

THAILAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: THAI BAHT (THB)

POPULATION AND GEOGRAPHY

Area: 513 120 km²
Population: 69.037 million inhabitants (2017), an increase of 0.4% per year (2010 - 2015)
Density: 135 inhabitants / km²
Urban population: 49% of national population (2017)
Urban population growth: 1.8% (2017 vs 2016)
Capital city: Bangkok (13.7% of national population)

ECONOMIC DATA

GDP: 1 233.8 billion (current PPP international dollars), i.e. 17 872 dollars per inhabitant (2017)
Real GDP growth: 3.9% (2017 vs 2016)
Unemployment rate: 0.9% (2016)
Foreign direct investment, net inflows (FDI): 8 046 BoP, current USD millions, (2017)
Gross Fixed Capital Formation (GFCF): 23.2% of GDP (2017)
HDI: 0.755 (high); rank 83 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Thailand is a unitary country that has promulgated twenty Constitutions between 1932 and 2017. All Constitutions recognize the country's constitutional monarchy, with the King of Thailand as the Head of State. The constitutional texts have resulted in varying balances in the division of powers between the legislative (the parliament), executive (the government) and judicial (the courts) bodies. The last two Constitutions (2006 and 2014) were both drafted after the military overthrew the executive power in place. Between 2014 and 2018, the National Council for Peace and Order (NCPO), the military junta which held control over the country following the coups, concentrated both the executive and legislative powers. During this period, the legislative power was unicameral: the National Legislative Assembly of Thailand. Since 2017, the Interim Constitution re-established a bicameral legislative power (now the National Assembly of Thailand), pending the results of the general election of 2019. The lower house – the House of Representatives – should be composed of 375 members directly elected from the constituencies, plus 125 members from a smaller proportional representation share. The Senate, the higher chamber, is composed of 250 appointed members. The executive power is exercised by the government. The Prime Minister, who is also a member of the House of Representatives, is the head of government and is elected by both houses of the National Assembly of Thailand. All legislation requires the signature of the monarch to enter into force.

Decentralization reforms in Thailand took place until 2006: they were based on the principles of the 1997 Constitution and implemented through the 1999 Decentralization Plan and Process Act. More recently, the 2007 Constitution reaffirmed the principles of decentralization and guaranteed local government autonomy, especially in matters of policy formulation, administration, finance and human resources management. This notwithstanding, the implementation of these regulations has been slowed down by the instability of the country's political system. Against this backdrop, the system of multi-level governance in the country was formally defined as follows: the National Decentralization Committee (NDC) is supervised by the Prime Minister's office directly, and is meant to oversee the Department of Local Administration (DLA). The DLA, in turn, is embedded in the structure of the Ministry of Interior, and supervises a two-tiered mechanism of multi-level decentralization, which includes both the Local Administration Organizations (LAOs) and the central government's deconcentrated units operating at the local level. Ultimately, this hierarchical system is designed to preserve centralization and reduce power sharing and financial autonomy of the lower tiers of governance.

The 12th National Economic and Social Development Plan (2017-2021) acknowledges this challenging co-existence and its impact on the coordination of public service provision. Deconcentrated administrative branches are headed by officers of the Ministry of Interior, which are granted statutory authority over line ministries and departments at the provincial and district levels. This structure, however, has not prevented significant lack of coordination, vertically and across different sectors.

The 2017 Constitution also acknowledges local government (Chapter XIV) and provides a framework for their autonomy. The latest national elections were held in 2011 and then regularly postponed until March 2019: local elections are scheduled to always take place 90 days after the general elections. The Constitutional reform in 2016-2017 had a substantial impact on the distribution of powers and tasks at all levels. In particular, in 2016, the NCPO reinstated the Ministry of Interior's control over local governance. The NDC remains active only de jure. The Ministry of Interior has taken back its former role in determining national and regional spatial policies but, more specifically, it has also entrusted the Office of the National Economic and Social Development Board as the secretariat of the Regional Development Policy Integration Committee, a body in which local governments are formally represented.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	The Pattaya City; 30 City municipalities (<i>Thesaban nakhon</i>); 178 town municipalities (<i>Thesaban mueang</i>) and 2 232 sub-district municipalities (<i>Thesaban tambon</i>)		75 Provincial Administrative Organizations (PAOs) and the Metropolitan City of Bangkok	
	Average municipal size: 28 282 inhabitants			
	2 441		76	2 517

OVERALL DESCRIPTION. According to the 1991 State Administration Act, Thailand's state organization comprises three tiers of government: national, provincial and local. The central government is represented through deconcentrated entities at the subnational level in the 75 provinces. Along with the 75 Provincial Administrative Organizations, the metropolitan city of Bangkok has provincial status. The municipal level comprises all kinds of municipalities – more details provided below – as well as the administration of Pattaya City, which enjoys a special regulatory status.

MUNICIPAL LEVEL. Local government in Thailand includes a total of 2 441 municipalities. In addition, there is a sub-municipal administrative level is the Tambon Administrative Organizations (TAOs), a mostly rural unit: to date, there are 5 333 TAOs in Thailand. Each municipality is led by an elected local council and mayor. Likewise, the 5 333 TAOs, the local body of administration in rural areas, are each led by an elected chairperson and a local council, which gathers representatives from villages. The composition of both the municipal and TAO councils varies according to the area under their jurisdiction. Municipalities are distinguished among City Municipalities (more than 50 000 inhabitants), Town Municipalities (10 000–49 999 inhabitants), and Sub-Districts Municipalities (8 000–9 999 inhabitants). The establishment of municipalities was based on the 1953 Municipality Act, while the city of Pattaya was established by the City of Pattaya Administrative Act of 1999.

PROVINCIAL LEVEL. Thailand is divided in 75 Provincial Administrative Organizations (PAOs), at the same level as the deconcentrated provinces (*changwat*). PAOs were established by the Provincial Administrative Organization Act of 1997. Since 2003, each PAO is headed by a chairperson and a provincial committee, whose members cannot be part of the legislative provincial council. The legislative provincial council is elected for a period of 4 years. *Changwats*, on the other hand, as a deconcentrated representation of the central government, are led by Governors, appointed by the national government, often via recommendation of the Ministry of Interior. Bangkok is the country's capital and largest city, with an estimated 12 million inhabitants in 2018. Since 1985, the Bangkok Metropolitan Administration (BMA) has gained provincial status (via the Bangkok Metropolitan Administrative Act) even though in this case the Governor and Metropolitan Council are directly elected by the residents.

Besides the capital city, Nonthaburi (over 270 000 inhabitants), Nakhon Ratchasima and Chiang Mai (approximately 175 000 inhabitants), Hat Yai and Udon Thani (approximately 160 000 inhabitants) are the largest cities in the country. Prior to the 2014 military coup, a process to establish new metropolitan entities, such as the metropolitan area of the Mae Sot municipality in the Tak province, or the metropolitan area of Chiang Mai, was still ongoing, but it was later abandoned in light of the political events.

SPECIAL ECONOMIC ZONES (SEZ). Since 2016, the Special Economic Zone Development Board of the Thai Government has designated three categories of special economic zones with a specific set of rules and incentives for economic development. These include the Eastern Economic Corridor, the Clustered Provinces and the Provinces bordering other ASEAN countries. Municipalities and provinces may belong to several SEZs at a time.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Under the 2017 Interim Constitution and the 12th National Economic and Social Development Plan, local governments are organized under the principle of subsidiarity and enjoy greater flexibility in terms of finance and human resources management than in the framework of the previous Constitutions. Formally, SNGs may operate jointly with, or delegate operations to, private organizations or central government agencies. Their core responsibilities are formally established by the 1999 Decentralization Act. PAOs are regulated by the 1997 Provincial Administrative Act, which establishes provincial competences including legislation matters, the preparation of development plans, assistance in development as well as the allocation of budget to lower governance levels. The responsibilities of the Bangkok Metropolitan Administration are the same as PAOs'. Local governments have been assigned functions in six areas: public infrastructure; quality of life improvement; order and security; local planning and economic promotion; environmental preservation; and cultural conservation. In 2008, a reform mandated the devolution of 359 central government functions. As of 2017, 256 of them have been assigned to local governments and can be clustered into 5 main groups: governance, infrastructure, economy and finance, social policy, and natural resource management. Yet, the central government has kept tight control over service provision by issuing regulatory acts.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	CITY AND MUNICIPAL LEVEL
1. General public services	Public buildings and facilities	Delegated administrative services (marriage, birth, notary, national statistics, tax collection); Public buildings and facilities
2. Public order and safety	Firefighting services (jointly with the central government); Civil protection and emergency services; Traffic lights and urban traffic signs	Firefighting services; Assistance to state government in public order and safety
3. Economic affairs /transports	Regional, city and district roads; Intra- and inter-city transport; Agriculture and rural development; Tourism; Local Commerce	Support to municipal development; Tourism; Local Commerce; Waterways and harbour maintenance
4. Environmental protection	Parks & green areas; Waste management; Street cleaning; Sewerage; Nature preservation	Street cleaning; Sewerage; Nature preservation
5. Housing and community amenities	Construction/renovation of public facilities (jointly with the central government); Drinking water distribution; Public lighting; Urban and land use planning; Urbanism	Distribution of drinking water; Urban and land use planning
6. Health	Hospitals; Primary healthcare (medical centres) and preventive healthcare	Public health promotion;
7. Recreation, culture & religion	Regional museums; Cultural heritage; Sports; Local museums; Libraries	Libraries; Cultural activities
8. Education	Secondary and higher education; Pre-primary and primary education	Pre-primary and primary education; Secondary education
9. Social protection	Elderly; Disabled people (benefits and services); Social care for children and youth; Support services for families (jointly with the central government)	Support to state government in reducing unemployment and registering of low-income families; Elderly; Social care for children and youth

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: city municipalities, town municipalities, the Pattaya City Council and the 76 provinces (including the Metropolitan city of Bangkok).

IMF GFS

Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

GENERAL INTRODUCTION. SNG finance is regulated by the 1999 Decentralization Act, according to which SNGs are granted central government transfers and the capacity to raise local revenue from several sources. The Act also defines SNGs' powers over local expenditure and service delivery. Local government units' capacity to decide over expenditure is limited, since the central government has full control of budget allocation through the preparation and management of annual budgets via the National Decentralization Committee (NDC). There are important fiscal disparities across Thailand's SNGs, starting with the limited revenue assigned to PAOs in comparison to other tiers of government. Disparities are also important when comparing rural and urban areas. Fiscal imbalances result from

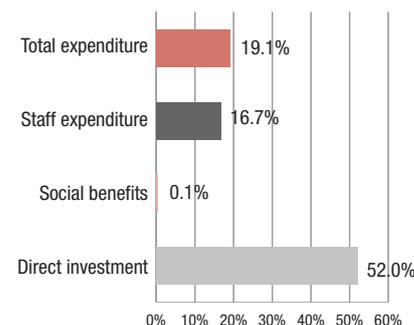
THAILAND

UNITARY COUNTRY

the varying capacity of raising local tax revenues and the low levels of equalization grants. In general, there is an overall significant underfunding of local service provision across the country. The national government's 12th Plan is seeking to increase LAOs' financial independence, mostly by increasing local revenue sources, deepening fiscal decentralization, revising regulation to increase the non-tax revenue base of LAOs, and enhancing local capacity for tax management.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	684	4.0%	100%	
Inc. current expenditure	411	2.4%	60.1%	
Staff expenditure	184	1.1%	26.9%	
Intermediate consumption	191	1.1%	27.9%	
Social expenditure	1	0.0%	0.1%	
Subsidies and current transfers	0	0.0%	0.0%	
Financial charges	1	0.0%	0.2%	
Others	34	0.2%	5.0%	
Incl. capital expenditure	273	1.6%	39.9%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	273	1.6%	39.9%	

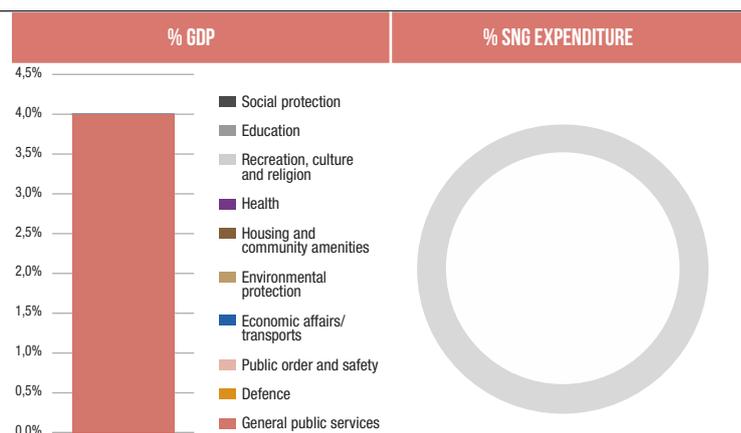


EXPENDITURE. In FY2016, current expenditure amounted to 13.5% of the total public expenditure, mainly devoted to cover staff expenditures (at 27% of SNG current expenditures) and intermediate goods consumption for service delivery (at 28% of subnational government current expenditures). According to a 2018 OECD report, SNG expenditure levels in Thailand are among the lowest in the Asia-Pacific region, with SNG expenditure accounting for 19% of total public expenditure and 4% of GDP, while the regional average of SNG expenditure corresponds to a 37.5% share of public expenditure and 11.5% of GDP.

INVESTMENT. In FY2016, SNG direct investment accounted for a significant share of SNG spending (40%) as well as total public investment (52%). Capital investments are the main budget item for PAOs, accounting for 39% of PAO total spending. Local governments can carry out investments in public infrastructure: they do so by resorting to own revenues, but most importantly by means of specific grants and transfers, which have to be consistent with national priorities and are allocated under the supervision of the national government. As part of the 12th Plan, the government aims to boost productivity in key economic sectors, such as automobile, electronics manufacturing and tourism, as well as logistics and digital industries. For this purpose, the government has launched investment promotion measures in Special Economic Zones, in particular in three coastal provinces located in the Eastern region and labelled, as mentioned above, as the Eastern Economic Corridor (EEC). The government is seeking to foster public and private investment in the EEC with an ambitious target of THB 1.5 trillion (about 10% of 2016 nominal GDP) over the 2017-2021 period.

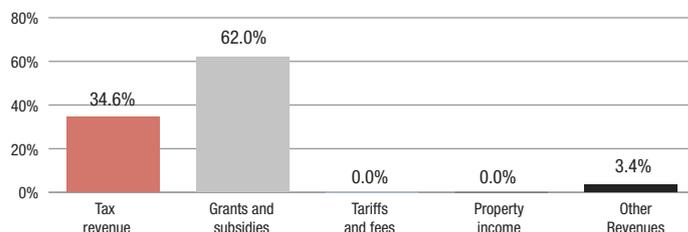
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Data by COFOG are only available for general public services. Data from previous years indicate that the main lines of expenditures for local governments are general public services expenses, housing, community amenities and education. According to a 2017 study, expenditure decentralization in Thailand is still in transition: the central government still in charge of the provision of services that are considered 'nationally public goods', such as primary education, foreign affairs and defence; local governments, on the other hand, are responsible for improving residents' well-being. Health and education spending are made under strong guidance by the national government and related ministries. While local governments have de jure full autonomy to decide how their budget are spent in order to comply with transferred functions, budgets are de facto under the supervision (and, often, the practical revision) of governors and the Ministry of Interior.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	703	4.1%	19.3%	
Tax revenue	243	1.4%	9.3%	
Grants and subsidies	436	2.6%		
Tariffs and fees				
Property income				
Other revenues	24	0.1%		



OVERALL DESCRIPTION. Local revenues correspond to 19.3% of total public revenue, corresponding to 703 dollars PPP per capita. Chapter XIV of the 2017 Constitution establishes provisions for the central government to support local governments when setting up their allocation mechanisms for tax and revenue. In 2016, tax revenue (both own and shared) represented 34.6% of total local revenue. Previous regulation and the interim Constitution require that the state budget support local governments in carrying out their functions. In 2016, grants and subsidies from the national level were the largest source of income for LAOs, representing 62% of local governments' revenue. There are significant imbalances in local government revenue, due to a combination of both population differences and fixed tax bases, which are not matched with proper fiscal equalization systems. Among LAOs, cities and towns (in particular Pattaya City) have generally been able to collect own revenues effectively. Furthermore, PAOs have lower revenues and budget available, if compared to LAOs, due in particular to the lack of specific responsibilities allocated to their jurisdiction.

TAX REVENUE. Local tax revenue in Thailand amounts to 9.3% of total tax revenues, which corresponds to one of the lowest shares of local tax rates on total tax in the Asia-Pacific region. A 2017 study confirms that local governments access both locally-levied and shared tax revenue.

Locally-levied taxes, for TAOs, municipalities and special local governments, include: property taxes (5.6% of SNG revenue and 16.2% of SNG tax revenue), signboard taxes, and slaughterhouses and bird nest collection taxes. PAOs (including the Metropolitan City of Bangkok) are assigned tax revenue from retail sale of tobacco, gasoline and hotel rental. In total, 16% of total tax revenues (0.2% of GDP) perceived by local governments are locally levied. It is worth noting that a new Land and Building Tax Act came into force in March 2019, replacing previous regulation which only applied to revenues from renting or leasing out properties. The new property tax will grant local governments the power to collect taxes on land and buildings located in their jurisdiction.

Shared taxes. The larger share of tax revenue received by local governments is part of transfer mechanism. The Fiscal Policy Office of the Ministry of Finance determines the financial revenue share of the national tax to be allocated to SNGs. SNGs have no say in determining shared tax rates. Revenue allocation is determined by the locality in which the tax was collected and through a per-capita formula. This occurs with both municipalities and special local governments. De jure, this amount includes a one-ninth share of the VAT collected in the province (in 2016, 9.4% of SNG revenue), a 10%-share of nationally-levied taxes on specific business and alcohol (excise taxes correspond to 8.1% of SNG revenue), and the tax on petroleum and minerals, which is shared among all tiers of local governments, including PAOs. Lastly, PAOs have the power to collect motor vehicle taxes.

GRANTS AND SUBSIDIES. Three types of grants are used in Thailand: the tax-sharing system described above; general purpose grants; and conditional grants. In 2016, central government grants, excluding shared taxes, accounted for 62% of SNG revenue. These are allocated under strong control by the central government.

General-purpose grants are transferred to local governments to cover for the difference between basic services expenditure and local governments own revenues (excluding, of course, grants). Allocation criteria have evolved over time. For PAOs, the criterion is the previous financial year. For other local governments, the formula is based on per-capita expenditure in basic services, and 5% of the total general purpose grant is reserved as a deficit grant. General-purpose grants do not factor in the difference in revenue raising capacities between local governments, which hinders their ability to reduce territorial inequalities. Since 2007, general purpose grants have aimed at strengthening local government finance and reach the threshold of 25% of general government revenue, as required by law. In 2016, the objective was changed to 35%: the mismatch with the actual share of SNG revenue on the national total 19.3% remains significant. In addition, parts of the general grants are earmarked for specific local activities in social, education and public health policies, under guidance of the Prime Minister Office's Department of Local Administration (DLA). LAOs are not required to record these general-specific grants on annual budget, which makes disaggregation unavailable.

Conditional grants are given out to finance public services that are high on national priorities. According to a 2017 study, specific grants are aiming for infrastructure investment for public services (such as water provision to villages) and projects that have been prioritized by the central administration. Other purposes such as education and health, while specific grants might be cross subsidized with general specific grants and therefore reported under general purpose grants.

OTHER REVENUES. According to the 2013 assignment of revenue, no tier of local government has the power to collect fees and fines. Local governments, except PAOs, collect user charges for public transportation. In addition, TAOs perceive revenue from underground water fees, royalty fees for forestry and fishery.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	302	1.9%	4.5%	100%
Financial debt*	160	1.0%	2.7%	53%

* Currency and deposits, loans and bonds

FISCAL RULES. The Thai government has established ceilings on public debt and debt service, which require that public debt do not exceed 60% of GDP, and that debt service do not exceed 15% of total expenditures. While fiscal rules for SNGs are described in the various guidelines provided by the Ministry of Interior and fall under the scrutiny of the Office of the Auditor General, this often results in the Ministry overriding local governments' budget decisions in order to align them with national priorities.

DEBT. Article 28 of the 1999 Decentralization Act establishes that Thai municipalities may borrow from ministries or other legal persons. They can contract loans with foreign organizations and issue bonds with the approval of the Council of Ministers. Between 1997 and 2011, local governments also borrowed from the Local Development Fund, one specific to each type of local government. Since 2011, the Ministry of Interior has been discouraging local governments from contracting debt. In 2015, SNG financial debt accounted for 11% of SNG debt, representing 2.4% of total public debt and 1% of GDP. Up to March 2018, local governments had been allowed to borrow for three purposes: (1) to carry out investment projects, (2) to restructure debt, and (3) to manage local government pawnshops with the approval of the central government. Approval is subject to local governments providing a financial plan and following a standard accounting system. Debt is limited to 10% of local governments' revenue. In addition, the BMA and Pattaya City are authorized by law to issue municipal bonds, subject to clearance from the Ministry of Interior: despite positive ratings, the lack of tax revenue has been one of the major hindrance for bond issuance.



Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: IMF-GFS // OECD Revenue Statistics

Other sources of information: Arif, A.Z.M, Fleischer, L., Bogiatzis, A., Asada, H., Colombo, A., Zougbedé, K. (2018) Enhancing governance in Thailand, OECD Economics Department Working Papers // OECD (2018) Multidimensional review of Thailand vol. I: Initial assessment, and vol. II: In-depth and recommendations // Varanyuwatana (2017) Fiscal Decentralization and Intergovernmental Transfer in Thailand // Krutchon, T. (2015). Conceptual Framework of Decentralization Policy: A Case of Local Government in Thailand // Krueathep, W. (2004) Local Government Initiatives in Thailand: Cases and Lessons Learned, Asia Pacific // FIDH (2016) Roadblock to Democracy: Military repression and Thailand's draft constitution // UNDP (2009) Improving the Local Administrative Structure; Nidhiprabha, Bhanupong. (2015) Lessons from Thailand's Fiscal Policy. Asian Economic Papers.