

Redesigning Local Governance: Exploring Possible Options of Cooperative Local Public Service Delivery in Northeast Thailand¹

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ABSTRACT

Despite the promises of decentralization, local government units in both developed and developing countries are under constant pressure to provide their constituents with essential public services that are effective, efficient, and equitable. In the developed countries, changing demographic patterns and long-term economic stagnation have eroded local tax bases and consequently diminished local government resources. An often recommended remedy is a reorganization of local service delivery, including annexation, consolidation, and intercity collaborative agreement. Apart from the demographic and economic changes, local authorities in Thailand and other developing countries must also cope with the poorly designed administrative systems in which jurisdictional boundaries have been arbitrarily drawn and local revenue-generating power strictly limited.

This case provides a description of the problems facing two adjacent rural municipalities in northeast Thailand—*Nam Pong* and *Lam Nam Pong* municipalities. *Nam Pong Municipality*—albeit smaller in land area and local tax base—have and provide more infrastructure facilities for its residents, as well as a significant number of *Lam Nam Pong* residents. Increased public demand for services and rising costs of service delivery and management are likely to destabilize the *Nam Pong* municipality's finances. This case is designed to enhance students' understanding of the complexity confronting Thai local jurisdictions. These complex factors include, but are not limited to, political opposition, legal and regulatory constraints, and increasingly vocal and interconnected citizens. In this case, students are required to identify alternative service delivery models, analyze the strengths and weaknesses of each model, and provide the focal manager with a set of proposed actions.

KEYWORDS: Thailand, Public Service Delivery, Interlocal Cooperation, Consolidation

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“...Each time we turn on the tap in our kitchens, set the trash out for pickup the next day, or cruise through our neighborhoods on newly paved roads, we access our local governments. Providing essential community services that ensure the quality of our lives is what local government is all about...” (International City/County Management Association, 2014)

INTRODUCTION: GRANDIOSE VISION, UNPLEASANT REALITY

A couple of days prior to the traditional Thai New Year, *Jiew* left his office earlier than usual to visit a nearby bank. Since his mayoral leadership began three years ago, *Jiew* had grasped every opportunity to meet his constituents at bank branches, grocery stores, open markets, and local restaurants. These face-to-face interactions allowed the young mayor to learn about his constituents’ problems and sort them out in a timely manner. *Jiew*’s efforts to connect with his local voters truly paid off. Not only did his approval rating continue to rise, he had been able to fulfill many of his election promises, including the city park renovation project and conversion of the city’s main road into a Saturday night “walking street” market. *Jiew*’s bold vision was to rebrand his small, but resource-rich, *Nam Pong Municipality* as a hub for both cultural tourism and business start-ups. Inspired by this grand vision, a number of rebranding strategies adopted by the *Jiew* administration were particularly apt for the planned launching of ASEAN Economic Community (AEC) in 2015. Indeed, with the Friendship Highway running through the city center and the Thai-Lao Friendship Bridge one hundred kilometers away, *Nam Pong* had promising prospects for economic development.

However, after his late afternoon trip to the local bank branch, *Jiew* became uneasy about the future of *Nam Pong Municipality*. In a long line of people waiting for a bank teller, *Jiew* conversed with a couple from *Lam Nam Pong*— a neighboring municipality located north of *Nam Pong*—and discovered that the *Lam Nam Pong* residents had to come to the *Nam Pong* municipal area on a daily basis for many types of services. Unaware that the amiable young man with whom they had a long conversation was the *Nam Pong* mayor, the couple revealed crucial information to *Jiew* about how dependent *Lam Nam Pong* was on the *Nam Pong Municipality* in terms of public infrastructure and services. Grinning from ear to ear, the husband and wife pointed out that:

[Without] all the shops, bank branches, and other business outlets in Nam Pong, we would have to take a long trip to downtown Khon Kaen. Your municipality has indeed provided what my municipality cannot provide. So, we enjoy coming here a lot. It is convenient for us and our neighbors.

Most importantly, the majority of *Lam Nam Pong* children were educated in the *Nam Pong* public school system, which ranged from preschool to vocational and technical education. When falling ill, residents from the *Lam Nam Pong* residents rushed to the *Nam Pong* municipal area for medical treatment.

After finishing their errands at the bank, the *Lam Nam Pong* couple and *Jiew* bid adieu to one another. On the following day, the mayor sat in his office, still pondering over

what the couple from *Lam Nam Pong* had said. On the one hand, *Jiew* reckoned, “Of course, people from the neighboring community regularly visit *Nam Pong* because all public facilities and services here have been extremely well managed under my mayoralty.” On the other hand, the young mayor became engulfed in anxiety about his municipality’s financial sustainability. Similar to almost all local government units in Thailand, *Nam Pong Municipality* depended on a stream of grants from the national government. Locally collected revenues were too miniscule to sustain the entire municipal government operations. If *Nam Pong* municipal authority kept up its “Good Samaritan” spirit by continuing to provide public services free of charge to citizens from adjacent jurisdictions, it had to come up with additional revenue sources or a roadmap for restructuring the municipal government operations and services. Otherwise, the *Nam Pong* municipal government would be in imminent danger of financial difficulty, operational disruption, and declining public service quality.

EVOLUTION OF THAI MUNICIPAL GOVERNMENT

In the 1990s, territorial decentralization was coterminous with democratization for it connoted the transfer of planning, decision-making, and managerial authority from national administrative agencies to local self-governing bodies (Devas, 1997; Diamond and Tsalik, 1999; Falleti, 2005). In countries where decentralization was adopted, local authorities—especially, municipal government units responsible for overseeing large urban areas—had become increasingly important in many aspects of political, social, and economic development. By virtue of their close proximity to citizens, municipal administrative agencies were at the front lines of public management and responsible for diverse tasks, ranging from complex administrative issues, such as community visioning, strategic planning, budgeting, and financial management, to day-to-day operation of mundane public services (Stenberg and Austin, 2007; Stenberg, 2007).

Nonetheless, in many parts of the world, municipal administration had a rich history, predating the contemporary decentralization movement. As a case in point, municipal government system in Thailand first emerged as part of the early 20th-century modernization reform. The 20th century came to an end with the second wave of reform aimed at loosening the rigidity of central government control over municipalities. Yet, Thai municipal authorities struggled to perform their public service functions under heavy legal and administrative constraints imposed on them by the national government agencies. Many of these constraints crippled the municipal government ability to raise sufficient revenues to sustain their public service operations.

Variety of Decentralization Reforms

Administrative reform measures embraced by both advanced industrial and developing countries featured a variety of territorial decentralization approaches. Public administration experts had furnished several analytical frameworks to assist and guide an analysis of the complexities of decentralization reforms in different national contexts (Hutchcroft, 2001). Among these analytical frameworks, the functionalist framework of decentralization and political-administrative framework offered conceptual lenses through which the decentralization of authority and power to local communities in developing countries, particularly Thailand, could be assessed.

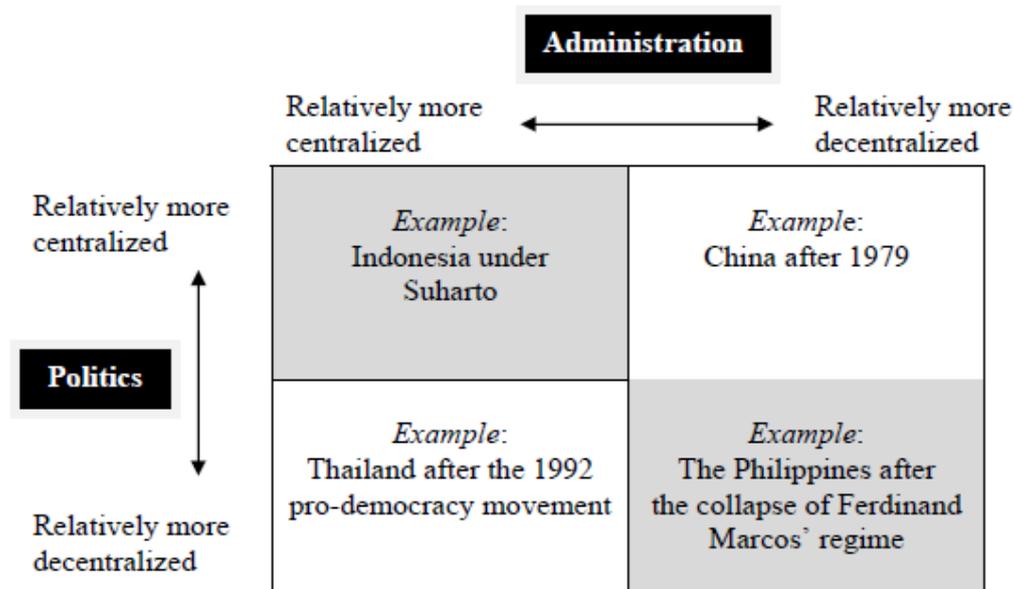
▪ *Functionalist Framework of Decentralization.* Decentralization reform, whether intentionally designed or otherwise, could exert a strong influence on power relations in a country (Cheema and Rondinelli, 2007). Whether decentralization could help strengthen the democratization process and stimulate socio-economic development was largely contingent on how decentralization-related government policies were formulated and implemented (Falleti, 2005). From the functionalist perspective, decentralization was regarded as a multi-faceted government reform process, consisting of three distinct dimensions: *political*, *administrative*, and *fiscal* (Rondinelli, 1981; 1990; Manor, 1995; Schneider, 2003) (Table 1). Each dimension reflected the transfer of authority and responsibility from national bureaucratic agencies to local jurisdictions. Sewing these three dimensions together to craft coherent decentralization policies was a daunting task for policymakers and could be likened to making a soufflé that required the right amount of ingredients and the right way to cook (Parker, 1995).

Table 1. Functional Framework of Decentralization

Dimension	Type of Authority Transferred	Sample Policy
<i>Political</i>	Planning/ electoral	1. Popular elections of top local government officials. 2. Creation of local legislative councils. 3. Citizen participatory channels.
<i>Administrative</i>	Functional/ organizational management	1. Transferring certain public services to local governments, such as education and health. 2. Separation between national and subnational civil service systems.
<i>Fiscal</i>	Revenue management	1. Introduction of local taxes and fees. 2. Some degree of subnational autonomy to borrow funds from lending institutions.

▪ *Historicist Framework of Decentralization.* The historicists differed from the functionalists in their emphasis on comparing the pre- and post-decentralization regimes. The functionalist framework suffered from a lack of attention to this intertemporal aspect of each country's central-local relations, rendering it incapable of explaining the variety of decentralization policy outcomes around the world (Agrawal and Ribot, 1999). The historicist framework went beyond a mere description of the decentralization reform movement in vogue today, but required in-depth analysis of the circumstances that precipitated decentralization in a polity. However, although the historicists and functionalists similarly differentiated *political* from *administrative* aspects of decentralization, the two terms were differently defined in the historicist conceptual framework. *Politics* was defined as the nature of each country's partisan or electoral politics, particularly the extent to which a patronage-based social system permeated through the political party structures, electoral process, and national political order. Administration, on the other hand, denoted the degree of institutional coherence and ineffectiveness of military and civilian bureaucracies. Also, rather than treating decentralization as a dichotomous variable (i.e., centralized or decentralized), historicists measured it on a continuum to explain national variation in the decentralization reform outcomes. This centralization-decentralization continuum along with the politics-

administration dichotomy made the historicist framework suitable for cross-national and diachronic analyses of decentralization reform policies and outcomes. For instance, Hutchcroft (2001) transformed this framework into a two-by-two matrix to study the diverse outcomes of decentralization reform efforts in China, Indonesia, the Philippines, and Thailand since the 1980s (Figure 1).



Source: Hutchcroft 2001, 39.

Figure 1. Historicist Framework of Decentralization

Where politics was concerned, both Indonesia (under the Suharto regime) and China were heavily centralized under autocratic leadership. Administratively, however, the Chinese provincial leaders and officials enjoyed considerably more discretionary power than the Indonesian provincial officers under the *Ordre Baharu* regime. In contrast, Thailand and the Philippines—after the 1990s pro-democracy movement in both countries—became politically decentralized with the provincial politicians and business tycoons rising to national political power. However, when the administrative aspect was taken into consideration, the Philippine bureaucracy appeared to be more decentralized and less effective than the Thai bureaucratic agencies.

As decentralization became popular among government reformers and public management scholars, it did not always lead to a stronger democracy or more autonomous local administrative units. In fact, there was no guarantee that the post-decentralization territorial structure would be hospitable to local government. As demonstrated in this case, not only did the municipal government units in Thailand have to make optimal use of their limited fiscal resources to deliver the highest quality of public service, they remained constrained by a number of central government regulations that had been in place long before the decentralization era.

Landscape of Historical Struggle: Thai Municipalities in the Modern Era

Since the early 20th century, the modern Thai state had featured a pronounced centralized territorial structure. Centralizing every aspect of governance was viewed by the 20th-century aristocratic reformers as the most effective mechanism to ward off threats from the Western colonial powers and strengthen Bangkok's influence over indigenous kingdoms and princedoms across Mainland Southeast Asia. Government policy formulation, planning, budget allocation, and public personnel management in the public sector occurred at the national level. All aspects of government decision making that had binding effects on people from all walks of life were controlled and determined by government ministerial and departmental headquarters in Bangkok. Further, each ministry's provincial and district agencies in which officials were appointed by Bangkok executed public policies and programs according to the central government directives

Inspired by the European colonial administrative practices, aristocratic leaders of the *Chakkri* Reformation era³ launched an experiment with the European-style municipal government system first, in Bangkok in 1897 (Langford and Brownsey, 1988). Bangkok municipal authority was referred to as *Sukhaphiban* or “sanitary district,” charged with trash collection, sewage management, and slaughterhouse inspection and licensing. In early 20th century, the *Chakkri* reformers institutionalized the sanitary district system by propagating the Local Government Act in 1914 and established more sanitary districts in the Greater Bangkok area and in select other parts of the country (Jansen and Khannabba, 2009). Nonetheless, despite the attempt to develop local government capacity, the 20th-century reformers restricted the scope of responsibilities for sanitary districts, placing them under the direct command of the Department of Provincial Administration—one of the most powerful central government agencies in the Ministry of Interior.

Municipal and local self-government took the center stage of political and administrative development after the introduction of parliamentary democracy in 1932. The Public Administration Act of 1932 and the Municipality Act of 1933 laid the foundation for local government structures and functions. The former divided the country's administrative structure into national, provincial, and local tiers—all of which remained intact until present. The latter established municipal governments in urban areas and upgraded several sanitary districts to the municipality status. The responsibility and authority for supervising local government still belonged to the Department of Provincial Administration in the Ministry of Interior. Consequently, the central-local relations after 1932 did not deviate much from the version that pertained under absolutist rule: The provincial administrative structure continued to mimic the British colonial apparatus designed not for efficient public service delivery, but for effective control of rural areas (Arghiros, 2001).

In 1953, an amendment to the municipality law divided Thai municipalities into 3 groups based on population size and density. If there were more than 50,000 residents living in a municipality, that municipal government would be qualified as a “metropolitan municipality” (*Thesaban Nakorn*). If a municipality's population size ranged between 10,000 and 50,000, it would be considered a “city municipality” (*Thesaban Muang*). The third category—sub-district municipality (*Thesaban Tambon*)—included municipalities with fewer than 10,000 residents. The amendment also determined a range of administrative functions

³ The *Chakkri* Reformation (1868-1910) was a series of modernization reforms during King Rama V's reign. In the reform process, a Western-style centralized bureaucracy was adopted by the Thai royal government to replace the traditional administrative structure modeled after the 12th-century Khmer-Brahmin governance system.

for all municipalities. In other words, municipal governments in Thailand were creatures of the national government who exercised monopolistic control over almost all aspects of municipal governance (Raksasataya, 1995). Between the 1950s and 1990s, the allocation of functional responsibilities and budgetary resources to municipal government was poorly designed and managed (Chardchawan, 2008). Central government agencies and their provincial appointees assumed responsibility for essential public services, such as education, public health, agriculture, tourism, communication and transportation, and industry and commerce. Left with unimportant responsibilities, municipalities were assigned minor sanitary functions, such as street cleaning, garbage collection, slaughterhouse inspection, fresh market management, and maintenance of cemeteries and crematoria (Mutebi, 2005; Achakorn, 2007).⁴

As the 20th century came to an end, the second wave of national bureaucratic reform gathered strength amid the country's pro-democratic movement. The reform efforts culminated in the ratification of the 1997 constitution. The local self-governance principle was enshrined in the nation's supreme law of the land for the first time in history. However, as was the case in other developing countries, execution of the constitutional principles and government policies was ineffective. Until today, the decentralization reform progress was slow. Only few changes were brought about by the current decentralization reform. First, the number of local government units doubled from 1996 to 2006. Currently, there were almost 7,900 local administrative organizations in Thailand—7,780 of which were municipalities and subdistrict administrative organizations (SAOs) (Table 2). Established in 1994, the SAOs replaced all sanitary districts in the kingdom and were vested with the responsibility of

Table 2. Number and Type of Municipalities and Sub-district Administrative Organizations in Thailand

Type	Number
Municipality	2,118
Nakorn Municipality (Population size > 50,000)	885
Muang Municipality (Population size 10,000-50,000)	1,110
Tambon Municipality (Population size < 10,000)	123
Sub-district Administrative Organization (SAO)	5,662
<i>Large SAO (Own Revenue per one fiscal year > 20 million Baht)</i>	219
<i>Medium-sized SAO (Own Revenue per one fiscal year 6-20 million Baht)</i>	5,184
<i>Small SAO (Own Revenue per one fiscal year < 6 million Baht)</i>	259
Total Number	7,780

Source: Department of Local Administration (2014).

serving rural areas. Today, these rural government units were allowed to apply for an upgrade to municipality status, thereby increasing the number of municipalities across the country.

⁴ Even for limited scope of responsibilities, Thai municipalities lacked sufficient resources and had to rely on transfers and grants from the central government.

Between 2009 and 2014, 703 SAOs became *tambon* municipalities (Table 3). Becoming a *Tambon* municipality was associated with more decision-making discretion and eligibility for more central government funding. Certainly, such upgrade was indispensable for the SAOs that had to serve an increasingly urban and populous jurisdiction. However, the power and financial incentives also encouraged many officials from small and sparsely populated SAOs to spearhead the effort to upgrade their jurisdictional status without consulting with the constituents or conducting a careful analysis of their fiscal and management capacity.

Table 3. Number of SAOs Elevated to Municipality Status from 2009-2014

Year	Elevation to <i>Tambon</i> Municipality Status	Elevation to <i>Muang</i> Municipality Status
2009	59	-
2010	320	-
2011	59	3
2012	199	8
2013	34	2
2014	32	1
Total	703	14

Source: Department of Local Administration (2014).

Another change caused by the ongoing decentralization was the growing list of administrative functions for every type of municipality. The *Determining Plans and Process of Decentralization to Local Government Organization Act of 1999* specified both compulsory and optional functions for municipal government (See Table 4 for a list of compulsory and optional functions for the *Tambon municipalities*). Prior to the decentralization reform, some of the compulsory functions for a *Tambon municipality*, such as education and road maintenance, were reserved for the central and provincial agencies. However, municipal government authority over the management of these legal functions was in its early stage. Since the 1999 law did not clearly define what many of the municipal functions entailed, municipal government officials that inadvertently over-interpreted their legal responsibilities found themselves caught up in legal disputes with independent oversight agencies, particularly the Public Finance Audit Commission (PFAC), the Election Commission, and the National Anti-Corruption Commission. A large number of municipalities were accused of malfeasance, embezzlement, and electoral fraud for providing public services that were considered illegal by the oversight agencies.

Apart from the legal matters, most of the transferred functions were in the nature of unfunded mandates. Often, the municipalities' revenue sources did not match their mandated duties. Heavy reliance on the national government grants did not offer a sustainable solution to the municipal fiscal stress, as Thailand's intergovernmental grant system was riddled with irregularities (Wongpredee and Tatchalerm, 2014).

Thus, it was against this backdrop of the decentralization reform—complicated by a lack of clarity in local authority and responsibility, fiscal constraint, and the draconian oversight by national government agencies over municipal operations—that government officials in small municipalities, such as *Tambon Nam Pong*, had to contend with, as they endeavored greatly to advance the general welfare of their constituents and execute the national government mandates. Given the dynamic relationships between central and local authorities and among local administrative organizations, *Tambon Nam Pong Municipality*

and many other municipal governments, were likely to continue to experience a variety of challenges, including the need to “innovate to do more with less,” in a complex working environment. Success in providing quality public services would require creativity, leadership, exercise of caution over financial sustainability, as well as careful treading along the axes of central-local and interlocal relations—as the story of *Tambon Nam Pong* illustrated.

Table 4. Compulsory and Optional Responsibilities of Tambon Municipalities

Compulsory Responsibility	Optional Responsibility
1. Maintenance of law and order	1. Provision of market, ferry, and harbor facilities
2. Provision and maintenance of roads/sidewalks, public space, and refuse and trash disposal	2. Maintenance of cemeteries and crematoria
3. Prevention of infectious diseases	3. Provision of employment benefits
4. Fire protection	4. Commercial development
5. Education	5. Clean water
	6. Slaughterhouse inspection
	7. Community medical centers
	8. Drainage
	9. Public restrooms
	10. Street lights

PUBLIC SERVICE CONUNDRUM IN NORTHEAST THAILAND

Nam Pong and Lam Nam Pong Municipalities: the Two Places

Nam Pong and *Lam Nam Pong* municipalities were two neighboring communities in the *Nam Pong* district in Khon Kaen Province. Situated at the heart of Thailand’s northeastern region, Khon Kaen served as a major transportation hub accessible to northeasterners and to all of Thailand. The *Nam Pong* district sat at the province’s northeastern corner and was bisected by the “Friendship Highway” or “Highway Number 2,” linking Bangkok and the Thai-Lao Friendship bridge on the bank of the Mekong river. The majority of *Nam Pong* residents were in the agricultural and livestock sector. In the 1990s, factories, mainly sugar cane processing plants, began to spring up along the *Nam Pong* river shore, unleashing a host of environmental issues for the community.

In demographic terms, *Nam Pong Municipality* covered a much smaller land area (4 square kilometers) than *Lam Nam Pong Municipality* (72 square kilometers) (Table 5). *Lam Nam Pong Municipality* had more residents (4,948 people) and more households (2,330 households) than *Nam Pong Municipality* (4,984 people and 2,330 households). However, due to its high population density (1,237 residents per square kilometer), *Nam Pong Municipality* had to serve more people per square kilometer than *Lam Nam Pong Municipality* (117 residents per square kilometer). This was a major point of concern for the *Nam Pong* municipal officials because their municipality lacked adequate financial resources and had to rely mainly on intergovernmental transfers.

In addition, despite their similar *Tambon municipality* status, both *Nam Pong* and *Lam Nam Pong* municipalities had divergent origins. *Nam Pong Municipality* was chartered first as the *Nam Pong* sanitary district in 1969 and was elevated to *Tambon Municipality* 30 years later. *Lam Nam Pong Municipality* was a much younger administrative organization, starting off as a subdistrict administrative organization (SAO) in 1995 after the *Subdistrict Council and Subdistrict Administrative Organization Act of 1994* went into effect. In 2007, the Ministry of Interior issued an official announcement to elevate the status of *Lam Nam Pong* from an SAO to a *Tambon Municipality*.

Table 5. Key Demographic Information of *Nam Pong* and *Lam Nam Pong* Municipalities

	Nam Pong Municipality	Lam Nam Pong Municipality
Population (Year 2014)	4,948	8,364
Area (km ²)	4	72
Population density	1,237	117
Household	2,330	4,365

Similar to other local administrative organizations in Thailand, both *Nam Pong* and *Lam Nam Pong* municipalities consisted of two arms of government: (1) the municipal council serving the legislative roles and (2) the mayor performing the chief executive functions. Each municipality's council consisted of 12 municipal councilors elected by district for a 4-year term. The mayoral office—an elected-at-large position—managed five municipal departments: office of the municipal administrator, finance department, public works department, education department, and public health and environmental protection department.

However, despite their structural similarity, the two municipalities diverged sharply on the types of services available for citizens in each area. As strikingly evident in Table 6, *Nam Pong Municipality* had more public services to offer than its larger neighboring municipal community.

Table 6. Type of Services Available in *Nam Pong* and *Lam Nam Pong* municipalities

Type of Service	Nam Pong Municipality	Lam Nam Pong Municipality
<i>Hospital</i>	✓ (1)*	✗
<i>Community Health Center</i>	✓ (1)	✗
<i>Childcare Center</i>	✓ (1)	✓ (2)
<i>Primary School</i>	✓ (1)	✓ (7)
<i>Secondary School</i>	✓ (4)	✓ (2)
<i>Technical College</i>	✓ (1)	✗

Note (s): * 60-bed hospital

Although the majority of these health and education facilities were still run by the national government, *Nam Pong Municipality* contributed one way or another in service provision and delivery. For instance, every healthcare facility in *Nam Pong*—including,

hospital, community health center, childcare center—continued to operate under the national government’s umbrella. Nonetheless, healthcare services at these three facilities were financed by the *Nam Pong Municipality Health Security Fund* managed and overseen by the *Nam Pong* mayor. As *Jiew* once grumbled to his municipal health official:

...[Our] public health functions are numerous and essential to the constituents’ quality of life. Yet, our discretion is so limited. Each year the health security fund transferred to us is accompanied by a large list of spending restrictions. When people are unhappy even with the way basic healthcare is provided, they held me responsible for inefficient services.

Likewise, almost all public schools in *Nam Pong Municipality* (and also in *Lam Nam Pong Municipality*)—still under the Ministry of Education’s auspices, were beyond the mayor’s direct management authority. Yet, the municipalities were required by law to provide financial support for these schools through grant-financed programs, most notably the school milk and school lunch programs. The money for these school programs came from the national government as *purposive grants* specifically dedicated to the public service functions that had been transferred to local authorities according to the national decentralization plans. The *Nam Pong Municipality*’s chief administrator spoke of his municipal government’s multi-faceted responsibilities:

From health services to education, our local government is charged with overseeing almost all aspects of the people’s life. Of course, the local people know little about our works and hardwork. Many of the public service programs are still funded by the national government, so national and provincial officials can claim credits for all the works. But, we municipal government workers are the ones that do the job.

Thus, contrary to popular belief, *Nam Pong Municipality* and other municipal authorities in Thailand strove tirelessly to ensure an uninterrupted flow of public services—nationally or locally run. Bearing in mind these localities’ revenue constraint, it was unimaginable how the municipal government officials could successfully and adequately serve their constituents.

Exploring Municipal Revenue Constraint

A day after *Jiew* had a lengthy conversation with a couple from *Lam Nam Pong Municipality*, he summoned his finance director to the mayoral office. For two years, he thought he paid enough attention to his municipality’s fiscal health, but never would he have felt the need to carefully examine the composition of his municipal government’s revenues. Sensing that this would be an unusual meeting with the mayor, the *Nam Pong Municipality*’s finance director gathered as much information as she could from a pile of papers and financial reports. Most importantly, she did not forget to bring a laptop computer with her, so she could pull out data that *Jiew* would unexpectedly need.

“Could you please give me a chart that compared the three main sources of our municipal government revenue between 2009 and 2011,” *Jiew* asked his finance director immediately after she sat down. It did not take long for the finance director to furnish what *Jiew* asked for. The information that appeared on the chart (Figure 2) did not please *Jiew* at all. From 2009 to 2011, *Nam Pong Municipality* was heavily dependent on transfers and

grants from the national government. “It is obvious that our municipality is not self-reliable financially,” muttered *Jiew*. At first glance, intergovernmental transfers were an easy revenue source for *Nam Pong Municipality* to tap into. A number of research works on Thai local government finances clearly demonstrated how the country’s intergovernmental transfer system was tarnished by intense politicking among national politicians, central government bureaucrats, and local officials (e.g., Wongpredee and Sudhipongpracha, 2013). The amount of transfers received by each municipality was determined by “who you know” rather than “how much you need.” Specific or line-item grants for infrastructure projects, in particular, were filled with scandals and corruption allegations at the national and local levels.

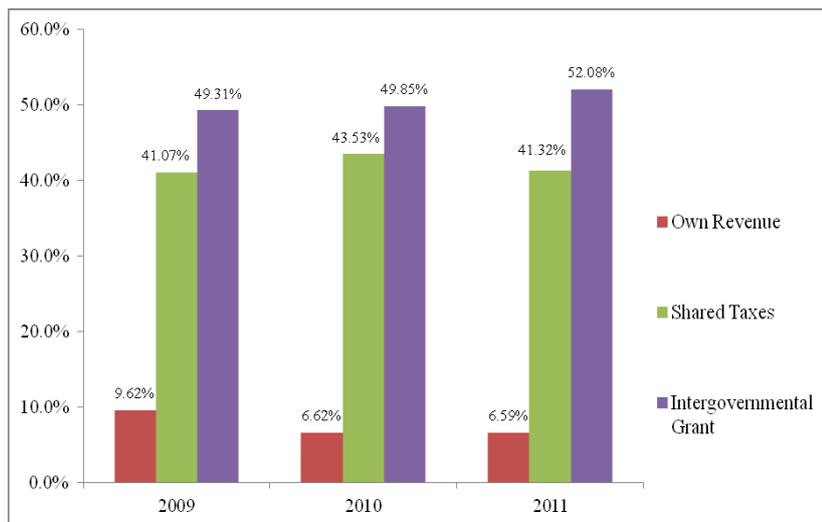


Figure 2. Composition of *Nam Pong Municipality Revenues, 2009-2011.*

Source: Department of Local Administration (2013)

In fact, *Jiew* was no stranger to this politicized intergovernmental grant system. For two years, he had stumbled across several individuals who claim they could assist *Nam Pong Municipality* in securing grant funding for any infrastructure projects. *Jiew* never accepted this kind of assistance because he knew it would compromise his integrity as local public servant. Having strong belief in academic research, Mayor *Jiew* chose to discuss his municipal government affairs with scholars and was never reluctant to take up any opportunity to provide high-ranking government officials with information about his municipality. At this point, what troubled *Jiew* was his municipality’s own revenue source.

Thai municipalities were given power to collect five types of tax: (1) land and building tax, (2) local maintenance tax, (3) signboard tax, (4) animal slaughter tax, and (5) edible bird’s nest tax. For *Nam Pong Municipality*, some of these local taxes were difficult and almost impossible to collect. As the finance director pointed out:

“...[Forget] about the bird’s nest tax! We don’t have any swallows up here in the northeast. And since the most part of our municipality is a rural area, the amounts of land and building tax and signboard tax were low every year. So, we must rely on the local maintenance and animal slaughter taxes, which do not yield that much money...”

Jiew wished to know how *Nam Pong Municipality*'s fiscal health looked in comparison with *Lam Nam Pong Municipality*. Thankfully, the Department of Local Administration had released local government financial statistics at the end of 2013. The dataset enabled *Jiew* and his finance director to explore their neighboring municipality's fiscal health. After figures and charts were produced and presented to *Jiew*, long-smoldering silence hovered over the mayoral office. As shown in Figure 3, each municipality's own-source revenues were calculated as a percentage of the total revenues in each budget year. It appeared that *Lam Nam Pong Municipality* fared better than *Jiew's Nam Pong Municipality* in terms of ensuring a consistent stream of own-source revenues from 2009 to 2011. *Nam Pong Municipality*'s own-source revenue collection capacity registered sharp decline between 2009 and 2010. However, since own-source revenues made up less than 10 percent of the total revenues, both municipalities appeared to rely more on other revenue sources

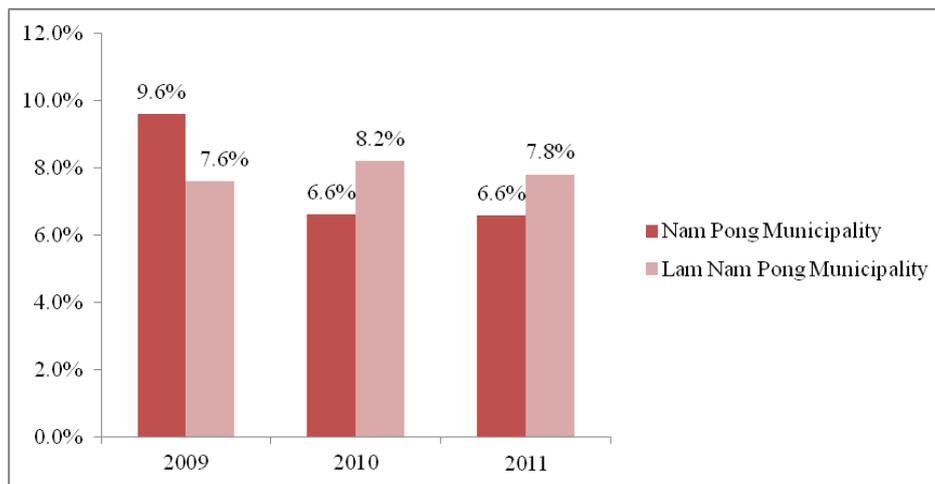


Figure 3. Own-Revenue Source Comparison between *Nam Pong Municipality* and *Lam Nam Pong Municipality*, 2009-2011.

Source: Department of Local Administration (2013).

Legally speaking, other revenue sources for Thai municipal government were shared taxes and intergovernmental transfers. Shared taxes, including the value-added tax (VAT) and petroleum tax, were collected by the national government and reimbursed to municipalities based on a formula determined by the National Decentralization Commission. As evidently illustrated by Figure 4, *Lam Nam Pong Municipality* received considerably more shared taxes than *Nam Pong Municipality* during the three-year period. This type of tax also made up most of *Lam Nam Pong Municipality*'s total revenues.

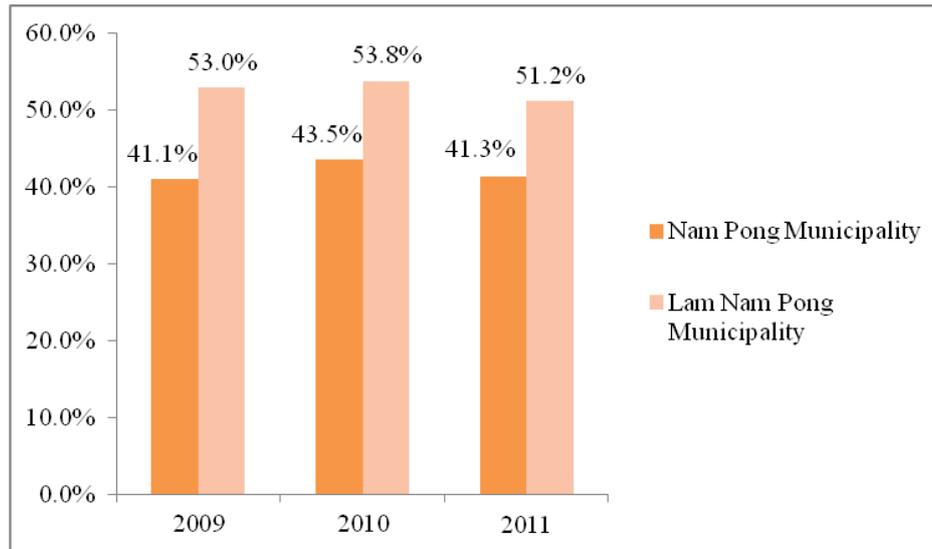


Figure 4. Comparison of Shared Tax Revenues between *Nam Pong Municipality* and *Lam Nam Pong Municipality*, 2009-2011.

Source: Department of Local Administration (2013).

Struck by these statistics, Mayor *Jiew* did not feel comfortable about his *Nam Pong Municipality's* future at all.

....if our municipal government revenue trend goes on like this, we will be in huge trouble. Our municipality might not have enough money to fund all the infrastructure projects that we have on our three-year plan. And when no new school buildings are constructed and new sewerage system upgraded, not only will the people complain, operations costs will go up as well.

If his municipality's revenue problem persisted and the *Lam Nam Pong* residents continued to subsist on *Nam Pong* municipal services, fiscal stress and subsequent financial breakdown would be imminent for the *Nam Pong* municipal government. Based on the dataset *Jiew* and his finance director looked at, *Lam Nam Pong Municipality* had more financial self-reliance, given that shared taxes were practically the municipality's own revenue sources collected and shared by the national government.

After the finance director left his office, *Jiew* sat quietly alone, pondering over everything the *Lam Nam Pong* couple said yesterday and the financial data presented to him by his staff. *Jiew* murmured to himself, "This is a great challenge. I never thought this would happen to me." The young mayor thought all along that running a 4-square-kilometer municipality was a piece of cake. Never would he have anticipated his neighboring community to shatter his dream and composure. *Jiew* had a charming personality and always appeared calm in front of his staff. Frustrated with the entire situation, *Jiew* was clueless as to where to begin solving this complex problem.

LOOKING INTO THE FUTURE

Determined to salvage his hometown from a potentially disastrous slide into bankruptcy, *Jiew* decided to spend a significant part of his holiday on the internet, searching for alternative public service delivery models in other countries. Municipal consolidation or

merger that was widely popular in Australia, Japan, and the United States attracted *Jiew*'s attention.

.....[The] Japanese, the Australians, and the Americans were faced with the exact same fiscal crisis in their local governments. Then, they realized that they had too many local government units and worked hard to merge the unnecessarily small ones. Perhaps, merger is what we should strive for.

In his view, this consolidation approach could serve as a sustainable solution for both *Nam Pong* and *Lam Nam Pong* municipalities. However, a major stumbling block remained. *Jiew* had to convince his *Lam Nam Pong* counterpart—Madam Apple—of the need to merge their two municipalities. Also, upon learning about the composition of his municipality's revenue sources, the young mayor might have to carefully examine the municipal financial management system. For the first time in his tenure as *Nam Pong* mayor, *Jiew* needed expert advice on how to design an action plan to transform his municipal government's public service delivery.

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