



Thailand: Challenges and Options for 2012 and Beyond

Improving Service Delivery

Through strengthening central-local government relations and expenditure policy



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 address tensions that are present in the central-local architecture 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 municipality level.

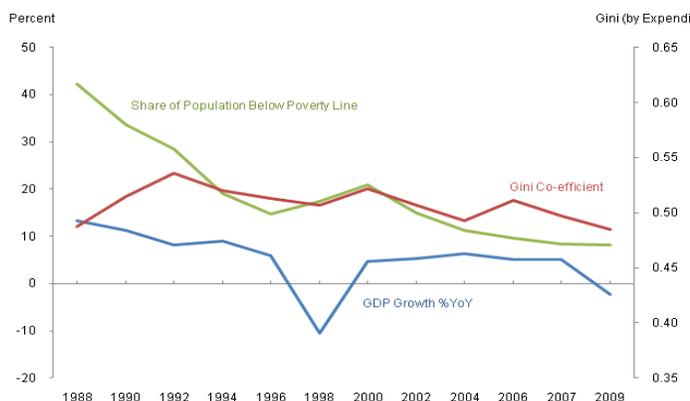
Growth, Poverty Reduction, and Inequality

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 1). 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.

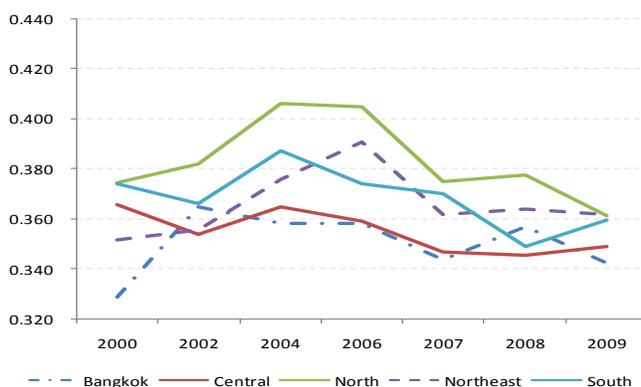
Figure 1: GDP growth, Poverty and Inequality Trends



Source: National Economic and Social Development Board

Thailand also has significant regional income disparities (Figure 2). 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.

Figure 2: Thailand Regional Inequality Trends



Source: National Economic and Social Development Board

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. The North lags most on the income dimensions.

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.

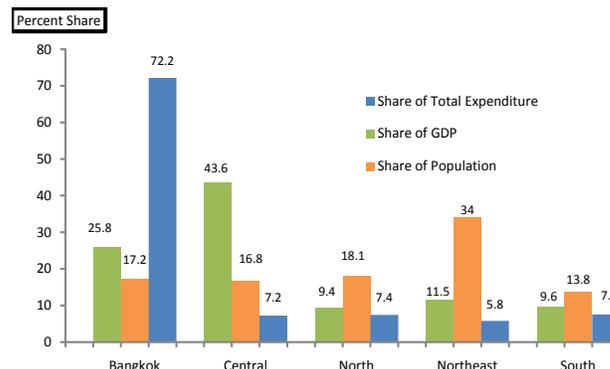
International experience further shows that as countries develop, the most successful ones institute policies that make living standards of people and access to public services more uniform across space.

There are three things that Thailand can do to make access to public services more **uniform across the country, efficient and accountable.**

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 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 3).

Figure 3: Regional Comparison – Spending, Population and GDP



Source: MOF, NESDB, and World Bank

Figure 3 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.

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:

- (i) Refocus expenditure policy towards regions that are deficient in terms of service delivery, with the aim of bringing them up to the Bangkok standard; and**

- (ii) Increase 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 – 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 7,853 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 inefficient 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.

A **unitary state** is a sovereign state governed as one single unit in which the central government is supreme and any administrative divisions (sub-national units) exercise only powers that their central government chooses to delegate. In **federal states**, by contrast, states or other sub-national 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.

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.

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 Services More Accountable

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.

What can be done?

Policy Options for Improving Service Delivery

Making Access to Public Services More Uniform

- **Refocus expenditure policy towards regions that are deficient in terms of service delivery**, with the aim of bringing them up to the Bangkok standards.
- **Increase the equalization element of the intergovernmental fiscal transfer** formula from the current 2 percent to at least 15-20 percent of total transfers.

Making Services More Efficient

- **Transition to a unitary decentralized government structure** by rolling back the deconcentrated arms of the central government at the provincial level and linking LAOs directly with line and sector agencies.
- **Clarify and demarcate functional roles between central government and local authorities** especially as they relate to health and education services.
- **Consider administrative consolidation of LAOs into larger more financially viable entities through fiscal and other incentives.** Administrative consolidation of local authorities will allow for a reduction in administrative costs, which can be channeled into service delivery, improve coordination and enhance voice of local authorities.

Making Services More Accountable

- **Measure and publish annual service delivery performance by central and local authorities** either against national benchmarks or in absolute terms.
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This Policy Note summarizes the key findings of the Thailand Public Finance Management Report which is part of the on-going Thailand-World Bank knowledge sharing partnership under the Country Development Partnership on Public Sector Reform and Governance.

The Note also draws on The World Development Report 2009 – Reshaping Economic Geography (World Bank)

For more information please contact Ms. Nattaporn Triratanasirikul at nattaporn@worldbank.org