list-style-type: none"> • current guarantee for local government net income to equal not less than 25% of total net central government income creates perverse incentives for own source revenue collection efforts 	<ul style="list-style-type: none"> • change to a fixed income target for local government based on total net central government income excluding own source local revenues
<ul style="list-style-type: none"> • Revenues from VAT surcharges may not be equally distributed across municipalities 	<ul style="list-style-type: none"> • Adopt a point-of-sale allocation criteria for VAT surcharges
<p>Intergovernmental Fiscal Transfers</p> <ul style="list-style-type: none"> • Total VAT pool undefined by law and varies yearly, introduces some uncertainty, similar objectives to general purpose transfers • Deficit component of general transfers may have adverse incentive effects • Equalization and poverty alleviation impacts are low • Large share of equal allocation encourages fragmentation • Size of pool makes equity objectives unrealistic 	<ul style="list-style-type: none"> • Consider integrating VAT program into existing transfers, 75 percent to general transfers, 25 percent to per capita specific purpose grants to local authorities with the lowest per capita GPP • Refine urban and rural municipality share by setting total pool as fixed percentage of central government revenues. For urban municipalities, use 10 percent equal allocation, 90 percent share allocated by population size class of municipalities—for rural municipalities, use 10 percent equal allocation, 20 percent allocation based on sq km of service area, 70 percent based on population size class-include hold harmless, stability, predictability and sunset clauses.

Issues	Options
<ul style="list-style-type: none"> • Large share of specific purpose transfers with input conditionality (25% of total local revenues) limits local fiscal autonomy • Limited focus on national minimum standards for service delivery and infrastructure • Transfers are not linked to accountability in results 	<ul style="list-style-type: none"> • Consider replacing specific purpose transfers with input conditionality by less intrusive specific purpose transfers with output conditionality. • Institute capital transfers to address infrastructure deficiencies—grants should be matching, with match varying inversely with per capita own source revenues • Implement output-based operating grants for national minimum standards for merit goods such as public health, education, social welfare and infrastructure—enhance accountability and incentivize performance
<p>Local borrowing</p> <ul style="list-style-type: none"> • Local government’s ability to hire and fire and set terms and conditions for local employment remains highly constrained 	<ul style="list-style-type: none"> • Establish a framework where central guarantees of local borrowing are explicit, and where the PDMO carries out objective assessment of requests for local borrowing
<p>Local public management</p> <ul style="list-style-type: none"> • Local government’s ability to hire and fire and set terms and conditions for local employment remains highly constrained 	<ul style="list-style-type: none"> • Establish a framework where central guarantees of local borrowing are explicit, and where the PDMO carries out objective assessment of requests for local borrowing
<ul style="list-style-type: none"> • As with the central administration, local governments in Thailand make life-long rotating appointments that work against results based accountability • 40 percent cap on wages and benefits may be constraining for some local governments. 	<ul style="list-style-type: none"> • Encourage local governments to make contract based specialized appointments. • Cap on personnel expenditures is theoretically a good idea to minimize the risk of corruption and patronage appointments, but current level of 40 percent may be insufficient to allow space for local autonomy given capacity concerns—consider moving slightly upwards
<p>Fostering Local Accountability</p> <ul style="list-style-type: none"> • At the present time central administration has little timely knowledge of the fiscal health and service delivery performance of local government 	<ul style="list-style-type: none"> • Consolidate responsibility for developing appropriate framework for analysis, performing timely collection, analysis and dissemination of data and policy implications in Office of Central Local Relations • Begin by utilizing DOLA’s LQM, refining system to remove subjectivity in assessment, identifying key indicators across local services to allow for benchmarking • Publish annual report on public finances for local authorities with details of revenues by source and expenditure by category. • Publish procurement information for supplies by service delivery unit for each LAO
<ul style="list-style-type: none"> • Local administration faces a reporting overload but no feedback on benchmarking performance with other LAOs 	<ul style="list-style-type: none"> • Build trust in upwards reporting by eliminating extraneous reporting requirements, keeping mission critical upwards reporting, and demonstrating to LAOs that the data is being used purposefully. Allow open web based access to all for collected information and benchmarked analysis of local government performance.

**ANNEX A.
DETAILS ON CONSULTATIONS
FOR THE DISCUSSION PAPER**

Over the period of this analysis, the authors engaged in a series of different consultations with stakeholders from central and local government, academia and civil society. This served two important functions: first, it provided critical data and information needed for the analysis. Second, it allowed the authors to seek stakeholders views on whether the issues diagnosed were correct, which issues held a higher priority, and how best to go about addressing these issues.

The authors were fortunate to engage in consultations throughout the country, including the Central region (Bangkok Metropolitan Authority, Nonthaburi Province and Municipality), the Northern region (Chiang Mai Municipality), the Northeastern region (Khon Kaen Municipality, Udon Thani Province and Municipality, Ban Chiang TAO), and the Southern region (Surat Thani Municipality). These consultations were typically arranged as roundtable discussions whereby the PFMR team would present some findings to stakeholders and seek their guidance on the accuracy and relevance of the analysis in an open-forum setting. The consultations also typically involved open discussion about appropriate reforms to address the identified issues, and the processes involved for implementing these reforms.

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