

Fiscal Decentralization in Thailand: Concepts, Issues, and Challenges

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Abstract

By discussing the impetus and structures circumscribing the present local public finance system of Thailand, this paper accords emphasis on both the meso and micro observable levels of local public finance. Along the way, this paper focuses on the present system's gaps in meso level – the detrimental effect to local government's revenue raising capacity by intergovernmental transfers; and, micro level – unclear assignment of fiscal responsibility, weak fiscal management, and ineffective use of funds. Finally, recognizing the juvenility of the local government system in the country, the paper espouses the tapping of the proactive role of the constituents to realize the objectives of decentralization.

Introduction

Over the past two decades, there has been an unprecedented move towards decentralization all over the world. In developing countries where centralized administration has failed to deliver public services to improve people's welfare, this move has greatly changed politics and public administration, particularly fiscal devolution to local governments. Thailand is a developing country that has also initiated decentralization.

Decentralization in Thailand began under its 1997 Constitution, which required the central government to devolve its responsibilities and resources to local governments. As consequence, the role of local governments toward public service delivery has been reshaped. The principles of decentralization aim to implement a comprehensive program covering political decentralization, local public administration, and most ambitiously, fiscal decentralization. Decentralization in political affairs has already progressed as direct election of local officials by local residents has been allowed. On local public administrative affairs, the Constitution mandates the central government to transfer functions to local government and separate local civil administrative officers from central agencies, which purpose is to ensure autonomy of local authorities over their own affairs. Finally, to guarantee the independence of local governments through improved local fiscal autonomy, the central government has been required to provide financial support to local governments. Overall, the decentralization program aims to enable local governments to be more responsible and accountable for taking care of local affairs.

Fiscal decentralization is considered a key element to improve public governance in Thailand. The most important feature of fiscal decentralization is the devolution of central government's fiscal powers and responsibilities to local governments in, among others, revenue collection, expenditure decision, and fiscal

policy discretions. The central government also uses fiscal decentralization to enable local governments to improve efficiency and effectiveness in public services delivery that could also foster local accountability. Theoretically, central government's inadequate information on the needs of local people causes inefficiency in public services delivery across the country. Local governments are better informed on said needs and therefore they can address them more effectively than the central government. Experience from other countries proves that public administration and fiscal management by local governments helps improve public services delivery.² If fiscal decentralization is implemented well, it: helps improve the quality of public services according to the needs of the people; increases the efficiency of their delivery; and reduces regional economic development disparity. To achieve the benefits of decentralization, it must be designed involving the correct approach and suitable environment. For example, devolving public functions and establishing good practice for local governments' accountability needs to be accompanied with proper devolution of revenue powers and responsibilities. By providing financial resources alone, it might lead to misconduct or ineffective decentralization. Without an appropriate balance between expenditure and revenue powers, quality of public service delivery may deteriorate in a decentralized setting. Thailand has encountered similar conditions of implementing a decentralization program where the process lacks such synchronization.

Though there is no uniform formula of fiscal decentralization applicable for all countries, there are guidelines and rules to be followed. A key success factor of fiscal decentralization in Thailand depends on the extent to which political and economic institutions allow their duties to be altered in supporting local accountability and responsibility through local fiscal management. These institutional factors include rules, regulations and guidelines for good management that are often weak or non-existent. Success of decentralization in Thailand will hinge upon the development of these political and economic institutions and local accountability structures.

Fiscal decentralization in Thailand has been a political and economic development reform issue in the past two decades. The demand for public sector reform has arisen on account of the disparity and ineffectiveness of public agencies in delivering public services to improve the general welfare of people. Decentralization in Thailand is a part of public sector reform, which began after the promulgation of the 1997 Constitution. Prior to this Constitution, Thailand was a highly centralized country where local autonomy was limited in all aspects of public functions, including funding and self decision-making. Manifestations of the then highly centralized condition of Thailand are the following:

- The central government spent 93 percent of total public expenditures.
- Only 10 percent of the public revenue were locally collected and retained.
- The central government appointed chief local officials, determined local salaries and approved local budgets.

Against such circumstances, decentralization in Thailand was designed, which

aims to build up the fiscal capacity of local governments to become independent from central authorities' control. Prior to the decentralization resolution in 2001, local governments lacked adequate revenues because of limited revenue sources and inefficient revenue assignment. These caused poor revenue collections as illustrated in Table 1. Therefore, central government has to provide substantial amounts to subsidize local expenditure through revenue transfers from both tax revenues and grant allocation. As consequence, intergovernmental transfer became a key issue in Thailand's fiscal decentralization.

Table 1 Proportion of Local Governments' Revenues to the National Public Revenues

| Fiscal Year | Local Revenue | (million Baht) | |
|-------------|---------------|-------------------------|-----------------------------------|
| | | National public Revenue | LGs % of Total Public Expenditure |
| 1996 | 60,663.99 | 850,458.80 | 7.13 |
| 1997 | 93,349.09 | 843,542.30 | 11.07 |
| 1998 | 103,604.17 | 733,136.90 | 14.13 |
| 1999 | 105,036.34 | 708,826.00 | 14.82 |
| 2000 | 99,802.80 | 749,948.00 | 13.31 |
| 2001 | 154,633.10 | 739,021.00 | 20.92 |
| 2002 | 176,803.17 | 803,651.00 | 22.00 |
| 2003 | 184,066.04 | 829,495.56 | 22.19 |
| 2004 | 208,851.40 | 928,100.00 | 22.50 |
| 2005* | 282,000.00 | 1,200,000.00 | 23.50 |
| 2006* | 327,110.00 | 1,360,000.00 | 24.10 |

Note: * are estimated figures.

Source: Department of Local Administration, Ministry of Interior.

This article intends to provide an overview of the on-going implementation of fiscal decentralization in Thailand as influenced by the 1997 and 2007 Constitutions. The discussion covers 3 topics, as follows:

1. The process of decentralization in Thailand;
2. Explanations on how fiscal decentralization was formulated to achieve efficiency in local fiscal autonomy, and how intergovernmental transfer helps to finance local spending ; and,
3. Prospects on fiscal decentralization after the 2006 *coup de'etat*.

The first objective of this article is to discuss how decentralization in Thailand had progressed, and how it changed public administration at local level. The second topic encompasses revenue and expenditure assignment issues, and more importantly the intergovernmental fiscal relation between the central and local governments. An analysis of the revenue assignment with regard to the function responsibilities and its impact to the fiscal decentralization process at local governments will also be discussed. The issue here is to address the key problem in fiscal efficiency of the central revenue transfer, including central taxes and subsidies, to

Box 1 Why Thailand needs decentralization?

Under the 1997 Constitution, which is seen as most liberal, provided the foundation for decentralization in the country. It can be observed that the decentralization would help to:

1. promote democracy in the country. Ideology of the Constitution is to establish democracy at all levels of public administration. Decentralization would help to provide understanding and training for people at all levels in learning how democratic system works and the involved roles of people under the system. It requires an electoral system for local representatives as a substitute for a centrally appointed system, which is first time in the country's history. In addition, the Constitution also recognizes the necessity of people's rights in monitoring and voicing for better public administration.
2. support public sector reform program to enhance the balancing of regional development. The aim of the reform is to reduce the size of the central public sector and decentralize decision making process to lower levels of public administration. The program expects to realize a more efficient in management that would public sector administration closer to people.
3. increase efficiency in public service delivery. This is a result of the increasing concerns on inadequate public service to cope with the rising needs of the people across the country. The previous public service providing system has failed to fill the gap of inequality development.
4. create people participation in decision making in the allocation of public resources. Decentralization would help to foster self governance by the people that in turn, augments more accountability.

Source: by author.

local government in financing local public services. Finally, the amendment of the process that resulted from the enactment of the 2006 Constitution will also be discussed. The paper begins by providing a background of Thailand's public administration before and after implementing decentralization. Before discussing how fiscal decentralization began, a brief review of public administrative structure is provided in order to have better understanding of the design of the system.

The Structure of Thailand's Public Administration

The kingdom of Thailand has a long history of being a unitary state. Thai bureaucratic system is stratified into three levels of administration that includes central, regional, and local administrations (Figure 1).

Regional Administration

Regional administration is an administrative extension arm of the central government at provincial level. The chief administrator is the provincial governor who is appointed by the Ministry of Interior. The governor's line of command is also directly under the Ministry of Interior. The governor cooperatively works with

other field officers from various ministries, with whom the governor has no authority to command.

Prior to 1997, Thailand's public administration was highly centralized as majority of the public services were delivered at the central level.³ The public administration was composed of three layers, namely: central, regional, and local levels. The actual decision making was, however, mostly limited at the central level. The administration at regional levels were based on deconcentration approach, where provincial governors were appointed by the Central Ministry.⁴ The provincial governor was also in-charge of supervising local government administration. Chief of local government was required to work as "delegated agent" of the provincial governor in local affairs. They had limited administrative capacity, fiscal autonomy, and responsibilities toward local people. Local governments' functions were only limited to providing support to provincial staffs and coordinating with central agencies in providing public services to local people.

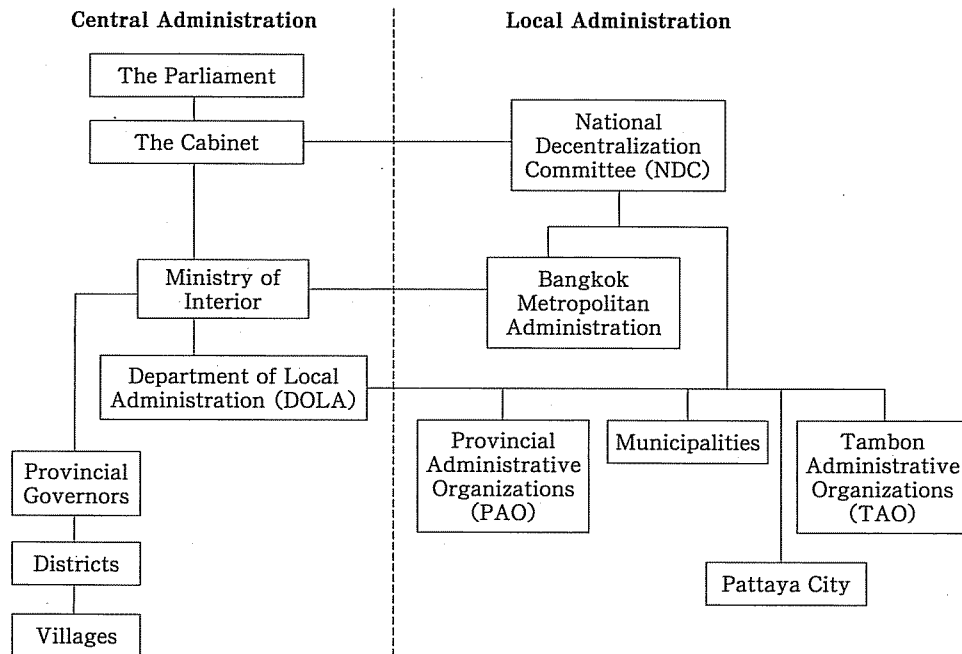
Local Government Administration

Local governments in Thailand have been designed as self govern units and as part of the national public sector. The structure of local administration is a two-tier system and are independent units from each other. Altogether, there are 7,857 units of local government.⁵ The upper layer of local administrative body is the Provincial Administrative Organization (PAO), which coordinates and assists other local governments within each province in delivering public services. Currently, there are 75 units of the PAO. Municipalities comprise the lower level of local administrative bodies, which are urbanized areas of the province. There are 1,156 units of municipalities.⁶ The rest of the local governments are *Tambon* Administrative Organization (TAO). These are located in more rural and remote areas of the province. Currently there are 6,624 units of the TAOs across every province. In addition, there are two special local units namely Bangkok Metropolitan Administration and Pattaya City.

The large number of local government units in Thailand is a stumbling block in the implementation of decentralization. There is an immense divergence across local government units both in terms of size (as measured by number of population) and in terms of fiscal capacities. TAOs, which are small communities with populations of less than 5000, comprise about 70 percent of the total number of local governments. Majority of the TAOs are newly established and are poorly prepared as self-governing units. Therefore, only a handful of the TAOs are capable to sustain efficiently the provision of public services. Unlike the TAO, municipalities have a long history of self-governance and are more experienced and capable for self-financial management. However, as the implementation of the decentralization program calls for the substantial transfer of functions from the central government to all level of local governments, it can be expected that all local governments will encounter fiscal pressure, greater challenges in administering public service delivery, and deeper crisis in financial management.

Figure 1 illustrates the administrative structure of Thailand government. Interestingly, founded under the Decentralization Act of 1999, the National Decent-

Figure 1 Administrative Structure of the Royal Thai Government



Source: author

ralization Committee (NDC) directly attached to the Prime Minister's Office (PMO) is mandated to promote decentralization.⁷ The functions of the committee are to provide policy framework for decentralization, and design intergovernmental transfer toward decentralization. The chairperson of the committee is the Prime Minister himself because a major responsibility of the committee is to reassign functions and revenue from the central government to local governments, which requires executive decision.

The implementation of decentralization resolution requires a great effort from the government in devolving autonomy from various central agencies to local governments. Only the Prime Minister has the power to catalyze for such changes. The duty of the NDC, however, undermines the authority of the Department of Local Administration (DOLA), which has direct supervisory powers over local governments in many decades. This overlap between the two agencies often results to conflicts on decision making.

The responsibilities of the NDC includes drafting of the decentralization plan as a guideline for the devolution of functions and central personnel to local governments; designing of revenue assignment and intergovernmental transfer formula; and, monitoring and evaluating of the devolution process and its impacts on local people. The progress of devolving discretionary autonomy to local governments can be briefly reviewed in following sections.

The Fiscal Decentralization and Economic Development

Decentralization is considered a national policy priority under the National Economic Development Plan in promoting people participation and encouraging self-governance in the local level. In addition, decentralization has not only been regarded as a mechanism to support economic development but as a key factor in synergizing the public sector reform program. On the economic development perspective, this has been evident in the past three decades of Thailand's economic development. Thailand has succeeded in increasing economic growth rate to be among the highest in the region. However, if the distribution of economic benefits is considered, it reveals that economic development across the country is vastly disparate. Table 2 indicates the highest income for Bangkok and its vicinity provinces while the lowest income is indicated for northeastern and southern regions. Decentralization as a new public management mechanism is seen to help balance the differentiation of resources distribution across the regions.

Table 2 Per Capita GRP Across the Regions in Thailand

| Region | (Unit: Baht) | | | |
|-----------------------------|--------------|-----------|-----------|-----------|
| | 2000 | 2003 | 2006 | 2007 |
| (1) Northeastern | 24,188.0 | 28,927.0 | 35,880.0 | 40,165.0 |
| (1)/(8) | 0.31 | 0.31 | 0.30 | 0.31 |
| (2) Northern | 37,503.0 | 44,921.0 | 57,560.0 | 63,388.0 |
| (2)/(8) | 0.47 | 0.49 | 0.48 | 0.49 |
| (3) Southern | 56,197.0 | 66,643.0 | 90,535.0 | 95,229.0 |
| (3)/(8) | 0.71 | 0.72 | 0.76 | 0.74 |
| (4) Eastern | 155,467.0 | 202,360.0 | 294,475.0 | 312,325.0 |
| (4)/(8) | 2.0 | 2.2 | 2.5 | 2.4 |
| (5) Western | 58,182.0 | 70,721.0 | 90,466.0 | 98,690.0 |
| (5)/(8) | 0.74 | 0.76 | 0.76 | 0.77 |
| (6) Central | 114,180.0 | 144,367.0 | 185,710.0 | 197,963.0 |
| (6)/(8) | 1.44 | 1.56 | 1.56 | 1.54 |
| (7) Bangkok and Vicinity | 225,104.0 | 243,764.0 | 296,786.0 | 316,350.0 |
| (7)/(8) | 2.85 | 2.64 | 2.49 | 2.47 |
| (8) Whole Kingdom | 79,098.0 | 92,485.0 | 119,412.0 | 128,239.0 |

Source: Division of National Account, Nation Economic and Social Development Board

An objective of the fiscal decentralization is to balance the economic disparity that was generated from the earlier years of economic development. Under the fiscal decentralization scheme, there will be a reallocation of responsibilities for public services, budget, and personnel from central line agencies to local governments. This is to ensure greater roles of local governments in delivering public services. The devolution of public services serves as a mechanism to redistribute public

resources from central government to local governments. The transfer of functions adapted the following basic principles: (1) the functions of each level of local government should be clearly demarcated, and each specific function should be exclusive to each level of government; and (2) focus of increasing local autonomy and avoiding overlapping of responsibilities with the central agencies, for which, the NDC applied the "subsidiarity principle" that functions should be transferred to lowest level of local government. Functions, which could be performed more effectively by the municipalities and the TAOs, were not given to the PAO or the central government agencies. As a consequence, municipalities and the TAOs received most of the transferred functions; (3) to minimize administrative cost in transferring of responsibilities for public services, the process of devolving functions to all levels of local government took place simultaneously, except for education and public health services. This is because the two functions involve well beings of the general public, thus it needs vigilant planning and execution in process of transferring.

Expenditure Responsibilities

A key step in fiscal decentralization is giving responsibilities to lower government levels for delivering public services.⁸ The concept of vertical fiscal imbalance and the process by which the central government delegates expenditure responsibilities is key to understanding Thailand's governmental expenditure and intergovernmental relationship. Argument for decentralizing the provision of public services is strong since it will enable public services to be tailored to local preferences. Local authorities are presumed to know better and identify those for whom the expenditure is intended. The argument has led many scholars and government officers to favor the decentralization of several public services to lower level of governments. Delineating functions and public administrative autonomy has been an important issue under the fiscal decentralization in Thailand. Similar to other developing countries that have a long history of a centralized governing system, the central government has fully controlled all aspects of public administration and budget allocation through annual budget preparation and management. Local governments only administer public functions that are already legislated by the central authorities and serve only as extended central agents in performing the public service delivery in local jurisdictions.

The Constitution of 1997 provided a unique opportunity that allowed local governments to co-exist as governing units with the central agencies. After the enactment of the Decentralization Act of 1999 that is mandated by the Constitution, the Act determined guidelines and details of functions that should be transferred to local governments. It also established the National Decentralization Committee (NDC). The duties of the NDC are to decide which functions were to be devolved to local governments, and provide financial support to improve fiscal capability of local governments to finance their public services.

The purpose of the following discussions is to explain the progress of re-assignment of functions to local governments. Thailand decentralization resolution

aims to build up the responsibilities of local governments and their fiscal autonomy to meet local preferences. The actual division of responsibility has tried to apply a normative framework for the assignment of functions laid out in the general theory.

As stated in the Decentralization Act, the central government approved the functions to be transferred which covered six functional areas. They are:

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

The categorization takes into account laws and regulations, agencies' concerns, types of function, patterns, scopes, timing and conditions of transfer. The success for the transferring of functions depended pretty much on the absorptive capacities of each types of local government, as well as the establishment of mechanisms and support systems to maintain the quality and standard of public services. All together, there are 245 activities that must be transferred from 50 departments under 11 ministries. Within these 245 activities, the action plan separated the functions to be transferred into two categories. First, the functions or activities that local governments have "discretionary power", and the "compulsory" functions that local authorities have to perform. The rationale behind the first group of activities is the problem of asymmetric information on the local needs between the central and local government. Local governments are better informed on local needs, and therefore they should have autonomy to decide on activities that they think are necessary and suitable for their locality. The latter function involves activities that relate to the basic necessity of people, which must be maintained to guarantee availability of public services after transferring.

Several observations from the criteria of function transferring can be pointed out:

- 1) Transferring of functions is mandatory by the Decentralization Law. Any central agency, which may disapprove the law must submit a petition to the Cabinet for reconsideration.
- 2) A number of the local governments have difficulty in performing public services delivery because many of them require technical assistance particularly in education and infrastructure investment.
- 3) There are central agencies that transfer their functions to local governments without providing financial subsidies from the central government. As result, many local governments encounter financial constraints in performing the transferred functions.

- 4) In cases where local governments are unable to provide public services or perform transferred activities independently, they should be encouraged to cooperate among contiguous local government units. This is an important issue for local government units in Thailand, which are virtually small in size. However, laws or administrative regulations that encourage for consolidation of adjacent local governments in providing the public services are not yet enacted.
- 5) The transfer of functions and revenue assignment has been determined independently. As consequence, many local governments bear financial burden in providing the transferred public services.

Table 3 shows expenditure assignment that has been designed to divide respon-

Table 3 Expenditure Assignment in Thailand

| | Central | PAOs* | LGs** |
|---|---------|-------|-------|
| Defense | ✓ | | |
| Foreign Affairs | ✓ | | |
| Justice | ✓ | | |
| Police | ✓ | | |
| Fire fighting | | ✓ | ✓ |
| Education | | | |
| University | ✓ | | |
| High Education | ✓ | ✓ | |
| Elementary and Secondary | ✓ | ✓ | ✓ |
| Kindergarten | | | ✓ |
| Public Health | ✓ | ✓ | |
| Public Health Curative Services | ✓ | ✓ | |
| Public Health Promotion | ✓ | ✓ | ✓ |
| Social Security Welfare | | | |
| Social Welfare Administration | ✓ | ✓ | ✓ |
| Pension Payment | | | ✓ |
| Elderly and Child Care Center | | ✓ | ✓ |
| Infrastructure Investment | ✓ | ✓ | ✓ |
| Urban Planning | | ✓ | ✓ |
| Waterways and Harbor Maintenance | | ✓ | ✓ |
| Water Sewage Maintenance | | ✓ | ✓ |
| Maintain of Local Order, Stability of Communities and Society | | ✓ | ✓ |
| Planning and Promoting of Local Commerce and Tourism | | ✓ | ✓ |
| Natural Resources and Environment Management and protection | ✓ | ✓ | ✓ |
| Art, Culture , and Local Wisdom | ✓ | ✓ | ✓ |

Note: * means Provincial Administrative Organization

** includes Municipalities, Tambon Administrative Organization (TAO), Bangkok Metropolitan Administration, and Pattaya City.

Source: National Decentralization Committee, Prime Minister Office

sibilities between central government and local governments. The central government is responsible for services that are considered “national public goods”, such as national defense, foreign affairs, and primary education. While public responsibilities of local governments primarily involves the improvement of the well being of local people. However, powers and responsibilities for policy and standard of some of devolved public services are still with the central government. There is a general concern that the standard of public services will decline if local governments are allowed full responsibility in their delivery, an example of which is education. The Decentralization Act indicates that all levels of local government can be involved in the provision of education. However, the process of transferring the provision of education to the local governments encountered a strong resistance from teachers and provincial school authorities. As a solution, the NDC and the Ministry of Education proceeded with the transfer on the condition that local governments that had not provided education service before must satisfy certain qualifications that are set by the Ministry of Education. The responsibilities of local governments in education include developing and maintaining the physical stock of capital e.g. school buildings and supplies. Teachers who opt to be under local governments should be under voluntary basis and the central government is responsible for their salary and other compensations. The Ministry of Education continues to maintain standards for school curriculum, textbooks and teachers’ qualifications. Also, primary demonstration schools of each province, and schools for gifted students etc. will still be under the Ministry of Education supervision.

Size and Structure of Local Government Expenditure

The nature of expenditure assignment in Thailand tried to base upon the “subsidiarity principle”, which requires that public service provision should be carried out by the smallest jurisdiction so that its benefit and costs in the service delivery is internalized. After assigning of functions, some local governments at present are unable to fully finance their expenditure from locally raised revenue as evidenced by their heavy financial dependence on intergovernmental transfers. Some argue that local governments should finance their expenditure from their own revenue sources, including tax and non-tax revenue, and local borrowings. However, existing laws that govern local fiscal management still do not allow the levying of new tax bases and direct access to borrowing sources.

The local government enactment, thus, must expand local fiscal autonomy for local governments to improve their revenue mobilization from their own revenue sources both from tax and non-tax revenues, and other conventional local revenue sources. In fact, local governments in Thailand remain highly dependent on central government’s financial assistance as manifested by their high share of intergovernmental transfer revenue. What makes things worse are the newly transferred functions from central agencies that are not initiated by local demands and are predetermined by various central line agencies. Consequently, after the transfer of these functions to the local governments, the cost of operating and maintaining

investment projects became fiscal burdens for local governments in allocating revenue from their own sources that might already be in difficult conditions to support the functions. Poor fiscal condition of local governments is a result of few tax revenue sources and narrow tax bases assigned to them. Significantly, the structure of existing local revenue limits the revenue generating capacity of all local governments in the country. Under the 1997 Constitution, the central government is mandated to increase the size of local revenue by increasing transfer revenues to local governments, instead of assigning new tax revenue bases. As result of rapid decentralization, local governments need to strengthen their fiscal capability to support local spending, however, local fiscal reform was not undertaken to enhance local revenue generation capability. It therefore created more fiscal pressures on local governments because of limited revenue sources. The problem is then shifted to the central government to assign new revenue sources for local governments to meet greater financial demand locally.

The Decentralization Act mandates attainment of fiscal targets, and assignment of revenue sources for each local government. The Act also mandates that central government must devolve at least 20 percent of its total revenues to local governments, and this must be increased to not less than 35 percent by fiscal year 2006. The 20 percent local revenue share target is achievable by transferring or devolving central transfer revenue to local government. Importantly, the on going fiscal decentralization may lead to macroeconomic disaster if financing precedes functional assignment of responsibility. Some evidences have paced for the concern. The Budget Bureau under instruction from the central government has to stop allocating budget for central agencies and reallocate the funds to local governments instead. However, actual transferring of functions cannot proceed as planned partly due to resistance and ignorance of central officers.

Under the existing expenditure assignment, local governments have full autonomy in deciding how their budget would be spent for local affairs and for provision of transferred public services. This applies to all sources of local revenue including taxes and non-taxes except specific grants from the central government. The scope of responsibilities of local governments under the decentralization act is, however, very broad. There is duplication of responsibilities among local governments under the Act in the actual transferring of functions. Take into account the large number of small local governments, this makes it too difficult to provide public services with efficiency. This brings complexity in the allocation of central grants to support local spending effectively because the budget that is allocated to subsidize local public spending becomes fragmented. Unfortunately, there is poor data collection at local level to confirm this observation.

Size and Structure of Local Expenditures

Unfortunately, the availability of data of how local governments spend their budget is limited. Data on the share of local expenditure prior to the fiscal decentralization process has been considerably low. Only 8.4 percent of the total central

government expenditure in 1999 comprises local expenditure. However, the share of the local expenditure has rapidly increased starting in 2001, during which, decentralization program began. The significant increase of local expenditure is due to expansion of intergovernmental revenue transfer. Generally, local government expenditure is composed of four categories: central funds expenditure; division expenditure, which covers both current spending and investment spending; and, special expenditure. Central expenditures are debt repayments and interest payments, other committed budget, temporarily assistance fund, and contingency fund. Division expenditures cover salaries, wages, remunerations, utilities, materials cost, land and buildings, and expenditure from grants. Special expenditures are spendings from central government's specific grant, trust funds and loan. Data reveals a consistently large share of local expenditure from central government's specific grant.

Table 4 Composition of Local Expenditure

| | (Billion Baht) | | | | | |
|-----------------------------------|----------------|-------|-------|---------|-------|---------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Central Funds Expenditure | 3.32 | 3.8 | 4.3 | 4.8 | 5.4 | 6.6 |
| 2. Divisions Expenditure | 33.4 | 59.1 | 61.7 | 83.9 | 98.8 | 105.6 |
| 2.1 Current Expenditure | 24.9 | 36.2 | 40.5 | 50.7 | 56.1 | 62.7 |
| 2.2 Investment Expenditure | 8.4 | 22.9 | 21.2 | 33.2 | 42.7 | 42.9 |
| 3. Specific Expenditure | 30.5 | 8.9 | 54.7 | 42.6 | 41.7 | 49.0 |
| 3.1 Specific Grant | 18.4 | 7.4 | 22.7 | 29.7 | 19.6 | 21.4 |
| 3.2 Accumulated Funds | 7.9 | 0.3 | 7.5 | 8.4 | 11.3 | 12.9 |
| 3.3 Loan | 1.3 | 0.2 | 0.6 | 1.0 | 0.9 | 1.3 |
| 3.4 Others | 2.9 | 1.2 | 2.8 | 3.6 | 9.9 | 13.5 |
| 4. Total Local Expenditure | 67.2 | 71.9 | 120.7 | 131.4 | 145.9 | 161.2 |
| 5. Central government expenditure | 825.0 | 860.0 | 910.0 | 1,023.0 | 999.9 | 1,163.5 |

Table 4 (cont') Composition of Local Expenditure

| | (%) | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Central Expenditure | 4.9 | 5.3 | 3.5 | 3.7 | 3.7 | 4.1 |
| 2. Divisions Expenditure | 49.7 | 82.2 | 51.1 | 63.9 | 67.7 | 65.5 |
| 2.1 Current Expenditure | 37.1 | 50.3 | 33.6 | 38.6 | 38.4 | 38.9 |
| 2.2 Investment Expenditure | 12.5 | 31.9 | 17.5 | 25.3 | 29.3 | 26.6 |
| 3. Specific Expenditure | 45.4 | 12.5 | 45.3 | 32.5 | 28.6 | 30.4 |
| 3.1 Specific Grant | 27.3 | 10.3 | 18.8 | 22.6 | 13.4 | 13.2 |
| 3.2 Accumulated Funds | 11.8 | 0.5 | 6.2 | 6.4 | 7.8 | 8.0 |
| 3.3 Loan | 1.9 | 0.0 | 0.5 | 0.8 | 0.6 | 0.8 |
| 3.4 Others | 4.3 | 1.7 | 2.3 | 2.7 | 6.8 | 8.4 |
| 4. Total Local Expenditure | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 5. Share to Central Government Expenditure | 8.1 | 8.4 | 13.3 | 12.8 | 14.6 | 13.9 |

Source: Department of Local Administration, Ministry of Interior.

Data however, has difficulties in giving a clear picture of the role of local government because there is no information on how local governments spend by functions. It reveals very little information except that division expenditure is the largest spending item of local government funds that absorbs over half of the total budget.

Local Government Revenue Assignment

One of the most eminent aspects of fiscal decentralization in Thailand was the effort to increase fiscal capacity of local government. In most countries, decentralization of expenditure responsibilities is usually accompanied with revenue raising responsibilities. Given the heavy expenditure responsibilities of local governments that was brought about by the devolution of public services, it would be beneficial to decentralize revenue responsibilities to enhance accountability between local administrative authorities and local people. Thailand, however, opted to use "revenue sharing approach" in reallocating revenue from the central government to lower levels of jurisdiction. Reallocating revenue helps to guarantee progressiveness of the fiscal decentralization process by rapid increase of local revenue. Evidence of such practice is the Decentralization Act of 1999, which clearly specified that the central government must increase the share of local revenue to be at least 35 percent of total government income by fiscal year 2006. There are both positive and negative sides of revenue sharing approach in the intergovernmental revenue transfer program. The size of local revenue was arbitrarily determined, as consequence, it strained the fiscal capacity of central government to transfer revenue to local governments as required by the law. Local governments were, however, overwhelmed with the increase of revenues that they receive improving their fiscal capacity and independence from the central government. Under the approach, it helped balance local revenue and expenditure for transferred functions and, ensure continuity of revenue received by allowing local governments to receive certain proportion of central government tax revenues. This means that revenue sharing approach is a more systematic intergovernmental transfer than discretionary revenue raising responsibilities of local governments. However, the formula employed in distributing the revenue cannot capture the differences in the economic condition and fiscal needs of each jurisdiction. It is, then, feared that the existing formula may aggravate fiscal inequality among local governments across the country. The decentralization of expenditure responsibilities to local governments is not accompanied with the improvement of local government revenue raising powers, particularly on local tax bases. Share of locally levied tax revenue is subsequently lowered yearly after the implementation of fiscal decentralization.

The existing local revenue structure all local governments except the PAOs have almost identical revenue sources. These are: locally levied revenue, centrally shared revenue, and grants or subsidies from the central government.⁹ Locally levied revenue consists of both tax and non-tax revenues, including property tax bases (which are buildings and land tax, and land development tax), signboard tax, animal slaughter tax, and bird nest collection tax. A special characteristic of locally

levied tax revenue is uniformity of tax rate that is determined by the central government. Details of size of the revenue from each revenue sources for local government are presented in following section.

For non-tax revenues, all types of local government are entitled to collect license fees and fines, sales of assets, revenue from utility provision, and miscellaneous fees. The PAOs have sole authority to surcharge retail sales of gasoline taxes, cigarettes and tobacco taxes, and hotel charges duty. However, with history of being a highly unitary state, local governments in Thailand lack powers to raise their own tax revenue and are reluctant to counter political unpopularity of imposing new taxes.

Centrally collected tax revenue that local governments are entitled to receive some proportion of are value added tax (VAT), specific business tax, excise tax, motor vehicle tax, land registration fees, gambling tax, mineral and petroleum tax, airport fees, and underground water usage fees. Allocation of the centrally collected tax revenue to each local government unit is based primarily on per capita basis with little weight on fiscal equalization among local government units. The details of revenue assignment among the local governments are presented in Table 5.

Table 5 Revenue Assignment in Thailand

| | Municipalities | TAO | BMA | Pattaya City | PAOs |
|--|----------------|-----|-----|--------------|------|
| Locally collected taxes | | | | | |
| Property tax | ✓ | ✓ | ✓ | ✓ | |
| Signboard tax | ✓ | ✓ | ✓ | ✓ | |
| Animal slaughter tax | ✓ | ✓ | ✓ | ✓ | |
| Bird nest collection tax | ✓ | ✓ | ✓ | ✓ | |
| Retail sale of cigarettes, tobacco, gasoline | | | | | ✓ |
| Hotel rental tax | | | | | ✓ |
| Shared taxes | | | | | |
| Value added tax | ✓ | ✓ | ✓ | ✓ | ✓ |
| Specific business tax | ✓ | ✓ | ✓ | ✓ | |
| Excise tax | ✓ | ✓ | ✓ | ✓ | |
| Liquor tax | ✓ | ✓ | ✓ | ✓ | |
| Motor vehicles tax | | | | | ✓ |
| Mineral and petroleum tax | ✓ | ✓ | ✓ | ✓ | ✓ |
| Gamble tax | ✓ | ✓ | ✓ | ✓ | |
| Fee, Fines, and Charges | | | | | |
| Underground water fee | | ✓ | | | |
| Royalty fee for forestry | | ✓ | | | |
| Royalty fee for fishery | | ✓ | | | |
| Airport fee | ✓ | ✓ | ✓ | | |

Source: National Decentralization Committee.

Pattern of Thailand Local Government Revenue

Data on Thailand's revenue structure is presented in Table 6. Thailand's local government revenue is composed of both tax and non-tax revenues. All local governments are empowered by laws to raise their own revenue sources and receive certain revenue transfer from the central government.¹⁰ The tax revenue sources are the following: locally levied taxes, surcharged taxes, and centrally collected taxes.¹¹ The non-taxes are mainly composed of grants, fees, fines and charges, and borrowing. Among local government revenue sources, shared taxes are the most important. Table 6 shows the share of revenues from taxes. It shows that it has a consistent share of around 60 percent of the total local government revenue during 1998–2004. Local governments' share on levied taxes is around 10 percent of total revenue during pre-decentralization period. The share of locally levied revenue was gradually reduced from 2001 to 2004, implying high dependence of local governments to central government transfer revenue.

Information on local revenue is provided in Table 6. It reveals that among the locally levied taxes revenue, land and buildings taxes contribute the largest share at 8.5 percent in year 1998, but has declined to only 5 percent in year 2004. The rest of the locally levied tax revenue has remained insignificant during the period. The insignificance of locally own tax revenue sources implies heavy financial dependence on central government revenue transfer. The data also shows that the major contribution to the tax revenue are surcharges and taxes particularly the VAT, and excise tax. Furthermore, in 2001 newly decentralized VAT allocation was introduced as new revenue source to supplement the existing one. The new VAT revenue was

Table 6 Revenue Structure of Local governments 1999–2004

| | (Unit: million Baht) | | | | | |
|----------------------------------|----------------------|----------|-----------|----------|-----------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Total Tax Revenue | 52,218.7 | 56,402.9 | 75,923.7 | 86,516.5 | 121,393.7 | 137,396.0 |
| A. Locally Levied Taxes | 9,330.7 | 9,980.0 | 10,746.1 | 11,909.0 | 12,671.0 | 13,742.3 |
| B. Surcharges Taxes | 28,731.3 | 28,263.3 | 44,668.4 | 52,707.0 | 79,821.0 | 87,179.0 |
| C. Shared Taxes | 9,965.3 | 10,368.9 | 10,080.3 | 10,050.0 | 14,160.0 | 16,462.1 |
| D. others | 4,191.4 | 7,790.7 | 10,428.9 | 11,851.0 | 14,742.0 | 20,012.6 |
| 2. Non-Tax Revenue | 8,271.4 | 6,24.7 | 4,990.0 | 5,648.0 | 5,966.0 | 6,465.5 |
| 3. Total permanent revenue (1+2) | 60,490.2 | 62,427.6 | 80,913.7 | 92,165.0 | 127,360.0 | 143,861.5 |
| 4. Special Revenue | 44,546.2 | 32,461.5 | 48,902.0 | 71,342 | 68,556 | 88,594.8 |
| A. Grants Transfer | 38,127.1 | 32,222.1 | 40,367.6 | 59,110 | 55,829 | 70,198.5 |
| B. Reserved Funds | 6,131.2 | 217.1 | 1,090.9 | 5,462 | 10,593 | 10,093.9 |
| C. Loan | 287.9 | 22.3 | 6,779.3 | 4,512 | 657 | 7,014.7 |
| D. Others | 0.0 | 0.0 | 664.2 | 2,259 | 1,477 | 1,287.7 |
| Grand Total | 105,036.3 | 94,889.1 | 129,815.7 | 163,507 | 195,916 | 232,456.4 |

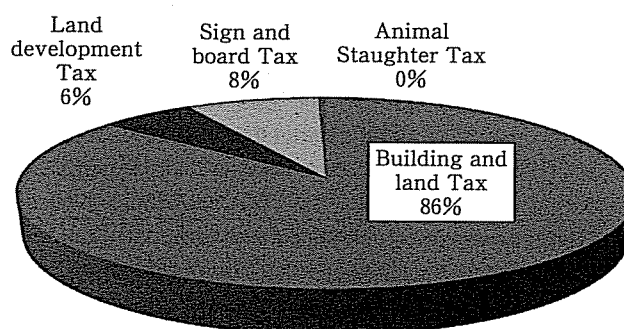
Table 6 (con't) Revenue Structure of Local governments 1999–2004

| | (Unit: percent) | | | | | |
|-------------------------------------|-----------------|--------|--------|--------|--------|--------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Total Tax Revenue | 49.71 | 59.44 | 58.49 | 52.91 | 61.96 | 59.11 |
| A. Locally Levies Taxes | 8.88 | 10.52 | 8.28 | 7.28 | 6.47 | 5.91 |
| B. Surcharges Taxes | 27.35 | 29.79 | 34.41 | 32.24 | 40.74 | 37.50 |
| C. Centrally collected Taxes | 9.49 | 10.93 | 7.77 | 6.15 | 7.23 | 7.08 |
| D. Others | 3.99 | 8.21 | 8.03 | 7.25 | 7.52 | 8.61 |
| 2. Total Non-tax Income | 7.87 | 6.35 | 3.84 | 3.45 | 3.05 | 2.78 |
| 3. = 1 + 2 Total Permanent Revenues | 57.59 | 65.79 | 62.33 | 56.37 | 65.01 | 61.89 |
| 4. Total Special Revenues | 42.41 | 34.21 | 37.67 | 43.63 | 34.99 | 38.11 |
| A. Subsidies | 36.30 | 33.96 | 31.10 | 36.15 | 28.50 | 30.20 |
| B. Reserved Funds | 5.84 | 0.23 | 0.84 | 3.34 | 5.41 | 4.34 |
| C. Loan | 0.27 | 0.02 | 5.22 | 2.76 | 0.34 | 3.02 |
| D. Others | — | — | 0.51 | 1.38 | 0.75 | 0.55 |
| Grand Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: Department of Local Administration, Ministry of Interior.

allocated as another transfer revenue with grants to fulfill local revenue, which is mandated by the Decentralization Act requiring total local revenue to be at least 20 percent of total central government revenue in fiscal 2001 and must increase to 35 percent in fiscal year 2006.

Yet, the locally levied taxes have declined from 8.8 percent of the total revenue in 1999 to merely 5.9 percent in 2004. Low locally levied revenue implies great dependency of local government on central revenue transfer. Figure 2 shows in detail the locally levied tax revenue. The current local taxes include buildings and land tax, land development tax, sign and board tax, and animal slaughter tax. In the existing local tax structure, buildings and land tax has the largest share. The contribution to the total tax revenue of the rest of the locally levied taxes is limited. This implies that local governments in Thailand have a limited tax base. Another impor-

Figure 2 Composition of Locally Levied Tax Revenue

Source: National Decentralization Committee.

tant source of local revenue is central government grants. This revenue source is also diminishing as its share to total local government revenue has been declining from 36.3 percent in 1999 to around 30 percent in 2004. On the contrary, the revenue transfer from tax sharing which is composed of surcharge and shared taxes increased from 36.8 percent of the total local revenue in 1999 to almost 45 percent in 2004.

Inadequacy of revenue is the major obstacle in realizing autonomy among local governments in Thailand. To fulfill the fiscal decentralization resolution, local governments must have their own substantial revenue to finance wholly or parts of their public service expenditures. Shortage of local revenues arise from limited taxation powers and limited ability to generate non-tax revenues from local sources. It may be difficult to measure the inadequacy of revenues at local government levels because of local fiscal management rules that mandate annual budgeting to have only surplus budgeting. A manifestation of the problem is the size of intergovernmental transfer payment from the central government that include surcharge taxes, shared taxes, and grants to local governments that account more than 80 percent of total local government revenue as showed in Table 6.

When the distribution of revenue among the types of local government is compared, data from Table 7 shows that the BMA has largest revenue share in every category of revenue sources of local government. Particularly, the BMA has greater share of locally levied revenue source than other local government units. This implies that the BMA has greater fiscal capacity over other types of local government. It could be attributed to fiscal capacity building of the BMA that has been long established.

Table 7 Revenues by Types of Local Governments Year 2004

| Type of Revenues | Municipalities | Pattaya City | BMA | PAOs | TAOs | Total |
|----------------------------|----------------|--------------|----------|----------|----------|-----------|
| 1. Regular Revenues | 41,229.7 | 1,033.2 | 35,130.4 | 16,234.4 | 50,233.8 | 143,861.5 |
| 1.1 Taxes | 38,314.1 | 962.8 | 33,846.4 | 15,892.1 | 48,380.7 | 137,396.1 |
| 1.2 Fees and Fines | 1,310.4 | 40.5 | 768.0 | 76.8 | 662.7 | 2,858.5 |
| 1.3 Property/Assets | 796.8 | 5.9 | 242.0 | 121.5 | 153.7 | 1,319.9 |
| 1.4 Infrastructure/Utility | 192.9 | 0.8 | 20.2 | 3.2 | 349.9 | 567.0 |
| 1.5 Miscellaneous | 615.5 | 23.2 | 253.9 | 140.7 | 686.8 | 1,720.1 |
| 2. Special Revenues | 31,230.1 | 1,453.3 | 13,864.6 | 6,874.4 | 35,172.5 | 88,594.8 |
| 2.1 Subsidies | 27,627.8 | 1,367.5 | 7,864.6 | 5,796.0 | 27,542.6 | 70,198.5 |
| 2.2 Accumulated funds | 2,553.9 | 85.8 | 0.0 | 592.0 | 6,862.1 | 10,093.9 |
| 2.3 Loans | 670.3 | 0.0 | 6,000.0 | 213.6 | 130.9 | 7,014.7 |
| 2.4 Others | 378.0 | 0.0 | 0.0 | 272.7 | 636.9 | 1,287.7 |
| Total Revenues | 72,459.8 | 2,486.5 | 48,995.0 | 23,108.7 | 85,406.3 | 232,456.4 |

Source: Department of Local Administration, Ministry of Interior.

Intergovernmental Fiscal Relation in Thailand

While the condition of local revenue-raising responsibilities remain under

skepticisms, the arguments for intergovernmental revenue transfer are fairly strong. However, there is a significant gap of inefficiencies and inequities arising from intergovernmental fiscal transfers. The intergovernmental fiscal relations intend to help build-up efficiency, effectiveness in public services provision, and enhance local accountability and ownership of local people toward their local governments. In addition to conventional tax revenues transfers, local governments have received subsidies in the form of general and specific grants from the central government. There are many issues on the intergovernmental revenue transfer that need to be pointed out. First, amounts available each year is unpredictable because it depends on central government's discretion and national fiscal conditions. As consequence, local governments encounter difficulties in planning their annual expenditure. Second, the criteria for allocating grants is not systematic and lacks fiscal equalization considerations. NDC, which is responsible for approving the criteria of grant allocation formula, is composed of local representatives and central line agencies' officials, who have their own agenda toward decentralization. The outcome of the grant allocation formula then makes actual distribution of grant highly arbitrary and highly politicized. Recent reform proposals appear to mitigate some of these problems. First the size of the grant pool would be made more predictable each year by fixing it to a predetermined share of central government expenditures. Second, specific grants would be phased downward, and would be limited to areas in which the central government has given high priority projects. This means that allocation fund for central agencies' construction projects must be eliminated from the revenue transfer scheme. Third, the allocation formula for general grants would be made explicit and based on a number of income/demographic indicators and a number of performance indicators such as fiscal effort, cost recovery, project evaluation that reflect effectiveness.

Fiscal Decentralization After the 2006 *Coup d'etat*

One aspect of fiscal decentralization in Thailand is the adoption of the "revenue-sharing approach", that sets pre-determined levels of local revenue without considering the amount of revenue to support local responsibility of local government in delivering local services. This is despite the mandate of the Decentralization Act of 1999 for central government to devolve public service functions with the accompanying transfer of revenues to local governments to be at least 20 percent of total central government in fiscal year 2001 and must increase to 35 percent within next five fiscal years. Line agencies however resist to transfer their function to local governments. The process reaches stalemate, while the transferring of budget must continue because it is part of annual national budget preparation. Mismatch of expenditure responsibilities and revenue raising responsibilities among local governments has been the result. While some local governments are overwhelmed with intergovernmental revenue transfers, others suffered from limited revenue to support the transferred functions. After the *coup d'etat* on 19 September 2006, it gave opportunity for the interim government to amend the decentralization law. The

most controversial resolution was to maintain existing levels of local revenue at 25 percent of the central government revenue and eliminate the deadline of allocating revenue for local government to reach 35 percent of central government income.¹² The reason of the interim government for amending the act was the slow process of devolution which was mainly brought about by the ignorance and reluctance of central agencies. The resolution of interim government was to give more flexibility in budget appropriation for central line agencies. It was also deliberately suggested that local government be more efficient in their spending decision under tighter budget assistance and presumption that they have to rely more from their own revenue bases.

Depending on centrally collected revenue leads to lower local accountability to their people. Additionally, it also reduces predictability of revenue flow because majority of local revenue will rely on central revenue generation and the allocation formula that typically distributed on arbitrary basis.

The New Constitution continues to support fiscal decentralization, as it mandates the reform of revenue assignment by amending the Decentralization Act. Yet the most challenging issue is the requirement of the Constitution to draft a new Local Revenue Act, which will be the first in the country. This new Local Revenue Act will provide guidelines in revenue assignment for future intergovernmental fiscal relationship between the central and local governments.

The interim government decision however has altered the decentralization process and diminished intergovernmental revenue transfer. Yet the local tax revenue structure that has been implemented for over four decades remain intact particularly on introducing new property tax law that has been delayed for over 15 years. The new property tax will vastly impact on all property owners and has become a political issue. The failure to reform the revenue structure of local governments would pose an impediment for increasing future local fiscal autonomy.

Final Remarks

Decentralization in Thailand has occurred rapidly and relatively untested after the promulgation of the 1997 Constitution. It proliferates progressively in terms of both devolved functions and amount of funds that are reallocated for local governments. The involved government agencies face a challenge of losing authority and budget as decentralization requires them to transfer autonomy and budget to local governments.

To ensure that decentralization processes would be adequately financed, the Constitution mandates the central government to transfer revenues to local governments. The transfer of functions, combined with the intergovernmental fiscal transfer, resulted in reshaping the local fiscal structure. So far, the central government has successfully provided revenue to local governments pursuant to the law. This is through providing large intergovernmental revenue transfers in the form of shared taxes and grants. Consequently, the transferred revenue has displaced the local revenue generating powers, as evidenced from the lower locally collected

income. This could lead to lower local fiscal accountability.

The New Constitution mandates the central government to support and provide incentives for local government to increase their efficiency in delivering public services and to improve local finance accountability. Some of the tasks that need attention from the central government are: clarifying expenditure assignments for each type of local government; developing new revenue sources and design proper inter-governmental revenue transfer formula that reflects benefit and cost of local public service provision to enhance accountability of local people toward the local governments. Most of all, the existing formula for revenue transfer, which is highly politicized, must be made more acceptable.

A major impediment of the fiscal decentralization program in Thailand is its large number of local government units numbering to over 8,000. This is combined with the lack of clarity in the assignment of expenditure responsibility, and the weak financial management that results to inefficient local public services and ineffective use of funds to support local administration. The central government should try to introduce incentive mechanisms for local governments, particular in inter-governmental fiscal relation system designing to encourage for more responsible and effective in their performance.

Another problem of the decentralization process in Thailand is the inadequacy of local fiscal data. The central government faces a serious challenge in effectively implementing fiscal decentralization because of the inadequacy of local fiscal data. This creates a problem in monitoring and evaluating performance outcomes of local governments. There are little financial performance outcome data currently collected at local level. Local governments do regularly submit information on local public finance to the Department of Local Administration of the Ministry of Interior. However, there is great disparity in terms of the quality and thoroughness of data submitted from one locality to another. This is due to the great diversity of local political arrangements, but local authorities also have differing interpretations of the fiscal reporting system. The problem is more rigorous for newly established local governments, which are short of trained staffs and equipment to collect fiscal data systematically. The central government so far has provided insufficient training to local authorities on reporting procedures and standards. The central government is also unable to assess the progress of fiscal decentralization. This weakens the effectiveness of any incentive measure that the central government might implement to foster cooperation from the local level, because local authorities know that it would be difficult for the central government to bring them into account.

Finally, the decentralization program has started within a short period after the promulgation of the last Constitution. Decentralization in Thailand needs more time for educating local people to understand the role of local governments under the new paradigm of public service delivery where the people must have proactive roles in decision making that concern their welfare and local affairs. The success of the decentralization program in Thailand is thus dependent on the extent of how dedicated the local people are in taking part in local affairs through a local self-governing system that would lead to more local accountability and responsible local

fiscal policies.

Notes

- 1 The author would like to extend gratitude to colleagues at Department of Local Administration, and Office of National Decentralization Committee for providing data and valuable inputs. However, the view expressed in this paper is solely the author's responsibility.
- 2 See Bird, and Vaillencourt (1998).
- 3 Fiscal data of Ministry of Finance indicated that in 1998 the central revenue is collected at over 85 percent whereas local revenue was levied only 10 percent of total public revenue. While local expenditure accounted for 15 percent of total public spending.
- 4 The Department of Local Administration of the Ministry of Interior is responsible for nominating lists of governors to be approved by the cabinet.
- 5 Latest figures provided by Department of Local Administration, Ministry of Interior.
- 6 Most of the municipalities are promoted from sanitary districts as result of the 1997 Constitution that local administrators must be elected.
- 7 The structure of the NDC is composed of central government's staffs from related ministries such as the Ministry of Interior, Ministry of Finance, Ministry of Education, etc. The others are representatives of local governments, and experts on decentralization that mostly are from academic institutions.
- 8 Most of the municipalities are upgraded from sanitary districts, a type of local government where chief of administrators were appointed by the provincial governor. The 1997 Constitution required local administrators to be elected. The government must, then, dissolve the sanitary districts and promote them to be municipalities in 1999.
- 9 See detail of local revenue structure in the appendix.
- 10 The Decentralization Plan and Procedure Act of 1999; Municipal Act of 1943; TAO Act of 1994, PAO Act of 1997.
- 11 Details of revenue source can see in appendix 1.
- 12 Summary of cabinet resolution on 7 November 2006.

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