

IMPROVING SERVICE DELIVERY



Thailand : Public Finance Management Report



Overview



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The World Bank
30th Floor, Siam Tower
989 Rama 1 Road, Pathumwan
Bangkok 10330, Thailand
(66) 0-2686-8300

www.worldbank.org/th

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Report number : 67486-TH

Cover Photographer : Athit Perawongmitha

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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.

Annette Dixon
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ACKNOWLEDGEMENTS

This Public Financial Management Report (PFMR) was prepared by the World Bank in collaboration with the Royal Thai Government. In particular, the team would like to thank key partners in the Office of the National Decentralization Committee, the National Economic and Social Development Board, the Office of the Prime Minister, the Ministry of Finance, the Bureau of Budget, the Comptroller General's Department, the Fiscal Policy Office, the National Statistic Bureau, the Office of the Civil Service Commission, the Ministries of Public Health and Education, and the Department of Local Administration in the Ministry of Interior. Contributions and collaboration from these departments and agencies are gratefully acknowledged.

The World Bank team was led by Shabih Ali Mohib (Senior Economist, EASPR) and included Anwar Shah (Consultant and former Lead Economist, Public Sector Governance, WBI), Jose Cuesta (Senior Economist, PRMPP), Lucia Madrigal (Consultant, PRMPP), Magnus Lindelow (Sector Leader, LCSHD), Nattaporn Triratanasirikul (Consultant, EASPR), Robert Boothe (Consultant, EASPR), Suhas Parandekar (Senior Education Economist, EASHE), and Sutayut Osornprasop (Human Development Specialist, EASHH). Professor Sakon Varanyuwatana from Thammasat University and Mr. Weerachai Chomsakorn from the Office of the National Decentralization Committee also played key roles in planning, developing, revising and disseminating this work. We also recognize the contributions of Ms. Buntarika Sagarun and Ms. Noppakwan Inthapan (team assistants based in Bangkok).

The team is grateful for the leadership and support of Annette Dixon (Country Director, EACTF) and Matthew Verghis (Lead Economist, EASPR). They are also thankful for their peer reviewers, Vikram Nehru (former Chief Economist and Sector Director, EASPR), Dena Ringold (Senior Economist, DECWD), and Kaspar Richter (Lead Economist, ECSP3).

The team greatly appreciated the opportunity to collaborate with key academic institutions, including Thammasat University, Chulalongkorn University, the King Prajadhipok's Institute, Chiang Mai University, and the College of Local Administration at Khon Kaen University, and is grateful for their support and partnership. Additionally, the team is grateful to have had the opportunity to engage in a number of different stakeholder consultations with locally elected executives and councilors, local government officials, academicians and civil society members around the country. They are grateful to participants in consultations that took place in 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).

ABBREVIATIONS AND ACRONYMS

BOB	Bureau of the Budget
BSP	Budget Strategy Paper
CGD	Comptroller General's Department
DOLA	Department of Local Administration
DOPA	Department of Provincial Administration
e-LAAS	Electronic Local Authority Accounting System
ESA	Educational Service Area
GAP	Government Administrative Plan
GDP	Gross Domestic Product
GES	Government Evaluation System
GFMS	Government Financial Management Information System
HAI	Human Achievement Index
HDI	Human Development Index
LAO	Local Administrative Organization
LQM	Local Quality Management
MOF	Ministry of Finance
MOI	Ministry of the Interior
MTEF	Medium Term Expenditure Framework
NDC	National Decentralization Committee
NESDB	National Economic and Social Development Board
ONESQA	Office of National Education Standards Quality Assessment
PAO	Provincial Administrative Organization
PART	Performance Assessment Rating Tool
PDM	Public Debt Management
PFM	Public Financial Management
PFMR	Public Finance Management Review
PMO	Prime Minister's Office
PMQA	Performance Monitoring and Quality Assurance
RTG	Royal Thai Government
TAO/SAO	Tambon/Sub-district Administrative Organization
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

ADDRESSING REGIONAL DISPARITIES IN ACCESS TO PUBLIC SERVICES IS AN EMERGING DEVELOPMENT CHALLENGE FOR THAILAND

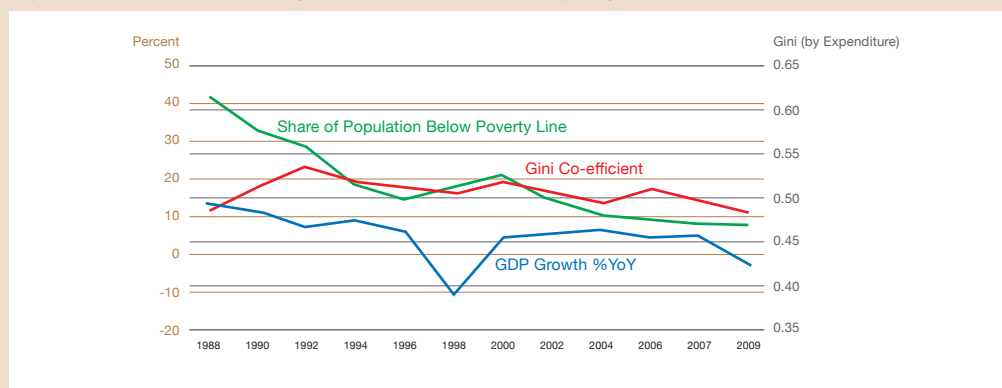
Addressing regional disparities in access to public services is an emerging development challenge for Thailand. A well-functioning system of Central-Local Government Relations and proactive expenditure policy can help achieve this goal. Providing responsive and accountable public services are necessary for maintaining trust of the citizens in government and fostering cohesion within a unitary state like Thailand. Without a reversal of current regional disparities in access to public services and addressing tensions that are present in the central-local architecture, Thailand runs the risk of eroding public trust in government and leading to further polarization. Thailand has a significant opportunity to improve delivery of public services by: (i) making access to public services more uniform across the country; (ii) transitioning fully to a unitary decentralized form of government with clearly demarcated roles and accountability structures between different levels of government (especially within health and education sectors) and to administratively consolidate LAOs into larger more financially viable entities; and (iii) establishing national service delivery standards, publishing annual performance reports on these benchmarks along with unit costs of standard goods and supplies procured, and publishing reports on operations at the municipal level.

GROWTH, POVERTY REDUCTION AND INEQUALITY

Over the last two decades Thailand has experienced sustained economic growth which has contributed to a dramatic reduction in poverty. However, inequality at the national level has remained constant (Figure I). The average annual real GDP growth rate over has been about 5.1 percent, with the poverty rate falling from more than 40 percent in 1988, to less than 10 percent by 2009. However the inequality rate, as measured by the GINI index, has remained static – 0.49 in 1988 and 0.48 in 2009.

Poverty and inequality in Thailand are not uniformly distributed across the country. In spite of the significant declines in poverty rates at the national level over the past decade, regional differences persist, with the poverty rate in the Northeast being five times higher than in Bangkok.

Figure I : GDP Growth, Poverty Reduction, and Static Inequality



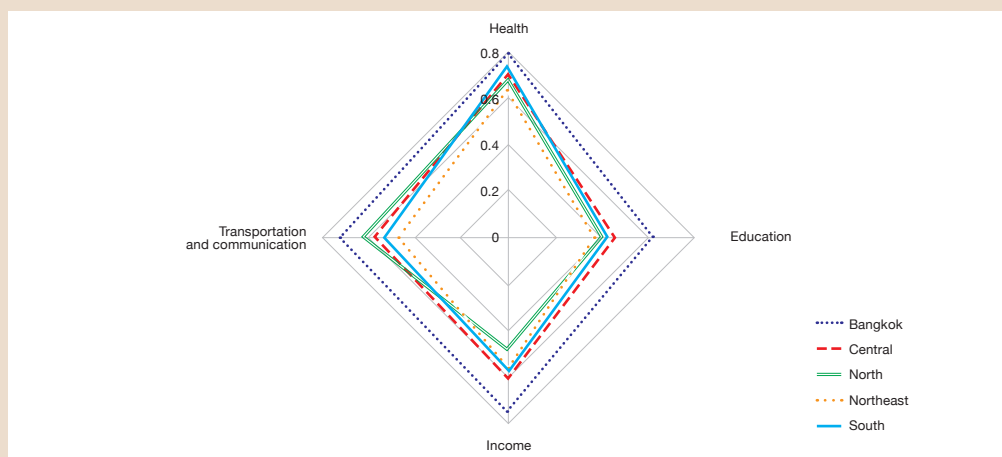
Source : National Economic and Social Development Board (2011)

WHILE THAILAND'S SUSTAINED ECONOMIC GROWTH HAS CONTRIBUTED TO A DRAMATIC REDUCTION IN POVERTY, INEQUALITY HAS REMAINED STATIC

Thailand also has significant regional income disparities. Between 2000 and 2009, income inequality (as measured by the regional GINI index) in Bangkok and the Northeast has increased while in other regions inequality has decreased. This regional dimension has kept the national income inequality level unchanged.

There are also significant regional disparities in human development and economic opportunities in Thailand. Examining the four indices of the 2009 UNDP Human Achievement Index (HAI) that relate to service delivery (health, education, income, and transportation and communication), we see that on each dimensions Bangkok performs much better than other regions, while the Northeast region lags on health, education and transportation/communications indicators (Figure II). The North lags most on the income dimensions.

Figure II : Regional Comparison on Selected Components of the UNDP Human Achievement Index



Source : UNDP Thailand Human Development Report 2009

THERE ARE SIGNIFICANT REGIONAL DISPARITIES IN HUMAN DEVELOPMENT AND ECONOMIC OPPORTUNITIES IN THAILAND

Such a growth, poverty, and inequality trajectory is not specific to Thailand alone. International experience shows that as economies grow from low to high income, production tends to become more concentrated spatially. Some places – cities, coastal areas, and connected countries – are favored by producers and hence production becomes concentrated. Concentration of economic activities leads often to concentration of services and resulting regional disparities.

International experience further shows that as countries develop, the most successful ones institute policies that make living standards of people and access to public services more uniform across space (World Development Report 2009: Reshaping Economic Geography).

As such, a key question for Thailand is what steps can be taken to help make living standards, economic opportunities and access to public services more equitable across the country.

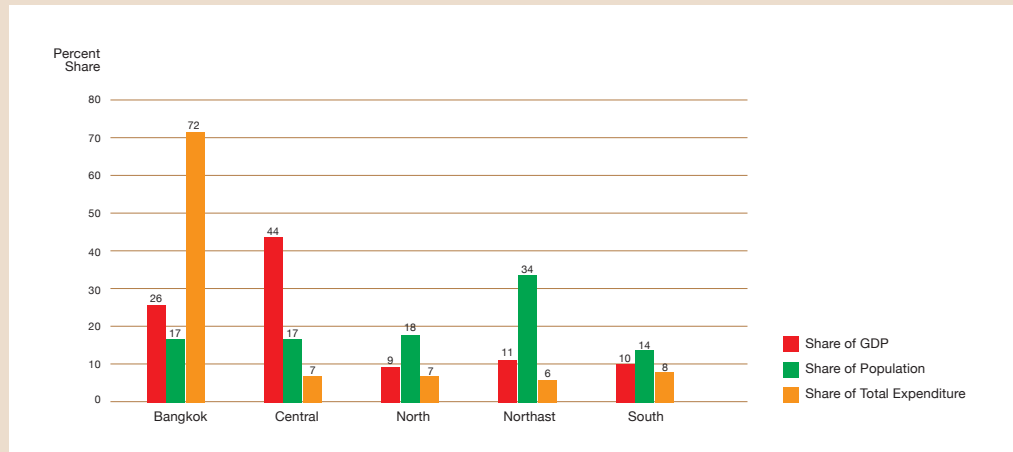
EXPERIENCE SHOWS THAT AS COUNTRIES DEVELOP, THE MORE SUCCESSFUL ONES INSTITUTE POLICIES THAT MAKE LIVING STANDARDS AND ACCESS TO PUBLIC SERVICES MORE UNIFORM ACROSS SPACE

MAKING ACCESS TO PUBLIC SERVICES MORE UNIFORM ACROSS THE COUNTRY

As the economy has grown over the past three decades, production has become more concentrated in the central region and in Bangkok possibly due to proximity to the port and related supply chains. As production has become concentrated, the government has made infrastructure investments and provided social and ancillary public investments to support the productive sectors. In addition, as Bangkok is the administrative capital of the unitary government and the major capital city, most of the administrative and planning functions have been centralized there. As a result there has been a concentration of public spending in Bangkok (see Figure III).

PUBLIC SPENDING IS CONCENTRATED

Figure III : Regional Comparison – Expenditures, GDP, and Population (2010)



Source : MOF, NESDB, and World Bank

WHILE MOMENTUM OF EXPENDITURES ARE A PARTIAL EXPLANATION FOR THIS CONCENTRATION, THE EXTERMELY SMALL COMPONENT OF THE INTERGOVERNMENTAL FISCAL TRANSFER SYSTEM IS ANOTHER KEY FACTOR

Figure III shows that although Bangkok accounts for about 17 percent of population and 25.8 percent of GDP, it benefits from about 72.2 percent of total expenditures. This is in sharp contrast to the Northeast which accounts for about 34 percent of population and 11.5 percent of GDP, but received only 5.8 percent of expenditures. Even correcting for the fact that Bangkok is the administrative capital for the country, such concentration of expenditures is extreme.

Service delivery disparities mirror expenditure disparities. In the health sector there are three times more doctors per capita in Bangkok than in other regions. While in the education sector the teacher per student ratio is much lower in the North and the Northeast than Bangkok and the central region. These disparities are correlated to human development outcomes.

Analysis points to two main reasons for the observed concentration of expenditures: (i) momentum of expenditures – concentration of economic activity requiring concentration of investments in infrastructure and education and health facilities in the Bangkok and the central region. Now these need to be maintained, leading for little fiscal space for other expenditures; and (ii) the equalization component of the intergovernmental fiscal transfer system is very small – out of total grants from central government to the local government of TBH 174 billion, a mere 3.7 billion were set aside for equalization purposes in 2011.

THE GOVERNMENT COULD CONSIDER REFOCUSING EXPENDITURE POLICY ON SERVICE DELIVERY DEFICIENT REGIONS TO BRING THEM UP TO BANGKOK'S STANDARD, AND INCREASING THE EQUALIZATION COMPONENT OF THE INTERGOVERNMENTAL FISCAL TRANSFER SYSTEM

As Thailand continues to develop, production will probably continue to be concentrated in Bangkok and the central region. The key policy challenge however will be on making access to public services more uniform across the country – both in terms of quantity and quality.

In order to accomplish this task the Government could consider:

Refocusing expenditure policy towards regions that are deficient in terms of service delivery, with the aim of bringing them up to the Bangkok standard; and

Increasing the equalization element of the intergovernmental fiscal transfer formula from 2 percent to at least 15-20 percent of total transfers

MAKING PUBLIC SERVICES MORE EFFICIENT

The 1997 Constitution brought in reforms aimed at decentralizing service delivery responsibility and finances to local authorities. These reforms were intended to make public services more efficient and lead to increased public participation in decision making at the local level, and enhance local economic development.

Over the last decade the decentralization reforms have led to a significant increase in the share of finances held by Local Administrative Organizations (LAOs) – from 8 percent of general government revenues in 1999 to 26 percent by 2011. However, there has been limited progress with decentralizing service delivery. There are essentially three key reasons for this:

Firstly, although the government has established new institutions of local self government, it has not rolled back the deconcentrated arms of the central government. Deconcentrated arms of the central government have continued to perform traditional command and control functions over local authorities and there is little effective autonomy for LAOs to decide on service delivery.

Secondly, decentralization reforms have not been coordinated with sectoral service delivery reforms conducted by central government agencies. The lack of clearly delineated responsibilities between central-government and LAOs, and no coordination between sectoral reforms and decentralization reforms have led a reform-flux with agencies responsible for decentralization are trying to decentralize ownership of health and education units, while central government agencies have been trying to retain control of these units and to improve service delivery. Lack of coordination has resulted in significant tension in service delivery.

Thirdly, Thailand has too many small LAOs which are financially too small to provide public services. Out of the 7,854 local authorities more than 3,000 have populations of less than five thousand. In such LAOs, a large share of resources is spent on administration instead of public services. In addition, such small LAOs makes effective coordination by central government agencies very difficult and burdensome.

These three issues are making the provision of services at the local level less efficient and administratively expensive.

In order to address these three key issues, the government is recommended to consider three actions:

Transition to a unitary decentralized government structure in order to address tensions in the central-local government relations system. This can be most simply achieved by rolling back the deconcentrated arms of the central government at the provincial level and linking LAOs directly with line and sector agencies—for example, the Ministry of Finance and Bureau of the Budget on budgeting issues, and sector ministries on service delivery issues. The role of the Department of Local Administration at the Ministry of the Interior should transition from command and control to facilitation and coordination. The pace of the roll-back should be calibrated with measures aimed at strengthening capacity of LAOs and could first be piloted for municipalities.

This proposed decentralized unitary form of government administration is consistent with the 1999 and 2007 Constitution and allows for a seamless integration of LAOs with the central government. This form also requires the least restructuring of the existing central local government relations system.

Earlier in 2011, the Thailand National Reform Committee recommended abolishing the provincial governor's office to empower local authorities directly for delivering services, and to connect LAOs directly to central government agencies responsible for service delivery, bypassing the Ministry of the Interior. This proposal means a complete roll-back of the deconcentrated arms of the central government at the provincial level and is also consistent with the unitary form of government and the proposal in this policy note.

Clarify and demarcate functional roles between central government and local authorities and prepare a model of decentralized service delivery especially as they relate to health and education services. Clarity in functional roles will help guide the centralized-decentralized management of these sectors and solve the current questions regarding structure of health and education delivery. This will also increase accountability for results and help refocus the intergovernmental fiscal transfer system to follow functions.

THE VISION OF A DECENTRALIZED UNITARY GOVERNMENT HAS NOT YET BEEN FULLY REALIZED LOCAL COUNCILS WERE CREATED WITHOUT ROLLING BACK DECONCENTRATED CENTRAL INSTITUTIONS, REFORMS HAVE NOT BEEN COORDINATED WITH SECTORAL SERVICE DELIVERY REFORMS, AND MANY OF THAILAND'S MULTITUDE OF SMALL LAOs ARE FINANCIALLY UNVIABLE AND MAKE COORDINATION VERY CHALLENGING

THAILAND CAN KEEP DECENTRALIZATION REFORMS ON TRACK BY TRANSITIONING TO A CONSISTENT UNITARY DECENTRALIZED GOVERNMENT STRUCTURE, CLARIFYING AND DEMARCATING FUNCTIONAL ROLES BETWEEN DIFFERENT ORDERS OF GOVERNMENT, AND ADMINISTRATIVELY CONSOLIDATING LAOs INTO LARGER, MORE VIABLE ENTITIES

Administratively consolidate LAOs into larger, more financially viable entities through fiscal grants and other incentives. Per capita, Thailand has more local authorities than many other decentralized countries like China, Japan, Brazil, US, Denmark and Poland, with much smaller service populations. Such small administrative units result in high administrative costs which crowd out public expenditures on service delivery, while the large number of LAOs strains central coordination mechanisms as there are too many units to effectively deal with, and causes fragmentation in service delivery. The government is advised to consider administrative consolidation of LAOs into larger and financially more viable units – such administrative consolidation has been successful in other European countries such as Norway, Sweden, Denmark, Germany and Netherland. Administrative consolidation of local authorities will allow for a reduction in administrative costs which can be channeled into service delivery, improve central-local coordination and enhance voice of local authorities as larger units.

These three suggestions will make the central-local government relations system more efficient at providing services at the central and local level.

MAKING PUBLIC SERVICES MORE EFFICIENT

Accountability at the local level is currently constrained by lack of information on service delivery performance, procurement of standard goods and supplies and application of public finances.

Thailand has established different performance management and monitoring systems at both the central and local level. Some of the main systems include: (i) the Local Quality Management system for monitoring and reporting on local authority service delivery performance; (ii) the e-Local Authority Accounting System for monitoring and reporting on local authority fiscal performance; (iii) the Public Management and Quality Assurance for making departments more effective and responsive in service delivery.

However currently there is little reporting on: (i) service delivery performance (response times and outcomes) for LAOs and centrally managed units; (ii) fiscal operations for local authorities (even for large municipalities); and (iii) unit prices of even standard goods and supplies procured by government entities. Such information is necessary for operationalizing informed accountability systems at the central and local levels. Stakeholders must be able to determine whether or not their local authority is obtaining goods and supplies as competitively as other jurisdictions and the central government. This basic reporting is well within reach of and expected by a higher middle income country like Thailand.

The absence of such information weakens local accountability mechanisms and builds perceptions of opacity and secrecy at the central and local levels.

In order to improve service delivery and address some of the issues identified in this policy note, there are four main recommendations:

Measure and annually publish service delivery performance by central and local authorities either against national benchmarks or in absolute terms.

Consolidate detailed fiscal operations information of LAOs (at least at the municipal level) with that of the central government and publish general government operations report by functional and economic classifications.

Institute mechanisms for local citizen representation on boards of health and education facilities in order to ensure voice and opinion of citizens are considered and taken into account in management of service delivery units.

Publish unit price information for standard supplies and goods procured by local authorities and central agencies. Such a move will increase transparency and provide incentives for LAOs to conduct competitive procurement, along with interested citizens to see at what price their respective jurisdiction is procuring standard goods and supplies as compared with others.

ACCOUNTABILITY IS
CONSTRAINED BY A
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INFORMATION ON FISCAL
OPERATIONS

SIGNIFICANT IMPROVEMENTS
COULD BE MADE BY
PUBLISHING SERVICE
DELIVERY PERFORMANCE
AGAINST BENCHMARKS,
PROVIDING DETAILED FISCAL
OPERATIONS INFORMATION
OF LAOs, ENSURING CITIZEN
VOICE IS PRESENT IN THE
MANAGEMENT OF HEALTH
AND EDUCATION FACILITIES,
AND PUBLISHING UNIT PRICE
INFORMATION FOR STANDARD
SUPPLIES AND GOODS
PROCURED AT CENTRAL
AND LOCAL LEVELS

MOTIVATION AND CONTEXT

1. Motivated by the need to improve accountability and quality in provision of public services at the local level and to modernize public finance management systems in wake of the 1997 Asian financial crisis, the Royal Thai Government (RTG) has implemented two major public sector management reform programs over the last decade. The first reform program was aimed at transitioning from a unitary centralized form of government to a unitary decentralized form of government – with a transfer of service delivery responsibility from central government agencies to Local Administrative Organizations (LAOs).

The second set of reforms which focused on modernizing the public finance management systems aimed at improving linkages between budgeting and planning with a multi-year perspective, improving budget execution systems and improving fiscal transparency, and instilling performance within the public sector by implementing state-of-the-art Performance Management and Quality Assurance (PMQA) systems. All these reforms were underpinned by the 1999 Constitution and subsidiary legislations issued by the Royal Thai Government.

2. Now, after a decade of implementing these public sector management reforms, the RTG is reviewing and revising the reform program with the aim of addressing issues of inequality, further improving access and accountability in public service delivery, and resolve problems being

encountered in the public finance management system that impedes its ability to management public finances effectively and transparently. These issues are at the forefront of the public discourse in Thailand at this time. Specifically, the Government is focusing its efforts on:

- Comprehensively revising the legislative framework governing central-local government relations and concurrently formulating the third master plan for decentralization (2012 – 2016). The RTG seeks to address issues encountered over the last decade and to continue the transition to a performance oriented unitary decentralized form of government, as mandated by the 2007 Constitution, and manages to deliver coordinated services and focuses on area based development.
- Commencing with implementation of the eleventh National Economic and Social Development Plan (NESDP 2011 – 2016) with a focus on improving service delivery and fostering decentralization, and addressing regional disparities and inequalities.
- Drafting a new Law on Fiscal Affairs and Finance of the State as per Chapter VIII of the 2007 Constitution. The key focus areas of this legislation are on increasing efficiency in use of public finances, improving management of contingent liabilities, and enhancing fiscal transparency – as required by Chapter VIII of the 2007 Constitution².

¹ **A unitary state** is a sovereign state governed as one single unit in which the central government is supreme and any administrative divisions (subnational units) exercise only powers that their central government chooses to delegate. In **federal states, by contrast**, states or other subnational units share sovereignty with the central government, and the states comprising the federation have an existence and power functions that cannot be unilaterally changed by the central government.

² Chapter VIII of the 2007 Constitution lays out the key principles on fiscal management and transparency that need to be articulated clearly through the Public Financial Act.

- Recalibrating the public finance management core tools – budget planning and execution systems – for improving fiscal management and transparency, as well as developing a new Government Evaluation System.
- Reviewing the performance of health and education sectors and identifying challenges and issues encountered in order to address them.

3. This *Public Finance Management Review (PFMR)* provides analytical inputs into the Government's review and redesign of this public sector management reform program, and provides recommendations to the authorities

for addressing issues identified. Following the Government's thematic review focus, the PFMR comprises of the following five Discussion Papers:

- **Discussion Paper 1: Budgeting, Planning and Fiscal Trends** reviews the current budgeting and planning systems, constructs a general government operations profile through a survey of LAO finances, and identifies issues that need to be addressed for further strengthening core budgeting and planning, and improving fiscal reporting and transparency.
- **Discussion Paper 2 : Distributive Analysis of Fiscal Policy** conducts a benefit incidence analysis of education, health and infrastructure spending and analyzes to what extent public spending is responsive to regional income disparities.
- **Discussion Paper 3 : Central-Local Government Relations in Transition** analyzes the decentralization reforms and the current state of the central-local government relations with the aim of identifying issues that need to be addressed for improving service delivery and accountability at the local level.
- **Discussion Paper 4 : Efficiency of Health Expenditures** reviews health sector reforms over the last decade and identifies public finance management issues at the central and local level that are impacting the performance of the health sector.
- **Discussion Paper 5: Efficiency of Education Spending** considers the education sector reforms conducted over the last decade and identifies public finance management issues that impede effective delivery of education services.

4. This Overview Paper on Improving Service Delivery presents the key cross-cutting issues from the five discussion papers that affect the performance of the public finance management

systems and impede the central-local government relations system in delivering effective and accountable services at the central and local levels.

5. This paper comprises of five sections. Section A highlights the economic growth, poverty reduction, and inequality dynamics in Thailand over the last decades; Section B reviews the recent public finance management (PFM) reforms aimed at improving service delivery; Section C presents an assessment of the PFM

reforms program along with some suggestions for addressing issues encountered by authorities; Section D highlights three cross-cutting issues emerging from the PFMR analysis along with recommendations for addressing them; and Section E concludes with a matrix of key issues and recommendations.

6. The PFMR has been prepared in close partnership with government agencies, international experts, and national academicians. A technical working group comprising the Bureau of the Budget, the Comptroller General's Department, the Fiscal Policy Office, the Office of the National Decentralization Committee at the Prime Minister's Office, the Ministry of the Interior, the National Economic and Social Development Board and the Thammasat University was formed to collaborate on preparations of the Report. This technical working group provided invaluable insights, guidance, and information

for the analysis. At different stages of the work, the World Bank team held brainstorming discussions across the country with a wider range of stakeholders on Central-Local Government Relations, service delivery in the health and education sectors, results based management, and financial reporting. The technical working group and brainstorming workshops provided invaluable inputs into the PFMR and ensured that from the beginning, the work was relevant for the Thailand context and emerging issues internalized by agencies early on in the process.

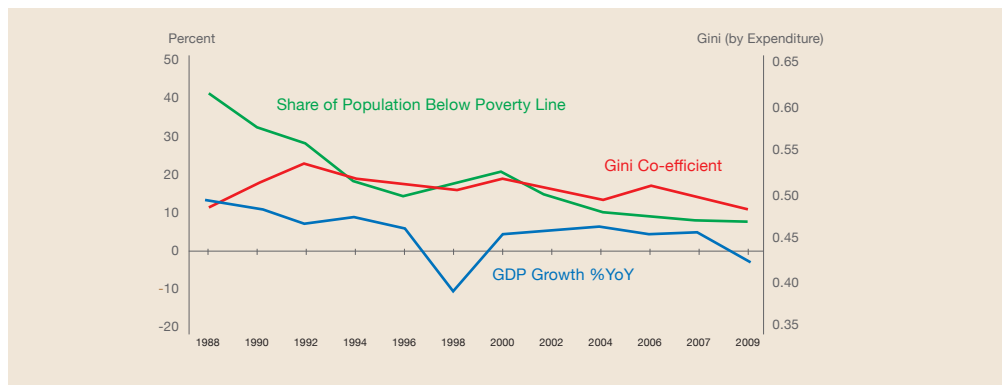
A | GROWTH, POVERTY, AND INEQUALITY DYNAMICS IN THAILAND

7. Thailand has experienced sustained economic growth which has contributed to a reduction in poverty, but inequality has remained static over the last three decades.

Average annual real GDP growth rate over the last two decades has been 5.1 percent. Over

this time period the poverty rate fell from more than 40 percent in 1988 to about 10 percent by 2009. However over the corresponding time period the inequality rate, as measured by the GINI index, has remained static – 0.49 in 1988 and 0.48 in 2009³ - as shown in (Figure 1).

Figure 1 : GDP Growth, Poverty Reduction, and Static Inequality

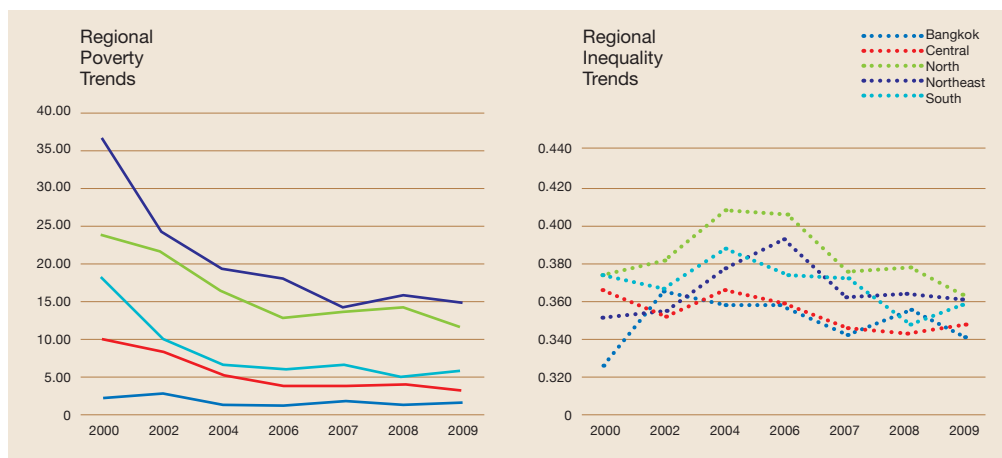


Source : National Economic and Social Development Board (2011)

8. The poverty and inequality trends have not been uniformly distributed across the country⁴. In spite of the significant declines in poverty at the national level, regional differences persist – as can be seen in (Figure 2). Aggregate

economic growth seems to be associated with a relatively slow reduction in inequality at the national level and there is some increase of inequality in some Bangkok and the Northeast (Figure 2).

Figure 2 : Region Poverty and Inequality Trends in Thailand



Source : National Economic and Social Development Board (2011)

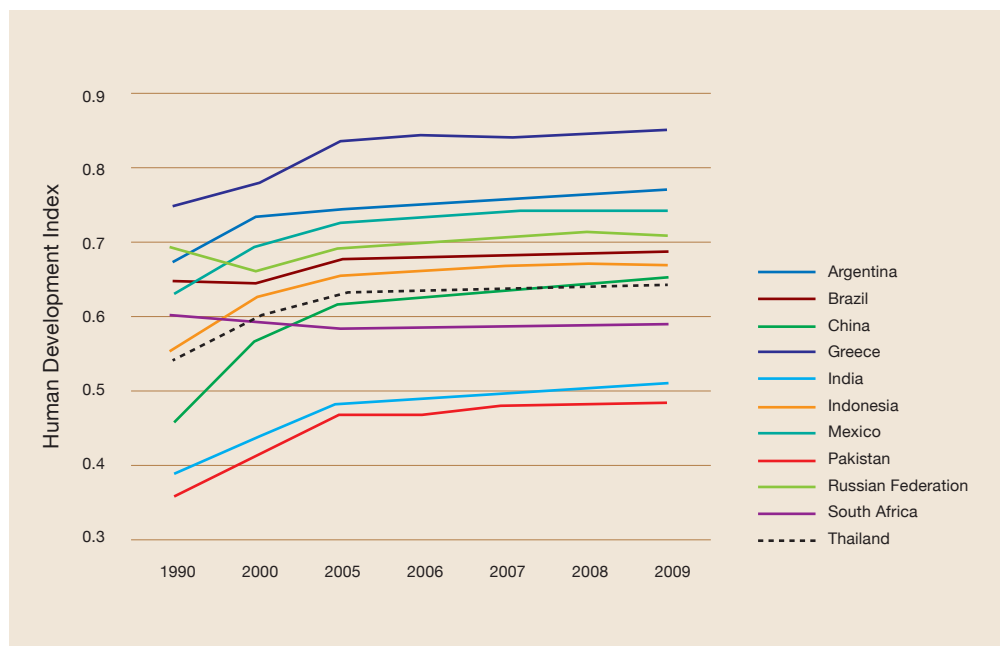
³ Calculations are based on the Household Socio Economic Survey for 2009 (latest available survey as of June 2011).

⁴ Detailed analysis of poverty and income inequality dimensions are presented in **PFMR Background Paper on Inequality and Geographic Disparities in Welfare**.

9. **Growth has contributed to an improvement in development outcomes.** Over the past two decades at the national level Thailand has made steady progress in improving human development outcomes as measured by the

human development index. Figure 3 shows the evolution of the human development index (HDI) for Thailand with some comparator countries. Since 1990 the overall HDI has improved from 0.54 in 1990 to 0.63 by 2009.

Figure 3 : Evolution of Human Development Index – An International Perspective



Source : International Human Development Indicators Database (UNDP 2011)

10. Thailand performs at par with comparator countries on basic human development indicators – better in some areas and less well in others. Table 1 presents a cross-country comparison of selected human development

indicators. Thailand performs well at the national level across the range of indicators, especially on the adult literacy rate and under-five mortality rates.

Table 1 : Selected Human Development Indicators – A Cross Country Comparison

	Yr	Argentina	Brazil	India	Indonesia	Malaysia	Mexico	Pakistan	Russian Federation	South Africa	Thailand	Turkey
Adult literacy rate (% aged 15 and above)	2010	97.8	90	68.3	92	92.9	92.8	54.2	99.6	89.3	94.7	88.7
Combined gross enrolment rate in education (%)	2010	88.5	87.2	61	68.2	71.5	80.2	39.3	81.9	76.8	78	71.1
Life expectancy at birth (years)	2010	75.7	72.9	64.4	71.5	74.7	76.7	67.2	67.2	52	69.3	72.2
Maternal mortality ratio (deaths of woman per 100,000 live births)	2008	77	110	450	420	52	60	60	28	400	110	44
Under-five mortality (per 1,000 live)	2008	16	22	69	41	6	17	17	13	67	14	22

Source: Human Development Indicator Database (UNDP)

11. **HOWEVER, notwithstanding the progress with human development outcomes at the national level, there are significant regional disparities in human development and economic opportunities in Thailand.** Drawing from the 2009 Thailand Human Development

report by the UNDP, (Figure 4) presents a regional picture of four indices of the UN Human Achievement Index (HAI)⁵ that relate to public service delivery: health, education, income, and transportation and communication.

Figure 4 : Regional Comparison on Selected Components of the UNDP Human Achievement Index



Source : UNDP Thailand Human Development Report 2009

12. The **health** index comprises seven indicators: underweight births, population with physical illness, population with disabilities/ impairments, population with mental illness, population with unhealthy lifestyles, population that exercises, and population per physician. The **education** index comprises of four indicators: gross enrollment in upper secondary level, mean years of schooling, upper secondary O-Net scores, and upper secondary students

per classroom. The **income** index comprises four indicators: household income, poverty incidence, households with debt, and income disparities measured by the income Gini. The **transportation** and communications consists of six indicators: villages with all-season roads, registered vehicles, road accidents, households with televisions, populations with mobile phones, and population with internet access.

13. In summary, over the last three decades Thailand has experienced rapid economic growth, a reduction in national poverty rate **but** inequality has remained static. There are significant regional disparities in terms of income inequalities as well as in human development outcomes, as measured by the human opportunities index. In each of the four dimensions of the human achievements

index, Bangkok performs much better than other regions, while the North Eastern region lags on health, education and transportation/ communications indicators. The North lags most on the income dimensions. Thus, over time even though there has been significant improvement in human development outcomes at the national level, there are significant and persistent regional disparities in Thailand.

⁵ The Human Achievement Index (HAI) is composed of eight indices, based on 40 indicators covering health, education, employment and income. For more details see UNDP Thailand Human Development Report 2009.

B | RECENT PFM REFORMS AIMED AT IMPROVING SERVICE DELIVERY

14. Since the last Public Expenditure Review for Thailand was conducted in 2000, a number of important developments have affected the management of public finances. First, the country has significantly increased fiscal transfers to Local Administrative Organization (LAOs), established an administrative structure for local self governance for all 7,854 LAOs and to a more limited extent decentralized

service delivery responsibility from the central government to LAOs. Second, authorities have been implementing a series of public finance management reforms with the goal of strengthening linkages between planning and budgeting, introducing results based management in the public sector, and increasing fiscal transparency for greater accountability.

15. Thailand established decentralization within a unitary form of government as a national policy priority under the 1997 Constitution in order to: (a) increase public participation in decision making at the local level; (b) improve local service delivery by fostering greater bottom up accountability; and (c) improve social and

economic outcomes for citizens through local economic development. These objectives were to be achieved through a gradual transformation of the central-local government system from a centralized unitary form of government to a decentralized unitary form of government.

16. The 1997 Constitution and the 1999 Decentralization Act provided an impetus for significant change. Elected local councils were established for all 7,854 LAOs, and the National Decentralization Committee chaired by the Prime Minister was established in 2001 to make policy decisions needed to facilitate the decentralization process and formulate the fiscal transfer system. The Ministry of the Interior (MOI) was assigned the responsibility to manage, supervise, and facilitate implementation of the decentralization process. As mandated by the Decentralization Act the share of LAO revenue to net central government revenues was progressively increased from about 11 percent in 1999 to slightly above 26 percent by 2011 (equivalent to approximately 20 percent of total general government expenditures). On

functional assignments, the Decentralization Act purposefully provided overlapping mandates to central government agencies as well as LAOs on provision of social and infrastructure services. The first Decentralization Master Plan (2000) also mandated a gradual transfer of health and education facilities to LAOs which had the capacity to manage such facilities, and where fifty percent or more of facility staff agreed to transfer to the local authority – without establishing a timeline for this transfer or what the decentralized service delivery system for health and education sectors would look like. In order to monitor performance and finances, the MOI attempted to implement a financial reporting system (e-LAAS) and a Local Quality Management for all LAOs.

⁶ See Annex A with summary of issues and recommendations from the 2000 Public Expenditure Review.

⁷ Reaffirmed in the 2007 Constitution.

⁸ These objectives were laid down in the 1999 Decentralization Act and operationalized by the 2001 Decentralization Master Plan.

17. On the broader PFM reforms, the 2003 Royal Decree on Criteria and Procedures for Good Governance has been the key legislative instrument that has mandated all agencies at the central and local level to implement results based management systems in service delivery, shift focus from inputs to effectiveness and value for money, implement good governance measures, and increase responsiveness to citizens in the provision of public services. This

Decree also required the government to prepare comprehensive administrative and operational plans for ensuring “responsive public administration, (where) people shall be deemed to be centre to be serviced”. Since the promulgation of this Decree, government departments have been reforming business processes and management systems to be more responsive and accountable to citizens in the provision of services.

18. Some of the important public sector management reforms undertaken by agencies have been on :

- **Reforming budgeting and planning**¹⁰. The Bureau of the Budget (BOB) started implementing Strategic Performance Based Budgeting reforms from 2003 and internally established a top-down and bottom-up medium term expenditure framework in order to improve linkage between budgeting and planning in a medium term context. BOB has also tried to transition its focus from line item budgeting to more program oriented budgeting in order to better support the development strategies in the National Economic and Social Development Plan and the Government Administrative Plan (with the corresponding ministerial operation plans), as required by the 2003 Royal Decree on Good Governance. Furthermore an e-Budget system was implemented for all government agencies to infuse more consistency into the budget preparation process, and to strengthen monitoring of budgetary spending the BOB also implemented the Performance Assessment Rating Tool across all budget entities.
- **Strengthening budget execution and reporting systems.** In 2005 the government implemented the Government Fiscal Management Information System (GFMS) – a real-time nationwide budget execution and financial reporting system, at the Comptroller General's Department (CGD) of the Ministry of Finance. In tandem with the GFMS the CGD has also implemented a suite of satellite financial reporting systems that would allow for greater fiscal reporting, as well as strengthen operations of the internal control systems. At the same time to improve budgeting and financial reporting at the local level, the Ministry of the Interior developed the e-Local Authority Accounting System for LAOs.
- **Results based management in the Public Sector.** The Office of the Public Sector Development Commission was established in 2003 to formulate department level performance-oriented reforms across the public sector. The government implemented a Performance Management and Quality Assurance (PMQA) system involving balanced score cards along with key performance indicators for all government agencies at the central government level. At the local level, a Local Quality Management system was designed and implemented for LAOs. The Government was also required to issue a Government Policy Statement and prepare a 4-year Government Administrative Plan (GAP), which is converted into 4-year operational plans as well as an annual operating plan by each ministry and province. Provinces are also required to prepare a Provincial Development Strategy and 3-year local development plans. All these plans have key performance indicators and feed into the annual budget prepared by the Bureau of the Budget. This planning process has been in working since 2003, when it was introduced in parallel to the existing 5-year National Economic and Social Development Plan prepared by the NESDB.

⁹ The 2001 Decentralization Act mandated the Government to increase LAO share of net general government revenue to 35 percent by 2006. However, in 2006 the Decentralization Act was amended and the clause mandating LAOs to be allocated at least 35 percent of net general government revenues was changed to be not less than 25 percent.

¹⁰ For details please see **PFMR Discussion Paper 1 on Budgeting, Planning, and Fiscal Trends.**

C | ASSESSMENT OF THE PFM REFORM PROGRAM AND SOME SUGGESTIONS

19. Overall, the Government has managed to put in place the building blocks for improved service delivery and management of public finances. However, the public finance management system is not as yet

effectively integrated and some fundamental issues (highlighted in this section and the next one) need to be addressed for the reforms to deliver on their objectives.

20. Thailand's decentralization reform program is currently in transition and has not yet achieved its intended objectives¹¹. Although transfers to local authorities were significantly increased between 1999 and 2011, there has been very limited de facto functional transfer of service delivery responsibilities to

local authorities. Furthermore, there is inadequate information on fiscal or service delivery performance of local authorities, making it difficult to determine where LAOs are spending resources and what this spending is achieving in terms of outcomes.

a. Lack of clear demarcation of functions between central government and local authorities in the Decentralization Act of 1999.

This has led to confusion in the roles and responsibilities of different levels of government, especially in provision of health and education services. The result has been uncertainty and frustration amongst local authorities, some of whom have opted to provide health and educational services while others have been unable to. Also central government agencies have retained control over the majority of the service delivery units and hence provision of health and education services. Because of lack of clear roles and responsibilities between different levels of government there has not been adequate coordination of decentralization reforms with sectoral reforms. Over the last decade the health and education sectors have also implemented reforms through the introduction of a centrally managed Universal Health Care Scheme and the National Education Act (1999) which set up 176 devolved Education Service Areas across the countries and provided significant financial autonomy to schools. These sectoral reforms have not been coordinated or calibrated with the decentralization reforms. On top of these issues, there have been significant coordination challenges between the deconcentrated arms of the central government at the provincial level and the new institutions of local self government that were established through the decentralization process.

b. Tensions in the central-local government relations system and poor institutional coordination between central government agencies and LAOs.

The decentralization reforms have led to establishment of locally elected councils for all LAOs with the mandate to plan and deliver services, and in turn be accountable to the electorate. However, the deconcentrated arms of the central government at the provincial level have not been rolled back, and in practice have retained control over the management of local authorities. This situation has meant that centrally appointed officials who are accountable to the central government make most of the decisions on planning and delivery of services, and elected councilors who are accountable to their electorate have not been provided the autonomy to manage LAOs. Such a system has led to dilution in the local accountability framework and is causing tensions in the central-local government relations system. Another related issue is that sector ministries do not directly coordinate interventions with LAOs but must legally go through the Ministry of interior's Department of Local Administration – which is problematic because large number of LAOs (7,854) makes comprehensive monitoring and coordination unfeasible for the MOI .

¹¹ For detailed assessment of decentralization reforms in Thailand and recommendations for improving service delivery, please see the **PFMR Discussion Paper 3: Central-Local Government Relations in Transition**.

c. Many LAOs are too small to be financially viable or have adequate capacity to provide public services effectively. Of the 7,854 LAOs, more than 3,000 have populations less than 5,000 people. Thailand also has one of the largest numbers of LAOs with small population per local authority as compared with other middle income unitary decentralized countries. Such small units are administratively costly to maintain and do not have the capacity to provide the more than 175 functions assigned to them. The local administrative organization survey conducted for the PFMR confirms that LAOs spend more than one-third of revenues on administration. In addition, as was previously discussed, the sheer number of LAOs also makes coordination difficult between central government and local authorities.

d. Local accountability mechanisms do not function because of lack of basic information on finances and service delivery. There is a general lack of: (i) consolidated information on local authority finances published – even for larger municipalities; (ii) nationally established service delivery benchmarks or information on service delivery performance by LAOs – relative or in absolute terms; and (iii) unit prices of standard goods and services procured by LAOs. The absence of such basic information renders local accountability processes and systems ineffective and also instills a general perception of opacity in the management of local authorities – leading to perceptions the local authorities are mismanaged.

21. Public financial management reforms at the central level are also in transition and have encountered implementation challenges. Although Thailand has deployed the Government Fiscal Management Information

System across central government budget entities along with a suite of financial reporting systems, the Ministry of Finance has been unable to: the Ministry of Finance has been unable to:

- i. Obtain certification of budget execution reports for 2007/08 to-date from the Office of the Auditor General due to information inconsistencies in the GFMS and inadequate capacity of the Office of the Auditor General to conduct an electronic systems audit;
- ii. Publish detailed budget-to-actual reports by economic or functional classification because the chart of account between budget and fiscal reporting are not aligned, and the GFMS and e-Budget systems are not fully integrated;
- iii. Consolidate even aggregate level general government fiscal operations information primarily because financial information for LAOs is incomplete; and
- iv. Publish procurement monitoring reports by agencies and departments because of information gaps within the e-procurement reporting system.

22. These shortcomings significantly limit fiscal transparency and impede effective functioning of the accountability systems. The fact that Thailand is encountering such basic problems

with financial reporting shows that there are some fundamental issues with the GFMS core system and the chart of accounts that need to be addressed as a matter of urgent priority.

23. With regards to budget reforms, although the strategic performance based budgeting system has allowed the Bureau of the Budget to internally generate significant information for improving budgeting, the absence of a formal Budget Strategy Paper (BSP) and non-communication of indicative ceilings from BOB to agencies early in the budget preparation cycle leads agencies to practice unconstrained budgeting. The absence of a BSP to present the constraints, strategic choices considered,

and trade-offs made during the budget process coupled with agencies not knowing earlier on what their indicative budget ceilings encourages agencies to submit budget requests significantly above actual needs. BOB then trims down the budget requests to meet the available resources. The Bureau of the Budget internally has ceilings for agencies from the top-down MTEF but deliberately does not communicate these indicative ceilings to agencies.

24. There are concerns with fragmentation of the budget. The Public Debt Management (PDM) Act (2005) has provided the legislative framework for debt management, with ceilings placed on domestic and foreign borrowing¹². However, the finance management system allows the government to borrow (domestically and externally) in excess of the PDM Act ceiling by issuing an Emergency Decree to authorize additional borrowing¹³. In case the government wants to raise financing in excess of the budgetary financing ceiling imposed by the PDM Act there are two options: (i) legislating a change in the budgetary financing ceiling in the Act;

and (ii) classifying the borrowing as “off-budget”, in which has the PDM Act ceiling does not apply. In case the government opts for the “off-budget” option, it is the Ministry of Finance that makes the allocative discussions on these funds rather than the Bureau of the Budget. Agencies then have to report on the use of these funds to the MOF through parallel-to-the-budget reporting systems, raising not just administration and transactions cost but also causing fragmenting of the budget by source of financing and weakening the monitoring and evaluation systems.

25. Program loans which are typically for financing the budget deficit are classified as ‘off-budget’ financing sources in the Thai public finance system. This classification mismatch causes fiscal inflexibility for the government

because it is not able to use program loans to finance normal budgetary operations, and in practice ring fences these loans to specific projects.

26. In order to improve budget unity and flexibility it is advisable for government to: (i) reclassify program loans as an ‘on-budget’ financing source so that these resources can be used flexibly to finance budgetary expenditures within the budget process rather than be tied to individual projects as an ‘off-budget’ source. This measure will improve efficiency and effectiveness of budget spending;

and (ii) other than in a situation of emergency, in case financing is needed in excess of the ceiling allowed under the PDM Act, then it would be advisable to legislate a change in the ceiling, rather than proceed through the off-budget window. Again such a move will preserve the unity of the budget while reducing the additional workload on the Ministry of Finance on managing and reporting on these funds.

¹² Under the PDM Act, domestic borrowing to finance the budget deficit is limited to 20 percent of total expenditure (including any supplementary budgets) plus 80 percent of principal repayment budget, while foreign borrowing is limited to 10 percent of total expenditures.

¹³ In accordance to section 184 in Constitution 2007, for the purpose of national economic security, an Emergency Decree may be issued and shall have force as an Act.

D | KEY CROSS-CUTTING FINDINGS OF THE PFMR

27. Based on the analysis of the decentralization reforms and issues in the public finance management system highlighted in Section D, the following three interrelated issues emerge as key to equitable and accountable provision of service delivery at the central and local levels:

- **Reduce regional disparities in access to public services** by increasing the equalization component of the intergovernmental fiscal transfer formula and review expenditure policy to better target service delivery deficient areas.
 - **Restructure the central-local government relations system** with clearly demarcated roles between different levels of government (especially within health and education sectors) and administratively consolidate LAOs into larger more financially viable entities through fiscal and other incentives.
 - **Recalibrate service delivery and public finance management systems' monitoring and evaluation functionality** to foster local accountability. This would require establishing national service delivery standards, publishing annual performance reports on these benchmarks along with unit costs of standard goods and supplies procured, and publishing reports on operations at the municipality level.
-

REDUCING REGIONAL DISPARITIES IN ACCESS TO PUBLIC SERVICES

28. At the outset of the PFMR exercise there were three motivating questions:

a. What does the General Government Operations picture look like for Thailand?

This question was of importance because authorities have been unable to consolidate information on LAO finances with central government operations information. Furthermore, because LAOs are allocated about 26 percent of net central government revenues, it is fiscally important to understand the position of LAO finances.

b. How general government spending is spread across the regions, especially for the health and education sectors? This question is important in order to understand whether or not public spending improves or exacerbates regional disparities in terms of public service delivery.

c. How can government improve fiscal reporting and expenditure policy?

29. In order to answer these questions it was necessary to collect fiscal information from LAOs and to consolidate it with fiscal information from the central government. To bridge the information gap on LAO expenditures, a detailed survey of fiscal operations of all 7,854 LAOs for fiscal years 2007 – 2009 was conducted in collaboration with the Office of the Decentralization Committee at the Prime Minister’s Office and the Thammasat University for the PFMR. Through this survey fiscal and demographic information

was obtained for 6,308 LAOs (representing 80 percent of LAOs). Using population weights the survey information was extrapolated for the remaining LAOs. The PFMR survey of LAOs is now the most complete set of fiscal information available on LAO fiscal operations in Thailand and has been used extensively in the analysis contained in the PFMR Discussion Papers. The LAO survey data has also been made available to government agencies which are part of the PFMR Technical Working Group.

30. With the LAO survey data has now been possible to prepare the General Government Fiscal Operations table for 2007 – 2009 (see Table 2). This is the first time since 2005 that a consolidated general government operations table has been prepared in Thailand. It is

important however to recognize that the information on LAOs suffers the limitations faced by information generated from any survey instrument, but this information is as good as it gets at this time.

There are some important issues with the quality of data that need to be pointed at the outset:

- Although fairly detailed budget and actual information is available on the Central Government, it is difficult to match the information at the detailed economic classification level because the classification system between the budget and accounting system is different.
- The Ministry of Finance publishes the aggregate non-budgetary balance figure (which was approximately 1 percent of GDP in 2009 (table 1)), but information on what comprises this figure is not published and therefore it is not possible to determine what is included in this aggregate number.
- The LAO Survey was able to consolidate detailed fiscal information for 6,308 representing 80 percent of the total LAO population. This information was used to extrapolate for the missing LAOs. And hence there is some approximation used in the numbers – but this is as good as it gets for the moment.
- The accounting structure and sectoral classification between the central government and LAOs is different and therefore it is not possible to consolidate sectoral information in at the administrative level.

Table 2 : General Government Operations (2007 – 2009)

Central Government	FY 2007			FY 2008			FY 2009		
	budget	Actual	%	budget	Actual	%	budget	Actual	%
1. Revenue	1,420.0	1,444.5	102%	1,495.0	1,545.8	103%	1,604.6	1,410.9	88%
2. Expenditure	1,510.7	1,475.0	98%	1,614.5	1,582.8	98%	1,855.9	1,818.2	98%
- Current year expenditure	1,566.2	1,470.8	94%	1,660.0	1,532.5	92%	1,951.7	1,790.8	92%
- Carry - Over from previous FY	-	104.1		-	100.9		-	126.3	
- Stimulus Package	-	-		-	-		14.6	14.6	
- less : principal repayment	55.5	100.0	180%	45.5	50.6	111%	63.7	66.7	105%
- less : replenishment to TreasuryA/C	-	-		-	-		46.7	46.7	
3. Non-budetary balance	-28.4	-28.4		8.8	8.8		131.2	131.2	
4. Central fiscal balance	-119.1	-59.0	49%	-110.7	-28.1	25%	-120.1	-276.2	230%
% of GDP	-1.4%	-0.7%		-1.2%	-0.3%		-1.4%	-3.1%	

Central Government	FY 2007			FY 2008			FY 2009		
	budget	Actual	%	budget	Actual	%	budget	Actual	%
1. Revenue (Excluding transfer)	218.1	176.3	81%	228.	168.4	74%	251.3	162.2	65%
1.1 owned source revenue		56.1			50.2			45.6	
1.2 revenue sharing from government		120.2			118.2			116.6	
2. Transfers	139.4	101.9	73%	147.8	121.7	82%	163.1	124.1	76%
3. Expenditure	357.4	225.8	63%	376.7	266.8	71%	414.4	287.3	69%
4. Local fiscal balance	0.0	52.4		0.0	23.3		0.0	-1.0	
% of GDP	0.0%	0.6%		0.0%	0.3%		0.0%	0.0%	

General Government	FY 2007			FY 2008			FY 2009		
	budget	Actual	%	budget	Actual	%	budget	Actual	%
1. General Revenue	1,638.1	1,620.8		1,723.9	1,714.2	99%	1,856.0	1,573.0	85%
% of GDP	19.5%	19.5%	99%	18.7%	18.7%		21.3%	17.8%	
2. General Expenditure	1,728.8	1,598.9		1,843.4	1,727.9	94%	2,107.2	1,981.4	94%
% of GDP	20.6%	19.3%	92%	20.0%	18.9%		24.2%	22.4%	
3. General fiscal balance	-119.1	-6.5	-5%	-110.7	-4.8	4%	-120.1	-277.2	231%
% of GDP	-1.4%	-0.1%		-1.2%	-0.1%		-1.4%	-3.1%	
Memo : Nominal GDP (FY)	8,399.0	8,301.7		9,232.2	9,145.5		8,712.5	8,850.6	

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

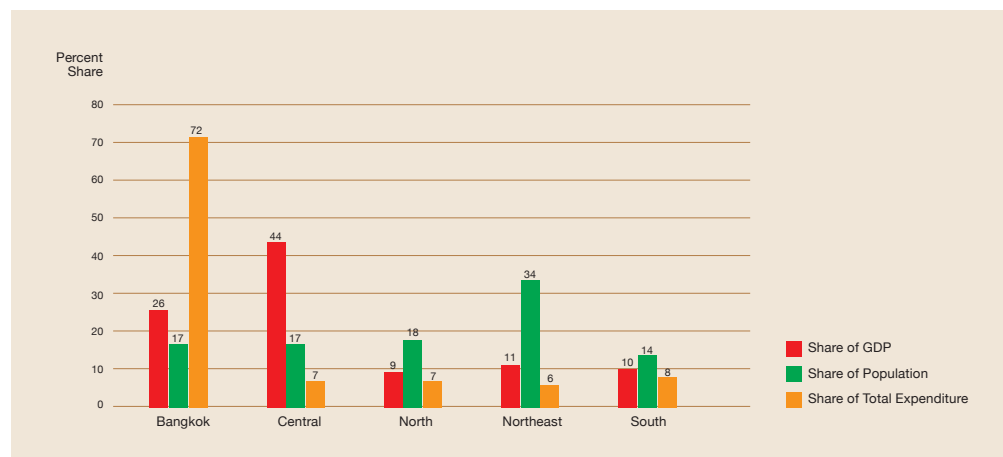
31. Some interesting points to note from Table 2 are:

- There seems to be a significant shortfall in transfers to local governments in each of the years between budget and actual figures. For example, in 2009 LAOs only received 65 percent of budgeted revenues, while they only reported receiving 76 percent of budgeted transfers. There can be various reasons for this observation including reporting errors, delays in transfer of funds from the central government to LAOs, or simply a reduced transfer from central government to local authorities. As the variation is significant, it warrants some detailed review by the authorities on the specific causes for this observed trend.
- Notwithstanding the variation between budget-actual figures, LAOs have been running a fiscal balance, with a very slight deficit in 2009.
- Overall general government fiscal balance has registered a modest deficit which is almost entirely driven by the central government.

32. The consolidated general government dataset developed for the PFMR shows that there are significant disparities in spending at the regional level. Figure 5 shows the per capita total

general government expenditures by regions – including for health and education sectors while Table 3 shows the per-capita spending by regions, including for health and education.

Figure 5 : Regional Comparison – Expenditures, GDP, and Population (2010)



Source : MOF, NESDB, and World Bank

33. Regional comparison of expenditures shows a concentration in Bangkok. Even though Bangkok represents only 17 percent of the population and 26 percent of GDP share, it accounts for about 72 percent of expenditures.

In contrast, the North East accounts for about 34 percent of the population, 12 percent of GDP, but only accounts for 5.8 percent of total expenditures.

Table 3 : Public Expenditures – Per Capita by Region

Unit: Thai Baht

Per capita spending	Bangkok	Central	North	Northeast	South
Total central spending	157,104	12,488	13,467	10,192	13,666
- Health	14,722	1,235	1,350	824	1,270
- Education	20,106	3,728	4,745	3,923	4,551
- Other	122,276	7,525	7,372	5,445	7,845
Total local spending	6,697	3,909	3,227	2,972	3,262
- Health	792	264	162	76	149
- Education	715	552	453	479	420
- Other	5,190	3,093	2,612	2,418	2,694
Total general spending	163,802	16,397	16,694	13,165	16,928
- Health	15,514	1,397	1,459	919	1,362
- Education	20,821	4,280	5,197	4,402	4,971
- Other	127,466	10,720	10,038	7,843	10,595

Source : Comptroller General's Department and LAO Survey

34. Some of the reasons that could explain this concentration of expenditures in Bangkok include: (i) high administrative costs associated with Bangkok being the administrative capital for the central government with most of the tertiary education institutions and large hospitals being located in Bangkok; (ii) unit costs for provision of services being higher in Bangkok than other regions; (iii) agglomeration effects requiring more social and infrastructure services in Bangkok

relative to other regions. It is not uncommon that expenditure in large capital cities is five times higher than other regions in a country. However in Thailand the difference between spending in Bangkok as compared with other regions is in the range of 1:10. Therefore notwithstanding these possible reasons for the observed expenditure disparities, it seems that this concentration of spending is still skewed disproportionately towards Bangkok.

35. Another reason for the observed expenditure disparities is due to the extremely weak equalization effect of the intergovernmental transfers. The fiscal transfer formula for fiscal year 2010/11 is presented Figure 6. Out of total transfers of 173.9 billion baht,

only 3.6 billion baht (accounting for only 2 percent of total) was set aside for equalization purposes. This low equalization cannot have any tangible impact on providing resources for poorer service deficient areas.

36. International experience shows that as economies grow from low to high income, production tends to become more concentrated spatially. Some places – cities, coastal areas, and connected countries – are favored by producers and hence production becomes

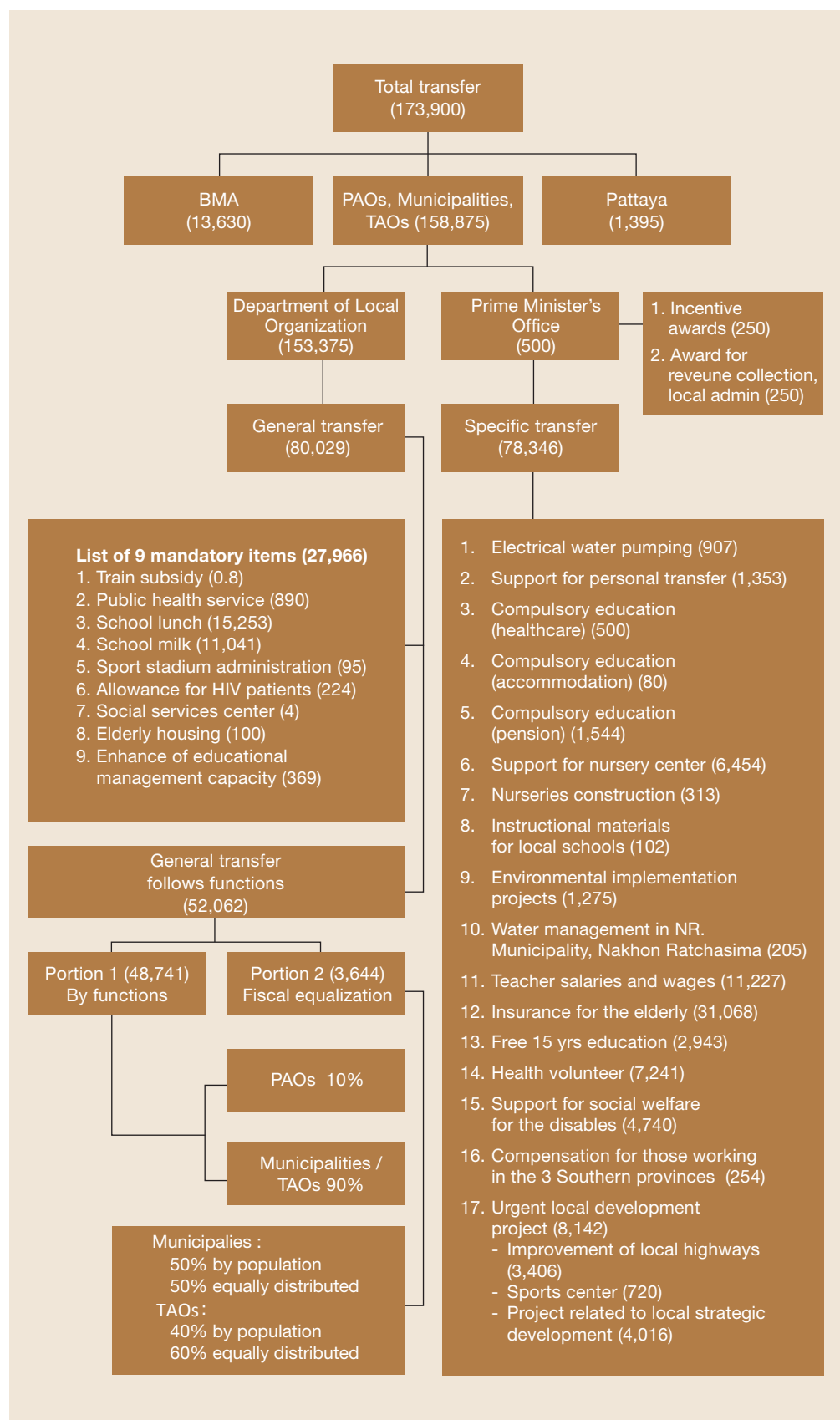
concentrated. As countries develop, the most successful ones institute policies that make living standards of people more uniform across space – and this means providing uniform access to quality public services across the country.

37. Thailand has experienced a similar economic development trend – with production and economic activity concentrated around Bangkok and the Central Region. Expenditure trends have also followed these developments (as shown Figure 5 and Table 3. The key

policy challenge looking ahead will be on making access to public services more uniform across the country – both in terms of quantity and quality. In order to accomplish this task the Government could consider:

- i. Refocusing expenditure policy towards regions that are deficient in terms of service delivery, with the aim of bringing them up to the Bangkok levels;
- ii. Increasing the equalization element of the intergovernmental fiscal transfer formula from 2 percent to at least 15-20 percent of total transfers.

Figure 6 : Intergovernmental Transfer Formula for Fiscal Year 2010/11 (in millions of Thai Baht)



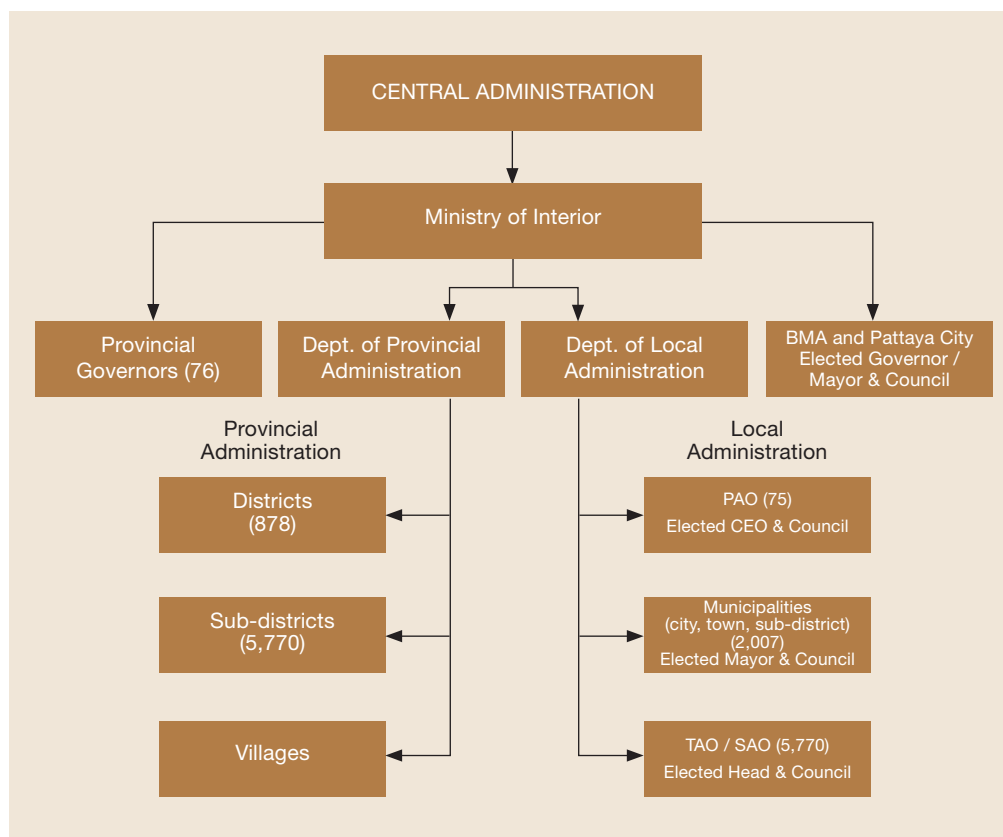
RESTRUCTURING THE CENTRAL-LOCAL GOVERNMENT RELATIONS SYSTEM

(I) TRANSITION TO A DECENTRALIZED UNITARY GOVERNMENT STRUCTURE

38. The decentralization reforms have resulted in a system of dual administration at the local level as depicted in Figure 7. All local authorities have an elected council which is vested with the authority to determine service delivery and budgetary priorities for their respective jurisdiction (right hand side of Figure 7). At the same time the deconcentrated provincial administration appoints officials to run the day to day matters of local authority in consultation with locally elected council representatives (left hand side of Figure 7). Within this dual administrative

set-up, the Ministry of the Interior has been entrusted with the dual task of promoting local self governance while at the same time ensuring local authorities comply with rules and regulations governing the unitary government. The rationale for this dual administrative arrangement is that locally elected councils would represent interests of constituents while the centrally appointed officials would ensure local authorities are managed effectively. On paper this arrangement is workable for delivering quality services at the local level.

Figure 7 : Structure of Central-Local Government Relations in Thailand



Source : DOLA

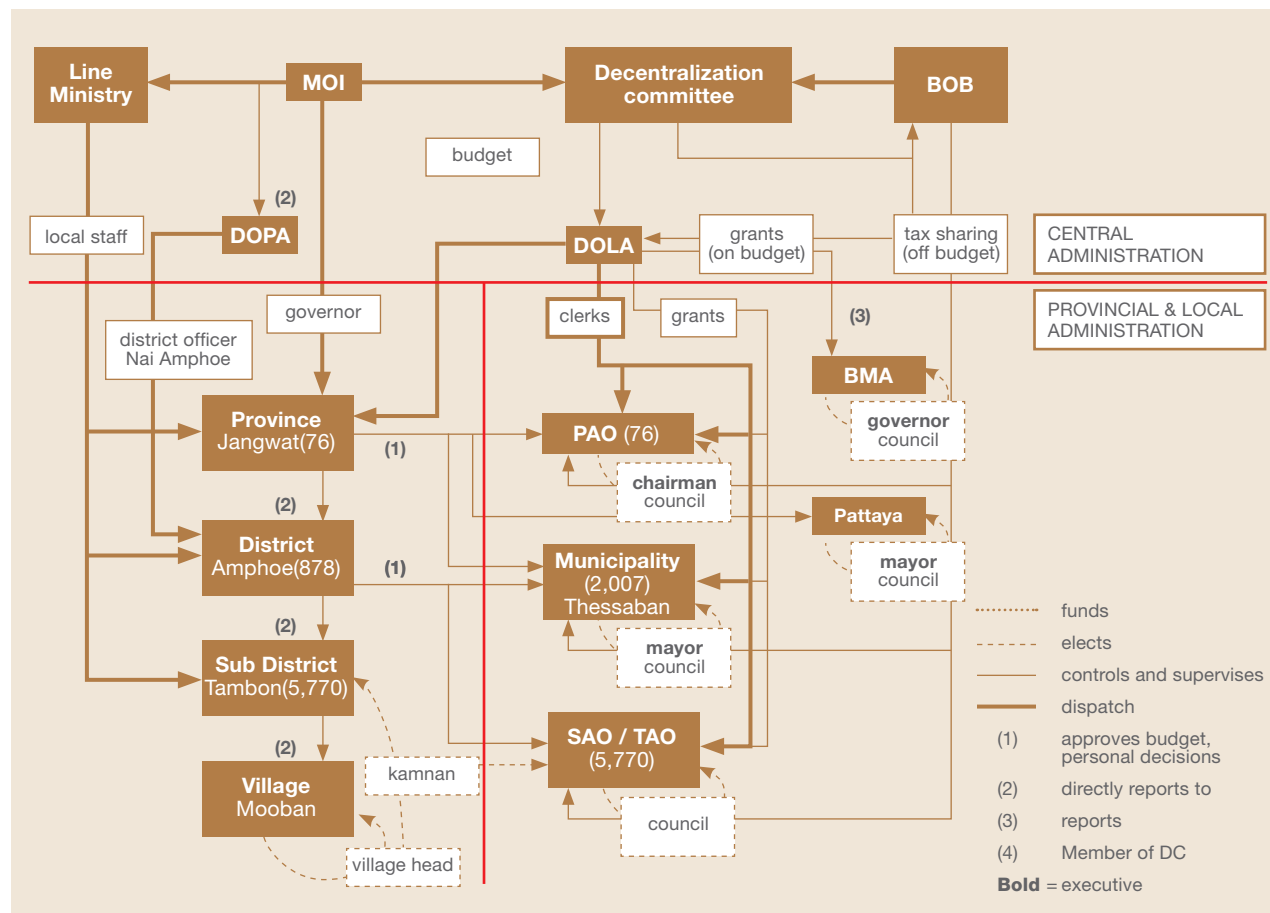
39. In practice this system of dual administration is experiencing significant tensions. While locally elected councils are empowered to make decisions on the operations of local authorities and be held accountable by their electorate, most de facto control and decisions are made by centrally appointed officials who are accountable to their respective central government paymasters, and not to the local

councils. This blurs the lines of accountability and control and in extreme cases causes significant tensions within the central-local government relations set-up – especially in situations where the local council guidance are contrary to the thoughts of centrally appointed officials. In such a situation central officials trump local councils.

40. An additional coordination challenge arises on issues of service delivery. Local authorities do not have a direct means of communication or coordination with either line agencies (like the Bureau of the Budget or the Ministry of Finance) nor with sector ministries (health, education, transport, etc). Local authorities must go through the Ministry of the Interior to discuss issues with other arms of the central government. The sheer number of local

authorities makes effective coordination by the Ministry of Interior difficult. This lack of coordination significantly increases cost and complexity of local government, reduced accountability, diverts attention away from regional issues and general tensions within the central-local relations system. Figure 8 depicts how the system is operating in practice – with significant complexity.

Figure 8 : How the Central-Local Government Relations System Functions in Practice



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

41. This current dual administrative structure is also incompatible with the constitutional vision of a seamlessly integrated unitary form of decentralized 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.

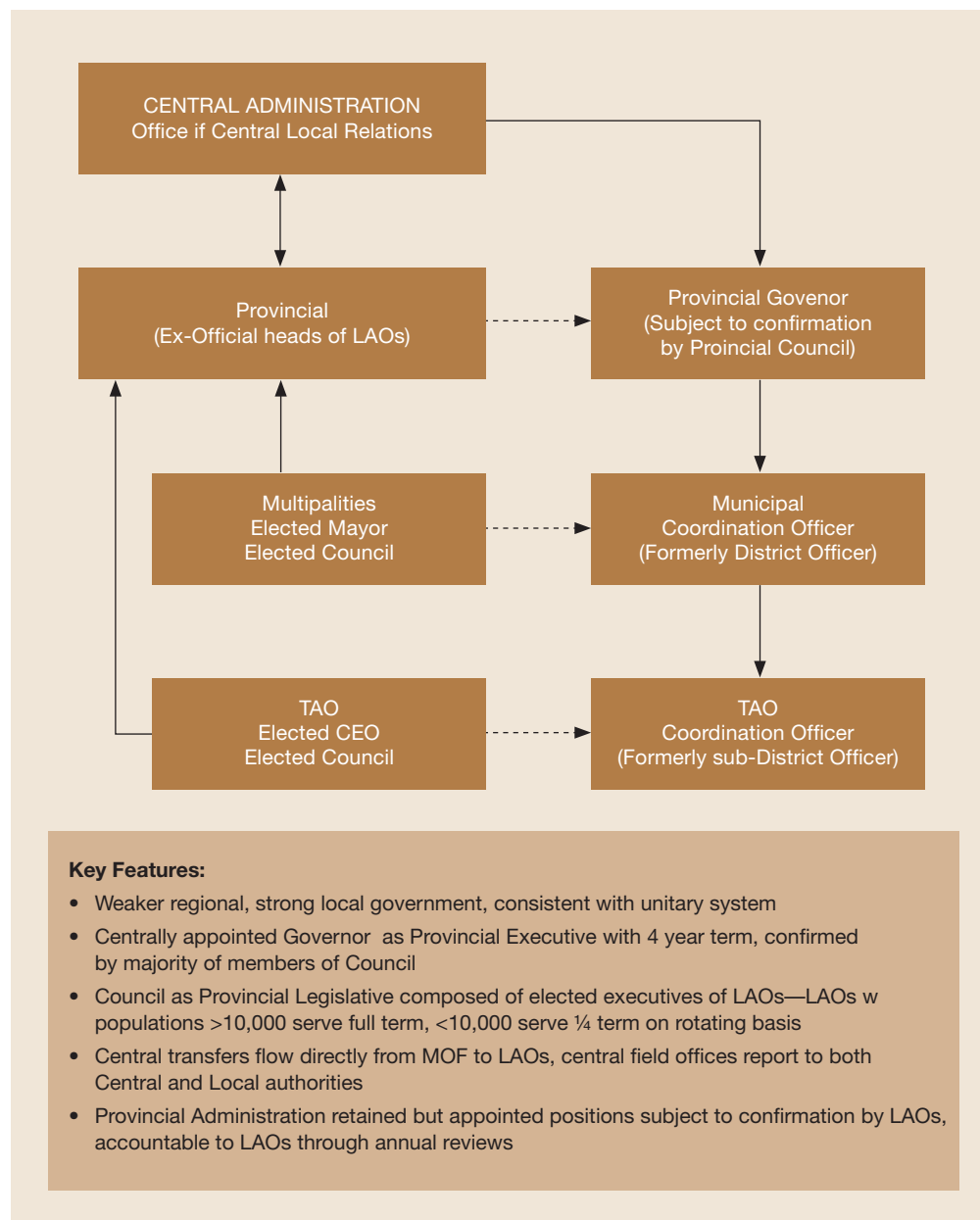
42. Based on the fact that Thailand remains a unitary government, considering analysis of the current institutional arrangements and issues therein, and taking into consideration international experience, it is recommended that ***Thailand transitions to a decentralized unitary government structure which is more consistent with the Constitution of Thailand.*** Under this arrangement (see Figure 9), 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 replaced 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.

43. Under the proposed decentralized unitary form of government arrangement, fiscal transfers will be rerouted to flow directly from the Comptroller General's Department of the Ministry of Finance to individual accounts of local governments – and with the financial management systems at the central and local level linked up. All field offices of central line agencies would have dual reporting and accountability channels – to the central administration as well as the LAOs. In this model, the Department of Provincial Administration (DOPA) and area-based bodies continue to exist, but are meant to provide technical support 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. Furthermore, in this arrangement, local authorities would directly coordinate service delivery issues with sector agencies.

Figure 9 : The Proposed Decentralized Unitary Structure



44. This proposed decentralized unitary form of government administration is consistent with the 1999 and 2007 Constitution and would allow for a seamless integration of LAOs with the central

government, while also requiring the least restructuring of the existing central local government relations system.

45. The Thailand National Reform Committee had recommended earlier in 2011 abolishing the provincial governor's office altogether, to directly empower local authorities to deliver public services, and to connect LAOs to central government agencies responsible for service

delivery, bypassing the Ministry of the Interior. This proposal would essentially be a complete roll-back of the deconcentrated arms of the central government at the provincial level and is also consistent with the unitary form of government proposed in this Overview Paper.

Table 4 : Current and Proposed roles for a decentralized unitary system of governance

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

46. However, the proposal in this paper pragmatically takes into account the historical context of centralized institutional control in

Thailand and capacity limitations of LAOs in immediately assuming direct service delivery responsibilities.

(II) CLARIFY ROLES AND RESPONSIBILITIES BETWEEN DIFFERENT LEVELS OF GOVERNMENT

47. As the transition to the decentralized unitary form of government proceeds, it will be important to clarify and demarcate functional roles and responsibilities between central government and local authorities. The current overlapping functional roles and responsibilities between central government and local authorities is also

contributing to service delivery coordination problems. A coordinated approach towards service delivery is critically important not only for service delivery in health and education sectors, but in other key areas like water management, as evidenced by the recent flood response.

48. Clarity in functional roles will help guide the centralized-decentralized management of health and education sectors and address the key question of how the unitary decentralized government structure will organize service

delivery in the health and education sectors. This will also infuse more accountability for results and help refocus the intergovernmental fiscal transfer system to follow functions.

(III) ADMINISTRATIVELY CONSOLIDATE LAOs INTO LARGER, MORE FINANCIALLY VIABLE ENTITIES

49. Thailand has 7,854 local administrative organizations. Most Tambon Administrative Organizations (sub-districts administrations) 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 administration 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. As a rule of thumb, 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

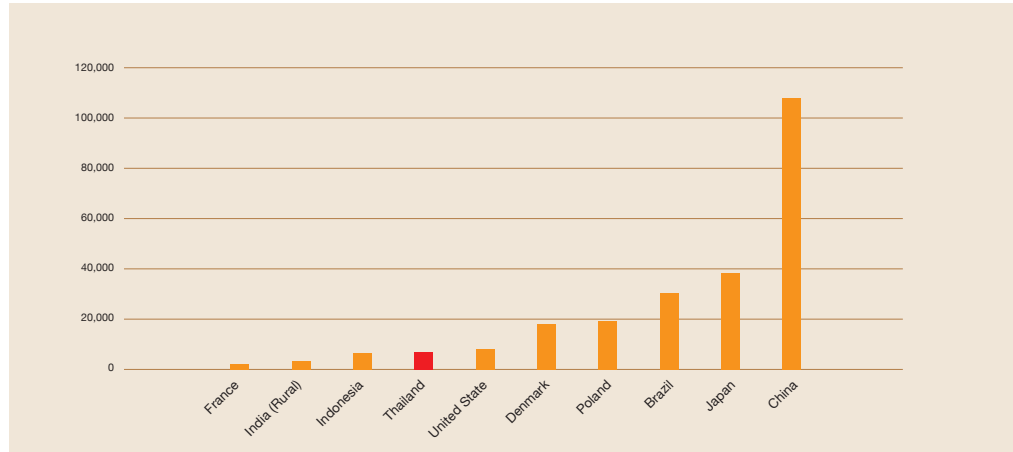
50. The large numbers of LAOs lead to two challenges: (i) high administrative costs leaving little or no money for public services. The small size and deficient revenue base can put TAOs at risk of spreading resources too thinly, trying to accomplish too wide a range of mandates and being unable to devote 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; and (ii) strains the coordination mechanisms with central government as there are too many small units for central agencies to effectively work with leading to fragmentation in service delivery.

51. In order to reduce administrative costs and improve coordination between the central government and local authorities, the government is advised to administratively consolidate LAOs into larger and financially more viable units. 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 administrative 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 Moiso, 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. Thailand may consider reviewing these experiences to develop own program for local government administrative consolidation or to develop asymmetric service delivery/functional responsibility for TAOs below a certain size.

Figure 10 : Median/average size of local governments in comparison



Source : Boadway and Shah (2009)

52. Resolving these three key issues: (i) transitioning to a decentralized unitary form of government; (ii) clarifying roles and responsibilities between central and local levels especially on core service delivery sectors; and (iii) administratively consolidating LAOs

into larger, more financially viable entities; will significantly enhance the ability of the central-local government relations architecture to deliver more cost effective, responsive, and accountable services at the central and local levels.

RECALIBRATE SERVICE DELIVERY AND PUBLIC FINANCE MANAGEMENT SYSTEMS' MONITORING AND EVALUATION FUNCTIONALITY TO FOSTER LOCAL ACCOUNTABILITY

53. A key objective of the government public finance management reform program has been to increase citizen centered accountability in service delivery. It was with this objective in mind that many reforms to the central-local

government relations and PFM systems have been conducted. Therefore a question of considerable importance is whether or not decentralization these reforms have improved accountability in service delivery?

54. Unlike some other developing countries, absenteeism by public sector employees is not an issue in Thailand. The main issues of accountability revolve around increasing meaningful citizen participation in the planning, monitoring and evaluation of the quality and timeliness of service delivery.

55. Thailand has made considerable investments in implementing results based management systems aimed at making the public sector more performance oriented and accountable. Some of the main results based management tools that have been implemented are:

- Balanced Scorecards with a set of Key Performance Indicators across all public sector agencies since 2003 under the Performance Management and Quality Assurance (PMQA) system. There is a requirement for citizen feedback on quality of service delivery under the External Perspective Dimension of the balanced scorecards. Agency assessments on the extent to which key performance indicators are met are published annually on respective agency websites.
 - A Local Quality Management system has been implemented for LAOs by the Ministry of the Interior. The LQM focuses mainly on checking whether LAOs comply with regulations by MOI.
 - The Performance Assessment Rating Tool (PART) of the Bureau of the Budget (BOB) monitors efficiency of use of budgetary resources at the project and program level. Results of the PART are not published but used internally by the BOB in reviewing budget proposals by agencies.
 - Performance pay system for civil servants was introduced in 2008, focusing on making adjustments based on performance rather than time-in-job. A process of performance contracts and assessments has been established and started working since 2009. Responsiveness to citizen needs and ethical behavior is a criterion within the performance contracts.
 - The Office of National Educational Standards and Quality Assessment (ONESQA) and the National Institute of Educational Testing Service (NIETS) have implemented systems to measure performance of schools across the country in terms of both student scores and teacher qualifications.
 - In the health sector, different agencies managing different schemes have also implemented performance management systems to monitor service delivery standards.
-

56. In addition to the performance and results based management tools, Thailand has also implemented major electronic systems to improve governance of public finances. The main tools in this regard are:

- The Government Fiscal Management Information System (2005) for budget execution and financial reporting.
- The e-Budgeting system (2006) to improve consistency, timeliness and quality of budgeting at the agency level.
- The e-Auctions system (2005/06) for public procurement at the central and local levels with the aim of enhancing transparency and competition in public procurement.
- The e-Local Authority Accounting System was implemented for LAOs since 2005 to improve budgeting and financial reporting at the local level.

57. The objectives of this suite of performance and financial management are to: (i) improve service delivery performance in the public sector; (ii) provide the necessary finance and service delivery performance information in order for citizens to hold their governments

to account; (iii) improve fiscal transparency; and (iv) address governance risks in procurement and financial management; (v) provide appropriate management reports for monitoring service delivery and finances

58. However, the PFMR review shows that, at this time the systems are not able to meet these objectives and effective operations

on the accountability system are hampered by a combination of the following issues:

(I) THERE IS INADEQUATE INTEGRATION BETWEEN THE RESULTS BASED MANAGEMENT SYSTEMS

59. There are three major issues in the overall results management system in Thailand . First, the PMQA, the PART, and performance related pay assessment systems are not integrated and there is significant overlap in performance metrics of each system. Second, the key performance indicators are focused mostly on compliance issues rather than on monitoring

service standards. Figure 11 presents a bird’s eye view of the different results based management systems – note that there are no horizontal lines between the systems. Third, there are more than 3,000 key performance indicators between these systems causing significant transactions cost for agencies, which also have to focus on sector specific performance metrics.

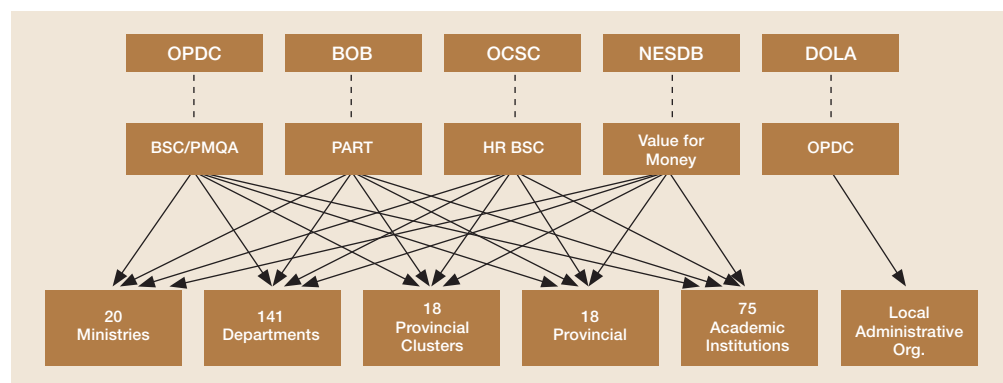
60. The lack of integration means that it is entirely possible for a department that does not perform on its key performance indicators to get higher budgetary allocations because BSC/PMQA does not share information

with PART. At the same time there are no effective linkages between the HR Balanced Scorecards (performance pay) and BSS/PMQA (key performance indicators).

61. These issues significantly compromise the overall efficacy of results based management

in the public sector whilst placing significant transactions cost on to government agencies.

Figure 11 : A Bird’s Eye View of Thailand Results Based Management Systems (as of 2010)

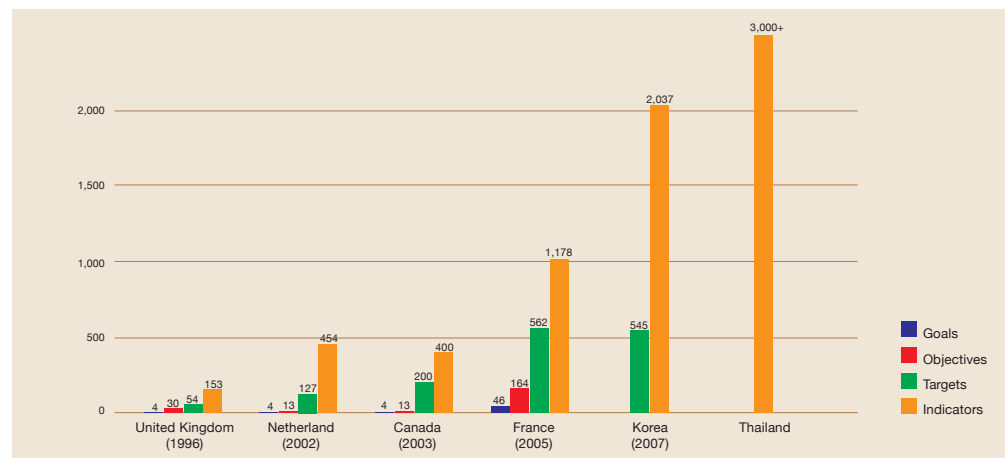


Source : Results Based Management in Thailand – GET Note (2011)

62. Figure 12 shows that the Thai RBM system has more indicators than any other comparator RBM system. There is a clear need to rationalize the numbers of KPI and to make them more performance oriented. The government is mindful of these issues and has recently decided to

integrate the results based systems to form a unified and integrated Government Evaluation System (GES) and in doing so, to rationalize the more than 3,000 KPIs in the systems and make them more performance oriented.

Figure 12 : Number of national level indicators used by central government



Source : Results Based Management in Thailand – GET Note 2011

(II) THERE IS EXCESSIVE FOCUS ON TOP-DOWN COMPLIANCE TO THE DETRIMENT OF BASIC SERVICE DELIVERY PERFORMANCE ASSESSMENTS

63. At the LAO level there is excessive focus on compliance monitoring with little information on basic performance assessments. As currently configured, the Local Quality Management (LQM) system focuses predominately on subjective assessments of compliance with central regulations. These assessments are largely process-focused and do not consider

any performance metrics. There are no national service delivery standards established at this time, nor is there any concerted focus on consolidating and publishing information on service delivery performance by LAOs. The information collected from the LQM system is mostly for internal control purposes.

64. Local administrations also face a reporting overload but receive no feedback on comparative performance with other LAOs. Currently, the central administration has little timely information on the fiscal health and service delivery performance of LAOs. Central

agencies, citizens, and think tanks have legitimate needs for such financial and operational data as such data are essential to designing public policies, informing policy debates, and to foster accountability at the local level.

65. In this regard it would be important for the government to develop a list of performance and financial data requirements and to collect and publish this essential information in a coordinated manner. In developing such a list of

information it may be helpful to consider the framework presented in Table 5. Current efforts under DOLA's LQM program can be refined to provide useful and timely data without requiring a complete overhaul of the system.

Table 5 : 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 by law • 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 	<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 <ul style="list-style-type: none"> • 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

Responsive and fair governance	Responsible governance	Accountable governance
	<ul style="list-style-type: none"> • 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 • 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 	<ul style="list-style-type: none"> • Provisions for popular initiatives and recall of public officials • Bylaw on taxpayer rights

Source : Shah and Shah (2006, 2007)

66. **Both top-down and bottom-up accountability is stifled because information on service delivery and fiscal performance is not published.** Without such information, citizens are unable to hold service delivery units accountable for quality or value of services rendered. Without information on benchmarks or relative performance of LAOs vis-à-vis their peers, it is not possible for

citizens to hold their respective local authorities effectively accountable. This is the most striking weakness in the current system and one that should be addressed simultaneously with other the systemic issues in the performance monitoring systems. Until then, accountability will remain piecemeal and based on individual accounts and perceptions.

67. **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 it 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.

68. In order to improve LQM, the following sequential steps could be considered:

- LQM forms could be refined to use a simple check list (yes or no) for compliance related items, removing all subjectivity from the assessment.
- 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 publically available simple reports on performance for all LAOs —this allows for an important accountability check, as local populations can ensure the self-reported data from their governments accurately reflects reality and also see how their respective LAO is performing in comparison with other authorities. 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.

(III) ABSENCE OF BUDGET AND FISCAL REPORTS IMPEDES EFFECTIVE BUDGET MANAGEMENT AND LIMITS FISCAL TRANSPARENCY

69. One of the most basic monitoring tools is the Budget Performance Report – a simple comparison between budget appropriations and actual expenditures by main economic and administrative classifications. Budget performance reports allow the authorities and the citizens to determine variations in expenditures, identify causes for large

variations, and to take corrective actions appropriately. Without such basic reports, it is not really possible to determine how well or otherwise the budgetary management system is working to deliver planned appropriations to service delivery units. Currently Thailand does not publish such reports for either the central government or local authorities.

70. There are two technical reasons why Thailand is unable to publish Budget Preparation Reports even at the central government level:

- The e-Budget and GFMS are not appropriately integrated.
- The chart of account between budgeting and accounting are different and the overall chart of account code structure is fragmented.

72. At the local level, by 2010 the e-LAAS only had fiscal information for about 1,200 out of 7,854 LAOs. This data incompleteness is a source of concern for many reasons including possible funds leakages, avenues of misuse of resources, increased corruption risks, and reduced opportunity for citizen accountability. Lack of information gives rise to perceptions of mismanagement on account of

LAOs, even though the issues that inhibit data consolidation may be of a technical nature. It is therefore of critical importance that at least 80 percent of data on fiscal operations of LAOs is consolidated and published together with relative service performance reports in order to allow local accountability systems to operate as intended by the Constitution.

73. In order to address these issues, the government is recommended to consider the following sequence of measures:

- a. Unify the budget codes with the financial chart of accounts for the central government and develop a uniform chart of account with the appropriate coding segments to fulfill budget and financial monitoring needs;
- b. Harmonize financial reporting standard for local authorities and develop bridge tables that would ensure consolidation of central government and local authority fiscal information;
- c. Conduct a gap-analysis of GFMS and integration needs assessment between GFMS, e-LAAS, and e-Budget;
- d. Implement the unified chart of account and coding structure within GFMS and e-Budget system in tandem with addressing issues highlighted from the GFMS gap analysis and integrate GFMS, e-Budget, and e-LAAS;
- e. Start publishing automated budget execution and monitoring reports with variance analysis

(IV) INFORMATION ON PUBLIC PROCUREMENT OR UNIT PRICES IS NOT PUBLISHED GIVING RISE TO PERCEPTIONS OF MISMANAGEMENT AND CORRUPTION AT THE LOCAL LEVEL

74. As money public is spent at the local level, improving governance and controlling corruption is a concern for policy makers. There are also instances reported in the press where local authorities have procured goods and construction contracts at inflated prices, giving rise to a perception of corruption at the local level. It is not possible to corroborate or negate such reports under the currently available monitoring framework or data. Accordingly, it would be advisable for the government to gather information from the e-auction database on unit prices for standard goods and supplies like

vaccines, medicines, office supplies, paper, computers, and other off-the-shelf consumables across the country and to publish this information regularly – at least on a six monthly basis. At the same time it will be important to mandate central government and local authorities to publish information on unit prices of standard goods and supplies procured so that citizens can compare the national reference prices with the unit prices obtained by their respective local authority. Such a cross-check will improve local accountability and incentivize responsible governance from respective administrations.

75. In order to address some of the issues identified here and enhance local accountability, there are four main recommendations:

- **Publish annually information on service delivery performance by central and local authorities** either against national benchmarks or in absolute terms.
- **Consolidate detailed fiscal operations information of LAOs (at least at the municipal level) with that of the central government** and publish general government operations report by functional and economic classifications.
- **Integrate results based management systems and financial management systems** and publish budget monitoring reports that can be linked to departmental performance.
- **Institute mechanisms for local citizen representation on boards of health and education facilities** in order to ensure voice and opinion of citizens are considered and taken into account in management of service delivery units.
- **Publish unit price information for standard supplies and goods procured by local authorities and central agencies.** Such a move will increase transparency and provide incentives for LAOs to conduct competitive procurement, along with interested citizens to see at what price their respective jurisdiction is procuring standard goods and supplies as compared with others.

E | SUMMARY OF ISSUES AND RECOMMENDATIONS

76. The table below summarizes the desired objective along with key issues and sequential recommendations that would

improve service delivery at the local level as well as governance of public finances.

Table 6 : Summary of Issues and Recommendations

Objective	Issues	Key Recommendations
Making access to services equitable	<p>Significant regional expenditure variations</p> <ul style="list-style-type: none"> Contribute to disparities in service delivery and ultimately regional human development outcomes. 	<ul style="list-style-type: none"> Refocus expenditure policy towards regions that are deficient in terms of service delivery, with the aim of bringing them up to Bangkok levels and standards. Increase the equalization element of the intergovernmental fiscal transfer formula from the current 2 percent to at least between 15 – 20 percent.
Reforming central-local government relations system to deliver more responsive, coordinated, and effective public services	<p>Dual administration leads to increased cost, confusion and inadequate accountability</p> <ul style="list-style-type: none"> Dual administration at the local level drives up administrative costs, impairs central-local coordination and blurs lines of accountability, inhibiting effective and accountable delivery of services at the local level. 	<ul style="list-style-type: none"> Transition to a unitary decentralized form of government by rolling back the deconcentrated provincial administration and connecting LAO's directly to the Ministry of Finance and the Bureau of the Budget on fiscal matters and with sector agencies on service delivery issues. The role of the Ministry of Interior would transition to one of coordination and promotion, away from command and control.
	<p>Overlapping central and local mandates and lack of coordination with other central reforms</p> <ul style="list-style-type: none"> Overlapping legislative mandates for service delivery between central government and local authorities combined with insufficient coordination between decentralization reforms and central health and education reforms are affecting service delivery and increasing transactions cost for all levels of government. 	<ul style="list-style-type: none"> Clearly demarcate roles and responsibilities between central government and LAOs as the Government formulates the new Decentralization Act and related regulations. This will allow for financing to follow functional responsibilities. The Decentralization Committee could ensure central government led health and education sector reforms are coordinated with the decentralization reforms – and appropriate legislative instruments reflect this appropriately
	<p>Numerous small LAOs are unviable administrative units</p> <ul style="list-style-type: none"> Small administrative units (3,000 LAOs with fewer than five thousand residents) result in high administrative costs which crowd out public expenditures on service delivery, put strain on the coordination mechanisms with central government as there are too many small units for central agencies to effectively deal with, and cause fragmentation in service delivery. 	<ul style="list-style-type: none"> Provide incentives for LAO's with 5,000 or less residents to administratively consolidate into larger more financially viable entities. Provide asymmetric service delivery responsibilities to LAO's – with smaller LAO's taking on a much narrower set of service delivery responsibilities than the larger ones. The cut-off could be either number of registered residents or by level i.e. municipality.
	<p>Absence of a functioning performance monitoring system</p> <ul style="list-style-type: none"> The monitoring and evaluation systems at central and local levels are focused almost solely on compliance, leaving service delivery outcomes uncertain. Transactions cost for agencies to comply with these systems is high and detracts from the needed focus on delivering services. 	<ul style="list-style-type: none"> Rationalize the compliance checks within the Local Quality Management system into a simple yes/no check-list and to include metrics on service delivery quantity and quality. Effectively integrate the Bureau of the Budget PART with the Office of the Public Sector Development Commission's Total Quality Management Assurance system within the newly constituted Government Evaluation System. Ensure the Local Quality Management System is fully integrated with the Government Evaluation System.

Objective	Issues	Key Recommendations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Fostering more accountability and efficiency in delivery of public services</p>	<p>Fiscal information for LAOs – which receive more than 25 percent of net central government income – is not available</p> <ul style="list-style-type: none"> This results in compromised fiscal transparency – Thailand is one of very few middle income countries that are unable to prepare fiscal accounts at the general government level; weakening of overall expenditure planning as 25 percent of net central government revenues are being spent without an understanding of their purpose; perceptions of financial mismanagement at the local level. 	<p>In order to improve basic fiscal reporting, the authorities are recommended to:</p> <ul style="list-style-type: none"> Publish fiscal operations table at the general government level with at least 80 percent coverage of LAO finances with broad economic and functional classification. Revisit the implementation of the e-Local Authority Accounting System to ensure that it captures at least 80 percent of total LAO spending by economic and functional classification. Integrate LAO financial management system with the Government Fiscal Management Information System within a common chart of account structure so that financial reporting and consolidation is seamless.
	<p>Lack of tools to compare performance of LAOs relative to their neighbors inhibits accountability</p> <ul style="list-style-type: none"> Residents of localities cannot determine whether or not their respective LAO is performing better or worse compared with either a national average or other localities. Opportunity for citizen engagement in local accountability is severely curtailed. 	<ul style="list-style-type: none"> Publish an annual report on service delivery performance for key service delivery areas for central and local authorities either in comparison with some nationally established service delivery benchmarks or in absolute terms. This information would help identify any outliers and provide a relative performance benchmark. Such reporting is conducted in OECD countries like Canada, US and Western Europe these countries are known for accountability and quality of service delivery at the local level.
	<p>Lack of systematic public procurement information at the local level</p> <ul style="list-style-type: none"> leads to perceptions of mismanagement and corruption at the local level 	<ul style="list-style-type: none"> In order to improve transparency and accountability the government is advised to publish unit price information for standard supplies and goods procured by local authorities and central agencies. Such a move will increase transparency and provide incentives for LAOs to conduct competitive procurement, along with interested citizens to see at what price their respective jurisdiction is procuring standard goods and supplies as compared with others.
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Improving fiscal reporting, transparency, and enhancing unity of the budget</p>	<p>Fiscal reporting and transparency have considerable room for improvement</p> <ul style="list-style-type: none"> The Office of the Auditor General has not certified budget execution reports for FY2007/8 – 2010/11. Not having certified audit opinion is a significant source of concern and points to fundamental issues. Although Thailand publishes budgetary appropriations and reports on actual expenditures, there is next to no budget-to-actual reporting – either as in-year budget monitoring reports or as annual budget performance reports. Analyzing actual expenditures is problematic because it is not possible to reconcile the figures reported by the FPO and the BOT with the underlying numbers from CGD. This is because the adjustments that FPO and BOT make to the CGD information is not published as memo items in their respective reports. Furthermore it is not possible to determine what items are covered in the ‘carryover’ category (representing about 7 percent of total expenditures, as per Table 2) 	<p>Fiscal transparency can be effectively enhanced by:</p> <ul style="list-style-type: none"> Ensuring reconciliation issues in the budget execution report for at least 2010/11 are addressed and certification from OAG obtained. Going forward, it will be important to ensure certification is obtained in a timely manner. Publish: (i) biannual in-year budget execution report (with budget-to-actual reporting by detailed economic and administrative classification); and (ii) annual budget performance report with variation analysis. In order to aid these task the budget nomenclature and the chart of accounts for financial reporting will need to be aligned and implemented uniformly across GFMS and e-Budget. FPO and BOT should consider publishing the memo items of adjustments made to the actual expenditure figures published by the CGD (which is the source of the data) Providing more details of the constituent elements of the ‘carryover’ category will significantly improve the ability of agencies and stakeholders on fiscal analysis and strengthen fiscal transparency.

Objective	Issues	Key Recommendations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Improving fiscal reporting, transparency, and enhancing unity of the budget</p>	<p>Debt financing options and classification of budget loans as ‘off-budget’ source of finances causes budget fragmentation</p> <ul style="list-style-type: none"> The public finance management system allows the government to borrow (domestically and externally) in excess of the PDM Act ceiling by classifying such borrowing as ‘off-budget’. For financing in excess of the budgetary financing ceiling imposed by the PDM Act there are two options: (i) legislating a change in the budgetary financing ceiling in the Act; and (ii) classifying the borrowing as “off-budget”, in which has the PDM Act ceiling does not apply. Under the “off-budget” option, it is the Ministry of Finance that makes the allocative discussions on these funds rather than the Bureau of the Budget. Agencies then have to report on the use of these funds to the MOF through parallel-to-the-budget reporting systems by agencies, raising not just administration and transactions cost but also fragmenting the monitoring and evaluation systems. The government classifies budget support loans (program loans) as off-budget financing sources. This classification mismatch causes fiscal inflexibility for the government because it is not able to use program loans to flexibly finance normal budgetary operations, and in practice ring fences these loans to specific projects causing budget fragmentation and reducing the strategic prioritization aspects of budgeting. 	<ul style="list-style-type: none"> Other than in a situation of emergency, in case financing is needed in excess of the ceiling allowed under the PDM Act, then it would be advisable to legislate a change in the ceiling, rather than proceed through the off-budget window. Such a move will preserve the unity of the budget whilst reducing the additional workload on the Ministry of Finance on managing and reporting on these funds. Reclassify program loans as an ‘on-budget’ financing source so that these resources can be used flexibly to finance more needed expenditures within the budget process rather than be tied to individual projects as an ‘off-budget’ source. This measure will improve efficiency and effectiveness of budget spending.
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Infusing more strategy into the Strategic Performance Based Budgeting System</p>	<p>Thailand still practices unconstrained budgeting at the agency level</p> <ul style="list-style-type: none"> Agencies are not provided indicative ceilings within which to prioritize their budget request. The current system has two main disadvantages; (i) agencies have no incentive to internally prioritize budget requests and critically review programs for possible redeployment of resources; and (ii) Bureau of the Budget has to deploy significant human resources on line item review and budgeting cutting exercise, at the expense of conducting program reviews and value for money analysis on the budget. Thailand does not produce an integrated document presenting the Government’s Fiscal and Budget Strategy which provides key economic information to the Parliament and stakeholders on assumptions used in formulating the overall budget framework, strategic government objectives, risks present and steps taken to mitigate them, and the projected outturn of the preceding fiscal year budget. Without this document it is not possible to have a holistic view of the government’s budgetary constraints, choices, and outcomes expected from utilization of public resources. 	<ul style="list-style-type: none"> In order to incentivize agencies to internally reprioritize budgets and redeploy resources, and for BOB to free up human resources for more strategic areas of budgeting, it is recommended that BOB issue indicative ceilings to ministries and agencies at the beginning of the budget preparation calendar – after the core agencies have determined agreed on the macro-fiscal parameters and the overall budget framework is determined. Government should present to the Parliament a Budget Strategy Paper (BSP) when the Budget Bill is tabled to the Parliament – as is standard practice in progressive OECD countries like Australia, New Zealand, the UK, the US, and neighboring countries like Malaysia, Singapore, and Korea. Presenting this BSP will make parliamentary and stakeholder discussions more strategic and engaging, rather than focusing on a review of line items and providing marginal commentary on the budget proposals.

ANNEX A

KEY FINDINGS AND SUMMARY
OF RECOMMENDATIONS FROM
THE 2000 PUBLIC EXPENDITURE
REVIEW

The 1997 Asian Financial Crisis provided an important impetus to Thailand's Public Finance Management (PFM) Reform program. In order to inform the design of the Royal Thai Government's PFM reforms, the 2000 Public Expenditure Review identified the following issues and recommendations :

- **Appropriately sequence fiscal decentralization reforms.** The 1997 Constitution had mandated a fundamental shift from a centralized unitary form of government to decentralized unitary government by decentralizing revenues and functional responsibilities to Local Administrative Organizations (LAO's). This constitutional requirement was operationalized by the 1999 Decentralization Act which required the gradual transfer of more than 175 service delivery responsibilities (including healthcare and education) from the central government to LAO's over time based on the capacities of LAO's and for the central government to progressively increase LAO share of general government revenues from about 11 percent in 1999 to 35 percent by 2006. The stated objectives of the decentralization reform as presented in the 1999 Decentralization Act were 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.

At the time of the PER, the government was developing the first Decentralization Master Plan, and in this regard the PER recommended that in order to achieve the objectives of the decentralization reforms it was important that: (i) central-local administrative and functional responsibilities were clearly defined; (ii) devolution of revenue authority needed to be closely calibrated with the decentralization of functional responsibilities from central government to LAOs; (iii) the appropriate institutional arrangements be put in place to encourage LAO's to improve local revenue mobilization; (iv) authorities ensure that the intergovernmental transfer system be based on transparent formulas, and that transfers were predictable and provided in a timely fashion; (v) LAO borrowing be managed carefully in order to minimize fiscal risks whilst providing LAOs with viable programs/projects, recourse to appropriate borrowing instruments; and (vi) LAO accountability system should be enhanced by strengthening local fiscal reporting systems, increasing local revenue mobilization, and engaging civil society in local decision making and monitoring.

- **Provide greater budgetary planning autonomy to sector ministries.** The budget process was considered too centralized and did not incentivize agencies to use the budget as a management tool to increase the performance – i.e., the efficiency, effectiveness, and equity – of government programs. The recommendation therefore was for the Bureau of the Budget (BOB) to provide more fiscal flexibility to agencies whilst increasing their accountability for results. This would entail a move from line-item incremental budgeting to having medium term programmatic perspectives to budgeting and putting in place a monitoring and evaluation system which would provide information on efficiency and effectiveness of public spending at the program and agency level;

- **Improve budget execution system and quality of financial reporting.** The budget execution and reporting systems were not integrated, fragmented across departments, and mostly paper based. This resulted in a weak financial control environment and incomplete financial reporting on public finances. The recommendation was for the government to automate and integrate the budget execution systems for improving the financial control environment and improve financial reporting;

- **Manage fiscal risks and enhance fiscal transparency.** The 1997 Asian Financial Crisis had highlighted the need to establish structures and systems for identifying and mitigating fiscal risks and to increase fiscal transparency in the public sector. In this regard the Ministry of Finance was advised to improve the debt management function at the Public Debt Management Office, publish a clear medium term fiscal strategy, report on the extent of off-budget operations, prepare a statement of fiscal risks arising from government's contingent liabilities, and to move towards compliance with the IMF's general data and dissemination standards;

- **Enhance revenue mobilization and improve transparency in tax administration.** The concerns regarding tax administration revolved around strengthening collection enforcement by improving arrears information, audit case selection and reducing collectable debt to a manageable level. On enhancing revenue collection the focus was on increasing the tax base, especially for the personal income tax, improving taxpayer compliance, and enhancing information technology as a means to strengthen management and transparency;

- **Improve development outcomes from public finances.** This objective was to be accomplished by enlargement of poverty alleviation programs and improvement in geographical targeting and self-targeted programs. However, it was noted that in comparison to other middle income countries, Thailand's expenditure allocation among sectors broadly reflected its development priorities and that a relatively large share of government expenditure was allocated to agriculture, transportation and communications, and health and education; and

- **Enhance quality and timeliness of external audit** by ensuring that the Office of the Auditor General has the capacity for timely and quality financial and performance audits.

