

FINAL REPORT

**LAND USE PROGRAMMING
FOR
CHONBURI, SIRACHA AND PHANAT NIKHOM
THAILAND**

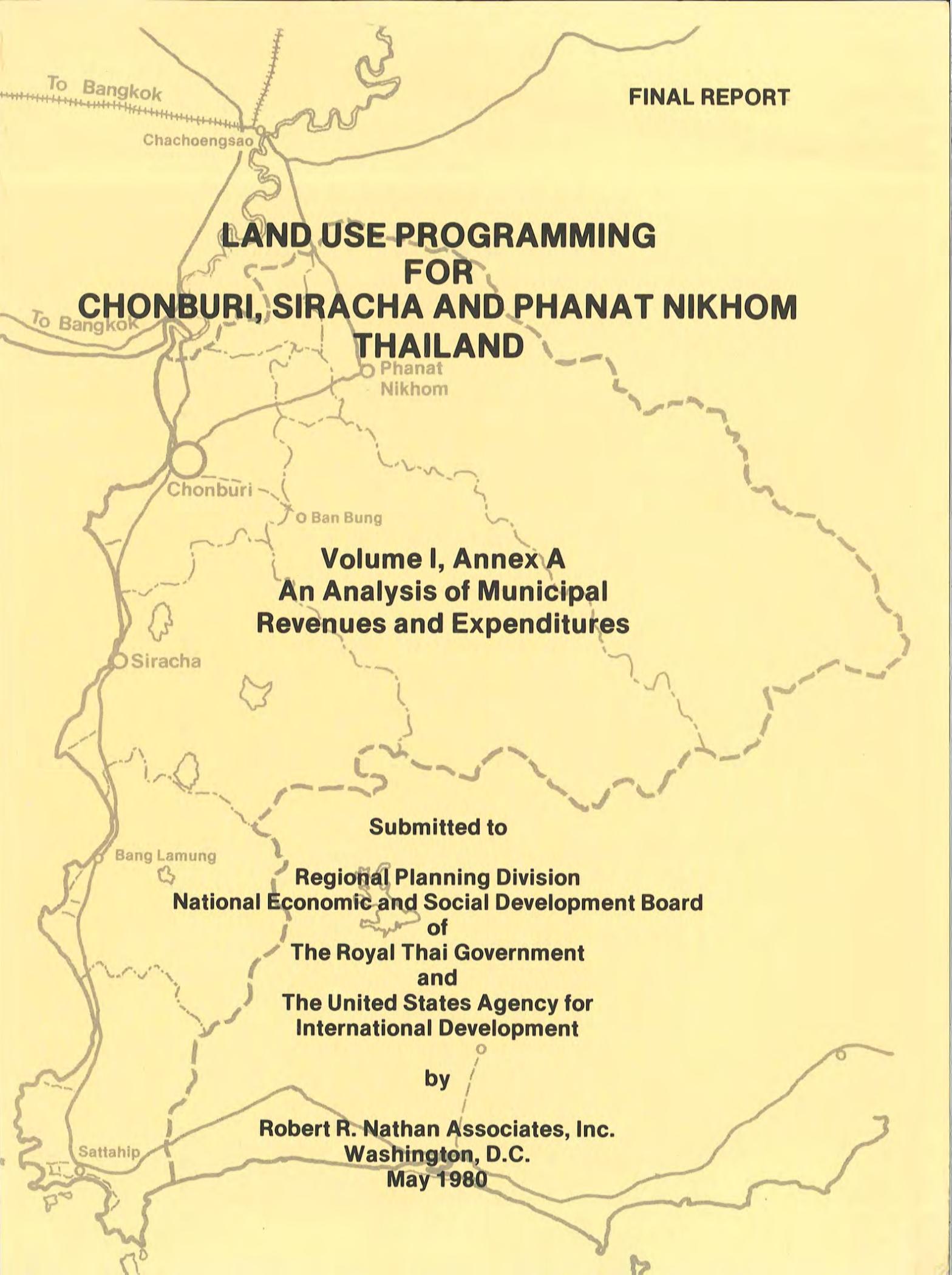
**Volume I, Annex A
An Analysis of Municipal
Revenues and Expenditures**

Submitted to

**Regional Planning Division
National Economic and Social Development Board
of
The Royal Thai Government
and
The United States Agency for
International Development**

by

**Robert R. Nathan Associates, Inc.
Washington, D.C.
May 1980**



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May 23, 1980

Kuhn Vithya Siripongse
Director
Chonburi Land Use Programming Project
Regional Planning Division
National Economic and Social
Development Board
Bangkok, Thailand

Dear Kuhn Vithya:

Robert R. Nathan Associates, Inc., is pleased to submit the Final Report of the Chonburi Land Use Programming Project. The Final Report is submitted in three volumes: Volume I contains a summary and evaluation of the project, including suggestions for strengthening similar projects; Volume II contains an elaboration of the steps involved in application of land use planning techniques, and Guide Plans for urban development in the study area.

The Final Report includes, also, in Volume III, a "Manual" and lecture notes for possible use in future training programs to strengthen the capabilities of governmental units responsible for urban development planning in Thailand.

The report on Municipal Finance is submitted, with minor editorial revisions, as Annex A of the Final Report. Although this report provides no easy solution to the financial constraints confronting Thailand's intermediate size urban centers, it addresses in a forthright manner the issues that require resolution on a nationwide scale if your Government is to achieve its stated objectives of decentralization in administration of local development.

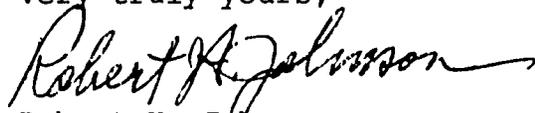
A "Glossary of Planning Terms," in English, is included in Annex B.

RRNA

Kuhn Vithya Siripongse
May 23, 1980
Page two

On behalf of Robert R. Nathan Associates, I would like to express our appreciation for the support and assistance in the project provided by you and your staff. Kuhn Manu gave generously of his time and efforts in many ways; Kuhn Utis' contribution to the Guide Plans was invaluable. To all of you, and to the local Changwat and Municipal officials, we are grateful.

Very truly yours,

A handwritten signature in cursive script that reads "Robert H. Johnson". The signature is written in dark ink and has a fluid, connected style.

Robert H. Johnson
Senior Vice President
International Operations

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SUMMARY

The analysis presented in Annex A provides a basis for evaluation of the fiscal resources available to the three municipalities; identifies short-term measures that would increase revenues from sources over which these units of government have control; and suggests directions in which the local tax system could be restructured on a nationwide scale to enable municipalities to achieve a greater degree of fiscal autonomy without which the Government's decentralization policy will be difficult to implement.

The analysis concludes that:

- . even with national revenues that are transferred to, or shared with, municipalities, local fiscal resources are inadequate to maintain satisfactory levels of urban services and needed capital improvements;
- . the ability of municipalities to increase revenues from their own sources is limited by national statutory provisions, and further constrained by local political considerations; and
- . while improvements in local tax administration could bring marginal increases in municipal

revenues, the higher revenues would still fall short of the amounts required to finance needed levels of services and capital projects to accommodate projected growth in population and economic activity in the subregion.

The Annex contains an evaluation of the existing system of grants from the central to local units of government, including municipalities:

- . General grants to municipalities and sanitary districts, allocated on a per capita basis.
- . Special program grants, allocated for specific projects, with maxima for municipalities set inversely with respect to total municipal revenues exclusive of grants from the Central Government.
- . Special development grants, provided by the Bureau of the Budget in response to requests from municipalities for specific projects. In 1978, none of the three municipalities received these grants.
- . Provincial development grants, of which 20 percent of the grant funds received by each province are to be made available to municipalities and sanitary districts. Allocation among provinces is based on a weighted formula, with heavy weights being given to population and non-irrigated area; per capita income, special "problem areas," and security conditions have lesser weights. Provincial planning offices are responsible for preparation of projects to utilize the grants received.

The system of grants, including educational grants, provided almost 17 percent of total revenue in Phanat Nikhom, 26 percent in Siracha, and 20 percent in Chonburi in 1978.

With the exception of the provincial development grants, which are designed to encourage increased provincial and local involvement in development planning and responsiveness to local priorities, the other grant programs appear to have no clear-cut policy objective -- other than to assist in meeting the financial costs of local government.

In general, the analysis supports the view that greater emphasis should be placed on equalization, i.e., per capita grants should vary inversely with per capita incomes in each grant-receiving unit of government. This element is present in the provincial development grants. However, before it can be applied to smaller units, such as municipalities and sanitary districts, more detailed information on incomes in these units of government will be required. Moreover, such information will require frequent updating if the "equalization" principle is to have its intended effect.

In the case of special program grants, the establishment of ceilings on the grants that vary inversely with municipal revenues, exclusive of grants, appears to reflect a policy to concentrate the limited resources in projects in the smaller municipalities. However, it may exert perverse effects on municipal efforts to increase revenues from sources available to them if additional revenues would lower the amount of special program grants for which they would be eligible.

While it is recognized that measures to increase municipal revenues from their own sources generate public opposition, this constraint can be minimized in a number of ways. One is by the use of "matching grants," or by determining the amount of the grant in relation to the "tax

effort" made by each municipality. Tax effort would be measured in terms of per capita tax collections relative to per capita income, or some relevant tax base, e.g., land and buildings.

Finally, with respect to grants to finance specific projects, particularly those originating at the municipal and provincial levels, a strengthening of planning offices at these levels is a necessary prerequisite for an expanded system of grants to finance capital projects. In addition to improved capabilities in project identification, evaluation and monitoring the effectiveness of grant funds will require more sophisticated budgeting techniques.

The analysis in Appendix A, and the observations presented above, suggest measures to achieve marginal improvements in local revenues and the allocation of shared revenues and grants, at prevailing and prospective levels of Central Government grants. However, they are not likely to provide financial resources adequate to meet the needs of municipalities in the Eastern Seaboard Region, particularly Siracha, Chonburi, and the new industrial estates and urban centers to be established at Sattahip and/or Laem Chabang. The prospects for near-term, substantial increases in Central Government revenues from which the total volume of grants could be expanded are constrained by general economic conditions and the Central Government's requirements for additional funds to meet its own needs.

Given the Central Government's priorities, funds to be made available for use at the local level are likely to be heavily concentrated in rural areas, where the needs are

pressing and local revenue sources are even more limited than in the municipalities, e.g., the 80 percent allocation of provincial development funds to rural projects.

Thus, adequate funds to finance infrastructure and other urban projects on the scale required for the development of "principal towns," such as Chonburi, and other centers scheduled for rapid development, may require external funding. As many of the projects that will require funding are likely to be smaller than are normally considered by international funding agencies, access to project loans will be limited.

However, it is noted that the World Bank has under consideration a "structural adjustment program" for Thailand. Inter alia, the measures under consideration include a large program loan from which the Central Government, under conditions to be agreed upon by the Bank and the Government, could finance a variety of projects that would contribute to the overall objectives of the structural readjustment program. The rapid industrialization of the Eastern Seaboard, including an export processing zone, is one of the principal components of the restructuring program. If this program is adopted and implemented by the Government of Thailand, it could provide a source of funds for a variety of development projects affecting Chonburi, Siracha, and other urban centers in Rayong and Chonburi Changwats.

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CHAPTER 1

Introduction

This report is an evaluation of the finances of the municipalities of Chonburi, Siracha and Phanat Nikom, the designated urban centers in the study area of the Chonburi, Thailand land use programming project. The report addresses itself to the capacity, or lack of capacity, of the three municipalities to raise the necessary funds, totally or in part, to finance development projects. To this end, the study will review the present revenue sources available to the three municipalities for both operating and capital purposes, assess the tools available for administering tax collections and for financial administration generally, and make recommendations for improving revenue-raising ability. The study will also assess the adequacy of services and facilities provided by the three municipalities.

A number of recent studies have pointed up the shortcomings of the local public finance structure in Thailand.¹

1. International Bank for Reconstruction and Development, A Study of Public Finances in Thailand ("Yenal Report"), Volume IV: Annex F - Local Government Administration and Finance in Thailand (October 31, 1974); Southeast Asia Development Advisory Group (SEADAG), Ad Hoc Seminar on Development and Finance of Local Government in Thailand (February 2-3, 1976); Norman K. Nicholson, "Preliminary Report of Financial Aspects of Decentralized Planning" (U.S. Agency for International Development, Washington, D.C.), Feb. 1979; Stephen Born, Lee Jakobson, and Ved Parkash, "Preliminary Report on Provincial Planning and Development" (Madison: Regional Planning and Development Project, University of Wisconsin, USAID Contract No. AID/DSAN-C-0060), February 1979.

In particular, those studies have noted how municipalities are restricted in their revenue-raising ability to provide adequate ongoing services, much less to plan for and provide the public improvements that are needed to foster community growth and development.

Summary Findings

The findings, based on a detailed examination of the financial structure of the three municipalities encompassed in this study, in general, confirm the conclusions reached in earlier studies. In summary, this investigation reveals the following:

- . Municipalities can themselves levy only four taxes -- building and land tax, land development tax, slaughtering tax and signboard tax.
- . Of these, only the building and land tax has any real revenue potential, but it is seriously underutilized in practice.
- . Other local revenue sources, such as license fees and commercial activities, have some potential for providing increased revenues, but any increase would be inconsequential compared with the prospective expenditure needs.
- . In practice, then, the municipalities rely heavily on the Central Government for their revenue: surcharges on national taxes (mainly business tax), shared taxes (mainly vehicle tax), and government grants -- accounting for about four-fifths of their total revenue.

- . Because the municipalities are so constrained in their revenue-raising ability, they find it virtually impossible to provide adequate current services and to plan and execute needed development projects. Largely because of the way motor vehicle taxes are distributed, both Siracha and Phanat Nikom are in a better financial position than is Chonburi.
- . Aside from their revenue constraints, the municipalities lack some basic tools for administering tax collections and for managing their expenditure programs.

Potential for Improving Municipal Finance

Although the officials of the three municipalities agree that their municipalities cannot provide adequate public services and facilities within their present financial constraints, none can foresee tapping his community's present revenue sources more extensively than is now being done, without serious political effects. This view pervades every discussion that has been held with the Mayors, Municipal Clerks and finance officials of the three municipalities, as well as with officials at the provincial and national levels.

In light of these discussions, it would appear that any near-term solution to the municipal finance dilemma is unlikely. Some revenue improvement can be anticipated by such means as strengthening tax enforcement and fiscal administration generally. It may even be possible to increase somewhat the revenue from the building and land tax with better collection practices. Some expansion of revenue from commercial enterprises and from local business licenses may also be possible.

For the immediate future, however, the municipalities will have to continue to rely on subsidies and shared taxes from the central government.

If the municipality of Chonburi with the backing of the Province and NESDB can make a compelling case for a massive land reclamation project in order to increase its useable land and thus provide new land for development, it may be able to obtain partial financing from the Ministry of Interior and the Bureau of the Budget by means of a special development grant. Indeed, because much of the capital investment in the proposed reclamation project would be recovered when the reclaimed land is sold, a good case can probably be made for a combination of loans and grants from the Central Government, the loans to be repaid from the proceeds of future land sales.

The small-scale projects envisioned for Siracha and Phanat Nikom, on the other hand, could well be financed -- over a period of years -- from their current revenue sources if they are enhanced by improved management techniques and, possibly, some increases in license fees and profits from commercial enterprises, as well as by the authorization of more flexibility in the use of their own reserve funds.

On the surface, the 20 percent set-aside for urban governments under the new provincial development plan would seem to offer some financial help to the three municipalities, particularly if the grant should be expanded in future years. At present, only one percent of the fiscal 1979 National Budget has been set aside for "provincial development," a total of about $\text{฿} 960$ million. In fact, only $\text{฿} 761$ million has been allocated among the provinces thus far in fiscal year 1979, with some $\text{฿} 191$ million set aside as a discretionary

fund. Still, considering the plan's orientation toward impoverished rural areas, Chonburi Province, located as it is in the second wealthiest region in the Nation (next to Metropolitan Bangkok) and ranking among the provinces with the highest Gross Provincial Product (GPP), cannot expect to receive much additional help from the plan. With a national average allocation of $\text{฿ } 19.50$ per capita for fiscal 1979, Chonburi Province received only $\text{฿ } 13.90$. As a result, the three municipalities received $\text{฿ } 352,000$ altogether, only about 4 percent of the grant to the province. The remaining 16 percent "urban" portion was granted to the sanitary districts.

Any meaningful solutions to the municipal finance problem must be placed in the long-term category, depending on government actions that probably will take five years or more to implement. If there is sincere concern that there be financially viable municipal governments to provide the necessary commercial and industrial facilities and services as well as the cultural and recreational amenities for an expanding and more decentralized urbanizing economy, serious consideration must be given to strengthening municipal self-government, both structurally and financially.

The primary need of the municipal governments (and indeed all local self-governments, including the provincial governments and sanitary districts) is a productive and reasonably assured revenue source which they can control. The reform of the property tax structure now being considered by the Ministry of Interior can provide one such instrument. Although many problems will have to be solved before such a major change can be effected, solutions to these problems must be found. There appears to be a reasonably solid

consensus among the main agencies and officials concerned as to the urgent need for property tax reform.

Considering the long lead time that will be required to bring property tax reform to fruition, steps should be taken immediately to ensure that municipalities have the necessary tools to administer such a tax properly.

Once the municipalities have a strong, flexible revenue base under their control, they can begin to do realistic advance capital planning and to consider the possibility of using debt instruments as a way of speeding up the installation of needed infrastructure. They could show private sources of funds that loans to finance local public sector investments are sound and that debt service requirements would be met on schedule. More importantly, the present source of borrowing by municipalities -- the Municipal Development Fund -- should be replaced by a well-capitalized Urban Development Bank.

Summary of Recommendations

The next chapter discusses in detail the conclusions that are drawn from this study and sets forth a number of near-term and long-term recommendations for improving municipal finance in Thailand. The bases for the recommendations are presented in Chapter 2. In summary, the recommendations are as follows:

Near-Term Recommendations

A. Improving Financial Administration

1. Tax Enforcement and Administration

- . Municipal finance officials should review the laws and regulations pertaining to their tax enforcement powers and apply those powers vigorously.
- . At the beginning of each tax year, each municipality should estimate the amount it expects to collect from each local tax source and the percentage it expects to be delinquent (delinquency rate). The actual tax collection and delinquency record for the year should be compared with initial estimates.
- . Tax delinquency records should be kept on a neighborhood basis and periodic reports should be made on tax delinquency to the Municipal Clerk as a basis for decisions concerning the deployment of tax enforcement personnel.
- . In-service training seminars should be made available to lower-level tax administration staff and should be held more frequently. Moreover, the training programs offered by the Academy of Local Government Administration should be expanded to include formal pre-service training in a classroom setting for tax administration personnel, and all municipal finance personnel should be required to attend such classes as a condition of employment or promotion.

2. Budgeting and Reporting Practices

- . As a first step to improve municipal budget and reporting, the Ministry of Interior should promulgate regulations for establishing a functional classification to be applied in preparing budgets and information reports.
- . The Ministry of Interior should undertake a study of the cash flow requirements of municipalities and develop guidelines that would enable municipalities to determine their own reserve requirements.
- . The budgeting process should be opened to the people by including a series of public hearings.
- . As the municipal budget process is strengthened, consideration should be given to the use of capital budgeting by municipalities.

B. Improving Current Municipal Revenue Sources

1. Provincial Development Grant

- . NESDB in conjunction with the Ministry of Interior and the Bureau of the Budget should develop a training program for strengthening the planning capability of municipal governments.
- . To improve the equalization aspects of the Provincial Development Grant, the weight given to per capita income in the allocation formula should be increased.

- . Consideration should be given to shifting 10 percentage points from the "security considerations" factor to the per capita income factor in the allocation formula.
- . Consideration should be given to allowing variations among provinces as to the proportion of Provincial Development Grant money to be allocated to "urban" governments.

2. General (per capita) Grants

- . The National Statistics Office should be directed to collect current personal income data for municipalities and sanitary districts for use in measuring relative municipal and sanitary district fiscal effort.

3. Specific Program Grants

- . Municipalities should be classified by population size (rather than by magnitude of local revenue) for the purpose of the specific grant allocation -- perhaps with separate classifications for muangs and tambons on the grounds that each of these classes has a different set of responsibilities.

4. Vehicle Tax

- . Collections at the province level should be retained for distribution within each province.
- . The proportions allocated among the types of local

governments within each province should be computed on the basis of location of vehicles, weighted by type of vehicle.

- . The equal-share distribution of the municipal and sanitary district allocations should be replaced by a per capita distribution, the change to be phased in over a period of years.

5. Business Tax Surcharge

- . Any change in the allocation of the business tax surcharge should be based on current retail sales data.
- . The National Statistics Office should be directed to collect current retail sales data at the provincial, municipal and sanitary district levels.

6. Building and Land Tax

- . Each municipality should undertake a survey of lease contracts to determine the magnitude of lump-sum rental payments that now escape building and land taxation.
- . Exemptions from building and land tax should be reviewed.

7. License Fees

- . Each municipality should undertake a thorough

review of its license fee structure considering inter alia the costs of regulating various types of businesses and occupations, as a basis for restructuring their license fee schedules.

- . The Ministry of Interior should review the schedule of allowable maximum license fees to provide for variable and more realistic fees.

8. Commercial Enterprises

- . While there is some merit in limited expansion of municipal enterprises, municipalities should expand this area cautiously.
- . Procedures for allocating enterprise profits should be revised in accordance with sound management practices.

Long-Term Recommendations

1. Property Tax Reform

- . The Government should move as quickly as possible to obtain implementation of property tax reform, as proposed in principle by the International Monetary Fund.
- . In this connection, immediate steps should be taken to provide municipal governments with the necessary administrative tools and expertise to conduct their tax collection responsibilities efficiently.

- . Property tax reform legislation should include the provision that local administration will depend on the demonstrated ability of individual local governments to administer the tax.
- . The Ministry of Interior should develop a publicity campaign, to be mounted as soon as the legislation is enacted, explaining the features of the new tax in terms that are understandable to the average taxpayer.

2. Long-Term Borrowing

- . The Municipal Development Fund should be discontinued as a source of municipal borrowing and be replaced by an Urban Development Bank capitalized from funds initially advanced by the Central Government and, subsequently, by borrowing from the private and international money markets. Loans should be made to municipalities in accordance with sound banking practices, both for commercial enterprises and for general infrastructure facilities, at interest rates that are geared to the cost of borrowing by the Central Government.
- . The Ministry of Finance, and the Ministry of Interior, should review the laws and regulations pertaining to municipal debt with the aim of clarifying the status of local government borrowing powers and limitations.

CHAPTER 2

Conclusions and Recommendations

This detailed study of the revenue and expenditure patterns of the three municipalities covered by the Chonburi Land Use Programming Project has revealed some serious shortcomings. With very limited authority to raise their own funds and serious underutilization of their primary local revenue source -- the building and land tax -- all three communities provide a bare minimum of municipal services and public investment. Half or more of their current budgets is devoted to capital expenditure, limiting severely the amount they can spend on mandated regular services, such as education, street and drain maintenance and repairs, traffic control, public health, and sanitation.

Because of their limited revenue-raising authority and the low productivity of their present sources, the municipalities cannot obtain credit in private money markets. Virtually their only source of loan funds has been their own surplus, part of which has been held in Bangkok (Municipal Development Fund) and part under their own control ("municipal reserves"). The Municipal Development Fund is now all but depleted and a municipality's ability to tap its own reserve is limited by Ministry of Interior (MOI) regulations.

Even apart from possible financing of major capital projects, such as reclamation of the foreshore areas in Chonburi and Siracha, there is an urgent need for all three municipalities to reform their financial structures. Municipal services and infrastructure in Chonburi, by far the

largest of the three municipalities with a population now of about 50,000, are grossly underfinanced. Siracha and Phanat Nikom, as a result of the allocation formula for distribution of the vehicle tax, are in a somewhat better financial position.

The need for reform of municipal finance is well recognized by municipal officials and by the Department of Local Administration (DOLA), Ministry of Interior (MOI). The Municipal League of Thailand passed a number of resolutions at its 1977 annual meeting, calling for improvements in property tax administration, changes in grant programs and expansion of borrowing powers. MOI responded favorably at the League's 1978 annual meeting.

A number of steps will need to be taken to improve municipal finances in Thailand. Basic improvements, like property tax reform and subsequent expansion of borrowing powers, will require long-drawn-out deliberations within the National Government, both at the executive and legislative levels. It is essential that such deliberations be initiated as soon as possible. In the meantime, certain steps can be taken to: (1) provide the municipalities with the effective administrative tools they will need before they can use sophisticated and productive financial structures; and (2) provide some immediate fiscal relief, pending the availability of more substantial and permanent revenue sources.

Accordingly, this chapter is divided into two main sections. The first section deals with the actions that should be taken immediately, first in the form of administrative improvements, and secondly, as to means of increasing

municipal revenue from the sources now available to them. The second main section looks to the future. It evaluates the property tax reform proposal now being considered by the Royal Thai Government, makes some recommendations concerning its implementation and, finally, it considers the possibilities for the issuance of debt by municipal governments.

Near-Term Recommendations

Two kinds of actions can be taken in the short run for improving the financial position of municipalities. The first group, under the general heading of financial administration, can enhance revenue collection indirectly by providing improved administrative techniques. The second set of actions deals with the specific revenue sources themselves.

Improving Financial Administration

Recommendation No. 1 -- Tax Enforcement and Administration

A review of the laws and regulations that deal with tax enforcement indicates that the municipalities have adequate tax enforcement powers, ranging from the imposition of jail sentences for failure to pay taxes to the levy of fairly stiff penalties for late payment. They even have the authority to conduct tax sales, which apparently has never been used. It is apparent, however, that although they have the power, the municipalities make minimal use of those powers to enforce collection. One of the Mayors commented that he did not have adequate enforcement power, noting that the municipality could "only" impose a 5 percent penalty for late

payment of taxes. Actually the penalty is 5 percent for two months' delinquency and 10 percent for four months' delinquency, which seems sufficient if enforced.

It is recommended, therefore, that the municipal finance officials review the laws and regulations pertaining to their tax enforcement powers and apply those powers vigorously.

Although the municipalities possess some of the rudimentary tools necessary for tax administration, they do not make full use of them. For example, they now have tax maps that enable them to locate every taxable property in their jurisdiction. They do not, however, develop data on tax delinquency, which would provide management information for deployment of tax enforcement personnel.

It is recommended, therefore, that at the beginning of each tax year each municipality estimate the amount it expects to collect from each local tax source and the percentage it expects to be delinquent (delinquency rate). The actual tax collection and delinquency record should then be compared with initial estimates. It is recommended further that tax delinquency records be kept on a neighborhood basis and periodic reports be made on tax delinquency to the Municipal Clerk as a basis for decisions concerning the deployment of tax enforcement personnel.

The amount and quality of tax administration staff appears to be inadequate. Although some have had training at the college level, most have only completed secondary or vocational school. Training is mainly on-the-job, with seminars and workshops offered at 2-3 year intervals by the Academy of Local Government Administration, mainly for senior accounting and finance officers. Pre-service training is offered only to governors and deputy governors; there is

none for tax administration staff. Additional well-trained tax administration staff will more than pay for itself in additional revenue.

It is recommended, therefore, that each municipality review its tax administration staffing and take steps to upgrade it. It is recommended further that in-service training seminars be made available to lower-level tax administration staff and be held more frequently. Moreover, the training programs offered by the Academy of Local Government Administration should be expanded to include formal pre-service training in a classroom setting for tax administration personnel, and all municipal finance personnel should be required to attend such classes as a condition of employment or promotion.

Recommendation No. 2 -- Budgeting and Reporting Practices

The present system of municipal budgeting, based as it is on tailoring budgeted expenditures to very limited revenue sources, virtually guarantees the underfinancing of municipal services. Moreover, the absence of a functional classification reduces the budget to a mere accounting tool rather than a management tool, which it should be.

Although a line-item classification as is now used in municipal budgets is useful for accounting purposes, it must be augmented by an expenditure classification by function and activity if the municipal policymakers are to have a basis for judging the efficacy of their management efforts. Without a built-in functional classification it is difficult, if not impossible, to determine whether adequate funds are being devoted to providing particular services. Indeed, with the present system of accounting by character and object, the municipalities have no basis for preparing

understandable public reports on their accomplishments during the year. Without simple, understandable reports to the public on an administration's stewardship, the public cannot be blamed for being apathetic, if not antagonistic, toward government.

It is recommended, therefore, that as a first step toward improving municipal budgeting and reporting, the Ministry of Interior promulgate regulations for establishing a municipal functional classification to be applied in preparing municipal budgets and informational reports.

The "95 percent" rule is an outmoded way of controlling municipal budgets. There are better ways of imposing expenditure controls, such as limiting expenditure increases to a fixed percentage of the previous year's expenditure or tying increases to an index of costs (such as the consumer price index). If this were done, the concept of a "guaranteed" annual municipal surplus would also be eliminated. It would necessarily be replaced by a "balanced budget" concept. Until municipalities are given a strengthened and flexible revenue base, with a strong locally-controlled revenue source such as the proposed reformed property tax, which could be used as a budget balancing device, it will be necessary to move slowly toward an expenditure-based system.

It is recommended, therefore, that, until a strong, flexible revenue source becomes available to municipalities, a modified revenue-based system be established by requiring a balanced municipal budget and eliminating the "95 percent rule". It is recommended, further, that consideration be given to allowing municipal expenditures to grow up to the rate of increase of the consumer price index but within the balanced budget constraint.

With a "balanced budget" there would no longer be a "municipal surplus" such as municipalities have been generating automatically in recent years. By the same token, municipalities would no longer accumulate reserves either in their own treasuries or in the Municipal Development Fund. Nevertheless, some reserves are essential to the proper functioning of municipal governments, as they are for private businesses. How large these reserves should be, however, depends on the cash flow requirements of an organization.

In place of the automatic payment from surplus into the municipal reserve fund, a specific contingency reserve item will have to be built into the expenditure side of the budget. In this way the magnitude of the municipal reserve would be controlled. Anticipating such time when municipalities will be given more authority to meet their responsibilities, and will, therefore, be able to use their own reserves as they see fit, efforts should be made to determine how large a reserve a municipality should be required to maintain.

It is recommended, therefore, that the Ministry of Interior undertake a study of the cash flow requirements of municipalities and develop guidelines that would enable municipalities to determine their own reserve requirements.

One way to avoid inordinate year-to-year expenditure increases is to open the budget process to the public. The budget is, after all, a political document which should reflect the views of the taxpaying public concerning the quantity and quality of public services and facilities they are willing to underwrite with their taxes.

It is recommended, therefore, that the budget process be opened to the people by conducting a series of public hearings.

To the extent that municipalities begin to have any planning capability and once their revenue structures are strengthened, they should then move toward long-range capital budgeting -- an essential financial tool for planning.

It is recommended, therefore, that in strengthening the municipal budget process, consideration be given to the use of capital budgeting by municipalities.

Improving Current Municipal Revenue Sources

Because municipal governments rely so heavily on transfers from the Central Government -- both in the form of grants and centrally-collected taxes -- the most immediate revenue changes must necessarily come from possible revision of formulas under which these transfers are allocated. Therefore, this section will first discuss the possibilities for increasing revenue of the three municipalities under study from revision of the government subsidies and taxes. It will then examine the revenue potential of the municipalities' own-source revenues.

Recommendation No. 3 -- Provincial Development Grant

The new Provincial Development Grant, under which one percent of the 1979 National Budget was set aside for distribution to the provinces, municipalities and sanitary districts, provides very little in fiscal year 1979 (only ₦ 352,000) to the three municipalities under study. Indeed, because of its rural orientation and its emphasis on helping the less

developed provinces, Chonburi Province and, in turn, its urban governments could expect to receive relatively less than most provinces.

Nevertheless, as the program continues and the amount distributed increases, more funds may well be made available to the municipalities. In particular, as the municipalities improve their planning capability, they will be able to submit better defined projects to the Provincial Planning Committee for inclusion in the Chonburi Province's submission to the Central Committee.

Municipal planning at present is at a rudimentary stage, consisting simply of a list of projects for which the municipal executive council and legislators perceive a need. There is no attempt to develop detailed cost estimates or -- just as important -- the means of financing future projects. Admittedly, such financial planning is virtually impossible under present circumstances because municipal officials have little basis on which to estimate future revenues from their own meager resources. Nevertheless, looking toward a better revenue base in the future, a start should be made now toward comprehensive municipal planning.

It is recommended, therefore, that the National Economic and Social Development Board, in conjunction with the Ministry of Interior and the Bureau of the Budget, put into effect a training program for strengthening the planning capability of municipal governments.

A recent study of the Provincial Development Grant by a USAID Team, while urging continuation and expansion of the Provincial Development Plan, suggested some possible changes

in the allocation formula.¹ Noting the need for better equalization based on the state of economic development, the study suggested that more emphasis be placed on per capita income -- perhaps doubling its formula weight from 10 percent to 20 percent. Our evidence shows some significant aberrations among provinces in the Eastern Region, some provinces with low per capita Gross Provincial Product (GPP) receiving smaller per capita grants than others with higher GPPs. While GPP is a useful measure of income, or value added, originating in a province, it is not a reliable measure of personal income received by residents of a province. For example, a significant part of the value added by the petroleum refinery in Chonburi Province is not received by residents in the province. However the originating sources of income may provide a source of tax revenue regardless of the location of the recipients of the income.

It is recommended, therefore, that to improve the equalization aspects of the Provincial Development Grant, the weight given to per capita income in the allocation formula should be increased.

To give added weight to the per capita income factor would require reducing the importance of some other factor (or factors). One candidate for possible elimination is the "security consideration" factor, which is given a weight of 10 percent. It is difficult to see why a "security consideration" factor should be part of a Provincial Development Plan. To be sure, it is an important consideration, particularly at this time, in view of occurrences in and

1. Stephen Born, Lee Jakobson, and Ved Prakash, op. cit.

near the provinces bordering Kampuchea and along the Malaysian border. It would seem, however, that assistance with security problems should more appropriately come through the defense establishment by deployment of troops and equipment as well as the construction of roads and other facilities needed specifically for defense purposes.

Moreover, the provinces that face security problems are also among those with the weakest economies and the lowest per capita incomes. Those same provinces would thus benefit at least as much from increasing the weight of the per capita income factor as they do now from the "security considerations" factor.

It is recommended, therefore, that consideration be given to shifting 10 percentage points from the "security considerations" factor to the per capita income factor in the allocation formula.

The present formula stipulates that, within each province, 80 percent of the funds allocated be applied to projects of the provincial government (Changwat Administrative Organization) and 20 percent to projects of the urban governments -- municipalities and sanitary districts. The Provincial Planning Committee can itself determine how to allocate the 20 percent share among the urban governments, but it has no choice but to allocate 20 percent. The above-mentioned USAID report correctly notes that such a standard 80-20 split does not take into account interprovincial differences as to rural vs. urban population and needs.

It is recommended, therefore, that consideration be given to allowing variations among the provinces as to the proportion of Provincial Development Grant money to be allocated to "urban" governments.

Each province should be allowed to use discretion -- subject to political give and take and, perhaps, subject to certain outer limits. Thus, some provinces may justifiably allow less than 20 percent for their urban sector while others may see a need for more urban development (say, to develop agricultural distribution or processing centers) and would therefore allow more than 20 percent for urban projects.

Recommendation No. 4 -- General (per capita) Grants

The general grant, a straight per capita payment made annually to municipalities and sanitary districts, is available for general governmental purposes. The per capita amount has been increased gradually and is now ø 50. It thus distributes central government funds roughly in proportion to needs (the higher the population, the larger the grant). It does not take into account the ability (or lack of ability) of a community to finance itself, or the effort it makes to do so.

This grant could be considered an instrument for bolstering the financial capabilities of municipal governments without at the same time increasing their dependence on the central government. Should it become national policy to move toward less control of local government, a general grant similar to general revenue sharing as used in the United States could be a useful fiscal instrument.

Implementing this kind of general grant would require measuring a municipality's fiscal effort with the aim of adjusting per capita grants in direct proportion to each community's relative fiscal effort. One measurement of this

type would relate a municipality's total revenue from its own sources (i.e., locally-raised taxes plus license fees and miscellaneous revenue) to the personal income of its residents. The higher the personal income and the lower the locally-raised revenue, the lower would be the municipality's fiscal effort and, therefore, the lower its per capita grant. Until adequate personal income data can be made available for municipalities, however, no such system could be put into effect.

It is recommended, therefore, that the National Statistics Office be directed to collect current personal income data for municipalities and sanitary districts for use in measuring relative municipal and sanitary district fiscal effort.

Recommendation No. 5 -- Specific Program Grants
and Special Grants

Both of these grants are specifically for capital improvements. In effect, however, the specific program grant is a block grant to municipalities, each municipality in the same revenue-size class being entitled to the same amount of specific program grant money.

The purpose of the revenue classes (there are four groups of municipalities subject to the classification) is to provide larger grants to the smaller communities (those with the smallest amount of own-source revenue) than to the larger ones. As a community's revenue grows it may move into the next revenue size class and thus suffer a reduction in the amount of its specific program grant -- as has recently happened to Siracha and Phanat Nikom.

If the purpose of this allocation by revenue size classification is to help the "poorer" communities more than the wealthier ones, this aim is not accomplished under the present formula. A community collecting a small amount of revenue may well be a small community but not necessarily a poor one. Indeed, if a community is taxing itself very little, it can be presumed that it neither wants nor needs additional facilities. In practice, then, this type of revenue-size classification could encourage a small community on the revenue class borderline to refrain from taxing itself additionally so that it may avoid a reduction in its specific grant allocation.

A more equitable way of allocating grants for community development projects would be to apply a system of variable matching. Thus, the Central Government would match a higher percentage of the project cost for municipalities with the least ability to finance a project and a lower percentage of the cost for those with the greatest ability to finance the project. Here again, the measure of fiscal ability (or capacity) -- per capita personal income -- in municipalities is lacking.

Until such data are available, it is recommended that municipalities be classified by population size for the purpose of the specific program grant allocation -- perhaps with separate classification for muangs and tambons, on the grounds that each of these classes has a different set of responsibilities.

The special grants, which require approval from the Bureau of the Budget, may provide some help in the initial financing of the proposed land reclamation project for Chonburi. As is noted in Chapter 3, however, requests for

such grants are scrutinized very closely and require strong justification and backing at the highest government levels before approval can be obtained. Assuming there is compelling evidence that such a project is needed and would benefit the economy of the municipalities, the province and the region (including the fact that it may be an alternative to Bangkok as a destination for migrants from rural areas), NESDB should support proposal for a special grant, coupled with a loan from the Central Government, to meet viable development costs. A loan arrangement would be justified for some types of projects as it could be liquidated from the proceeds of the projects, e.g., site and service projects.

Recommendation No. 6 -- Vehicle Tax

The shared tax on vehicles is now the largest single revenue source for all three municipalities. The present equal-share distribution of the tax, however, provides a windfall to the two smaller municipalities in the study area, at the expense of Chonburi where most of the revenue undoubtedly originates. Moreover, the municipal share of the vehicle tax will have to be split four ways (instead of three) for fiscal 1979 because of the classification of Pattaya as a municipality. This would, of course, reduce each municipality's share.

Vehicle taxes are collected within each province and retained there for distribution among the local governments. Retaining the collections within the province keeps the revenue at the point of origin, thus recognizing inter-provincial variations in need for the revenue (smaller provinces with fewer vehicles need less revenue than larger ones with

more vehicles). The rationale for the standard 50 percent distribution to municipalities is not clear. This may be based on national vehicle registration data, but obviously the situation differs among provinces.

A new Land Transportation Act, passed in 1979 by the Parliament, provides the Ministry of Interior an opportunity to change the distribution formula by regulation. In fact, alternative distribution formulas are now being considered.

It is recommended that (1) collections at the province level be retained for distribution within each province, as is done currently; (2) the proportions allocated among the types of local government within each province be computed on the basis of location of vehicles weighted by type of vehicle; and (3) the equal-share distribution of the municipal and sanitary district allocations be replaced by per capita distribution, the change to be phased in over a period of years.

Because per capita distribution among the municipalities would result in substantial decreases in the revenues of Siracha and Phanat Nikom (with corresponding gain for Chonburi), the recommended change should be carried out on a phased basis over a period of years. Such phasing would avoid a sudden disruption in the smaller municipalities' expenditure patterns. This would give them time to adjust their other revenue sources. If it seems feasible, the phasing should be geared to the availability of a revised property tax structure.

As has been suggested in connection with allocation formulas for Central Government subsidies, once fiscal effort and fiscal capacity data become available, the straight per capita distribution could well be modified by

some measure of each community's ability and willingness to tap its own fiscal resources.

Recommendation No. 7 -- Business Tax Surcharge

The 10 percent surcharge on business taxes is returned to local authorities (after deduction of 5 percent for administration) in proportion to retail sales taxes that were collected in the various jurisdictions in 1960. There has been no change in this allocation formula since it was initiated in 1961. Thus, the allocation takes no account of any interjurisdictional changes that may well have occurred in the past 18 years.

The business tax surcharge contributes significantly to the revenue of Chonburi -- 17 percent of the total -- but is much less important in Siracha's and Phanat Nikom's revenue structures. Indeed, by far the largest part of the business tax surcharge revenue -- 73 percent -- is distributed to Bangkok, the nation's commercial center.

Data are not available for determining the changes that have occurred in retail trade patterns since 1960. It would not be realistic to make an initial distribution of the surcharge to the provincial level (including Bangkok) on the basis of the origin of business tax revenues. On this basis, a small province with much industry or large distribution centers would obtain an inordinately large share of the revenue. Similarly, a population-based allocation would cut Bangkok back from 73 percent of the total to only 10 percent -- the bulk would go to the rural provincial governments.

It would appear that a retail-sales based distribution is reasonable, but an effort should be made to fit the allocation to present retail business patterns.

It is recommended, therefore, that any change in the allocation of the business tax surcharge be based on current retail sales data and that the National Statistics Office be directed to collect such data at the provincial, municipal, and sanitary district levels. Until such data are available no change in the allocation formula is justified.

Recommendation No. 8 -- Building and Land Tax

Until the property tax structure can be reformed, the building and land tax is the only substantial revenue source that is under the direct control of the municipalities. Although it is generally agreed that property tax reform is sorely needed in Thailand, it will take many years of deliberation before political and technical problems can be resolved. In the meanwhile, the municipalities should make the best possible use of this tax.

Improved administrative tools and better use of available enforcement powers, as recommended earlier, will of themselves increase the productivity of the building and land tax. However, any substantial increases in revenue would have to come from more rigorous enforcement -- particularly insistence on the part of municipal officials that advance lump-sum payments in connection with lease contracts must be taken into account for tax purposes.¹

1. The law imposes a 12½ percent rate on total annual rental payments. Lump-sum payments are not exempted from the tax.

The potential political repercussions resulting from sudden tax increases are well recognized. Indeed, the finance officer of one of the municipalities noted that even a 1 or 2 percent increase in taxes subjects elected municipal officials to political hazard. For this reason, major adjustments in the annual rental schedules cannot be considered.

It is recommended, however, that each municipality undertake a survey of lease contracts to determine the magnitude of lump-sum rental payments that now escape building and land taxation.

When this information is available, each municipality can consider a gradual increase in the rental schedule, say, over a five-year period, so that the tax is eventually applied to the full rental value. In this connection, provision should be made for adjustments for individual taxpayers if they can prove that their actual rentals have not been reduced by an initial lump-sum payment.

This course of action would have at least two advantages. First, it would gradually provide more revenue for municipal use. Secondly, and just as importantly, it would move individual owners' annual tax bills closer to what can be expected under a revised property tax structure, and therefore make such a tax more readily acceptable.

Recommendation No. 9 -- License Fees

Although most license fees are well below the legal maximum limit, many such low fees are levied on marginal businesses that would probably find it difficult to pay much

higher fees. Maximum fees are imposed on such activities as large food operations, hotels and places of entertainment. Nevertheless, there are undoubtedly areas where license fees could be raised fairly readily.

It is recommended, therefore, that each municipality undertake a thorough review of its license fee structure, considering the cost of regulating various types of businesses and occupations, as a basis for restructuring their license fee schedules.

The legal maximums established by regulation are standard for most business activities -- an annual license fee of \$ 1,000. They also apply nationally. It may well be that there should be considerable variation depending on the size, nature and location of a business activity.

It is recommended, therefore, that the Ministry of Interior review the schedule of allowable maximum license fees to provide for variable and more realistic fees.

Recommendation No. 10 -- Commercial Enterprises

Under present legislation, municipalities are authorized to own and operate a variety of enterprises, ranging from pawnshops to hotels. The League of Municipalities has gone on record as favoring the expansion of income-producing enterprises at the municipal level. Officials of all three municipalities have expressed interest in doing so. Indeed, they see the operation of municipal enterprises as a politically painless way of bolstering municipal treasuries. Moreover, because such enterprises produce revenue, they are viewed as good candidates for loans to establish these enterprises.

While there is some merit in limited expansion of municipal enterprises, it is recommended that municipalities expand this type of activity with caution.

The profitable operation of such enterprises as hotels and movie houses requires management expertise that is not often available to government bureaucracies. Such enterprises could well become a drain on municipal treasuries rather than a source of revenue. However, an activity that requires close regulation, such as a pawnshop, which all three municipalities now operate, is a good candidate for expansion. Other such enterprises that would improve the community while at the same time improving municipal finances should be considered.

The present system of allocating pawnshop (and presumably other enterprise) profits needs to be revised. Although the "bonus" system of remunerating certain public officials seems to be generally accepted in the Thai bureaucracy, it should be discouraged in connection with the operation of municipal enterprises. Good management would require that profits be used, first, to provide adequate working capital, second, to pay debt service (if the acquisition of the enterprise was financed by borrowing), and lastly, for the municipality's general fund. If any bonuses are paid, they should be paid to the enterprise's managers as an incentive to improve profits through better management. Remuneration to the top municipal officials, indeed for all municipal officials, should be established at levels consistent with public service rules and regulations and within budgetary constraints. Where profits are made available for municipal general fund purposes, they, of course, become part of the municipality's revenue, available for payment of salaries, wages and other purposes agreed to by the executive and

legislative branches.

It is recommended, therefore, that the procedures for allocating enterprise profits be revised in accordance with sound management practices.

Long-Term Recommendations

The following recommendations, dealing as they do with basic changes in property taxation and long-term borrowing, can only be implemented by National legislation following long-drawn-out debate. Moreover, any recommendations that pertain to long-term borrowing would require strengthening of the local finance structure (including property tax reform) before they could be considered by National policy-makers. At least five, and possibly as many as ten, years would be required for final implementation of these recommendations.

Recommendation No. 11 -- Property Tax Reform

Before municipalities can be entrusted with administration of a strengthened and more sophisticated property tax, their own administrative houses must be put in order. As proposed in a recently completed International Monetary Fund study¹ and agreed to in principle by the Central Government agencies responsible for its implementation, the present dual system of taxing real estate would be replaced by one under which capital values would be established and maintained for all real estate parcels by a quasi-independent

1. Draft report from John S. H. Robertson to the International Monetary Fund, "Local Property Tax Reform in Thailand -- A Consideration of Existing and Proposed Draft Legislation," February 1979.

Central Valuation Board attached to the Ministry of Interior.¹ The local governments would be empowered to levy rates on the established values and to collect the property taxes for their own use.

There has been considerable debate regarding the appropriate placement of responsibility for collection of the proposed new property tax. When property tax reform was proposed in a 1974 World Bank report,² legislation was drafted in the Ministry of Finance placing responsibility for tax collection in the Revenue Department. It was argued at that time that local governments do not have the expertise that is available to the Revenue Department, that the Revenue Department can collect the tax much more efficiently and therefore the local governments would obtain more revenue (even after deduction of a portion for administration by the Ministry of Finance) than if they collected the tax themselves.

The municipalities do indeed lack the expert personnel and administrative tools to administer even the rudimentary building and land tax they now have.

Nevertheless, if local self-government is to be a reality, the municipalities must be able to control what should eventually become their primary revenue source. Indeed, the present position of the Finance Ministry is that it no longer objects to adoption of the proposed reform, including local administration and collection of the tax.

1. Actual capital values would be established for land; and "factorized floor area," based on an index of construction cost and depreciation factors, would be used as a proxy for capital values of fixed improvements to the land (buildings).

2. International Bank for Reconstruction and Development, op. cit., p. 10.

Prospects for Implementation of
Property Tax Reform

As has been mentioned, there is general agreement in principle as to the need for property tax reform and that the broad direction proposed by the IMF study and adopted by the Ministry of Interior should be followed. Detailed legislation is being drafted now (Spring 1979), and it is anticipated that the appropriate bills will be introduced in the Parliament in the spring of 1980.

How long the legislative process will take is a matter of speculation. But, considering the technical nature of the proposal, as well as its political implications, extensive debate, and possibly early legislative failure, can be anticipated. Indeed, a basic reform of this magnitude can be expected to have a legislative gestation period of no less than 5 years, and perhaps as much as 10 years.

There are at least four major problems that could either delay or preclude final passage of property tax reform legislation.

First, the debate over placement of tax collection responsibility will undoubtedly continue during the legislative process. Secondly, questions will be raised concerning the placement of valuation responsibility at the Central Government level. The arguments in favor of central valuation are compelling:

It is a highly technical operation requiring especially trained personnel that could not possibly be available at the local level.

- . Moving the valuation process away from the local level would eliminate the political pressures that can be exerted on local officials to alter valuations.

- . At the Central Valuation Board, valuation decisions would be made by technicians in a purely ministerial capacity, with the aim of establishing the most accurate and equitable valuations possible.

Against central valuation is the argument that removing this power from the local governments reduces their self-governing capacity. However, this need not occur if the Central Valuation Board is operated as a quasi-independent technical operation with no political motivation.

A third consideration that will come under scrutiny at the legislative level is the matter of exemptions. The present building and land tax is currently riddled with exemptions and loopholes. In particular, the exemption of owner-occupied homes and the tendency to exclude lump-sum payments and "key-money" from the annual rental values are significant contributors to the low yield of the tax. The proposed legislation would eliminate all exemptions except those for government, educational, religious and charitable properties. Considerable pressure can be expected to be put on members of Parliament by their constituents to restore exemptions of various kinds.

The fourth problem that will need to be considered is the proposed non-monetary valuation of improvements. Under the proposed legislation, while land will be given a monetary value based on market prices, as is done now by local committees,

improvements will be given a non-monetary value. This "value" is to be based on a highly technical concept of "factorized floor area" which the ordinary taxpayer will not understand. Use of this concept will require the development of indices based on construction cost and depreciation factors which each owner of a building will be asked to furnish. Key personnel at the Department of Local Administration admit that implementation of this concept will require considerable study and, possibly, some outside technical assistance.

There is no doubt that the type of property tax reform now being prepared in the Ministry of Interior for legislative action provides the best long-term solution to the financial dilemma of the municipalities. Given a steady, controllable source of general revenue, municipalities will be better able to plan for and provide the necessary public services and facilities. Particularly with respect to the planning and carrying out of capital improvement programs, the municipalities will be in a better position to speed up construction by being able to utilize debt financing to the extent justified.

It is recommended, therefore, that the Government move as quickly as possible to obtain implementation of property tax reform, as proposed in principle by the International Monetary Fund. It is recommended further that, in conjunction with revision of the property tax, immediate steps be taken to provide municipal governments with the necessary administrative tools and expertise to conduct their tax collection responsibilities efficiently. Property tax reform legislation should include the provision that local administration

will depend on the demonstrated ability of individual local governments to administer the tax.¹

It should be noted that the Land Department, Ministry of Interior, is already establishing mapping and valuation procedures within its present responsibilities. Once the property tax reform legislation is enacted, this work can be readily transferred to the proposed Central Valuation Board.

Because this form of taxation will be completely new for local taxpayers, its ultimate success would depend on the taxpayers' understanding of the benefits to be derived from such a tax, of its operation, including the concept of "factorized floor area" if it is decided to use this concept, and of the taxpayers' obligations under the property tax law.

It is further recommended, therefore, that the Ministry of Interior develop a publicity campaign, to be mounted as soon as the legislation is enacted, explaining the main features of the new tax in terms that are understandable to the average taxpayer.

Recommendation No. 12 -- Long-Term Borrowing

It has been observed that the three communities under study devote a large proportion of their current revenues to the financing of capital improvements. Such pay-as-you-go

1. See Recommendation No. 1, dealing with local tax enforcement and administration. Lacking such demonstrated capacity and expertise on the part of local government, it would be reasonable to provide for Central Government administration to be relinquished gradually as local governments attain the expertise. Some (perhaps Metropolitan Bangkok) may already be in a position to administer the proposed new tax efficiently.

capital financing has the effect of both limiting the amount of funds that can be spent for essential ongoing services, and curtailing the ability to finance major public investments.

It is generally agreed that the present state of municipal finance precludes any significant long-term borrowing.¹ Indeed, the only significant source of long-term loans presently available to municipalities is the Municipal Development Fund, which consists of surplus funds that have been generated by the municipalities themselves. The assets of the Fund peaked at about ฿ 800 million in 1974 and are now being depleted rapidly.

It has been the policy of the managers of the Municipal Development Fund to lend money primarily for income-producing commercial enterprises, and, in particular, for the establishment of municipal pawnshops. Preference has generally been given to the fiscally weaker communities.

The municipal elected officials are quite conservative in regard to municipal borrowing. They are against using their municipalities' general credit to borrow for purposes that do not "yield benefits," meaning "benefits" in terms of monetary returns from an income-producing commercial enterprise. One Mayor expressed the opinion that a municipal administration could, in effect, perpetuate itself by borrowing to build a facility with direct public benefit (such as a

1. This opinion was expressed by officials of the Bank of Thailand, the Ministry of Finance, the Bureau of the Budget and the Academy of Local Government Administration.

modern sewage system), making the most of the beneficial effects for the residents and pointing out that the debt-service costs would be borne by future taxpayers, not by the immediate beneficiaries.

As has been noted, municipalities cannot now resort to such borrowing in any event, because of their weak fiscal structure. With a strong fiscal structure, the merits of long-term borrowing on the general credit of a municipality can be readily demonstrated. Given the secular inflationary trend in Thailand, as in the rest of the world, particularly in construction costs, the long-run development cost could well be reduced by speeding up the construction of essential facilities. By using debt instruments, municipalities could thus provide the facilities they cannot possibly produce under their current pay-as-you-go procedures.

In anticipation of strengthening the capability of municipalities to finance a reasonable portion of their current and capital needs from their own revenue sources, the Government should give consideration to providing municipalities with a more reliable means of borrowing than the use of their own surplus reserve in the Municipal Development Fund.

It is recommended, therefore, that the Municipal Development Fund be discontinued as a source of municipal borrowing and that it be replaced by an Urban Development Bank capitalized from funds initially advanced by the Central Government and, subsequently, by borrowing in the private and international money markets. Loans should be made to municipalities in accordance with sound banking practices, both for commercial enterprises and for general infrastructure facilities, at interest rates that are geared to the cost of borrowing by the Central Government.

Because the Municipal Development Fund has a considerable amount of loans outstanding, it cannot, of course, be discontinued immediately. The practice of turning over municipal surplus, however, should be discontinued, as should all lending operations. Any outstanding loans that do not exceed a municipality's own reserve in the Fund (i.e., interest free loans) should be cancelled; that is, they need not be repaid. Interest-bearing loans should continue to be paid and the proceeds redistributed to the municipalities in proportion to their accumulated surplus accounts in the fund. Alternatively, proceeds might be transferred to the proposed Urban Development Bank. Once all outstanding interest-bearing loans are repaid and all the Fund's reserves are redistributed to the municipalities, or transferred, its books can be closed.

When municipalities can demonstrate their ability to handle long-term debt, they should have the option of using alternative financing sources. The present legal position concerning municipal borrowing is not clear.

It is recommended, therefore, that the Ministry of Finance and the Ministry of Interior review the laws and regulations pertaining to municipal debt with the aim of clarifying the status of local government borrowing powers and limitations.

CHAPTER 3

Revenue Sources Available to Municipalities

The revenue sources available to local governments are severely limited by National legislation. Partly because of the limitations, total annual revenue received by the three municipalities is quite low. On a per capita basis, total revenue in fiscal 1978 ranged from $\text{฿ } 546$ in Chonburi to $\text{฿ } 1,039$ in Phanat Nikom.¹ Moreover, for all practical purposes, municipalities have no access to borrowing other than from the National Government.

Municipal revenue can be divided into four general classes -- locally-levied taxes, centrally-collected taxes, local non-tax revenue and transfers (grants) from the Central Government.

Locally-Levied Taxes

Municipalities may themselves impose and collect only four taxes -- a building and land tax, a land development tax, an annual slaughtering tax and a signboard tax. Not only are the types of taxes specified by National legislation, but also the rates and bases upon which they may be levied.² As shown in Tables 1, 2 and 3, the locally-levied taxes have

1. The broad range in per capita revenue is the result of distributing half of the province-wide vehicle taxes among the three municipalities in equal shares. Excluding the vehicle tax, per capita revenue was about $\text{฿ } 370$ in each municipality. The distribution of vehicle taxes, and their effect on per capita revenue, will be discussed in a later section.

2. See Appendix A for a detailed description of each tax. Also see Working Paper 2.

been a relatively minor revenue source for each of the municipalities and their share of total municipal revenue has been falling.¹ In fiscal year 1978, they comprised only 11.1 percent of Chonburi's total revenue, 6.4 percent of Siracha's and 3.1 percent of Phanat Nikom's.

Taxes on Real Estate

Two of the locally-levied taxes comprise what may be designated as "taxes on real estate" -- the building and land tax (also known as the house and rent tax) and the land development tax.

Building and land tax -- This tax is by far the most productive of the locally-levied taxes in Chonburi and Siracha, yielding 72 and 58 percent, respectively, of their locally-levied taxes (see Tables 1 and 2). In all three communities, however, it comprises a relatively small and, except in Phanat Nikom, a declining proportion of total municipal revenue: in 1978, only 8.0 percent for Chonburi, 6.4 percent for Siracha and 1.4 percent for Phanat Nikom (see Tables 1, 2 and 3). This is in sharp contrast to the situation found in other countries where property taxation comprises 20 to 50 percent of municipal revenue.

The low yield of the building and land tax results primarily from the relatively low rental values that are assessed on commercial and industrial properties, the fact that the tax is basically self-assessed (which of itself

1. All tables are presented at the end of the Chapter.

encourages under-reporting of rentals), and the fact that owner-occupied homes are entirely exempt from the tax.¹

The finance office of each municipality establishes a schedule of average annual rental values for different types of nonresidential buildings (see Tables 4, 5 and 6). These properties are taxed uniformly at 12.5 percent of rental value, except that buildings containing tools and machinery are taxed at one-third the rate (another factor contributing to the low yield). Rental housing is also taxed at 12.5 percent of rental income and agricultural land is taxed at 5 Baht per rai (such land is a significant part of the municipal tax base only in Phanat Nikom).

Another factor contributing to the low yield of the building and land tax, especially in Chonburi, is the exemption of government, educational and religious property. As the seat of the provincial government, the municipality of Chonburi has about 40 percent of its land area in such non-taxable real estate.

As has been noted, the building and land tax is basically self-assessed, with some checking by the municipal finance offices of the returns, particularly for commercial and industrial properties. Detailed standard forms are used by all municipalities for tax returns, on which the taxpayer is required to describe each property he owns and to report ' e

1. The Chonburi finance office estimates that of 9,395 houses in the municipality, 3,625 (39 percent) are owner-occupied. There are about 1,864 owner-occupied houses in Siracha, according to the Department of Local Administration (DOLA), Ministry of the Interior (MOI). Phanat Nikom estimates that 600 -- 26.4 percent of the total number -- are owner-occupied. See also Working Papers 11 and 14 for Chonburi, W. P. 10 and 13 for Siracha and W.P. 12 for Phanat Nikom.

annual rental value. Little or no attempt is made by the municipalities to check actual rental paid, so long as reported rentals are within the limits established by the rental value schedules. The schedules may be revised by the municipal finance office annually to take account of changing economic conditions.

There is an appeal procedure to the executive committee of the municipality, but very few appeals are made. The lack of appeals is understandable in light of the very low tax payments.

Indeed, as shown in Tables 4, 5 and 6, the tax schedules are, for the most part, unrealistically low. In Phanat Nikom, for example, the building and land tax revenue was only 14 Baht per capita in 1978. Annual tax payments ranged from 150 Baht on one and two-floor buildings, to 3,000 Baht on commercial buildings. In Chonburi, with per capita revenue of 44 Baht from this tax in 1978, only bank buildings are assessed at reasonable rental values, although undoubtedly still considerably lower than actual rentals: 72,000 Baht annual rental; 9,000 Baht annual tax. Taxes on other structures in Chonburi range from only 98 to 833 Baht. The Siracha schedule as a whole seems more in line with the amount levied on bank buildings in Chonburi, although 1978 per capita revenue from the building and land tax in Siracha was only 31 Baht.

One reason for the extremely low rental value schedules is the understatement of rentals by the amount of lump-sum

payments.¹ It is common (if not universal) practice for owners of rental property to require substantial lump-sum payments (key money) at the time a long-term lease is negotiated. Monthly payments over the term of the lease are reduced on a pro-rata basis by the amount of the lump-sum payment. In many instances the lease contract omits any mention of the lump-sum payment, so that municipal finance examiners have no proof that the regular monthly or annual rental payments are lower than the total amounts paid.²

Land development tax -- Because it applies to undeveloped land, this tax is a minor revenue source for the three municipalities, comprising only 0.4 percent of total revenue in Chonburi, 1.2 percent in Siracha, and 0.5 percent in Phanat Nikom. As more land is developed in the municipalities, this source can be expected to diminish in importance.³

The land development tax came under considerable criticism in a 1974 report of the International Bank for Reconstruction and Development.⁴ This criticism was directed both at the procedures for establishing taxable values and at the complex rate structure, which is demonstrably regressive.

1. The law requires payment of 12.5 percent of full rental payments under the building and land tax.

2. Exclusion of the lump-sum payment from the lease contract may also be a way of avoiding or minimizing income taxes and real estate transfer taxes.

3. The land development tax is, of course, considerably more important at the provincial level. The Chonburi Changwat Administrative Office collected ฿ 5.3 million from this source in 1978, compared with only about ฿ 1 million from the building and land tax.

4. Op. Cit., p. 32ff.

A follow-up study, conducted under the auspices of the International Monetary Fund, has proposed a plan that would, in effect, convert both the building and land tax and the land development tax to a single tax based on "capital value," requiring the establishment of taxable property values instead of the rental values now being used under the building and land tax. In this connection, it has been proposed that a Central Valuation Board be established and that the tax itself be collected by local public authorities.¹

Other Locally-Levied Taxes

The municipalities are authorized to levy only two additional taxes -- one on signboards and one on the slaughtering of animals. Both are minor sources of revenue, yielding together only 1.3 to 2.7 percent of total revenues in each of the municipalities. Maximum rates are established by National legislation and all three municipalities are now imposing the taxes at maximum rates.

Tax Enforcement and Administration

The local tax revenues of the municipalities in the study area are determined by three factors: the size of the base on which taxes are imposed; the rates applied to the base; and the degree of effectiveness of tax administration. In Thailand, the first and second of these determinants are largely fixed by national regulations; the third is a matter of local responsibility, within the framework of national regulations.

1. This proposal is evaluated in Chapter 2.

Tax enforcement. Enforcement involves the penalties that can be assessed against taxpayers for late payment, or for failure to pay taxes. It also involves the legal actions a municipality is required to take before it can impose penalties.

National law provides rather stiff penalties for failure to pay taxes, for making false statements in connection with tax returns, for refusing admittance to a tax collector in performance of his duties, or paying taxes after the due date. Jail sentences of 1 to 6 months or fines of Ø 500 to Ø 2,000 may be imposed for making false reports or refusing to pay taxes. Penalties for late payment are also quite heavy. For example, in the case of the building and land tax, 2.5 percent is added to the tax if payment is up to one month overdue; 5 percent for two months; 7.5 percent for 3 months; and 10 percent if the tax is 4 months overdue. If a tax bill is overdue more than 4 months, the property can be sold for taxes (a step that has never been taken, apparently).

Penalties can be imposed only after a tax violator is arrested, charged and tried in a court of law. If the tax bill is settled within 30 days after the charge is made, the suit may be dropped. Moreover, the Lord Mayor has the authority to dispense with a jail term and order a fine to be imposed instead.

Tax administration. Tax administration involves the personnel and tools that are devoted to levying and collecting a tax.

Personnel. All three municipalities were asked how much they spend for tax enforcement and how many and what

kinds of personnel perform that function. Chonburi indicated that it spent about $\text{฿ } 176,000$ (about $\text{฿ } 3$ per capita) for tax collection in fiscal year 1978 and assigned four staff members to this task. The comparable numbers for Siracha and Phanat Nikom were $\text{฿ } 35,000$ ($\text{฿ } 2$ per capita) and two staff members; and $\text{฿ } 70,000$ ($\text{฿ } 5$ per capita) and 4 staff members, respectively. Most of these staff members had completed secondary or vocational school; only the chief finance officers had studied at the college level.

Tools. The finance offices of the three municipalities have some of the standard tools used in tax collection. Thus, in connection with the main locally-administered taxes, the real estate taxes, they have uniform tax return forms, tax schedules and, above all, tax maps which have been prepared in past years at the insistence of MOI. The maps make it possible to locate every taxable property in the municipality.

Tax delinquency. Information is not available in the municipal finance offices. Apparently, no records have been kept concerning non-payment or late payment of taxes. Such information would provide a tool for deploying tax enforcement personnel where their work can produce most revenue.

Some in-service training is provided periodically by the Academy of Local Government Administration (ALGA). This takes the form of 5-day seminars and workshops, which are held every two or three years, mainly for chief accounting and finance officials. There are no intensive pre-service programs for municipal finance personnel such as are available to governors and deputy governors.

Centrally-Collected Taxes

Local governments have access to two additional tax sources, the so-called "surcharge" taxes, and the shared vehicle and rice export taxes, which are collected by the central government and returned to the municipalities, sanitary districts and Changwat Administrative Organizations (CAOs).

Surcharge taxes. Ten percent surcharges for use by local governments are added to five taxes imposed and collected by the National Government. The proceeds of the surcharges, less an amount withheld for administration, are distributed among local public authorities in various ways. The five taxes subject to the surcharge are: business tax; refreshment (non-alcoholic beverage) tax; liquor taxes; entertainment tax; and gambling tax. Of these, only the business tax surcharge is a major revenue producer for the three municipalities in the study area.

Business tax surcharge. The ten percent surcharge on business taxes is collected by the Revenue Department, Ministry of Finance, together with the national business tax, a single-stage tax, which is collected at the point of production, distribution, import or export of commodities and services. After deduction of five percent for administration, the proceeds of the surcharge are turned over to DOLA, Ministry of Interior, for distribution to local public authorities: CAOs, municipalities and sanitary districts. Since 1961, when the business tax was changed from a multi-stage tax, including a retail sales tax, to the present single-stage tax, the surtax has been distributed to local

governments in proportion to 1960 retail sales tax collections within local jurisdictions. This was done to replace the ten percent surcharge local governments were then receiving on retail sales taxes within their jurisdictions.

The net business tax surcharges distributed to local jurisdictions in 1974 and 1978 are shown in the following tabulation:¹

Type of jurisdiction	Amount (Thousands of Baht)		Percent distribution		Percent increase, 1974-78
	1974	1978	1974	1978	
CAOs	36,230	60,232	5.5	5.1	66.2
Metropolitan Bangkok	463,303	864,500	70.9	73.0	86.6
Other Municipalities	124,801	212,960	19.1	18.0	70.6
Sanitary Districts	28,676	46,970	4.4	4.0	63.8
Total	653,010	1,184,662	100.0	100.0	81.4

As is to be expected, the largest share of the surcharge goes to Bangkok where most of the retail activity occurs. Thus, in fiscal year 1978, 73 percent of the total went to Bangkok and only 18 percent to all other municipalities.

1. Source: DOLA records.

The CAOs and the sanitary districts together received less than 10 percent. The increase in Bangkok's share, and the corresponding decrease in the shares of other jurisdictions is the result of consolidating some outlying areas with Bangkok in 1975, when Metropolitan Bangkok was established.

Of the three municipalities under study, Chonburi benefits most from the surcharge distribution (see Tables 1, 2 and 3). In 1978, this source accounted for about 17 percent of Chonburi's total revenue, but only 4.4 and 3.2 percent, respectively, in Siracha and Phanat Nikom. The business tax surcharge has declined in relative importance for each of the municipalities since 1974; the yield from this source has grown more slowly than some of the other revenue sources, particularly vehicle taxes and per capita grants. In fact, in Chonburi and Phanat Nikom, revenue from the business tax surcharge grew at a considerably slower rate than did total revenue from the national business tax. Between 1974 and 1978, total business tax collections increased by about 80 percent; however, the increase in surcharge revenue for the same period was only 63 percent in Chonburi, and 26 percent in Phanat Nikom. In Siracha, the rate of increase was closer to, but still less than, the national rate, about 71 percent.

Other surcharge taxes. The other four surcharge taxes add little to municipal treasuries: about 2.5 percent of total revenue in Chonburi, about 1 percent in Siracha, and less than 1 percent in Phanat Nikom. Of the four taxes, only the beverage taxes (alcoholic and non-alcoholic) appear to have some potential for increased revenue in Siracha and

Phanat Nikom. Gambling and entertainment taxes yield almost as much as beverage taxes in Chonburi, by far the largest and most cosmopolitan of the three communities.

Shared Taxes

The two shared taxes are collected by agencies of the National Government and the entire proceeds are turned over to local governments. Of the two, the tax on vehicles is by far the most important revenue producer. The rice export tax is an insignificant source of revenue for municipalities.

Vehicle tax. This tax is collected by the Police Department within each province. The total proceeds in the province are allocated as follows: 50 percent to the municipalities in the province; 25 percent to the sanitary districts; and 25 percent to the provincial government (CAO). The 50 percent share for municipalities is divided equally among all municipalities in the province.¹ Thus, in Changwat Chonburi, each of the three municipalities received the same amount in 1978: ø 8,872,000. Pattaya, which became a municipality in October 1978, will participate in the vehicle tax distribution in 1979.

The egalitarian form of distribution has some peculiar effects on the finances of the three municipalities because they differ considerably in population and in financial scale. The vehicle tax provides the largest single revenue source in each of the municipalities, but the per capita

1. The share allocated to sanitary districts is also divided equally.

amounts and revenue shares differ sharply, as shown in the following tabulation (1978 data from Tables 1, 2 and 3).

Municipality	Per capita revenue(Baht)			
	Total	Vehicle tax only	Total excluding vehicle tax	Vehicle tax as percentage of total revenue
Chonburi	546 ¹	179	367	32.8
Siracha	828	454	374	54.8
Phanat Nikom	1,039	871	368	64.6

Because vehicle tax revenue is such an important part of total municipal revenue, it has a perverse effect on per capita revenue, providing by far the largest amount to the smallest municipality (Phanat Nikom). When vehicle taxes are excluded, per capita revenue is almost the same in all three municipalities. Because large populations require relatively more services than smaller populations, per capita revenue (and expenditure) should rise with increasing population rather than decline.

There can be little doubt that the present equal distribution of vehicle taxes needs revision. Any change based on population in the three municipalities would, of course, benefit Chonburi to the detriment of both Siracha and Phanat Nikom. For example, if the $\text{฿} 26.7$ million, the 50 percent share distributed to the three municipalities in fiscal year 1978, had been distributed strictly in proportion to population, Chonburi's share would have almost doubled -- from $\text{฿} 8.9$ million to $\text{฿} 16.1$ million. Siracha's

1. Excludes borrowing.

share would have been reduced by $\text{฿ } 2.6$ million, from $\text{฿ } 8.9$ million to $\text{฿ } 6.3$ million Baht; and Phanat Nikom's share, from $\text{฿ } 8.9$ million to $\text{฿ } 4.3$ million.

Other Locally-Raised Revenue

Ten to fifteen percent of each municipality's revenue comes from such sources as licenses and fees, property income, commercial activities and miscellaneous sources. All three of the municipalities seem to be earning significant amounts of interest, largely from deposits of their surplus reserves in local banks and from the Municipal Development Fund.¹

License fees

Maximum license fees are established by law, but many of the rates set by all three municipalities are considerably below the allowable rates (see Table 7). Moreover, the legal rate is standard for most businesses, $\text{฿ } 1,000$, regardless of size. With some leeway given to municipalities as to maximum legal rates, municipal revenue from this source could be increased somewhat.

Commercial Enterprises

Municipalities are authorized to own and operate a variety of commercial enterprises, such as public markets, pawnshops, hotels and places of entertainment. In fact, the establishment of commercial enterprises, in particular

1. The disposition of municipal surplus is discussed below.

pawnshops, is one of the categories to which the Municipal Development Fund has been giving top priority in lending.

All three of the municipalities now operate pawnshops, but thus far only Chonburi has been receiving substantial contributions to its municipal revenue from this activity. Where a pawnshop shows a profit, its disposition is specified by a Ministry of Interior regulation, as follows:

- . 50 percent to the municipal budget for development;
- . 30 percent for operation of the pawnshop; and
- . 20 percent to increase the compensation of municipal officials (Mayor, Deputy Mayor and a few other top officials).

Both Chonburi and Phanat Nikom contributed to their budgets from pawnshop profits. The amount contributed in Chonburi was about ฿ 500 thousand, almost 2 percent of total revenue; in Phanat Nikom it was only ฿ 33 thousand, or 0.2 percent of total revenue. No other commercial enterprises were producing profits in the three municipalities.

Grants from the Central Government

Outside of the reimbursement from the Central Government for the cost of providing primary education, municipalities have two types of block grants available to them: the general grant, and the specific program development grants. In addition a small portion of the new Provincial Development Grant has been allocated to the three municipalities in fiscal year 1979. Special development grants are also available to municipalities.

General Grants

The general grant is a straight per capita grant to all municipalities and sanitary districts (currently 50 Baht).¹ Provincial governments do not participate in this grant. The amount budgeted by the Central Government for general grants has more than doubled in the past five years.

The increase in the per capita amount has combined with some population growth to raise the general grants' contribution to the budgets of all three municipalities. In Chonburi, the general grant's share of total revenue grew from 6.8 to 9.0 percent between 1974 and 1978. General grants were less significant in Siracha and Phanat Nikom revenue structures: 5.3 percent and 4.7 percent of total revenue in 1978 (see Tables 1-3).

Special Program Grants

These grants are available to all local public authorities from the Department of Local Administration (DOLA), Ministry of Interior, on the basis of specific project proposals. DOLA submits a budget request for funds for this purpose and then allocates funds among groups of municipalities on the basis of criteria established by regulation. For the purpose of this allocation, municipalities are classified according to their total revenue, excluding grants from the Central Government. For purposes of the

1. Prior to fiscal year 1978 the distribution was 30 Baht per capita. The National Municipal League of Thailand passed a resolution at its 1977 meeting recommending an increase which was approved by the Ministry of Interior.

1980 Budget, four classes of municipalities have been established, based on 1977 revenues. The municipalities in the lowest revenue category (less than ฿ 5 million) are each entitled to a maximum grant of ฿ 1.2 million. Those in the highest revenue category (฿ 15 million or more) are entitled to a maximum grant of only ฿ 600 thousand.

In fiscal year 1978, Chonburi received only ฿ 610 thousand, while Siracha and Phanat Nikom each received over ฿ 1 million in specific program grants. Specific grants for Siracha and Phanat Nikom will be reduced from the 1978 amounts because both moved into a higher revenue classification, mainly as a result of substantial increases in vehicle taxes and business tax surcharges.

Special Development Grants

Municipalities may apply directly to the Bureau of the Budget for special development grants, but very few such grants are made. In 1978, requests for such grants, amounting to about ฿ 200 million, were submitted, but only three such requests were approved, for ฿ 36.4 million. Two of the approved projects were for expansion of water supply systems, and the other one for street and drainage improvement. None of the municipalities in the study area received special development grants in fiscal year 1978.

Provincial Development Grant

Consistent with the new emphasis in the Fourth Plan (1977-1981) on the so-called "bottom-up" concept of planning, the National Government promulgated the Provincial Development Plan (PDP). The goal of this plan is to help finance

proposals and plans developed by provincial and urban governments to meet the "basic felt needs" of the people. Its purpose is also "to further enhance, on a step-by-step basis, (the) capability of local self-governing bodies to become more responsive and viable tools for integrated development in the rural areas."¹

A Central Committee for Provincial Development (CCPD) was established under the provisions of the Planning Regulation of 1977, consisting of 18 members at the Under-Secretary of State and Director General levels from key ministries, and chaired by the Minister of Interior. The National Economic and Social Development Board (NESDB) provides the technical expertise for the Committee and works with its sub-committees for "coordination and integration of provincial policy and planning, and overall supervision of development undertakings with respect to the regional and national objective"² The Committee is also responsible for allocation among the provinces monies that are set aside from the National Budget, for implementation of provincial plans.

One percent of the National Budget has been set aside for allocation in fiscal year 1979. Of some ฿ 960 million authorized for fiscal 1979, ฿ 769 million has been allocated and ฿ 191 million has been withheld as a discretionary fund to be distributed before the end of the fiscal year.

1. Vithya Siripongse, "Development of Local-Level Planning in Thailand" (Oct. 1978), p. 4.

2. Ibid., p. 6.

The 1979 distribution among the 71 provinces (Bangkok is excluded from this program) is based on a formula that consists of the following six elements, weighted according to the percentages shown in parentheses: population (40); irrigated area (5); unirrigated area (25); per capita income (10); special problem area (for example, natural disaster) (10); and security considerations (10). Of the amount so allocated to each province, 20 percent must be passed on to urban governments, i.e., municipalities and sanitary districts.

The ฿ 769 million allocated so far for fiscal year 1979 amounted to about ฿ 19.50 per capita, based on the estimated 1977 population of all the provinces (i.e., excluding Bangkok). The largest per capita amounts were allocated to the least economically developed regions: Northeast, South and North (Table 8). The Eastern Region, the most economically developed, received the second lowest per capita allocation, ฿ 16.71.

Within the Eastern Region, Chonburi Changwat received only ฿ 13.90 per capita (Table 9). Only Samut Prakan, a highly industrialized province bordering Bangkok, with a per capita Gross Provincial Product of ฿ 48,370 received less: ฿ 8.32 per capita. Although among the provinces in the Eastern Region there is a roughly inverse relationship between the per capita grant and per capita Gross Provincial Product, the allocation formula appears to result in some aberrations. Thus, comparing Trat, which received the largest per capita allocation, ฿ 28.7, with Chachoengsao, where the allocation was less than half of Trat's, we find Chachoengsao, with a per capita Gross Provincial Product about ฿ 3,000 lower than that in Trat. If one objective of the PDP is to give relatively more help to the less developed provinces as

measured by per capita product, the data seem to indicate that the present formula is in need of modification.

Within Chonburi Province, the 20 percent "urban" share has been allocated largely to the sanitary districts. The three municipalities received only $\text{฿} 352$ thousand, 4 percent of the amount allocated to Chonburi Province; the sanitary districts received 16 percent of the provincial allotment.¹ Although the 80 percent share of the province allotment would almost double the resources available to the CAO for capital improvement purposes, the amounts made available to Chonburi and Siracha would add only about 1 percent to their 1978 capital expenditures, and the $\text{฿} 152$ thousand allotted to Phanat Nikom would add only about 2 percent to its capital expenditures.

Although lump sum amounts have been allocated to the individual provinces on a formula basis, each province must submit a list of proposed projects for approval of the Central Committee. The project list is drawn from plans prepared earlier. Specific projects are submitted by the individual municipalities, sanitary districts and CAOs after approval by their executive officers and legislative bodies. Final approval is given by the Provincial Planning Committee. The Governor is chairman of this Committee and representatives from the CAO, municipalities and sanitary districts are Committee members.

The Provincial Planning Committee sets priorities among projects but there seem to be no objective criteria for the

1. The amounts allotted to the individual municipalities in the study area were: Chonburi $\text{฿} 100,000$; Siracha $\text{฿} 100,000$; and Phanat Nikom $\text{฿} 152,000$.

selection process. Cost/benefit analyses or similar measures of project merit do not appear in project documentation. In the case of projects submitted by the three municipalities, the one submitted by Phanat Nikom was given top priority because it proposed building a dike in connection with its flood control project. Also, for the 20 percent "urban" share, top priority was given to sanitary district projects because they are semi-rural and, therefore, fit more readily into the rural orientation of the Provincial Development Plan.

Borrowing

As pointed out in the next chapter, too large a proportion of current municipal budgets is devoted to expenditure for major capital improvements. With modern budgeting practices, capital expenditure from current revenue sources should ordinarily be confined to the purchase of equipment such as typewriters, file cabinets, and furniture, and for small improvement projects. Major development projects, involving land purchases and construction, and costing tens or hundreds of millions of Baht, will benefit future generations as well as the present inhabitants. Therefore, it is reasonable to defer some of the costs by long-term borrowing.

This section will consider borrowing sources that are actually and potentially available to municipalities.

Borrowing from Budget Surplus

Under regulations of DOLA regarding municipal budgeting, total expenditures are limited to a specific percentage of estimated revenue, thus assuring a current budget surplus at the end of the fiscal year. This surplus is required to be

divided between the Municipal Development Fund (also known as the "Municipal Promotion Fund" and the municipality's own reserve fund. The proportion allocated to each of these funds has changed over the years, as follows:

<u>Period</u>	<u>Percent to MDF</u>	<u>Percent to municipal reserve</u>
Prior to 1972	50	50
1972 to 1975	30	70
1975 to present	10	90

For all practical purposes these surplus funds are now the only available source of municipal borrowing.

Municipal Development Fund (MDF). This fund is a quasi-public fund controlled by an Executive Committee chaired by the Under-Secretary of State of the Ministry of Interior. Among the Committee's membership are officials of DOLA, the Director General of the Public Works Department and five mayors.

An accounting is kept of the amount of surplus contributed to the fund by each municipality and the fund pays 4 percent annual interest to the municipalities on their balances. As of the end of the fiscal year 1978, Chonburi had paid into the fund some $\text{฿ } 10$ million on which it has been receiving interest.

Monies in the fund have been available for loans to municipalities for purposes specified by DOLA regulations. Under existing regulations, the fund can make four specific categories of loans at annual interest rates ranging from 4 percent for utilities and infrastructure development, to 7

percent for commercial enterprises. A fifth, catch-all, category calls for an interest rate of 8 percent.¹ Municipalities may apply for loans regardless of their contribution to the fund. Loans can be made for up to 10 years with a grace period of up to 5 years. Moreover, interest is charged only on borrowing in excess of a municipality's cumulative contribution to the fund.

Until recently, there were tight constraints on the amounts municipalities could borrow from the fund, based on the amount of surplus a municipality had itself contributed. As a result, the fund accumulated a substantial sum, about \$ 800 million. The restriction has been lifted, however, with the result that there has been considerable lending activity. Increased lending and the successive reductions in the required municipal contributions have resulted in a substantial drawdown of the fund.

Requests from municipalities for loans are reviewed by the Executive Committee of the fund and by financial personnel at DOLA. Priority is given to projects submitted by small, financially weak municipalities. Moreover, special preference is now being given to income-producing commercial enterprises, and particularly to providing working capital for municipal pawnshops.

Municipal reserves. As has been noted, 90 percent of a municipality's annual budget surplus is now deposited in a

1. See Appendix B for a description of the loan categories and interest rates.

reserve fund. This money is deposited in local banks and draws interest. The reserve money may be borrowed by a municipality for uses specified in a Ministry of Interior regulation. Except for minor amounts (up to $\text{฿ } 2,000$), the amounts borrowed must be approved by the provincial governor ($\text{฿ } 3,000 - \text{฿ } 10,000$), or by the Ministry of Interior ($\text{฿ } 10,000$ and over).¹

The main purpose of the fund, according to the regulation, is to meet budget contingencies, such as temporary cash shortages when revenue collections lag behind expenditure needs, or to pay for unanticipated expenses.² Such borrowing must be repaid out of the following fiscal year's budget. Under certain conditions, municipalities may withdraw money from the fund on a long-term basis for capital improvements, and need not repay the fund. Such withdrawals have been made on occasion by the three municipalities.

The three municipalities have built up substantial reserves over the years. By the close of fiscal year 1978, Chonburi had well over $\text{฿ } 20$ million in its reserve fund and had been adding to it at rates considerably in excess of $\text{฿ } 1$ million per year since 1974. The other two municipalities had also built up substantial reserves by the end of fiscal year 1978: Siracha, $\text{฿ } 8.8$ million; and Phanat Nikom, $\text{฿ } 9.1$ million.

1. In emergency situations, such as natural disasters, up to $\text{฿ } 50,000$ may be borrowed with approval of the governor.

2. In the U.S. such contingencies are ordinarily financed by the issuance of short-term notes (tax anticipation notes).

Other Potential Sources
of Borrowed Funds

Because of their limited taxing authority, and also their failure to use what authority they have to the fullest extent, the three municipalities have made no attempt to borrow from private sources. Indeed, the municipal clerk and finance officials of two of the municipalities (Chonburi and Siracha) have indicated that under existing MOI regulations, they could borrow from local banks to obtain capital for their pawnshop operations, but for no other purpose. The finance officer of Phanat Nikom indicated that they could borrow from the Krung-Thai Bank (a State-operated bank) up to ฿ 1 million a year.

The fact remains that unless municipal treasuries are strengthened through more effective use of their present taxing authority but, more importantly, by a thorough overhaul of their financial structure, their credit standing will remain low and private money markets will remain inaccessible to them. If they do find willing lenders, such loans will necessarily be at high interest rates. Once steps are taken to strengthen the municipal financial structure and administrative procedures, it will be appropriate to consider broad borrowing powers for local governments. With stronger municipal financial structures, the Finance Ministry would be in a better position to help municipalities obtain loans, either in private markets, or from government sources.

Table 1

Municipality of Chonburi
Municipal Revenue, Fiscal Years 1974 and 1978

Revenue item	Amount (in thousand Baht)		Percent distrib- ution		Percent increase or de- crease	Per capita ¹ (Baht)
	1974	1978	1974	1978		
Taxes, total	8,916	17,174	59.6	63.3	92.6	346
Locally-levied, total	1,947	3,022	13.0	11.1	55.2	61
Building and land Land development	1,337	2,178	8.9	8.0	63.9	44
Other	85	118	0.5	0.4	38.8	2
Other	526	725	3.5	2.7	37.8	15
Surcharge taxes, total	2,823	5,210	18.9	19.2	84.6	105
Business Refreshment and Liquor	2,767	4,499	18.5	16.6	62.6	91
Entertainment and Gambling	-	392	-	1.4	XX	8
Gambling	55	319	0.4	1.2	480.0	6
Shared taxes, total	4,147	8,942	27.7	33.0	115.6	180
Vehicles	4,133	8,892	27.6	32.8	115.1	179
Rice export	14	50	0.1	0.2	257.1	1
Fees, licenses & fines	887	1,345	5.9	5.0	51.6	27
Revenue from property	474	1,223	3.2	4.5	158.0	25
Interest earnings	438	1,155	2.9	4.3	163.7	23
Other	36	68	0.3	0.2	88.9	2
Public utilities ² & enterprises	354	506	2.4	1.9	42.9	10
Miscellaneous revenues ³	789	1,085	5.3	4.0	37.5	22
Transfer from reserve	-	300	-	1.1	XX	1
Government grants, total	3,529	5,494	23.6	20.3	55.7	111
General	1,020	2,439	6.8	9.0	139.1	49
Specific program	900	610	6.0	2.2	-33.3	12
Educational	1,038	2,445	6.9	9.0	135.5	49
Other	571	-	3.8	-	XX	-
MDF loan ⁴	-	4,428	-	XX	XX	89
Total revenue, excl. loan	14,949	27,127	100.0	100.0	81.5	546
Total income	14,949	31,555	XX	XX	XX	635

Note: Detail may not add to total because of rounding.

XX : Not computed.

1. Based on estimated 1978 population (49,696).

2. Contribution from operation of pawnshop.

3. Includes ฿ 644 thousand in 1974 and ฿ 743 thousand in 1978, contribution from Changwat Chonburi Electric Generating Authority.

4. For construction of new municipal fish market.

Source: Annual Revenue and Expenditure Report of Muang Chonburi.
Population estimate from Office of the Governor, Changwat Chonburi.

Table 2
Municipality of Siracha
Municipal Revenue, Fiscal Years 1974 and 1978

Revenue item	Amount (in thousand Baht)		Percent distri- bution		Percent increase or de- crease	Per Capita ¹ (Baht)
	1974	1978	1974	1978	1974-1978	1978
Taxes, total	5,262	10,835	62.6	66.7	105.9	553
Locally-levied, total	701	1,046	8.3	6.4	49.2	53
Building and land	373	604	4.4	3.7	61.9	31
Land development	226	191	2.7	1.2	-15.5	10
Other	101	251	1.2	1.5	148.5	13
Surcharge taxes, total	423	870	5.0	5.4	105.7	44
Business	420	717	5.0	4.4	70.7	37
Refreshment and liquor	-	145	-	1.0	XX	7
Entertainment and gambling	3	8	-	2	166.7	3
Shared taxes, total	4,138	8,919	49.1	54.9	115.5	455
Vehicles	4,133	8,892	49.1	54.8	115.1	454
Rice export	5	27	-	0.2	440.0	1
Fees, licenses & fines	212	461	2.5	2.8	117.5	24
Revenue from property	622	1,011	7.4	6.2	62.5	52
Interest earnings	74	342	0.9	2.1	362.2	18
Other	548	669	6.5	4.1	22.1	34
Public utilities & enterprises	-	-	-	-	-	-
Miscellaneous revenue	152	294	1.8	1.8	93.4	15
Government grants, total	2,164	3,632	25.7	22.4	67.8	185
General	300	866	3.6	5.3	188.7	44
Specific program	909	1,423	10.8	8.8	57.2	73
Educational	625	1,343	7.4	8.3	114.9	67
Other	334	-	4.0	-	XX	-
Total revenue	8,412	16,233	100.0	100.0	93.0	828

Note: Detail may not add to totals because of rounding.
 XX : Not computed.
 1. Based on estimated 1978 population (19,604).
 2. Less than 0.05 percent.
 3. Less than \bar{p} .50.
 Source: Annual Revenue and Expenditure Reports of Tambon Siracha.
 Population estimate from Office of the Governor, Changwat Chonburi.

Table 3
Municipality of Phanat Nikom
Municipal Revenue, Fiscal Years 1974 and 1978

Revenue item	Amount (in thousand Baht)		Percent distrib- ution		Percent increase or de- crease	Per Capita ¹ (Baht)
	1974	1978	1974	1978	1974-1978	1978
Taxes, total	4,747	9,894	67.2	71.9	108.4	747
Locally-levied, total	255	428	3.6	3.1	67.8	32
Building & land	76	187	1.1	1.4	146.1	14
Land development	35	62	0.5	0.5	77.1	5
Other	143	179	2.0	1.3	25.2	14
Surcharge taxes, total	356	561	5.0	4.1	57.6	42
Business	355	446	5.0	3.2	25.6	34
Refreshment and liquor	-	104	-	0.8	XX	8
Entertainment and gambling	2	11	-	0.1	XX	1
Shared taxes, total	4,137	8,905	58.6	64.7	115.3	672
Vehicles	4,133	8,892	58.5	64.6	115.1	671
Rice export	4	13	0.1	0.1	225.0	1
Fees, licenses & fines	343	593	4.9	4.3	72.9	45
Revenue from property	301	761	4.3	5.5	52.8	57
Interest earnings	97	414	1.4	3.2	326.8	31
Other	205	347	2.9	2.3	69.0	26
Public utilities ³ & enterprises	-	33	-	0.2	XX	2
Miscellaneous revenue	72	116	1.0	0.8	61.1	9
Transfer from reserve	-	43	-	0.2	XX	3
Government grants, total	1,599	2,330	22.6	16.9	45.7	176
General	300	648	4.2	4.7	116.0	49
Specific program	552	1,200	7.8	8.7	117.4	91
Educational	420	482	5.9	3.5	14.8	36
Other	326	-	4.6	-	XX	-
Total revenue	7,062	13,770	100.0	100.0	95.0	1,039

Note: Detail may not add to totals because of rounding.

XX : Not computed.

1. Based on estimated 1978 population (13,250).

2. Less than 500 Baht.

3. Contribution from operation of pawnshop.

Source: Annual Revenue and Expenditure Reports of Muang Phanat Nikom. Population estimate from Office of Governor, Changwat Chonburi.

Table 4
Municipality of Chonburi
Building and Land Tax Schedule, 1978

Type of building	Average annual rental Value			Computed annual tax (12½% of average annual rental value)	
	<u>Maximum</u>	<u>Minimum</u>	<u>Average</u> ¹	<u>Baht</u>	<u>U.S.\$</u> ²
<u>Wood Construction</u>					
1 Floor	960	600	780	98	5
2 Floor	2,400	1,440	1,920	240	12
<u>Concrete Construction</u>					
2 Floor	4,800	2,880	3,840	480	24
3 Floor	6,000	4,000	5,000	625	31
4 Floor	7,200	6,000	6,660	833	42
Bank Bldg.	72,000	72,000	72,000	9,000	450

1. Actual rental values that are applied vary according to the location of the property and the economic situation.

2. Computed at 20 Baht to the dollar.

Source: Municipal Finance Office.

Table 5
Municipality of Siracha
Building and Land Tax Schedule, 1978

Type of building	Average annual rental Value			Computed annual tax (12½% of average annual rental value)	
	<u>Maximum</u>	<u>Minimum</u>	<u>Average</u> ¹	<u>Baht</u>	<u>U.S.\$</u> ²
<u>Wood Construction</u>					
1-2 Floor	4,200	2,400	3,300	413	21
3 Floor	4,800	3,800	4,300	538	27
<u>Concrete Construction</u>					
2-3 Floor	7,200	3,600	5,400	675	34
4 Floor	9,600	4,000	6,800	850	43
<u>Gasoline Station</u>	72,000	72,000	72,000	9,000	450
<u>Commercial Bank</u>	43,200	43,200	43,200	5,400	270
<u>Hotel (depends on No. of rooms)</u>	94,400	60,000	77,200	9,650	483
<u>Restaurant</u>	48,000	28,000	38,000	4,750	238

1. Actual rental values that are applied vary according to the location of the property and the economic situation.

2. Computed at 20 Baht to the dollar.

Source: Municipal Finance Office

Table 6
Municipality of Phanat Nikom
Building and Land Tax Schedule, 1978

Type of building	Average annual ¹ rental value	Computed annual tax (12½% of average annual rental value) ²	
		Baht	U.S.\$ ²
<u>Wood Construction</u>			
1 and 2 Floor	1,200	150	8
<u>Concrete Construction</u>			
2 Floor	1,800	225	11
3 Floor	3,000	375	19
4 Floor	3,600	450	23
5 Floor	5,200	650	33
<u>Commercial Bank</u>	24,000	3,000	150
<u>Gasoline Station</u>	9,600	1,200	60

1. Actual rental values that are applied vary according to the location of the property and the economic situation.

2. Computed at 20 Baht to the dollar.

Source: Municipal Finance Office.

Table 7Rates of Municipal Licenses Levied on Major Business Activities inChonburi, Siracha and Phanat Nikom, 1978(Baht)

Type of business	Maximum legal rate	Actual rate		
		Phanat Nikom	Siracha	Chonburi
Hotel	1,000	200	1,000	1,000
Movie Theatre	1,000	500	1,000	1,000
Printing Shop:				
Over 5 H.P. Motor	1,000	200	800	800
1-5 H.P. Motor	1,000	200	500	500
Less than 1 H.P. Motor	1,000	200	300	300
Photo Shop	1,000	150	200	200
Vehicle service repair:				
Assembling	1,000	300	1,000	1,000
Repairing	1,000	300	700	700
Servicing	1,000	100	1,000	1,000
Painting:				
Automobiles	1,000	300	1,000	1,000
Other vehicles	1,000	300	300	300
Patching Tires:				
Vehicle with engine	1,000	100	200	200
Vehicle without engine	1,000	100	50	50
Gasoline Station	1,000	500	1,000	1,000
Food Market	500	500	500	500

Source: Municipal Finance Office of each Municipality.

Table 8
Allocation of the Provincial Development Grant, by
Region, Fiscal Year 1979

<u>Region</u>	<u>Number of Provinces</u>	<u>Allocation Amount</u> (฿ 000)	<u>Allocation Per capita¹</u> (฿)	<u>Per capita gross national₁ product</u> (฿)
Northeast	16	307,682	19.76	3,499
North	17	194,640	20.80	5,564
South	14	111,750	20.52	8,608
Central	8	46,326	15.87	9,301
West	8	58,750	18.17	10,729
East	8	49,852	16.71	17,289
Total	71	769,000	19.46	XXX

1. Based on estimated 1977 population.
Source: NESDB.

Table 9

Allocations of the Provincial Development Grant in the
Eastern Region, by Province, Fiscal Year 1979

Province	Allocation		Per capita gross provincial ¹ product (฿)
	Amount (฿000)	Per capita ¹ (฿)	
Chantaburi	6,790	24.16	10,411
Chachoengsao	6,431	14.16	8,449
Chonburi	8,901	13.90	21,016
Trat	3,454	28.78	11,634
Nakorn Nayok	3,595	19.54	7,094
Prachenburi	11,516	21.01	6,526
Rayong	5,522	17.36	12,225
Samut Prakan	3,643	8.32	48,370
Total	49,852	16.71	17,289

1. Based on estimated 1977 population.
Source: NESDB.

CHAPTER 4

Expenditure Patterns

The standard accounts and reports of municipalities in Thailand reflect the services and commodities purchased during a fiscal year.¹ Thus, expenditure data in published municipal reports and budgets are classified by object and character -- that is, they reveal the amounts expended for "salaries, wages and compensation," supplies and the like (objects), and they distinguish between current and capital expenditures (character).

As there is no separate capital budgeting, all expenditures, both for current purposes and for long-term capital improvements, are included in a single budget document. Because municipalities have extremely limited access to borrowing, capital expenditure is financed primarily on a pay-as-you-go basis. Moreover, because municipalities are limited in the amount of revenue they can raise themselves and because of an extremely conservative budgeting requirement imposed on them, they are severely limited in the quantity and quality of services and facilities they can provide.

Expenditure by Character
and Object

Capital improvements, such as purchase of heavy equipment, street and road improvements, drainage projects,

1. Governmental fiscal years are uniform in Thailand -- beginning on 1 October and ending on 30 September.

purchase of land and construction of public buildings, currently consume more than half of the municipal budgets in each of the three municipalities covered in this study (see Tables 10, 11, and 12).¹ Only Chonburi financed part of its capital expenditure in 1978 from borrowing, B 4.2 million loan from the Municipal Development Fund to finance construction of a municipal fish market. Exclusive of the loan-financed fish market, Chonburi's capital expenditure fell slightly below half its total expenditure. In Siracha, and Phanat Nikom, capital expenditures, all from current funds, comprised 54 and 58 percent, respectively, of total expenditure in 1978.

The fact that the municipalities must rely primarily on current funds to finance their capital improvements limits drastically the amounts they can spend to provide the basic services they are required by law to furnish, much less the additional activities they are authorized to conduct.² Chonburi spent only 280 Baht per capita in fiscal 1978 for current services. Siracha was able to spend almost 100 Baht per capita more for current services, and Phanat Nikom well over 100 Baht more, made possible by the large share of revenue from the vehicle tax.

Expenditure by Function

To evaluate the kinds of services and facilities provided by the three municipalities, it is necessary to analyze expenditure data by function. Such financial expenditure

1. Tables appear at the end of the Chapter.
2. See Appendix C for a list of legally required and authorized municipal services.

data are not published routinely and it was necessary, therefore, to compile the information from budget documents and financial records.

The data which appear in Tables 13, 14 and 15 have been arranged in terms of the required ("must do") and authorized, but not required ("can do") functions as established by the laws governing municipalities (tambons and muangs). Although complete functional classifications could not be carried out because detailed activity breakdowns were not always available, the tables do reveal some significant differences among the three municipalities.

As has been noted, the two smaller municipalities, Siracha and Phanat Nikom, are able to spend relatively more than Chonburi, mainly because of the large amounts they have been receiving from the vehicle tax distribution. Thus, while Chonburi's total expenditure for current and capital purposes was less than $\text{฿ } 600$ per capita, Siracha was able to spend $\text{฿ } 800$ per capita and Phanat Nikom, over $\text{฿ } 950$ per capita. As a result, in terms of current services, Chonburi was limited to applying its resources to the required functions: education, sanitation, fire protection, drainage, and the like. The other two have been able to move somewhat into "can do" functions, such as recreation.¹

Moreover, Siracha and Phanat Nikom were able to put considerably more of their own resources into teachers'

1. Although it is known that Phanat Nikom provides recreational facilities, the amount of expenditure for that purpose could not be determined from the available information (see Table 15).

salaries and other current operation and maintenance expenses for elementary schools than could Chonburi. Thus, in Chonburi, the government subsidy for education accounted for almost three-fourths (71.2 percent) of its current education expenditure. In Siracha and Phanat Nikom the proportions were 52.4 and 41.2 percent, respectively. Also, the two smaller municipalities were able to spend more on capital improvements for schools than could Chonburi. Thus, total school expenditure per capita was much higher in Siracha and Phanat Nikom than in Chonburi, $\text{฿ } 74$ per capita in Chonburi compared with $\text{฿ } 208$ and $\text{฿ } 126$, respectively, in Siracha and Phanat Nikom (see Tables 13, 14 and 15).

In terms of public enrollment, however, the differences in current expenditure for education are not as large because the ratios of public school enrollment to total population differ considerably among the three municipalities.¹ Thus, while Siracha's current expenditure per pupil was $\text{฿ } 1,342$ in 1978, Chonburi's was not far behind ($\text{฿ } 1,302$) and Phanat Nikom's was about $\text{฿ } 1,100$.

It must be pointed out that certain types of services, mainly those that affect the public health and safety, are provided by other governmental authorities. Thus, water supply systems are operated by the Public Works Department of MOI and not by any of the three municipalities. Likewise, electric power is provided by the Provincial Electric Authority. Hospitals are available to the inhabitants of all three municipalities, but they are either public hospitals operated

1. The ratios of public school enrollment to total population were about 5 percent in Chonburi, almost 10 percent in Siracha and 8 percent in Phanat Nikom. The variation is attributable, in part, to the greater enrollment in private schools in Chonburi.

by the province, or privately operated. Police protection is under the control of the National Police, MOI. Some policemen are, however, assigned to traffic control and are paid from municipal funds.

In practice, then, the three municipalities are limited to providing a few basic services in addition to education: trash and garbage collection, maintenance and construction of streets and highways, maintenance and construction of drainage facilities, purchase, maintenance and operation of fire equipment. Moreover, the municipalities seem to spend an inordinate amount for "central management," particularly the two smaller ones. Thus, in Siracha, current expenditures for central management account for 27.7 percent of total current expenditure and 25.6 percent of Phanat Nikom's current expenditure was for that purpose. Chonburi's central management expenditure was somewhat less, about 20 percent of current expenditure.

The largest share of "central management" expenditure was attributed to the municipal clerk's office in all three municipalities. Here again, the municipal clerk's share of current expenditure was considerably smaller in Chonburi than in the other two municipalities. Likewise, expenditure for financial administration (Finance Office) was considerably higher, in relative terms, in the two smaller municipalities than in Chonburi. Thus, because of their considerably better revenue position, the two smaller municipalities appear to be devoting more of their resources to "better" management as well as to a larger, if not a higher quality, package of public services and facilities. To assess the relative quantities and qualities of public services and

facilities in any meaningful sense, however, would require a considerable body of operating data, by activity, such as would automatically come out of a sophisticated program budgeting system, which does not exist in any of the municipalities.

Municipal Budgeting

The municipal budget process, as stipulated in MOI regulations, and hedged by stringent revenue constraints, results in extremely conservative municipal financing.

Under the present system, the magnitude of a municipality's spending depends on the amount of its available revenue. A ceiling is established by stipulating that budgeted expenditure may not exceed 95 percent of the average of the previous three years' revenue, including regular grants from the Central Government, but excluding special and specific grants. This is the so-called "95 percent rule," which is designed to provide a 5 percent excess of revenue over expenditure (surplus) each fiscal year. In practice, however, because of a general upward revenue trend, the current year's revenue is almost always higher than the previous three years' average and, therefore, the surplus usually amounts to more than 5 percent by the end of a fiscal year.

The expenditure side of the budget is based on an object classification -- that is, it is required to set forth, for each organizational unit, the kinds of services

and commodities that are to be purchased.¹ No attempt is made to classify expenditures by function, that is, the kind of public services and facilities that are provided through budget expenditures.

Budget approval and adoption is carried out by the municipal officials -- the executive (Mayor and councillors) and the elected legislative body (municipal council). There are no public hearings. The Provincial Governor can disapprove of budget items as can the Ministry of Interior (DOLA), which sets forth the detailed budgetary procedures in regulations and circulars.

Because of the absence of a functional classification, the municipal policymakers and administrators have no sound basis for evaluating the activities of the units that provide services, or for reporting to the public in understandable terms. Thus, an essential financial management tool is lacking. As noted above, it was only through a painstaking analysis of the detailed budget documents and financial records that some kind of functional expenditure data could be developed for this study. Such information should be developed from a uniform classification system and should be available to municipal policymakers and to the general public as a matter of routine.

Given the present rudimentary state of municipal finances in Thailand, it is not surprising that the municipalities see no need for capital planning or for the necessary financial

1. There are 13 classes -- debt service, "obligations," reserve payment, salaries, regular wages, temporary wages, compensation, materials and supplies, equipment, land and construction, subsidies, other.

adjunct to such planning: a multi-year capital budget. Until their local revenue structure is strengthened, however, such tools will continue to be meaningless for the intermediate-size municipalities covered in this study. Capital budgeting and planning requires not only the ability to foresee and accurately price out future development needs, it also requires the ability to forecast the revenue (and borrowing) sources that will be available to meet those needs. Once the tax base is strengthened and the necessary planning expertise and financial administrative tools are acquired, the municipalities will also be in a position to adopt a system of capital budgeting.¹

1. See Working Paper 22 for a brief discussion of capital budgeting.

Table 10
Municipality of Chonburi
Municipal Expenditure by Character and Object,
Fiscal Years 1974 and 1978

Expenditure item	Amount (in thousand Baht)		Percent distri- bution		Percent increase or de- crease	Per capita, (Baht) ¹
	<u>1974</u>	<u>1978</u>	<u>1974</u>	<u>1978</u>	<u>1974-1978</u>	<u>1978</u>
Current expenditure, total	8,793	13,896	65.8	46.8	58.0	280
Salaries, wages and compensation	5,419	9,491	40.6	32.0	75.1	191
Purchase of supplies	917	1,801	6.9	6.1	96.4	36
General expenses	760	1,451	5.7	4.9	90.9	29
Fixed charges ²	571	953	4.3	3.2	66.9	19
Other current charges	1,126	200	8.4	0.6	-82.2	4
Capital expenditure, total	4,541	15,775	34.0	53.2	274.4	317
Heavy equipment	422	789	3.2	2.7	87.0	16
Land and buildings	4,120	9,828	30.9	33.1	138.5	198
Expenditure from MDF loan (fish market)	-	4,248	-	14.3	XX	85
Other	-	910	-	3.1	XX	18
Total expenditure	13,335	29,671	100.0	100.0	122.5	597

Note: Detail may not add to totals because of rounding.

XX : Not computed.

1. Based on 1978 population (49,696).

2. Consists of "obligatory" expenditures: contribution to employee retirement, membership in municipal league, purchase of electricity and traffic control.

Source: Annual Revenue and Expenditure Report of Muang Chonburi.
Population estimate from Office of the Government, Changwat Chonburi.

Table 11
Municipality of Siracha
Municipal Expenditure by Character and Object,
Fiscal Years 1974 and 1978

Expenditure item	Amount (in thousand Baht)		Percent distri- bution		Percent increase or de- crease	Per capita ¹ (Baht)
	<u>1974</u>	<u>1978</u>	<u>1974</u>	<u>1978</u>	<u>1974-1978</u>	<u>1978</u>
Current expenditure, total	4,601	7,219	59.5	46.0	56.9	368
Salaries, wages and compensation	2,566	4,752	33.2	30.3	85.2	242
Purchase of supplies	458	990	5.9	6.3	116.2	50
General expenses	592	952	7.7	6.1	60.8	49
Fixed charges ²	196	320	2.5	2.0	63.3	16
Other current exp.	790	205	10.2	1.3	-74.1	10
Capital expenditure, total	3,137	8,471	40.5	54.0	170.0	432
Heavy equipment	230	1,064	3.0	6.8	362.6	54
Land and buildings	2,002	5,984	25.9	38.1	199.0	305
Other	905	1,423	11.7	9.1	57.2	73
Total expenditure	7,738	15,690	100.0	100.0	102.5	800

Note: Detail may not add to totals because of rounding.

1. Based on 1978 population (19,604).

2. Consists of "obligatory" expenditures: contribution to employee retirement, membership in municipal league and traffic control.

Source: Annual Revenue and Expenditure Reports of Tambon Siracha. Population estimates from Office of the Governor, Changwat Chonburi.

Table 12
Municipality of Phanat Nikom
Municipal Expenditure by Character and Object,
Fiscal Years 1974 and 1978

Expenditure item	Amount (in thousand Baht)		Percent distri- bution		Percent increase or de- crease	Per capita ₁ (Baht)
	<u>1974</u>	<u>1978</u>	<u>1974</u>	<u>1978</u>	<u>1974-1978</u>	<u>1978</u>
Current expenditure, total	3,033	5,402	46.3	42.3	78.1	408
Salaries, wages and compensation	1,987	3,533	30.0	27.7	77.8	267
Purchase of supplies	458	910	7.0	7.1	98.7	69
General expenses	134	416	2.0	3.3	210.4	31
Fixed charges ²	179	136	2.7	1.1	-24.0	10
Repayment of loan (MDP)	35	214	5.3	1.7	511.4	16
Other current exp.	241	193	3.7	1.5	-20.0	15
Capital expenditure, total	3,519	7,364	53.7	57.7	109.3	556
Heavy equipment	79	2,366	1.2	18.5	2,994.9	179
Land and buildings	3,440	4,998	52.5	39.2	45.3	377
Total expenditure	6,550	12,766	100.0	100.0	94.9	963

Note: Detail may not add to totals because of rounding.

1. Based on estimated 1978 population (13,250).

2. Consists of "obligatory" expenditures: contribution to employee retirement, membership in municipal league and traffic control.

Source: Annual Revenue and Expenditure Reports of Muang Phanat Nikom. Population estimate from Office of the Governor, Changwat Chonburi.

Table 13
Municipality of Chonburi
Municipal Expenditure, by Function,
Fiscal Year 1978

Function	Expenditure (฿000)			Per capita (฿) ¹		Percent distribution	
	Total	Current	Capital	Total	Current Only	Total	Current Only
<u>Required functions:</u>							
Law and order ²	311	311	--	6	6	1.0	2.2
Roads and waterways	9,443	1,021	8,422	190	21	31.8	7.3
Sanitation	2,891	2,891	--	58	58	9.7	20.8
Communicable disease control	--	--	--	--	--	--	--
Fire protection	1,254	880	374	25	18	4.2	6.3
Education	3,681	3,434	247	74	69	12.4	24.7
Water supply	--	--	--	--	--	--	--
Slaughter house	386	386	--	8	8	1.3	2.8
Medical treatment facilities	466	250	216	9	5	1.6	1.8
Drainage	2,127	787	1,340	43	16	71.2	5.7
Public toilets	--	--	--	--	--	--	--
Electricity ³	488	320	168	10	6	1.6	2.3
Central management, total	2,782	2,716	66	56	54	9.4	19.5
Municipal Clerk's Office	1,260	1,231	29	25	25	4.2	8.9
Finance Office	478	465	13	10	9	1.6	3.3
Contribution to employee retirement	216	216	--	4	4	0.7	1.6
All other ⁴ ⁵	828	304	24	17	16	2.8	5.8
Miscellaneous	1,094	900	194	22	18	3.7	6.5
Subtotal	24,923	13,896	11,027	501	280	84.0	100.0
<u>Authorized (but not required):</u>							
Ferries & ports	--	--	--	--	--	--	--
Cemetery & crematorium	--	--	--	--	--	--	--
Regulation of occupations	--	--	--	--	--	--	--
Maternal & child care	--	--	--	--	--	--	--
Hospital	--	--	--	--	--	--	--
Public utilities	--	--	--	--	--	--	--
Public health services	--	--	--	--	--	--	--
Vocational schools	--	--	--	--	--	--	--
Recreation	500	--	500	10	--	1.7	--
Slum clearance	--	--	--	--	--	--	--
Commercial enterprises ⁶	4,248	--	4,248	85	--	14.3	--
Total	29,671	13,896	15,775	597	280	100.0	100.0

Note: Detail may not add to totals because of rounding.

1. Based on 1978 population (49,696).

2. Traffic control.

3. Purchase of electricity for use of municipality; functional breakdown not available.

4. Consists of (฿000): Registration Office (213); Public Relations (197); and miscellaneous (439).

5. Public grounds and buildings, not elsewhere classified.

6. Construction of municipal fish market. Chonburi also operated a pawnshop but its gross revenues and expenditures are outside the regular municipal accounts.

Source: Compiled from municipal budget and finance records.

Table 14
Municipality of Siracha
Municipal Expenditure, by Function,
Fiscal Year 1978

Function	Expenditure (฿000)			Per capita (฿) ¹		Percent distri- bution	
	Total	Current	Capital	Total	Current Only	Total	Current Only
<u>Required functions:</u>							
Law and order ²	147	147	--	7	7	0.9	2.0
Roads and waterways	4,309	476	3,833	220	24	27.5	6.6
Sanitation	911	601	310	46	31	5.8	8.3
Communicable disease control	380	114	266	19	6	2.4	1.6
Fire protection	522	522	--	27	27	3.3	7.2
Education	4,085	2,561	1,524	208	131	26.0	35.5
Central management, total	2,399	1,993	406	122	101	15.3	27.7
Municipal Clerk's Office	1,741	1,339	402	89	68	11.1	18.6
Finance Office	459	455	4	23	23	2.9	6.3
Contribution to em- ployee retirement	143	143	--	7	7	0.9	2.0
All other	56	56	--	3	3	0.4	0.8
Subtotal	12,753	6,414	6,339	651	327	81.3	88.9
<u>Authorized (but not required):</u>							
Water supply	--	--	--	--	--	--	--
Slaughter house	122	122	--	6	6	0.8	1.7
Market, ferry, port	--	--	--	--	--	--	--
Cemetery & crematorium	--	--	--	--	--	--	--
Regulation of occupations	--	--	--	--	--	--	--
Medical treatment facilities ³	601	18	583	31	1	3.8	0.2
Electricity ³	329 ⁴	231 ⁴	98	17	12 ⁴	2.1	3.2 ⁴
Drainage ⁴	1,451 ⁴	--	1,451	74	--	9.2	--
Recreation ⁵	433	433	--	22	22	2.8	6.0
Commercial enterprises ⁶	--	--	--	--	--	--	--
Total	15,689	7,218	8,471	800	368	100.0	100.0

Note: Detail may not add to totals because of rounding.

1. Based on 1978 population (19,604).
 2. Traffic control.
 3. Purchase of electricity for use of municipality; functional breakdown not available.
 4. Current expenditure included with "roads and waterways"; breakdown not available.
 5. Zoo.
 6. Siracha operates a pawnshop but its gross revenues and expenditures are outside the regular municipal accounts.
- Source: Compiled from municipal budget and finance records.

Table 15
Municipality of Phanat Nikom
Municipal Expenditure, by Function,
Fiscal Year 1978

Function	Expenditure (#000)			Per capita (#) ¹		Percent distri- bution	
	Total	Current	Capital	Total	Current Only	Total	Current Only
<u>Required functions:</u>							
Law and order ²	6	6	--	3	3	4	4
Roads and waterways	3,153	993	2,160	238	75	24.7	18.4
Sanitation	901	672	229	68	51	7.1	12.4
Communicable disease control	187	159	28	14	12	1.5	2.9
Fire protection	1,071	276	795	81	21	8.4	5.1
Education	1,666	1,168	498	126	88	13.1	21.6
Water supply	--	--	--	--	--	--	--
Slaughter house	75	75	--	6	6	0.6	1.4
Medical treatment facilities	--	--	--	--	--	--	--
Drainage ⁵	2,274 ⁵	5 ⁵	2,274	172	5 ⁵	17.8	5 ⁵
Public toilets	--	--	--	--	--	--	--
Electricity ⁶	241	241	--	18	18	1.9	4.5
Central management, total	1,711	1,385	326	129	105	13.4	25.6
Municipal Clerk's Office	967	654	313	73	49	7.6	12.1
Finance Office	304	292	12	23	22	2.4	5.4
Contribution to em- ployee retirement	107	107	--	8	8	0.8	2.0
Debt service	214	214	--	16	16	1.7	4.0
All other ⁷	119	118	1	9	9	0.9	2.2
Miscellaneous ⁷	1,385	371	1,014	105	29	10.8	6.9
Subtotal	12,670	5,346	7,324	956	403	99.2	99.0
<u>Authorized (but not required):</u>							
Ferries & ports	--	--	--	--	--	--	--
Cemetery & crematorium	--	--	--	--	--	--	--
Maternal & child care	--	--	--	--	--	--	--
Hospital	--	--	--	--	--	--	--
Public utilities	--	--	--	--	--	--	--
Public health services	96	56	40	7	4	0.8	1.0
Vocational schools	--	--	--	--	--	--	--
Recreation	NA	NA	NA	NA	NA	NA	NA
Slum clearance	--	--	--	--	--	--	--
Commercial enterprises ⁸	--	--	--	--	--	--	--
Total	12,766	5,402	7,364	964	408	100.0	100.0

Note: Detail may not add totals because of rounding.

N.A.: Data not available.

1. Based on 1978 population (13,250).

2. Traffic control.

3. Less than 0.5 Baht.

4. Less than .05 percent.

5. Current expenditure included with "road and waterways," breakdown not available.

6. Purchase of electricity for use of municipality; functional breakdown not available.

7. Public grounds and buildings, not elsewhere classified; may include an unidentified amount for recreation.

8. Phanat Nikom operates a pawnshop but its gross revenue and expenditure are outside the regular municipal accounts.

Source: Compiled from municipal budget and finance records.

APPENDIX A

The Structure of Local Taxes

Local taxes are those taxes which local public authorities are empowered by law to collect from businesses and properties located in the areas under their jurisdiction. The Municipal Revenue Act of 1939 empowered municipalities to raise revenue from six types of tax, namely:

1. Building and land taxes (real estate)
2. Commercial taxes (retail, restaurant, etc.)
3. Slaughtering tax
4. License fees and fines
5. Road vehicle tax
6. Twenty percent of head tax

The Municipal Revenue Act of 1954, as amended, further enlarged the scope of municipal taxation. Apart from enabling the municipality to collect its own taxes and levy a surcharge of up to 10 percent on selected taxes collected by the national government, the Act provided for an allocation of a fixed percentage of the revenue proceeds from two specified national taxes for its use.

1. Municipality's Own Taxes
 - . Building and land tax
 - . Land development tax
 - . Slaughtering tax
 - . Signboard tax
 - . License fees and fines

2. Surcharge on National Taxes and Levies

- . Business tax
- . Liquor excise and license fees
- . Non-alcoholic beverage tax
- . Gambling permit fees
- . Entertainment duty

3. Allocation from National Tax Proceeds

- . Road vehicle tax
- . Export duty on paddy and rice

The Provincial Administration Revenue Act of 1956 and the Sanitary District Revenue Act of 1955 provide for similar resources of tax revenue for the provincial administration and the sanitary district authority. The only difference is that the amount of revenue that could be collected by these two local public authorities is more limited.

A. Building and land tax

The tax base

The tax is levied on the owners of developed land, i.e., land with houses or buildings. The tax base is the actual gross annual rental value indicated by the taxpayer in the tax returns submitted annually. The tax collector has discretionary power for reassessment as deemed appropriate.

Owner-occupied residential buildings not wholly or partially used for warehousing or manufacturing purposes are exempt from taxation. Thus, properties subject to this tax to all intents and purposes are confined to houses, buildings and land rented out by the owners.

The tax rate

A uniform standard rate of 12.5 percent on the gross annual rental value is applied with the exception of buildings equipped with manufacturing tools or machinery, where the rates are reduced to one-third of the standard rate.

B. Land development tax

The land development tax is levied on the owners of undeveloped land.

The tax base

The tax is based on the area and price of land assessed on the basis of the prices of three pieces of land sold within a year in the tambon (sub-district) in which the land is located. The assessed value of land subject to this tax is revised once every four years by the sub-district assessing committee appointed by the provincial governor.

Tax exemptions are granted to land used by the owner for residences, pasturing and crops. The amount of land exempted varies according to location, as follows.*

- . 5 rai for land outside municipal and sanitary district areas.
- . 1 rai for land inside sanitary district areas.
- . 0.5 rai for land inside municipal areas.

*2.5 rai = 1 acre

The tax rates

The rates are fixed for 43 different prices of land. Rates start from 0.50 Baht per rai for land values not exceeding 200 Baht per rai, and increase gradually to: $\text{฿} 50$ per rai for land values above 9,500 Baht but not exceeding 10,000 Baht per rai, 200 Baht per rai for land values above $\text{฿} 80,000$ per rai but not exceeding 100,000 Baht per rai. A tax increase of $\text{฿} 100$ per rai is added to every $\text{฿} 100,000$ per rai increment of land value above and beyond 500,000 Baht per rai, taking the fraction of $\text{฿} 100,000$ increment above $\text{฿} 50,000$ as $\text{฿} 100,000$.

C. Slaughtering tax

The tax is levied on cattle, buffaloes, swine, goats, sheep and poultry slaughtered. This is applied only to the slaughtering of animals above specified minimum numbers.

The rates of tax are fixed according to the kinds of animals slaughtered, ranging from 4 to 15 Baht per animal.

D. Signboard tax

The tax is based on the surface area of the signboard and the number of foreign letters written thereon.

The rate is fixed at 1 Baht per 500 square centimeters, for the signboard wholly written in the Thai alphabet; 10 Baht per 500 sq. cm. for the signboard partly written in foreign languages; and 20 Baht per 500 sq. cm. for the signboard written entirely in foreign languages. In all cases, the fraction of 500 sq. cm. is taken as 500 sq. cm. for tax purposes.

E. Road vehicle tax

The tax is collected by the Police Department. Its proceeds are partly allocated for use by the local public authorities operating in the province in which the tax is collected. The formula for the allocation of tax proceeds provides 50 percent of the total amount collected to all the municipalities, 25 percent to all the sanitary districts located in the province, and 25 percent to the Changwat Administrative Office. The provincial council is responsible for the distributions of the allocations among the municipalities and sanitary districts.

F. Export tax on paddy and rice

The tax is collected by the Customs Department. The entire tax proceeds are given to the Ministry of Interior for distribution to the municipalities and the sanitary districts throughout the country. Under current procedures, the total tax revenue is divided into two equal amounts, one for the municipalities and the other for the sanitary districts. The amounts allocated to each group is distributed in proportion to population.

The rate of tax on white rice exported is 100 Baht per 100 kilograms and that on broken rice and rice bran exported is 50 Baht per 100 kg.

G. The percent surcharge on national taxes

a. Business tax

A ten percent surcharge was added to the National single-stage business tax which was adopted in 1961 to

replace the previous multi-stage tax on business. The previous tax included a retail sales tax (commercial business tax) to which local public authorities were authorized to add a 10 percent surcharge. To offset the loss to local governments from repeal of the retail sales levy, a 10 percent surcharge was added to the new business tax. This surcharge has been distributed to local governments since 1961 in proportion to retail sales taxes collected within local jurisdictions in 1960.

The present national business tax is levied at the point of production, distribution, import or export of commodities. Services and certain types of commodities (such as securities) are taxed at the point of sale. The tax is collected by the Revenue Department, Ministry of Finance, at rates that vary according to the type of business.

b. Liquor tax and liquor sales licensing fees

Liquor tax is collected by the Excise Department. It represents a concessionary levy for the monopolistic distribution of liquor in designated areas by the individuals or firms that win the concessionary right in open bidding. The rates of tax are fixed at 6 Baht per litre for raw liquor and 50 Baht per litre for distilled liquor.

In addition to the liquor tax, licensing fees are levied, being 1,000 Baht for the production and up to 2,000 Baht for the selling of liquor.

All levels of the local public authorities receive, by way of surcharges, up to 10 percent of the amount collected by the national government.

c. Non-alcoholic drink tax

The drinks subject to this tax include soft drinks, fruit juice, and soda water. Ice cream syrup, tea and coffee served in shops are excluded.

The rate of tax is 0.20 Baht for every 440 cubic centimeters of drink in a container. Surcharge of 10 percent is levied by the local public authorities on the amount of proceeds collected by the national government.

d. Gambling tax

A 10 percent surcharge is also levied by the local public authorities on the proceeds of the gambling tax collected by the national government.

e. Entertainment tax

The tax is collected by the Revenue Department of the national government. It forms part of the admission charges for shows, plays, sporting events, contests and other displays which collect money from viewers.

A 50 percent tax is levied on the total admission charges to film shows. Other forms of entertainment pay 20 percent of the gross income.

APPENDIX B

Purposes for Which Loans May be Made
From the Municipal Development Fund

1. Public Utilities. Investment in public utilities from which the municipality receives direct benefit, for example, water supply and electric utilities. Interest rate, 4 percent.
2. Infrastructure. Investment in other public facilities that benefit the residents of the municipality directly; for example, construction and repair of roads and streets, municipal office buildings, water pipe, bridges and canals, and purchase of fire trucks, garbage trucks, etc. Interest rate, 4 percent.
3. Commercial Enterprise. Investment in income-producing activities which can repay the loan rapidly; for example, construction of a market, port, hotels, places of entertainment, etc. Interest rate, 7 percent.
4. Pawnshops. Provision of capital for the establishment of pawnshops. Interest rate, 6 percent.
5. Miscellaneous. Other activities not enumerated above. Interest rate, 8 percent.

Note: The maximum term of a loan is 15 years. Repayment of loans may be deferred for three to five years after the loan is made. Interest is required only on loans that exceed the cumulative amount of surplus a municipality has on deposit in the fund.

APPENDIX C

Service Functions of
Tambons and Muangs¹

Under the Municipal Act of 1953, services performed by municipalities are varied in quantity and quality, based on the type or class of municipality. The Act specifies which services a municipality is required to perform and which it is authorized (but not required) to perform.

Tambons

Required

1. Maintaining law and order
2. Provision and maintenance of roads and waterways
3. Sanitation and garbage disposal
4. Prevention and treatment of communicable diseases
5. Fire protection
6. Education (primary level)

Authorized (but not required)

1. Water supply
2. Slaughter house
3. Commercial enterprises (market, ferry, port)
4. Cemetery and crematorium
5. Regulation of occupations (licensing)
6. Medical treatment facilities
7. Electricity
8. Drainage
9. Municipal enterprises (pawnshops)

1. Chonburi and Phanat Nikom are Muangs; Siracha is a Tambon.

Muangs

Required

1. Those of tambons
2. Water supply
3. Slaughter house
4. Medical treatment facilities
5. Drainage
6. Public toilets
7. Electricity

Authorized (but not required)

1. Ferries and port
2. Cemetery and crematorium
3. Regulation of occupations (licensing)
4. Maternal and child care services
5. Hospital
6. Public utilities
7. Public health services
8. Vocational schools
9. Sports facilities
10. Parks and zoos
11. Elimination of slums
12. Municipal enterprises (pawnshops)