

# Disequalizing Equalization Transfers: Politics of Intergovernmental Transfers in Khon Kaen Province

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## Abstract

Public finance literature dictates that intergovernmental transfers are an important public policy instrument to help alleviate horizontal fiscal imbalances among local jurisdictions. These so-called equalization grants enable financially strapped local authorities to provide essential services to their constituents. This underlying logic of intergovernmental equalization transfers requires the amount of intergovernmental transfers to be inversely related to each local jurisdiction's revenue-generating capacity. However, intense politicking in many countries turns the design of equalization grants into a battle of regional and local interests; in contrast to the public economic theory, a politicized intergovernmental fiscal transfer system induce greater horizontal imbalances among diverse local government units, consequently compromising the quality and quantity of local public services. The case in point illustrates the disjuncture between the theory and practice of intergovernmental equalization transfers by unveiling the political dynamism of intergovernmental relations in Khon Kaen Province.

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In this case study, both primary and secondary data sources were used to showcase the complex relationship among national politicians, central government bureaucrats, and local officials in deciding on the amount of local government transfers in each annual budget cycle. In-depth interviews with the high-ranking local officials were conducted in several local jurisdictions in Khon Kaen to understand the strategies they employed in swaying the national government's grant allocation decisions. In addition, a five-year retrospective analysis of each local government unit's financial data was performed to demonstrate the configuration of fiscal difficulties (e.g., deficit, surplus, short-term debt, long-term debt) facing the Khon Kaen local governments.

**Keywords:** *Intergovernmental Transfers, Local Public Finance, Fiscal decentralization, Local Authorities in Thailand, Khon Kaen*

# เงินอุดหนุนที่เพิ่มความเหลื่อมล้ำ: การเมืองแห่งการจัดสรรเงินอุดหนุนให้แก่ องค์กรปกครองส่วนท้องถิ่นในจังหวัดขอนแก่น

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## บทคัดย่อ

ตามทฤษฎีการเงินสาธารณะ เงินอุดหนุนที่รัฐจัดสรรให้แก่องค์กรปกครองส่วนท้องถิ่นถือเป็นเครื่องมือนโยบายสาธารณะที่สำคัญที่ช่วยลดความเหลื่อมล้ำทางการเงินการคลังขององค์กรปกครองส่วนท้องถิ่นประเภทต่างๆ โดยเงินอุดหนุนจากรัฐเป็นกลไกสำคัญที่ช่วยให้องค์กรปกครองส่วนท้องถิ่นขนาดเล็กที่มีงบประมาณประสบกับปัญหาสภาพคล่องสามารถจัดให้บริการประชาชนได้ ธรรมชาติของระบบเงินอุดหนุนภาครัฐจึงต้องกำหนดให้ปริมาณเม็ดเงินอุดหนุนแปรผกผันกับศักยภาพในการจัดเก็บรายได้ขององค์กรปกครองส่วนท้องถิ่น อย่างไรก็ตาม ปัจจัยทางการเมืองในหลายประเทศก็ได้ทำให้รูปแบบการจัดสรรเงินอุดหนุนกลับกลายเป็นสนามประลองกำลังทางการเมืองและผลประโยชน์ ซึ่งตรงกันข้ามอย่างสิ้นเชิงกับทฤษฎีเศรษฐศาสตร์และการเงินสาธารณะ โดยแทนที่จะทำให้เกิดความเท่าเทียมกันทางการเงินการคลังในบรรดาองค์กรปกครองส่วนท้องถิ่น กลับทำให้เกิดช่องว่างความเหลื่อมล้ำที่ขยายวงมากขึ้นและส่งผลกระทบต่อคุณภาพการให้บริการประชาชนขององค์กรปกครองส่วนท้องถิ่น กรณีศึกษานี้เป็นหลักฐานเชิงประจักษ์ที่ชี้ให้เห็นถึงช่องว่างระหว่างทฤษฎีและภาคปฏิบัติได้อย่างชัดเจน ผ่านการฉายภาพให้เห็นถึงพลวัตทางการเมืองในการจัดสรรเงินอุดหนุนในพื้นที่ จ. ขอนแก่น

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กรณีศึกษานี้ใช้ทั้งข้อมูลปฐมภูมิและทุติยภูมิในการอธิบายความสัมพันธ์ที่สลับซับซ้อนระหว่างนักการเมืองระดับชาติ ข้าราชการในหน่วยงานภาครัฐส่วนกลาง และนักปกครองท้องถิ่นในประเด็นที่เกี่ยวข้องกับเงินอุดหนุน โดยนักวิจัยได้ทำการสัมภาษณ์เชิงลึกข้าราชการในองค์กรปกครองส่วนท้องถิ่นในเขตพื้นที่ จ.ขอนแก่น เพื่อให้เกิดความเข้าใจในกลยุทธ์ต่างๆของท้องถิ่นในการวิ่งเต้นเพื่อขอรับเงินอุดหนุนจากรัฐ นอกจากนี้ การวิเคราะห์ข้อมูลสถานะทางการเงินการคลังขององค์กรปกครองส่วนท้องถิ่นในพื้นที่ จ.ขอนแก่น ยังจะชี้ให้เห็นถึงความไร้มาตรฐานของหน่วยงานภาครัฐส่วนกลางในการจัดสรรเงินอุดหนุนให้แก่องค์กรปกครองส่วนท้องถิ่น

**คำสำคัญ:** เงินอุดหนุน การคลังท้องถิ่น การกระจายอำนาจด้านการคลัง องค์กรปกครองส่วนท้องถิ่นของไทย ขอนแก่น

On his first day in office, Mayor *Lek* sat enthralled by the congratulatory homage from his municipal administrator, department heads, and municipal workers. The mayoral election in *Ban Khor* was long and arduous, but the electoral victory came as a surprise to *Lek* who, prior to swearing in as *Ban Khor*'s mayor, had only worked in the agricultural sector. His dairy farm is the largest in *Ban Khor*, in terms of both the land area and cattle number. Until today, it remained a mystery how an ordinary farmer—albeit a wealthy one—could have toppled an incumbent mayor who had been occupying the mayoral seat since *Ban Khor* municipality was a sanitary district. The previous mayor had all to win the election: his vote-canvassing network, his connection with the *Khon Kaen* province's Member of Parliament (MP), and his full control of the municipal administrative mechanisms. Granted, even though *Lek* had more money than his competitor, it was not his monetary endowment that altered the electoral momentum in his favor. It was his campaign policy to bring running water to a majority of *Ban Khor* residents who had to travel 20 kilometers each day to *Khon Kaen*'s extravagant downtown to get water for daily use and consumption.

Prior to his first day as mayor, *Lek* thought it was as easy as falling off a log to bring running water to his home community. He had multiple plans to realize his election-winning policy. First, since he was an excellent essayist throughout his high school and college years, *Lek* would write a grant proposal and submit it to the Ministry of Interior. He was confident that the central government officials would definitely be astounded by his impeccable writing skill. Second, even if the first plan was a total failure, *Lek* could also instruct the Finance Department to prepare a cost-benefit analysis of the running water system and give a complete report to some private bank in downtown *Khon Kaen* for loan consideration. Third, in case the borrowing option was implausible, *Lek* has an alternative plan to discuss with the Provincial Waterworks Authority (PWA) about his fellow *Ban Khor* residents' inconvenience.

Mayor *Lek*'s "first 100 days" ended on his first day in office. After the congratulatory fanfare in the morning, *Lek* met with the municipal administrator and department heads in an informal meeting to craft a preliminary implementation plan for his running-water-for-all policy. *Lek* was in a shock to learn about his municipality's financial status, especially the debt level. Some of the high-echelon officials frankly opined that none

of *Lek's* strategies would work. *Lek's* first plan was a complete joke to his bureaucratic subordinates who had witnessed the country's transition from a centralized decision-making polity to a "superficially" decentralized governance system. Academic merits did not carry that much weight in the Thai central bureaucratic context. In the past, a local government grant proposal was successful, not because it was beautifully written and logically sound, but because it was handed over to the Ministry of Interior by a prominent national politician. The other two options were also unlikely to get the *Ban Khor* residents anything. The municipal government's debt level was exorbitantly high. However, even if *Lek* insisted on borrowing to finance his running water project, he still had to ask for approval from the interior ministry. About the Provincial Waterworks Authority, the previous mayor pleaded with the PWA director many times several years ago, but to no avail.

As if there were not enough despair and depression in the meeting room, Boon Chuay, the municipal government administrator who had served in Ban Khor for almost a decade, imparted the news that he was scheduled to begin his new position in another town next week. *Lek* was silent after listening to *Boon Chuay's* farewell statement. Perplexed and overwhelmed by all the caveats about pursuing his election campaign policy, *Lek* adjourned the meeting and was the first person to leave the municipal building. He needed time to ponder over his future as Ban Khor's municipal leader and was surely in dire need for some good political advice to proceed with his flagship policy.

## **Overview of Thailand's Local Governance Landscape**

Throughout the 20<sup>th</sup> century, Thailand's administrative structures had pronounced centralization features. Policy formulation, planning, budget allocation, and personnel management were determined at the national level. In other words, every aspect of government decision making that has bindings effects on people from all walks of life occurred at the ministerial headquarters in Bangkok. Each ministry's provincial and district agencies in which officials were appointed by Bangkok were responsible for executing the central government policies, programs, and directives. With the centripetal administrative forces, provincial residents were merely subjects who were perceived by the Bangkok officials to be uneducated and unfit to govern themselves.

## **The Emergence of Leviathan: Evolution of Modern Thailand as a Centralized Bureaucratic State**

In the early 20<sup>th</sup> century, the Bangkok elites embraced the Western European administrative principles to tighten their control over the vast territory of Thailand—known then as Siam. The traditional administrative structure modeled after the Khmer-Brahmin theology was replaced with a Weberian bureaucracy, resulting in the formation of Western-style ministries and departments to carry out the modern state's functions (Unger 2003; Phongpaichit & Baker, 2005). The structural reform was considered radical, considering that the traditional structure had been in use for almost half a millennium. However, fear of the British and French imperialist invasion convinced the Siamese aristocrats to relentlessly pursue the drastic reform with two ultimate goals of ensuring macroeconomic stability and consolidating territorial control. Consolidation of territorial control was a novelty for the Siamese rulers and their subjects who were more familiar with the fluidity of feudalism and vassalage. It, however, did not take them long to get acclimatized to the novel territorial centralization. In fact, centralism was considered the most effective mechanism to strengthen the Siamese race's political and administrative influence over a large number of ethnic groups. Consequently, all Thai vassal states—such as *Lanna* (the northern kingdom), city states in the northeastern region, and the Malay sultanates—were abolished and replaced by the French-style provincial structure.

The prominent output of the early 20<sup>th</sup>-century reform was the Ministry of Interior (MOI) that had long been the pivotal thrust of Thai politics and administration. Prior to 2002, the ministry's most powerful administrative apparatus was the Department of Provincial Administration (DOPA) that dominated all provincial gubernatorial appointments. Not only were these centrally appointed governors the most senior MOI official in each province, but other ministries and departments also devolved power to the provincial governors to supervise and control their provincial and district offices.

Paralleling the institutionalization of centralized administrative control, the municipal government system emerged. During their European tour, the late-19<sup>th</sup>-century Siamese aristocratic leaders became fascinated by the glamour of European cities and, upon their return in Southeast Asia,

decided to experiment with local self-government (Langford & Brownsey, 1988). The first form of a local self-governing body that ever surfaced in Thai modern history was a sanitary district (*Sukhaphiban*). In the first few years of the 20<sup>th</sup> century, the number of sanitary districts grew exponentially in the semi-urbanized areas, but was confined to Bangkok and Greater Bangkok. Despite the attempt to develop local self-governing capacity, the Siamese reformers restricted the scope of sanitary districts' responsibilities to trash collection, sewage management, and slaughterhouse inspection and licensing. Further strengthening administrative centralization, the sanitary districts were placed under the Department of Provincial Administration's centralized bureaucratic supervision. The chief district officers (*Nai amphoe*) were *ex officio* heads of the *Sukhaphiban* council, enabling them to exert significant influence over these local authorities.

After the fall of absolutism, the Thai parliament passed the Municipality Act in 1933. Municipalities (*Tessaban*) were local government units in the large urban areas. In each municipality, the legislative body was the municipal council elected by district, while the mayor served as chief executive officer and was chosen from the municipal councilors. However, a Thai municipality's scope of activity was limited to providing basic services, such as garbage collection and disposal, water supply slaughterhouses, and markets. Even for this narrow range of functions, the Thai municipalities faced perennially inadequate financial resources. Reflecting the Siamese state's centralizing mentality, the interior ministry's provincial governors had legal authority to inspect and approve the municipal annual plans and budgets. Importantly, the provincial governors could dismiss the municipal councils and mayors whenever they deemed necessary (Raksasat, 1995).

Throughout the 20<sup>th</sup> century, Thailand or Siam was clearly a centralized bureaucratic state in which the central bureaucratic apparatuses led by the interior ministry's provincial administration were deployed to keep people and the local communities on a short leash. Central officials and aristocrats in Bangkok vehemently promoted centralization as a necessary capacity-building step for the local communities, arguing that societal forces at the local level in Thailand were too feeble to ensure effective local self-governance (Raksasat, 1995).

## **The Specter of Leviathan: Illusion of Decentralization of Power and Authority to the Local Level**

Beginning in the 1990s, centralization appeared to give way to decentralization. With increasing levels of urbanism and political awareness among citizens, the pendulum of societal forces swung towards community empowerment and citizen participation in the country's politics and administration. Indeed, the 1990s zeitgeist opened the window of opportunity for local people and their leaders to craft the management of their own community affairs.

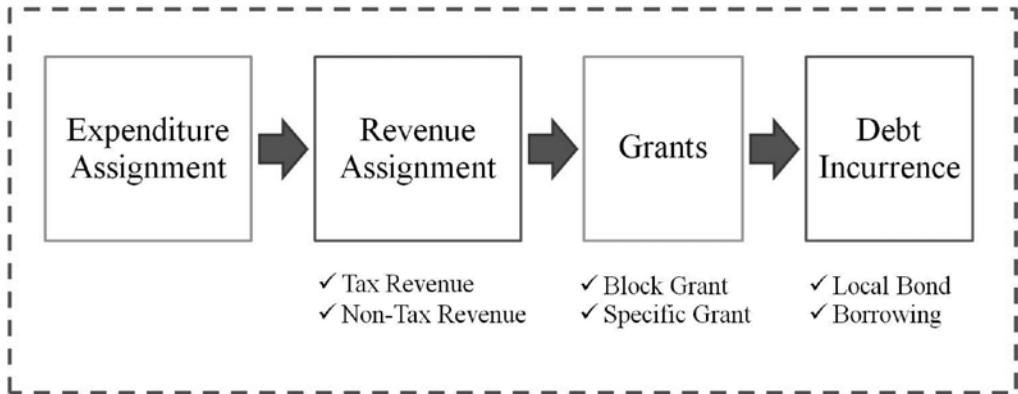
The 1997 Constitution—widely touted as the “People Constitution”—marked the start of the devolution of decision-making authority away from the central government to the local levels. During the constitutional drafting process, a variety of social groups took part in the process, while others not serving on the drafting committee had the opportunity to propose ideas for the committee's consideration. Consequently, the constitution contained many clauses on local autonomy and popular participation that were considered to promote the highest degree of democratization ever witnessed in Thai modern history.

The Parliament was obliged to legislate on the plan and procedure of decentralization within two years after the ratification of the 1997 Constitution. The Plan and Procedure of Decentralization to Local Administrative Organizations Act of 1999 mandated the formation of the Decentralization Commission chaired by the Prime Minister. The commissioners were divided into three groups: ministerial representatives from decentralization-related agencies, representatives from three types of local government, and academics (Table 1). The commission was responsible for drafting the National Decentralization Plan that was subject to revision every five years. The plan specifies functions for each type of local government and identifies local revenue sources (Figure 1).

**Table 1: Composition of the National Decentralization Commission according to the Plan and Procedure of Decentralization to Local Administrative Organizations Act of 1999**

Type of Commissioners	Number
Chairperson	<ul style="list-style-type: none"> <li>▪ Prime Minister of Thailand</li> </ul>
Representatives from central government ministries (11 members)	<ul style="list-style-type: none"> <li>▪ Ministry of Interior: Minister, secretary-general, directorate-general of the Department of Local Administration</li> <li>▪ Ministry of Finance: Minister and secretary-general</li> <li>▪ Ministry of Education: Secretary-general</li> <li>▪ Ministry of Public Health: Secretary-general</li> <li>▪ Council of State: Secretary-general</li> <li>▪ Civil Service Commission: Secretary-general</li> <li>▪ National Economic and Social Development Board: Secretary-general</li> <li>▪ Budget Bureau: Directorate-general</li> </ul>
Representatives from local administrative organizations (12 members)	<ul style="list-style-type: none"> <li>▪ Provincial Administrative Organizations: 2 presidents</li> <li>▪ Municipalities: 3 mayors</li> <li>▪ Tambon Administrative Organizations: 5 mayors</li> <li>▪ Special Local Government Units: Bangkok governor and Pattaya mayor</li> </ul>
Academics (11 members)	<ul style="list-style-type: none"> <li>▪ Public Administration: 3 scholars</li> <li>▪ Local Development: 2 scholars</li> <li>▪ Economics: 2 scholars</li> <li>▪ Local Administration: 2 scholars</li> <li>▪ Law: 2 scholars</li> </ul>

*Source:* The Plan and Procedure of Decentralization to Local Administrative Organizations Act of 1999.



**Figure1: Decentralization Framework based on the Plan and Procedure of Decentralization to Local Administrative Organizations of 1999.**

In the case of municipalities, the 1999 legislation spelled out 31 functions, a majority of which were basic public services, such as water treatment, garbage collection and disposal, cultural promotion, road maintenance, local economic development, social welfare services, slaughterhouse inspection, zoning, public park maintenance, and emergency management. Apart from the 1999 law, Thai municipalities were still regulated by the Municipality Act of 1933 that divided municipal governments into three categories based on population size (Table 2). The 1933 law further assigned a different set of service responsibilities to each type of municipality.

**Table 2: Types of Thai Municipality with Population Size.**

Type	Population Size
Thesaban Nakorn (Metropolitan Municipality)	> 50,000
Thesaban Muang (City Municipality)	10,000-50,000
Thesaban Tambon (Sub-district Municipality)	< 10,000

Source: The Municipality Act of 1933.

As shown in Table 3, municipal government’s responsibilities were divided into compulsory responsibilities and *optional* responsibilities. For instance, in the case of muang municipalities, provision of sanitized water for daily use and consumption was a mandatory function. Therefore, the constitutional and legal frameworks in Thailand were clearly oriented towards promoting and fostering the roles of local government—particularly the municipal government—in producing and delivering essential public services to the local population. However, there was a disjuncture between the constitutional/legal principles and actual practices.

**Table 3: Compulsory and Optional Responsibilities of Municipal Government**

	<i>Tessaban Nakorn</i> ( <i>Nakorn municipality</i> )	<i>Tessaban Muang</i> ( <i>Muang municipality</i> )	<i>Tessaban Tambon</i> ( <i>Sub-district municipality</i> )
<b>Compulsory Functions</b>	1. Maintenance of law and order	1. Maintenance of law and order	1. Maintenance of law and order
	2. Provision and maintenance of roads/sidewalks, public space, and refuse and trash disposal	2. Provision and maintenance of roads/sidewalks, public space, and refuse and trash disposal	2. Provision and maintenance of roads/sidewalks, public space, and refuse and trash disposal
	3. Prevention of infectious diseases	3. Prevention of infectious diseases	3. Prevention of infectious diseases
	4. Fire protection	4. Fire protection	4. Fire protection
	5. Education	5. Education	5. Education
	6. Clean water	6. Clean water	
	7. Slaughterhouse inspection	7. Slaughterhouse inspection	
	8. Community medical centers	8. Community medical centers	
	9. Public restrooms	9. Public restrooms	
	10. Street lights	10. Street lights	
	11. Drainage	11. Drainage	
	12. Other public health and social services		

**Table 3: Compulsory and Optional Responsibilities of Municipal Government (continue)**

	<i>Tessaban Nakorn</i> ( <i>Nakorn municipality</i> )	<i>Tessaban Muang</i> ( <i>Muang municipality</i> )	<i>Tessaban Tambon</i> ( <i>Sub-district municipality</i> )
<b>Optional Functions</b>	1. Provision of market, ferry, and harbor facilities	1. Provision of market, ferry, and harbor facilities	1. Provision of market, ferry, and harbor facilities
	2. Maintenance of cemeteries and crematoria	2. Maintenance of cemeteries and crematoria	2. Maintenance of cemeteries and crematoria
	3. Provision of employment benefits	3. Provision of employment benefits	3. Provision of employment benefits
	4. Commercial development	4. Commercial development	4. Commercial development
	5. Provision and maintenance of hospitals	5. Provision and maintenance of hospitals	5. Clean water
	6. Other necessary public utilities	6. Other necessary public utilities	6. Slaughterhouse inspection
	7. Sport stadiums and wellness centers	7. Sport stadiums and wellness centers	7. Community medical centers
	8. Vocational schools	8. Vocational schools	8. Drainage
	9. Public parks and zoos	9. Public parks and zoos	9. Public restrooms
	10. Other public health services	10. Other public health services	10. Street lights

Source: The Municipality Act of 1933.

One of the major obstacles to the decentralization process in Thailand was the national government's half-hearted commitment. The transfer of public service functions from the ministries to local administrative organizations was not executed according to the National Decentralization Plan (Tae-Arak, 2010). Every ministry was reluctant to let go their current functions (and budget resources) that were supposed to be devolved to the local level. Thus, a large number of public service functions—even those specified in the Plan and Procedure of Decentralization Act—fell within the realm of national government responsibility, while the local administrative organizations' policy and program initiatives remained limited. For example, in the public health domain, only 10 out of 34 health promotion

functions had been devolved to the local level (Tae-Arak, 2010).

Another impediment was the local governments' fiscal wherewithal to implement even a narrow range of functions. As with their limited scope of responsibility, municipalities in Thailand had a restricted range of income to finance their operations. Generally, there were four revenue sources for municipal governments: (1) locally collected revenues; (2) revenues that were centrally collected and returned to localities; (3) shared taxes; and (4) intergovernmental transfers. Typically, the first three types were rarely sufficient for municipal government operations. Thai municipalities succumbed to perennial revenue shortfalls and had to rely on two types of intergovernmental fiscal transfers. The Thai intergovernmental transfers were divided into *general grant and specific grant*. While general grants allowed local authorities to determine what and how to spend the allocated funds, specific grants were truly specific. The Ministry of Interior, not the local authorities, decided *what and how* to spend the specific intergovernmental transfers. Constrained by the interior ministry's stringent spending rubrics, the Thai local governments were reduced to mere implementers of centralized policy decisions. This would not have sabotaged the decentralization reform, had specific grants not constituted the large part of local government budgets around Thailand. In reality, specific grants were the fiscal arteries of Thai local government (Patamasiriwat, 2012). For a large number of local communities, more than half of their annual revenues came from specific grants alone. In this context, whereas the local autonomy was constitutionally enshrined, the Ministry of Interior's specific grant system curtailed much of the local government's fiscal and decision-making autonomy.

Not only did the specific grant system undermine local self-determination, its inconsistent grant allocation criteria had instigated the clientelistic relationships between the national politicians, national bureaucrats, and local government officials (Mutebi, 2005). Since the decentralization reform unfolded, it had become widely known among the Thai local officials that the amount of specific grants for each locality depended much more on personal political connections than pure economic and technical reasons. In most cases, lobbying for specific transfers required the mastery of reaching kickback agreements with the national politicians and bureaucrats. However, not all local governments in Thailand possessed such political prowess and hence were left with one last option to finance their public services: borrowing from commercial banks or from the

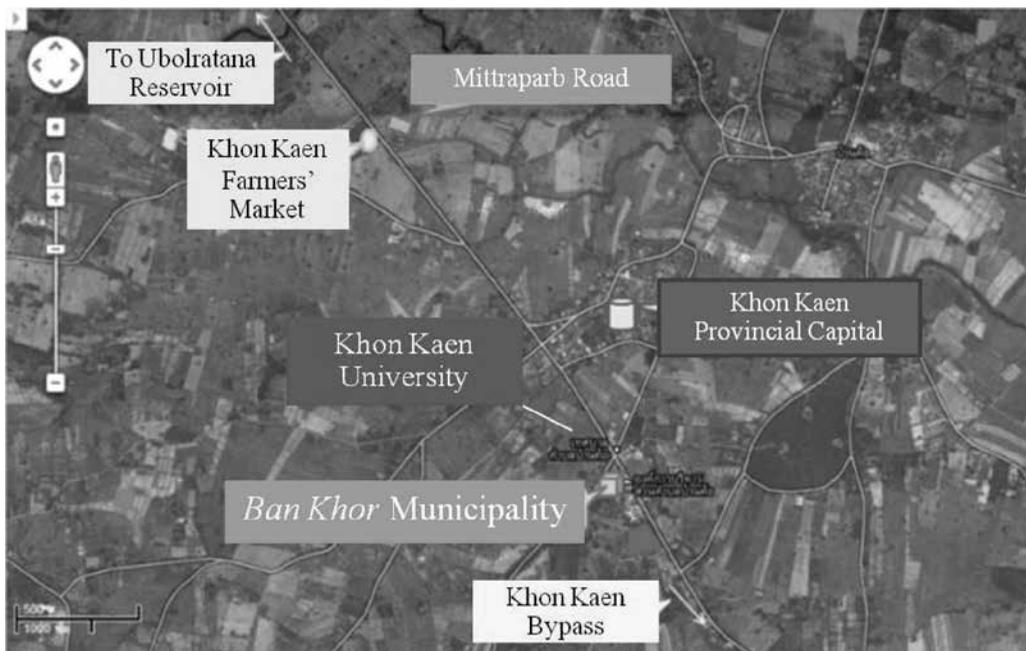
Municipality Promotion Fund (MPF).

It was against this backdrop of the decentralization of functions and resources to local administrative organizations –but with unfunded mandates and politicized grant allocation criteria—with which the municipal authorities, such as Tambon Ban Khor municipality, had to contend as they struggled to secure the general welfare of local constituents and execute the constitutionally and legally mandated functions. With the continuing reality of the imbalance of authority and power between national and sub-national governments, as well as revenue constraints, Thai municipalities continued to witness a complex working environment. Exactly how complex would it be for the Tambon Ban Khor municipality to fulfill its public service responsibility? Mayor Lek’s realization of his campaign promise would certainly necessitate some careful treading along the central-local authority axis, together with considerable courage, ingenuity, and creativity.

## **Ban Khor Municipality and Running-Water Dilemma**

### **Ban Khor Municipality: The Place**

Located in Khon Kaen Province, 437 kilometers northeast of Bangkok, Ban Khor sub-district was comprised of 3,426 households or 15,494 people (as of the 2011 Government Census). The *Tambon Ban Khor* municipality was chartered first as the *Ban Khor* sanitary district in 1972 by the interior minister’s ministerial order and became Tambon Ban Khor municipality in 1999 after the Plan and Procedure of Decentralization to Local Administrative Organizations went into effect. Since Ban Khor was situated near *Khon Kaen* Province’s capital city and *Khon Kaen* University—one of the largest public universities in Thailand (See Figure 2), the 1999 population size reached the 10,000-population threshold as set by the Municipality Act of 1933 for a *Muang* municipality. However, Ban Khor was not elevated to the *Muang* municipality status because the mayor before *Lek* did not initiate the status change. The previous mayor’s decision was politically driven; he did not want to be legally accountable for *Ban Khor*’s lack of running water, as provision of sanitized running water was one of the *Muang* municipality’s compulsory functions. Even though a *Muang* municipality’s mayor received more salary than his Tambon counterpart, *Lek*’s predecessor’s political calculation revealed to him that more personal income from the *Muang* mayoral position might not be worth the risk of failure to meet the legal requirement to provide running water to his constituents.



**Figure 2: Tambon Ban Khor Municipality Map.**

The *Tambon Ban Khor* municipal administration consisted of two essential parts: the legislative and executive branches. The legislative branch consisted of 12 municipal councilors who were elected by district and served for 4 years. The executive branch led by an elected-at-large mayor oversaw the permanent municipal government officials, consisting of the municipal administrator, department heads, and municipal government employees. The permanent municipal administration was divided into five departments:

1. Office of the municipal administrator,
2. Public works department,
3. Education department,
4. Public health and environmental protection department, and
5. Finance department.

Due to the Khon Kaen provincial capital's economic dynamism, the resulting urban growth caused the capital's periphery to extend in all directions in the 1990s. The urban sprawl however did not reach Ban Khor. Even though the municipality's population size expanded, the rate of population expansion was not as rapid as in adjacent local authorities.

Further, the majority of *Ban Khor* residents remained subsistent farmers until today, with sugarcane cultivation and dairy farming as the two main agricultural activities. The agriculture-based economy left the *Tambon Ban Khor* municipality with a narrow tax base.

## **Ban Khor Municipality: The Flood and Drought Problems**

*Ban Khor* municipality was a large farm community, covering almost 130 square kilometers. The majority of residents were sugarcane farmers. The nearest freshwater body was the Nam Phong river whose shorelines were about 10 kilometers north of the agrarian community. In every monsoon season, half of the municipality was inundated by storm water run-off. As there were no irrigation canals to help prevent the community from getting affected by the perennial flood, the majority of *Ban Khor* residents had to bear with crop damage and, in some years, encountered total crop losses.

Life got even harsher for the *Ban Khor* residents in the dry season. The *Tambon Ban Khor* municipality owned one community water tower that could not provide an adequate supply of water for the community members (Figure 3). The water facilities, including the water tower and water pasteurization facility, were built by the Royal Irrigation Department several decades ago and were transferred to the *Tambon Ban Khor* municipality shortly after the Parliament enacted the Plan and Procedure of Decentralization Act in 1999. The municipality continued to receive the specific intergovernmental grant from the National Health Security Office (NHSO), specifically earmarked for the maintenance of the water pasteurization facility. The *Ban Khor* municipality received the NHSO's Annual Drinking Water Safety Awards uninterruptedly between 2000 and 2011.



**Figure 3: Community Water Facilities in Tambon Ban Khor Municipality.**

Yet, despite all the honors and awards, water from the municipality's water facility was inadequate for daily use and consumption by the *Ban Khor* residents. Interestingly, even though *Tambon Ban Khor* was endowed with the state-of-the-art water facilities, it lacked a wide-ranging water piping system capable of serving the entire 120-square-kilometer land mass. As one of the *Ban Khor* residents opined:

*.....Surely, the water from the tower is safe to drink. But, it could be even better for us if we got to use it at all. My neighborhood is not covered by the municipal water service piping system, even though we live only a couple of kilometers away from the municipal government building.....*

In *Ban Khor*, there were twenty such neighborhoods that were located beyond the radius of the municipality's water piping system. Certainly, residents in these unfortunate neighborhoods were never given an opportunity to savor the award-winning pasteurized water. Then, exactly how did they get water for their daily use? The answer from one of the deprived *Ban Khor* residents would certainly startle even those living in a nearby *Khon Kaen's Nakorn* municipality:

.....Well, it's a sad, but true, life story of people around here. We have to go to a nearby municipality to buy water for showering, cleaning clothes, and washing dishes. For drinking water, we go to Tesco Lotus, Big C, or other supermarkets in town to stock up on bottled water. This is our ordinary routine. Only God knows when it will end.....

The municipal authority was well aware of the running water shortage, but was also deprived of financial resources to alleviate the residents' inconvenience. Even the locally collected revenues were barely sufficient for the municipal government personnel's salaries, benefits, and utility bills. On the other hand, the amounts of shared taxes and centrally collected taxes were difficult to forecast and, indeed, were always over-forecasted by the Municipal Finance Department. The only option left was to seek either the intergovernmental block grant and/or specific transfers to finance the construction of the municipality's water piping system.

## **The Tambon Ban Khor Municipality's Search of Money**

### **Learning the Ropes of Intergovernmental Politics**

Back in the *Tambon Ban Khor* municipality's conference room, the atmosphere was gloomy, as the newly sworn-in mayor was informed by his subordinates that his election campaign was but an implausible daydream. Mayor *Lek's* first plan to file a petition to the central government for a grant was shredded into pieces by his municipal administrator who recounted the previous mayor's unsuccessful quest for such a grant:

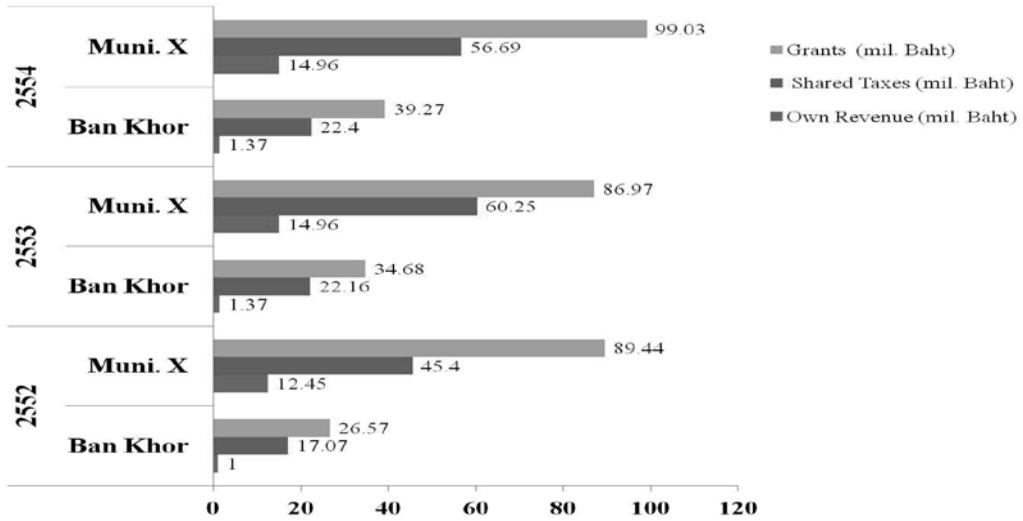
*[The] intergovernmental fiscal transfers are a complete joke. The allocation criteria and procedure are not transparent at all. Without the help of a national politician, the Ministry of Interior would be laughing at your grant proposal and give you nothing. With all due respect, I understand you are an excellent writer, but literary skills do not mean anything for the Lions.<sup>1</sup>*

*Lek* however argued that he was aware of two clauses in the 2007 Constitution<sup>2</sup> that prohibited national politicians from interfering with the central bureaucratic operations and decision making. *Lek* was convinced that his municipal administrator was overly pessimistic about the interior ministry's grant allocation process: "*Tan Palad* (Mr. Municipal Administrator),

I think you are too negative towards the central government officials.” The director of the Finance Department concurred with the municipal administrator and offered *Lek* with more detail of his predecessor’s struggle:

*.....What Tan Palad said was not a joke at all. The previous mayor had to ask a Khon Kaen MP to help us out. In all these years, we were well aware of the running water problem and submitted multiple grant proposals to Bangkok, but received absolutely nothing. When your predecessor went to see that MP was in 2009 when his party was in a coalition government. He promised to bring our case before the minister of interior, but never kept the promise. We waited for almost one budget cycle until the 2011 General Election where the MP’s party suffered from considerable losses.....*

As previously noted, the Thai intergovernmental fiscal transfer system was notorious for its opaque allocation criteria. In the public financial theory, intergovernmental fiscal transfers were intended to be a remedy for the horizontal fiscal inequity among local administrative organizations. In other words, the financially worse-off communities ought to receive more intergovernmental transfers than the better-off communities. However, when carefully considering the amount of transfers allocated for each municipality in the Khon Kaen Province, one would see the irregularity and injustice of the Ministry of Interior’s decision-making process. As demonstrated in Figure 4, from 2552-2554 (2003-2011), Municipality X from the same *Khon Kaen* province registered a higher amount of municipal government income for every revenue source than the Ban Khor municipality. The disparity between the two municipalities was clear in the intergovernmental grant category.



**Figure 4: Revenue Comparison between Tambon Ban Khor Municipality and Municipality X**

The differences between *Tambon Ban Khor* municipality and Municipality X would not have been a problem at all, had Municipality X not had a smaller population size and a much smaller land area to be responsible for. As show in Table 4, Municipality X obviously carried lighter workload than *Tambon Ban Khor* municipality, in terms of population served. In terms of land area, Municipality X only had three square kilometers to serve, while *Tambon Ban Khor* was almost 130 square kilometers in land area.

**Table 4: Population and Land Area of Tambon Ban Khor municipality and Municipality X.**

Year	Municipality	Population
2552	Ban Khor	5,310
	Muni. X	12,660
2553	Ban Khor	15,400
	Muni. X	12,510
2554	Ban Khor	15,494
	Muni. X	12,379

After the Finance Director finished her explanation and presentation, everyone in the room kept silent. Mayor Lek was the first person to react to these statistics. “This is unfair and absolutely absurd,” exclaimed Lek.

*.....How could our municipality, larger in population size and land mass, have received a smaller amount of intergovernmental transfers than that municipality? Has the world gone mad? What kind of intergovernmental grant system is this?.....*

“The Thailand kind,” the municipal administrator promptly replied. The amount of intergovernmental fiscal transfers that a municipality receives in each fiscal year depends more on the quality of political connections with national politicians and central government bureaucrats than on a municipal community’s actual needs. The intergovernmental transfers were funneled through the Department of Local Administration (DOLA)—a department-level agency in the Ministry of Interior that was established in 2003 to supervise local government operations, local government budgets, and intergovernmental fiscal transfers. Whereas the Provincial Administration Department (DOPA) was the citadel of central government control over local communities in the 20<sup>th</sup> century, it was replaced by DOLA in the 21<sup>st</sup> century. Prior to decentralization, the interior ministry’s senior bureaucrats competed among one another to secure the DOPA directorate-general position at all costs. After decentralization, the competition remained as dynamic, but attention has turned towards DOLA.

“If you [the mayor] really wanted to pursue the specific grant for the construction of a wide-ranging piping system,” the municipal administrator continued, “you would have to get in contact with the current MP of our district.” There was no guarantee, however, that DOLA would approve Mayor *Lek’s* project proposal within a few days or months since the mayors of other local administrative organizations also submitted their development project proposals and had stronger political connections with the party in government. In addition, the municipal administrator warned Lek:

*.....If you strike the right connection, it’s easy money. But even with the easy money, you will have to set aside at least 30 percent of the grant as kick-backs for the interior minister, the MP, the DOLA directorate-general, and probably all their secretaries. In the end, if our municipality ends up with some*

*money left over for the piping system, it will be your enormous legacy. But, from what I have heard, life is tough....*

Mayor *Lek* was not prepared for this at all. In all these years, he figured that his Tambon municipality was so small and unimportant and that with the heavily publicized decentralization reform, the *Ban Khor* residents would be allowed to craft their own development path and strategies, unfettered by the central government intervention. Particularly for a commodity as basic and necessary as the running water system, his community's plight should have been addressed locally and easily. After all that were imparted to him today by the municipal officials, local autonomy enshrined in the constitutions was still far from reality.

## Exploring Other Options

The meeting went silent for a few minutes until the mayor broke the silence by asking his subordinates for the alternative ways to get running water to his constituents:

*The Ban Khor voters want running water and don't want to hear any excuses from me because running water for all was my main election campaign policy. My question for you folks is what then did you do prior to my mayorship to help out the Ban Khor residents? How could the previous mayor get away with doing absolutely nothing?*

The Public Works Director quickly commented that in the beginning of his term, *Lek's* predecessor also strove to secure the fund, but stumbled upon too many bureaucratic hurdles that eventually discouraged him from moving forward with the development project. In fact, *Ban Khor's* former mayor consulted the director of Khon Kaen's Provincial Waterworks Authority (PWA) about the possibility of a joint venture between the *Tambon Ban Khor* municipality and the PWA. Unfortunately, the PWA director could not assure the former mayor of his organization's ability to make the collaborative scheme a reality because the PWA decision-making authority rested with their Board of Trustees in Bangkok and a collaborative venture had to be approved by the board. At that moment, the only thing that the Khon Kaen PWA office could do was to expand its water service piping system from the Nam Phong river to *Tambon Ban Khor* municipality. The municipal government however had to be responsible for the expansion cost.

The PWA story was another major disappointment for Mayor *Lek* whose Plan B was to turn to the PWA for assistance. However, a real Pandora's Box for Tambon Ban Khor's new mayor had yet to unfold. As *Lek* glanced over his municipality's budget summary for the current fiscal year, he saw for the first time that this farming community was 23 million baht in debt. The Finance Director rushed to explain that the debt:

*.....was the former mayor's move to obtain money to be used by the PWA to expand the piping system from the Nam Phong river to Ban Khor. However, the amount of money was enough only for constructing the water main pipes along the municipality's main road....*

*Lek* now came to realization why only people whose houses were situated along the community's main road did not complain about their commute to the city or the nearby municipality for potable water. They did not have to commute at all. Worse, they made a living out of this main water piping system by selling potable water to their fellow Ban Khor residents. However, *Lek* was curious where the municipality got the 23-million-baht loan from. The municipal administrator supplied *Lek* an elaborate answer:

*.....a municipality can borrow from three sources: (1) the Local Government Pawnshop Fund, (2) private banking institutions, and (3) the City Development Fund. The former mayor got the 23-million-baht loan from the Krung Thai Bank (KTB)—one of the Thai government banking institutions. The debt maturity is 10 years....*

Mayor *Lek* was relieved that he finally found a financing tool to help deliver his election campaign promise. He was not reluctant to instruct the Finance Director to prepare all the paperwork for loan application. Everything seemed promising until the Finance Director informed *Lek* that:

*.....DOLA and the Auditor-General have recently changed the regulations regarding local government borrowing and guarantees. With the new regulations, our municipality can no longer borrow from the private banks because the local government debt ceiling set by the interior ministry is now 20 million baht. And our municipal government already exceeded it.....*

Even if the *Tambon Ban Khor* municipality decided to apply for a private loan, the municipal government had to undergo a rigorous process and meet the criteria that had been revised by the Ministry of Interior. The process started with the preparation of a report on the municipality's five-year financial data, as well as a cost-benefit analysis report of a development project that would use the loan proceeds. The two reports had to be reviewed by a committee consisting of the provincial governor, DOLA's provincial representative, and other ministries' provincial agents. The municipality had to obtain an approval from this committee before it could submit its loan application to a private banking institution. To worsen the matter for Mayor *Lek*, the City Development Fund (CDF) had the same rigorous requirements.

### **Litmus Test for Leadership, Ingenuity, and Creativity**

The municipal administrator's farewell statement dealt a serious blow to Mayor *Lek*'s spirit. *Boon Chuay* had served as *Ban Khor* municipality's administrator for decades and possessed a depth of knowledge of the laws and regulations pertinent to local government operations. After the meeting ended, *Lek* retired to his office and consulted his closest friends over the telephone, none of whom could offer him any meaningful advice. Everybody was perplexed by the situation, particularly by all the bureaucratic regulations dictating local government borrowing. The newly sworn-in mayor felt lethargic and was in dire need for a strategic plan to implement his running-water-for-all campaign policy.

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## Endnotes

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- <sup>1</sup> Lions denote the interior ministry's officials because a Thai mythological lion is the ministerial emblem.
- <sup>2</sup> The 2007 Constitution was promulgated after the 2006 military-led coup d'état that toppled a democratically elected government. While most elements of the 1997 People's Constitution were maintained, the 2007 Constitution was drafted by a group of former military officials, bureaucrats, and academics who despised politicians.