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Development Finance Assessment Snapshot

Thailand

Financing the future with an integrated
national financing framework



Funded by Government of China as input into the 2017 ASEAN-China-UNDP Symposium on
Financing the Sustainable Development Goals in ASEAN.

Thailand: Financing the future with an integrated national financing framework

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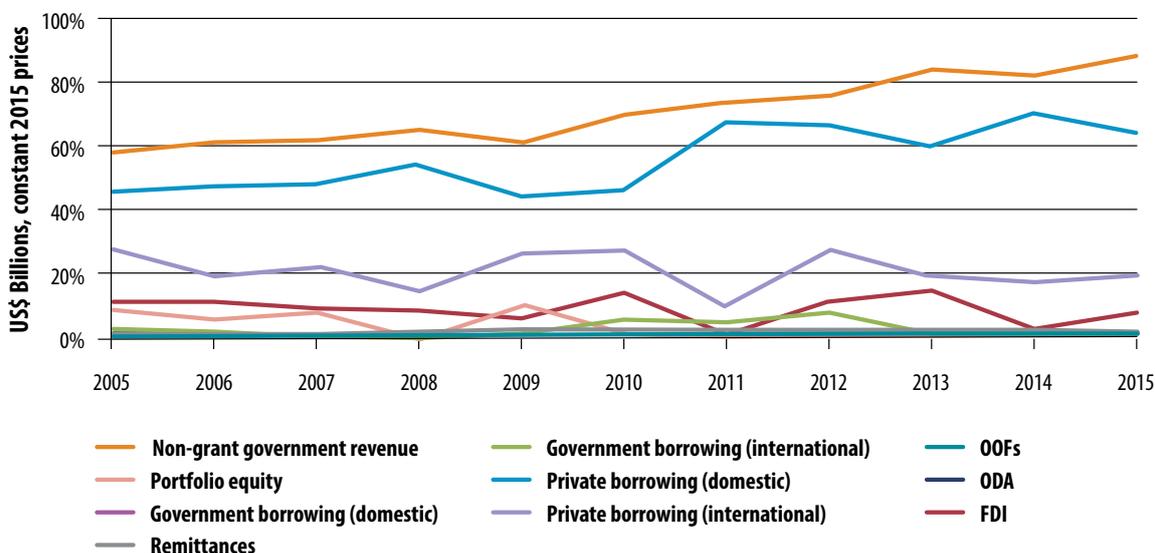
Executive summary

Across Thailand and the Association of Southeast Asian Nations (ASEAN) region as a whole, ambitions for the sustainable development progress that can be achieved in the Sustainable Development Goal (SDG) era are high. Realizing these ambitions will require mobilizing the right scale and mix of financing, and incorporating all resources—public and private, domestic and international. The Addis Ababa Action Agenda called for countries to establish integrated national financing frameworks to help them mobilize this financing. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of ten country studies undertaken alongside an ASEAN regional report, to facilitate dialogue at the country and regional level about financing the SDGs.

Thailand is at an important juncture in its sustainable development pathway. The country has achieved significant progress in recent years, with a growing economy, rapidly declining poverty rates and the achievement of milestones such as implementing universal health coverage. Yet challenges remain. While poverty is falling, vulnerability remains high and many people in rural areas have limited access to services. Further gains are needed in nutrition and aspects of health such as tuberculosis, as well as road deaths which are the highest in the world. There is evidence that gender inequality is worsening. Development to date has been characterized by rising emissions. And Thailand's ageing population will mean increasing demands on health, pensions and other systems over the longer term.

Thailand targets an escape from the middle-income trap, which will require a significant expansion of new sectors under a new economic model. Thailand has a strong commitment to sustainable development—its Sufficiency Economy Philosophy influenced the international sustainable development agenda itself. And as the country enters a new economic phase it seeks to do so in a way that balances progress across economic, environmental, social and cultural dimensions. Escaping the middle-income trap is targeted alongside escaping two other traps: inequality and imbalance.

Financing will play a critical role in determining the extent to which the country is able to achieve this balanced development of economic growth, falling inequality and environmental sustainability. Realizing this vision will require mobilizing a significant volume of diverse resources that can be invested in new industries, expanding education, health care, social protection and other services, and broadening Thailand's infrastructure stock.

Figure 1: Public and private finance growth rates

Source: Authors calculations based on national and international sources. See Annex, data notes

Thailand's financing landscape over the last decade has seen slow overall growth with fluctuations in private finance (see figure). Government revenues have grown at an average 4 percent a year, rising from less than US\$700 per person in 2001 to more than \$1,300 in 2015. Growth in indirect and corporate taxes were the key drivers behind this trend. Looking ahead there is a need to sustain this growth in revenue to meet future challenges, and to ensure that the distributional impact of the tax and revenue model is aligned to the national goal of escaping the inequality trap. Domestic commercial investment grew through the 2000s though has plateaued since 2011, while foreign direct investment (FDI) has fluctuated significantly in recent years. At the industry level, FDI is growing in some target industries, such as manufacturing of chemicals and chemical products—though it is declining in others such as the computer and electronics industries. Realizing the new economic model will mean mobilizing domestic and international private investments that can stimulate growth in these higher value-added industries.

To achieve these necessary steps of mobilizing and maximizing the impact of a range of finance flows not just on the economy but on social development and environmental progress will require a sophisticated governance framework. The Addis Ababa Action Agenda calls for countries to establish integrated national financing frameworks to support cohesive nationally owned sustainable development strategies such as Thailand's. This paper explores government policies and institutional structures in relation to the financing challenges and opportunities Thailand faces, using the lens of an integrated national financing framework concept.

Thailand's vision for national development is articulated in the Twelfth National Economic and Social Development Plan (12th NESDP), which has recently been complemented by two reform agendas. Firstly, the 20-Year National Strategy is intended to outline a long-term vision for sustainable development and has been introduced as a tool to energize the implementation of the five-year NESDPs. And secondly, Thailand 4.0 presents a new economic model for the country to strive toward, cutting across

the 12th NESDP and 20-year strategy. It links escaping the three traps—middle income, inequality and imbalance—to overarching objectives in all three areas of sustainable development. As the 20-year strategy and Thailand 4.0 are developed it will be important to resolve ambiguities about how the agendas relate to each other at both the headline level and on details such as specific quantified targets.

While the 12th NESDP and Thailand 4.0 both provide some guidance on particular finance instruments that will be important for their delivery, neither lay out a comprehensive strategy for mobilizing the investments required. Without such a financing strategy there is little foundation on which to base policies toward each type of finance and ensure they are aligned and the synergies between different instruments are leveraged. Such a financing strategy could also provide a space to drive forward changes of a more structural nature that are necessary to unlock new sources of finance.

Monitoring sustainable development progress under the national plans takes place through monitoring processes, including an annual review and conference on progress toward the NESDP. Monitoring of finance within these processes primarily focuses on public finance and could be expanded to incorporate all finance types. Establishing a mechanism in existing frameworks to track what investments are made, the outcomes they produce and the contribution they make to headline national targets could support more informed and responsive policymaking on the role that different resources can play in national plans.

This development finance assessment comes at a key time for Thailand, in a context in which the government is establishing plans to shift the economic model and formulate clearer direction for long-term development. The analysis and recommendations made in this paper can stimulate thinking about how to use the concept of an integrated national financing framework to establish and strengthen structures that can mobilize the scale and mix of financing needed to realize Thailand's vision of balanced sustainable development.

1. Introduction

Across Thailand and the Association of Southeast Asian Nations (ASEAN) region as a whole, ambitions for the sustainable development progress that can be achieved in the Sustainable Development Goal (SDG) era are high. Realizing these ambitions will require mobilizing the right scale and mix of financing, and incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of ten country studies undertaken alongside an ASEAN regional report, to facilitate dialogue at the country and regional level about financing the SDGs.

Thailand is at an important juncture in its history and sustainable development pathway. The country has achieved significant progress in recent years, with a developing economy, rapidly declining poverty rates and milestones such as the implementation of universal health coverage. Yet Thailand has also fallen into a middle-income trap that will require significant expansion of new economic sectors to escape. Thailand has a strong commitment to sustainable development—its Sufficiency Economy Philosophy influenced the international sustainable development agenda. And as the country enters a new economic phase it seeks to do so in a way that balances progress across economic, environmental, social and cultural dimensions. Escaping the middle-income trap is targeted alongside escaping two other traps: inequality and imbalance.

This raises important questions about the scale and types of financing that need to be stimulated and invested to achieve the desired progress, and the policies and institutional structures through which government aims to stimulate them. Greater private investment, especially in higher value-added sectors, will be essential for escaping the middle-income trap. But ensuring that this creates the jobs needed to reduce inequality, for example, and is done so in an environmentally friendly manner, will be key to determining Thailand's overall sustainable development progress and its escape from the other two traps. Over the longer term it will be critical to continue to build domestic revenues, ensuring they are mobilized progressively and spent effectively to deliver services and public infrastructure that benefit the poorest people and protect the environment.

Action at the country level will be key to implementing the SDGs, Financing for Development and other global agendas. The Addis Ababa Action Agenda states that “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts”.¹ The Inter-agency Task Force on Financing for Development states in its 2017 report that integrated national financing frameworks, which consider all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.² An INFF is a framework of policies and institutional structures designed to take a holistic approach toward managing and mobilizing all types of financing for sustainable development results. It has six building blocks which

1 UN, 'Addis Ababa Action Agenda', 2015, paragraph 9. http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

2 UN, Report of the Inter-agency Task Force on Financing for Development. *Financing for Development: Progress and Prospects*, 2017. <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>

work together to align a government's financing strategy across all resources—public and private, domestic and international—for achieving these results. These frameworks provide a structure and prompt for governments to assess their financing frameworks as a whole, and guide thinking about reforms that are needed to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives.

Using the concept of an integrated national financing framework, the development finance assessment (DFA)³ approach⁴ that this paper follows can help countries identify areas for strengthening their management of financing for the SDGs with 'integrated financing solutions'. A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges the country will face in realizing results across the economic, environmental and social dimensions of sustainable development. It supports government to establish and strengthen an integrated national financing framework. It assesses two main questions:

1. What are the main financing challenges and opportunities for achieving sustainable development objectives?
2. How can government strengthen an integrated national financing framework that will address these challenges and opportunities?

The approach aggregates a wide range of existing assessments from government, international agencies and other partners that analyse specific aspects of this sustainable development, financing and policy and institutional context. It adds value by collating these analyses, taking a big picture perspective across them all and applying the lens of an integrated national financing framework to assess the priorities for government across financing as a whole. In doing so the paper establishes an analytical baseline for an integrated national financing framework and provides recommendations about how to strengthen the policies and institutional structures that government uses to manage financing strategies. It presents a roadmap outlining steps that government and its partners can take to strengthen the integrated national financing framework or leverage new flows, including follow up discussions and analysis that may be developed in a later phase.

Chapter 2 presents an overview of the sustainable development trends and challenges that Thailand will face during the SDG era, including a summary of national policy priorities. Chapter 3 analyses the financing landscape, presenting an overview of the resources that are or could be mobilized to contribute to achieving the SDGs. Chapter 4 analyses the government's policy and institutional structures for managing policy toward all types of financing, using the lens of the integrated national financing framework. Chapter 5 analyses the role of climate finance in particular. The paper closes with some emerging recommendations.

3 UNDP's Bangkok Regional Hub has been developing the Development Finance Assessment (DFA) and Integrated Financing Solutions to respond to the growing demand from countries to establish evidence and analysis, and introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. The DFA and Integrated Financing Solutions supports governments to use the concept of the integrated national financing framework to help strengthen policies and actions for mobilising different types of finance for economic, environmental and social results into a single, coherent framework. See more at UNDP Asia Pacific Development Effectiveness Facility, 'Overview'. <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peace-building/ap-def.html>

4 More on the DFA approach can be found at AP-DEF and UNDP, *Development Finance Assessment and Integrated Financing Solutions*, 2017. http://procurement-notices.undp.org/view_file.cfm?doc_id=117734

2. Sustainable development context

Thailand has a strong commitment to sustainable development and made substantial progress during the Millennium Development Goal (MDG) era that can be built on in the SDG era. As the country implements plans to move onto the next phase of its development, ensuring balanced progress across the social, environmental and economic dimensions is a key challenge.

2.1 Social progress

Poverty rates have been falling rapidly in Thailand. The proportion of people living below the national poverty line that forms part of SDG 1 fell from 42 percent in 2000 to 7 percent in 2015. Despite this progress, vulnerability remains high and around 15 percent of the population is recognized as being poor or near-poor.⁵ Most poor people live in rural areas with limited access to government services. Undernourishment, the second SDG, is also falling rapidly, having declined from 35 percent of the population to 7.5 percent during the MDG period. Stunting levels are the lowest in ASEAN,⁶ although 16 percent of people are affected, and almost 7 percent of the population suffer from wasting.⁷ Financing for social protection and accessible services will be critical for addressing these challenges.

Health outcomes have improved significantly in Thailand since the introduction of universal health coverage at the beginning of the MDG era. Progress has been achieved against many aspects of SDG 3, though challenges remain in areas such as tuberculosis and HIV. Thailand is also the country with the single highest number of road traffic deaths in the world at 36 per 100,000 population.⁸

Access to education is high at both the primary and secondary levels. By government's measures, 76 percent of young children had access to a quality early childhood education. Improving the quality of education in later years is a priority of the National Education Plan.⁹ Gender parity has been achieved in primary and secondary education.¹⁰ Financing is important to ensure continued access to education at primary and secondary levels, and at higher levels through trust funds, where skills development will be important for national objectives of expanding higher-tech industries (see chapter 2, *Private finance*).

Challenges remain for the fifth SDG, gender equality. While women make up 60 percent of the general workforce and 38 percent of executives in the private sector, the proportion of female parliamentary representatives fell to 6 percent in 2015, the lowest in the ASEAN region.¹¹ Overall, gender inequality, as

5 Thailand's voluntary national review to the High-level Political Forum, 2017.

6 Not counting Singapore for which data are unavailable.

7 International Food Policy Research Institute, *Global Nutrition Report 2016*, 2016. <http://www.globalnutritionreport.org/2016/06/14/now-available-the-2016-global-nutrition-report/>

8 World Health Organization, Global Health Observatory data repository. <http://apps.who.int/gho/data/node.main.A997> (accessed July 2017).

9 Thailand's voluntary national review to the High-level Political Forum, 2017.

10 Figures based on the latest available data, sourced from UNESCAP Online Statistical Database based on data from the UNESCO Institute for Statistics Data Centre. http://data.unescap.org/escap_stat/ (accessed July 2017).

11 Thailand's voluntary national review to the High-level Political Forum, 2017.

measured by the Gender Inequality Index, is worsening.¹²

Thailand's Human Development Index score rose from 0.69 in 2005 to 0.74 in 2015. The index considers life expectancy, years of schooling and average incomes.¹³

Environmental sustainability

Thailand has a strong commitment to sustainable development, grounded in the Sufficiency Economy Philosophy that has been a foundation of national planning since the early 2000s.

Economic development has, however, been characterized by rising emissions, with CO₂ emissions rising by an average 3 to 4 percent a year since 2000—although emissions per unit of gross domestic product (GDP) have levelled off at 0.24 kg equivalent.¹⁴ Renewable sources have accounted for between 20 and 23 percent of total final energy consumption since 2000. There has been slow progress in increasing the proportion of land area covered by forest, though a significant increase in pace will be required to meet Thailand's target of 40 percent under the Twelfth National Economic and Social Development Plan (12th NESDP).

Thailand is one of the most exposed countries to natural hazards worldwide. According to the INFORM Index for Risk Management¹⁵ Thailand is among the 20 countries most exposed to natural hazards worldwide and the 10 most exposed to flooding.

Economic development

Economic growth has fluctuated significantly year on year—in the last decade, growth has exceeded 5 percent in three years and been less than 1 percent in another three (including one year of recession, 2009).¹⁶ In per capita terms this has equated to incomes doubling in nominal terms in 10 years, rising from US\$2,790 in 2005 to \$5,690 in 2015.¹⁷ Notably, Thailand became an upper-middle-income country in 2011.¹⁸

12 UNDP, 'Human Development Reports, Gender Inequality Index data'. <http://hdr.undp.org/en/composite/GII>

13 Technical notes to UNDP, *Human Development Report 2016: Human Development for Everyone*, 2016. http://dev-hdr.pantheonsite.io/sites/default/files/hdr2016_technical_notes_0.pdf

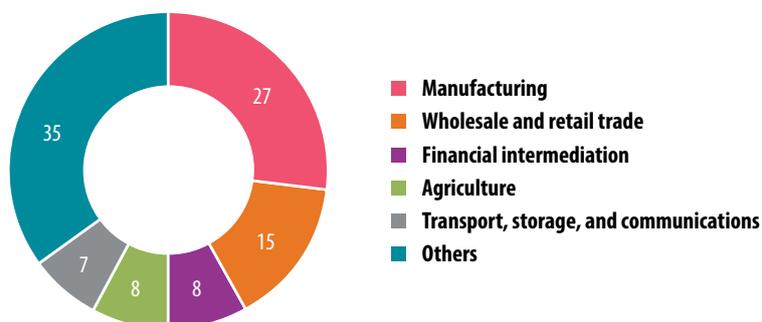
14 Source: UN Stats SDG data.

15 Data based on INFORM Index for Risk Management, mid-2017 statistics. <http://www.inform-index.org/> (accessed July 2017).

16 Based on GDP data published by NESDB. http://www.nesdb.go.th/nesdb_en/ewt_news.php?nid=4342&filename=national_account

17 Figures based on the World Bank's Atlas methodology estimates of GNI per capita. Figures are current US\$. <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>

18 World Bank Country and Lending Groups. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

Figure 2: Sector breakdown of GDP

Source: National Economic and Social Development Board National Accounts data

Manufacturing is the largest sector overall, accounting for 27 percent of GDP in 2016 (Figure 2) and 17 percent of jobs.¹⁹ Wholesale and retail trade accounts for 15 percent of GDP and 17 percent of jobs. However agriculture, hunting and forestry is the largest employer, accounting for a third of jobs, though output is comparatively lower at 8 percent of total GDP.

Manufacturing is the fastest-growing industry, accounting for a quarter of GDP growth between 2005 and 2016. Other growth industries include financial intermediation, which has more than doubled in nominal terms, and hotels and restaurants which almost tripled. Financial intermediation is small in terms of job creation, accounting for just 1 percent of total employment, while accommodation and food services account for 7 percent of employment.

Wages are rising, with average monthly wages increasing from over THB 8,000 in 2007 to almost THB 14,000 in 2016.²⁰ While rising wages mean rising incomes for many households across the country, this is also a factor in the 'middle-income trap' that the country faces. Wages in established industries rising compared with those in neighbouring countries makes it harder for Thailand to compete for new or expanded investments.

Demographic trends

Thailand has an ageing population and is at an advanced stage in its demographic transition²¹ where the proportion of people of working age is now declining as a proportion of the total population. In 2015, 60 percent of people were aged between 20 and 60—by 2030 this may fall to 54 percent and 46 percent by 2050. The number of people over 60 is likely to rise from 16 percent in 2015 to 27 percent by 2030 and 37 percent by 2050.²²

19 The employment data are sourced from the National Statistical Office, from the 2016 Q3 Labour Force Survey. http://web.nso.go.th/en/survey/lfs/lfs_main.htm

20 Thailand Labour Force Survey. http://web.nso.go.th/en/survey/lfs/lfs_main.htm

21 UNDP, *Shaping the future: how changing demographics can power human development, Asia-Pacific Human Development Report 2016*, UNDP, New York, 2016. <http://hdr.undp.org/sites/default/files/rhdr2016-full-report-final-version1.pdf>

22 Statistics are calculated from UN Department of Economic and Social Affairs (DESA) population projections.

2.2 Policy priorities

Within this context the government has outlined a strategy for national development that seeks to realize “security, prosperity, sustainability”. The 12th NESDP and the Thailand 4.0 economic model are key plans that outline a vision for the country (see chapter 4, *Vision for results*). Across these plans Thailand aims to build on the progress and address many of the challenges outlined here by seeking development that is balanced across social, economic and environmental dimensions (Table 1). Thailand 4.0 seeks in particular to help the country move beyond three traps: a middle-income trap, an inequality trap and an imbalanced trap.

Table 1: Objectives of the 12th NESDP and Thailand 4.0

12th NESDP	Thailand 4.0
<ul style="list-style-type: none"> • Thai people are good citizens: resilient, responsible, active citizens with high well-being • Poverty and inequality are reduced: <ul style="list-style-type: none"> ◦ Equal access for all to quality social services ◦ Incomes rise for the poorest 40% of people by at least 15% • The economy is strong and competitive: restructured toward a digital economy and with a strong SME sector <ul style="list-style-type: none"> ◦ GDP growth to average 5% a year • Green growth: <ul style="list-style-type: none"> ◦ Forest areas increased to 40% of total ◦ Greenhouse gas emissions reduced by 7% compared with business as usual (by 2020) • Greater national security: independence, social cohesion, positive image and national confidence are increased • Efficient public management: Transparency, accountability and participation are increased 	<ul style="list-style-type: none"> • Economic prosperity: driven by innovation and technology: <ul style="list-style-type: none"> ◦ Research and development (R&D) spending increased to 4% of GDP ◦ Economic growth to average 5–6% in 5 years ◦ GNI per capita to reach \$15,000 by 2032 • Social well-being: to leave no one behind <ul style="list-style-type: none"> ◦ Gini coefficient to fall to 0.36 by 2032 ◦ Social welfare system transformed ◦ 20,000 ‘smart farmers’ developed in 5 years • Human development: to bring Thais into the ‘first world’ <ul style="list-style-type: none"> ◦ HDI value raised to 0.8, or top 50 ranking in 10 years ◦ 5 universities among top 100 globally in 20 years • Environmental protection: economic system capable of adjusting to climate change and low carbon society <ul style="list-style-type: none"> ◦ 10 cities among world’s most liveable

Sources: 12th NESDP²³

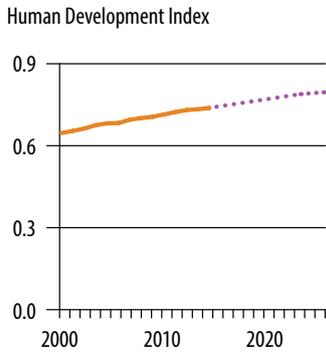
Notes: Table summarizes the headline objectives for each plan and lists targets with a quantified or measurable target outcome; unquantified or immeasurable objectives are not included. HDI: Human Development Index; SME: small and medium-sized enterprise.

Achieving this balance will require concurrent progress on multiple fronts, building on recent progress and expediting it in many areas (Figure 2.1).

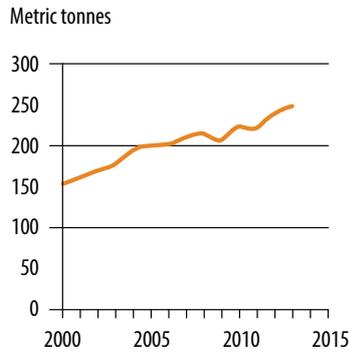
23 National Economic and Social Development Board, ‘Overview of Thailand 4.0’, Royal Thai Embassy to the US <http://thaiembdc.org/thailand-4-0-2>

Figure 2.1: Sustainable development progress

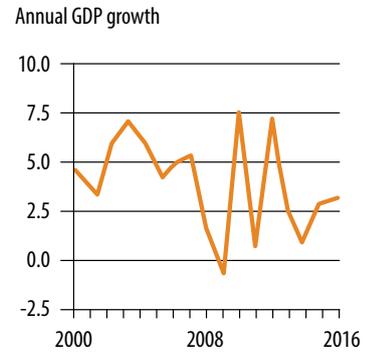
The rate of progress in human development must be maintained to meet targets



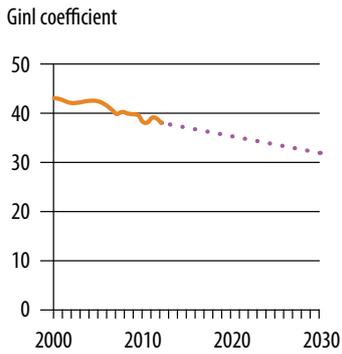
CO₂ emissions are rising



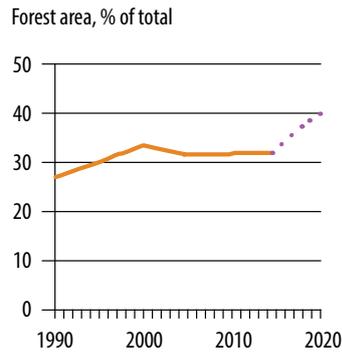
Recent growth rates are below the 5% target for 2021



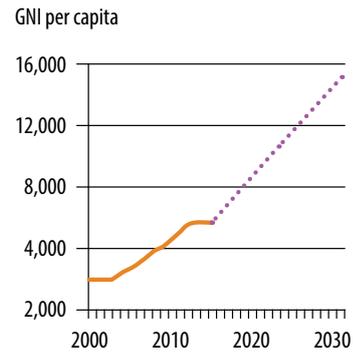
The pace of falling inequality must be maintained



A significant rise in forest areas is targeted



GNI per capita growth must increase to meet long-term targets



— Actual Required

Sources: UNDP, UN Stats SDG Indicators, National Economic and Social Development Board, World Bank
 Notes: Human development is measured by the Human Development Index. Thailand 4.0 sets a target to reach a value of 0.8 on the index within 10 years (by 2026). GNI per capita is shown here using World Bank Atlas methodology, as this is the indicator used to determine income group status and therefore matters for Thailand's aim of reaching high-income status.

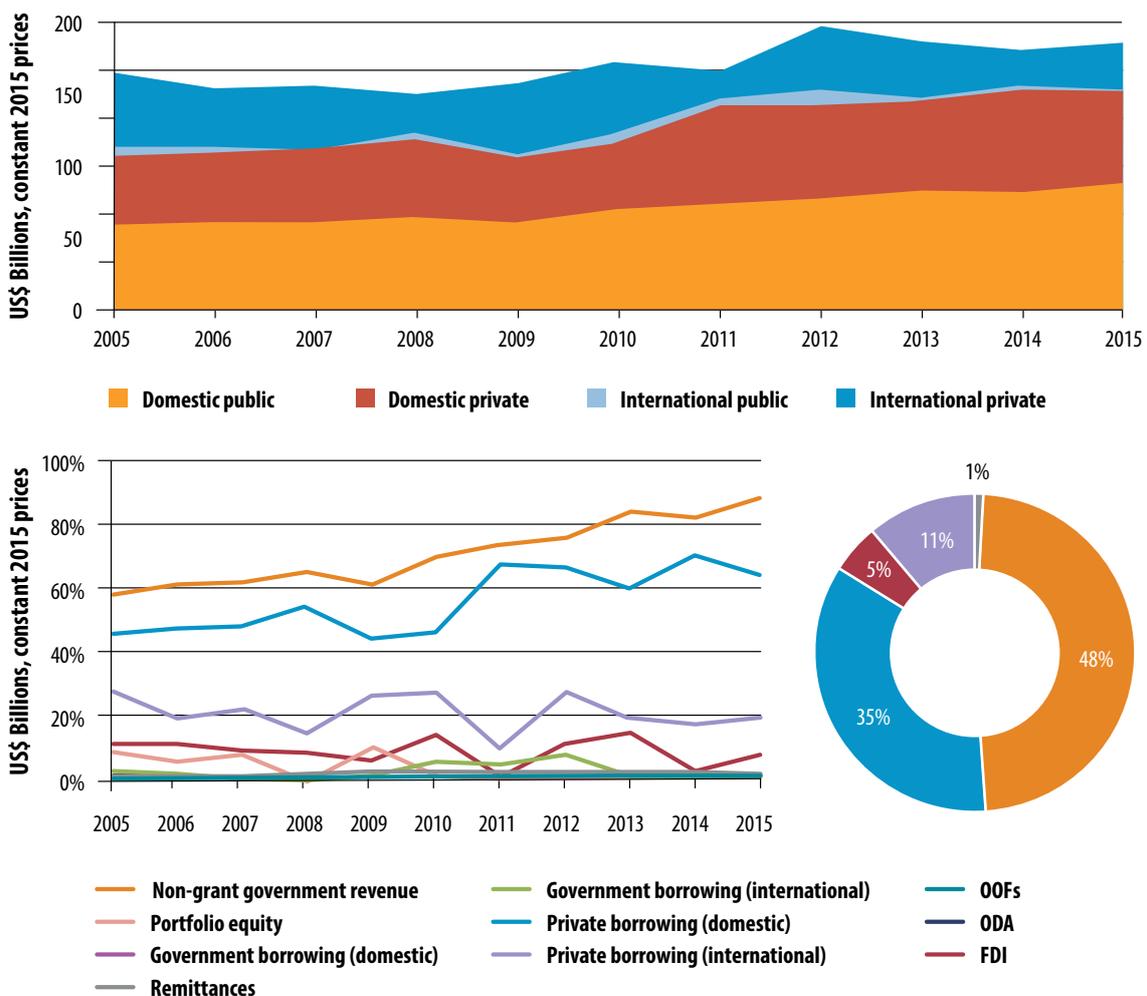
3. Financing landscape

Thailand is targeting sustained or expedited progress while moving into a new phase of its economic model and ensuring balanced social, economic and environmental development. Realizing this vision will require mobilizing a significant volume of diverse resources that can be invested in new industries, expanding education, health care, social protection and other services, and broadening Thailand's infrastructure stock. This chapter explores current trends in the financing landscape to inform thinking about the policies and institutional structures needed to mobilize the necessary resources.

Mix of resources

Thailand's financing landscape over the last decade has seen slow overall growth, with rising domestic public finance and fluctuations in private finance, particularly international private finance (Figure 3).

Figure 3: Public and private finance growth rates (expanded)



Source: Author's calculations based on numerous sources; see Annex, data notes

Domestic public finance accounts for just under half of all resources,²⁴ having risen steadily from just over a third of the total in 2005. Domestic public finance totalled \$88 billion in 2015, growing an average 4 percent a year in the last decade.

Domestic private finance (also known as private commercial investment) accounts for 35 percent of all resources, an estimated \$64 billion in 2015, down slightly from a peak of \$71 billion in 2014.

International private finance has fluctuated in scale, swinging from peaks of around 30 percent of total resources in 2005, 2010 and 2012, to 11 percent in 2011, though it has plateaued since 2011. In 2015 international private finance totalled \$32 billion, 17 percent of all resources. International private finance is primarily commercial: private borrowing from international sources and FDI totalled \$20 billion and \$9 billion respectively in 2015. Remittances to Thailand came to just under \$3 billion.²⁵

3.1 Domestic public finance

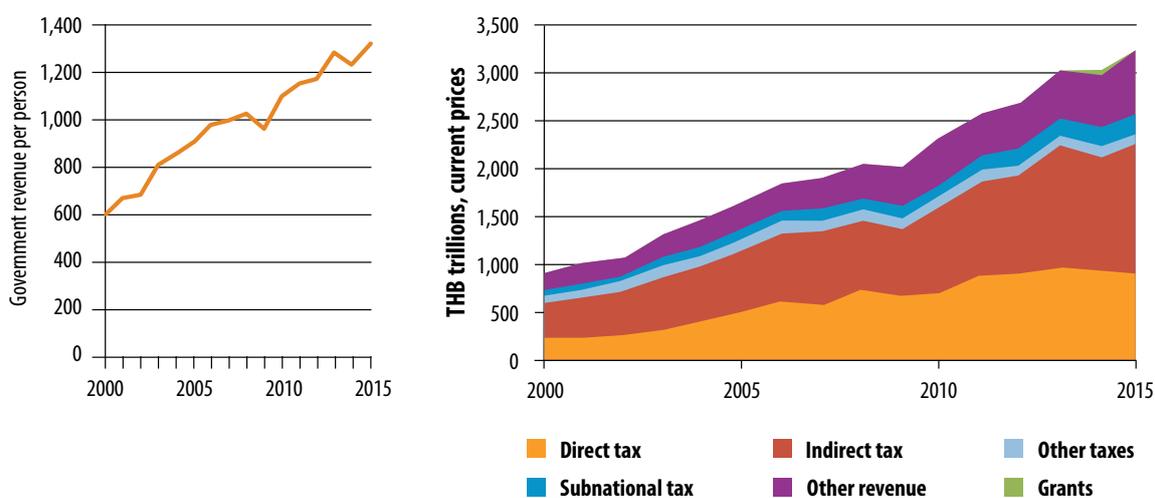
Rising public finance means greater fiscal space to invest in services and public infrastructure (Figure 3.1). Government revenues have risen from under \$700 per person in 2001 to more than \$1,300 in 2015. While higher than the regional ASEAN average of \$940 per person, this remains slightly low by international standards. It is less than 10 percent of the more-than-\$15,000 average among the high-income group of countries that Thailand is aiming to join by the early 2030s (see chapter 4, *Vision for results*). Domestic public finance is equivalent to 22 percent of GDP in 2015, a higher ratio than in many other countries in the ASEAN region.

One key example of the space that rising revenues creates is Thailand's universal health coverage system. Its introduction in 2001 came by moving away from a system that was funded by contributions to a model primarily funded by taxes. It was introduced amid concerns about its affordability, but continued rises in revenues have created the space for it to become established and develop further. Looking ahead, with an ageing population, the cost of health care and related areas is likely to continue to rise so continued growth in domestic revenues is crucial for the medium and long term.

24 All resources for which data are available, see Annex, data notes.

25 Thailand is an important source of remittances for other countries in the ASEAN region and could play a key role in lowering the cost of intra-regional transfers. See the ASEAN regional report (UNDP, *Financing the SDGs in ASEAN*) produced alongside this DFA.

Figure 3.1: Tax impacts on revenue



Source: Author's calculations based on government financial statistics data from the Ministry of Notes: Years are financial years ending 30 September. The left-hand chart is expressed in constant 2015 US\$ per person.

Beyond the level of government revenues, how they are raised is an important, but often overlooked, factor in government influence over sustainable development. Different models of tax revenue can have significant impacts on income distribution and create incentives that impact the levels and type of investment and business activity. Indeed, the Thai government, like many others, actively uses tax breaks to try and create incentives for certain types of investments.

The largest driver of gains in public revenue is indirect taxes, which accounted for 46 percent of the total change between 2005 and 2015. Indirect taxes account for the largest proportion of revenue overall, at 42 percent in 2015. Growth in excises and VAT receipts account for most of the rise in indirect tax revenue.

Direct taxes accounted for 27 percent of the increase in total revenues, though fell as a proportion of total revenues, from 31 percent in 2005 to 29 percent in 2015. Growing corporate tax receipts were the primary driver behind this trend, accounting for 70 percent of the rise in direct tax between 2005 and 2015.

Looking ahead over the longer term there is a need to sustain the trend of growing revenues. This will enable continued expansion of fiscal space for deeper and broader service provision—something that is important for reducing access to services for poor and near-poor people,²⁶ for example, and for addressing future challenges such as rising health care costs as the population ages. At the same time, reducing inequality is a headline objective of national plans (see chapter 4, *Vision for results*) and the distributional impact of future tax models on this objective should be carefully considered and are, at least in part, informing ongoing reforms in the Ministry of Finance (see chapter 4, *Financing policies*).

26 Thailand's voluntary national review to the High-level Political Forum, 2017.

3.2 Private finance

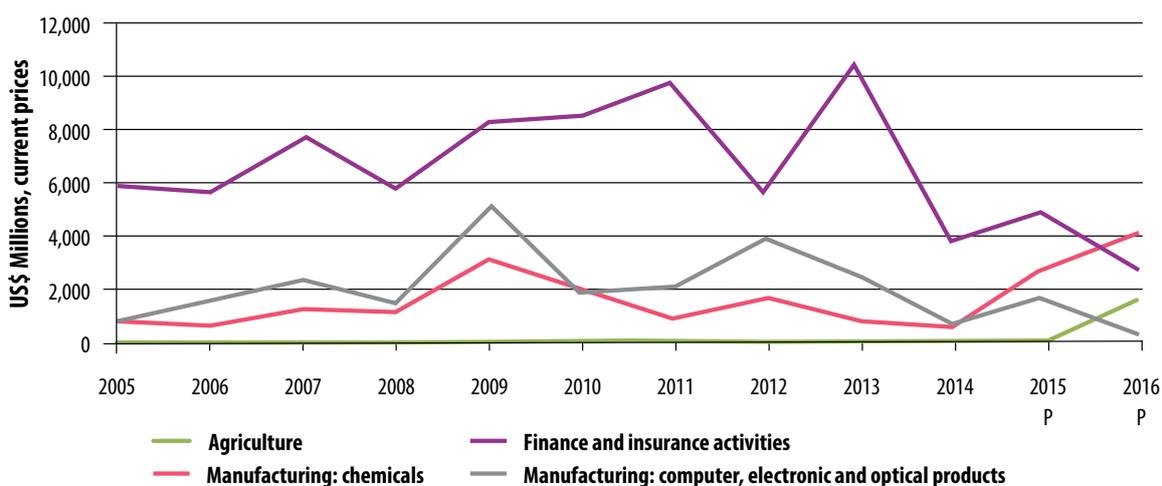
Private finance levels have fluctuated over the last decade, with varying levels of investment and borrowing by the private sector.

Domestic commercial investment grew through the 2000s and showed resilience after the global financial crisis, jumping to an estimated \$67 billion in 2011, having only exceeded \$50 billion once previously. It has maintained this level, but the pace of growth has plateaued somewhat, with annual investments exceeding \$70 billion only once in 2014. International borrowing by private firms has fluctuated greatly, particularly around 2008–2012, though annual borrowing totalled around \$20 billion in 2013 and 2015, dropping slightly to \$18 billion in 2014. FDI has fluctuated in a similar manner in recent years, from lows of \$2.3 billion in 2011 and \$4.7 billion in 2014, to \$14.6 billion in 2013. In 2015 FDI was almost double the 2014 total at \$9 billion.

The slowing of growth in domestic investment and fluctuations in FDI present a challenge for Thailand's objectives to move out of the middle-income trap by stimulating growth in higher value-added and higher-tech industries.

At the industry level, FDI is growing in some target areas, though falling in others (Figure 3.2). Investment in manufacturing of chemicals and chemical products has risen to new peaks, totalling over \$4 billion in 2016. Investment in agriculture rose sharply in 2016, from levels below \$20 million in previous years to over \$1.6 billion. This may offer some potential for national objectives to increase the use of technology and boost productivity in the agriculture sectors, if it continues. However, in other industries the trend is downward. Financial and insurance activities, which have been a key growth industry in terms of GDP contribution, have seen falling investments. And higher-tech manufacturing, such as in the computer and electronic industries, has declined from over \$1.5 billion every year between 2006 and 2013, including a peak of over \$5 billion in 2009, to \$330 million in 2016.

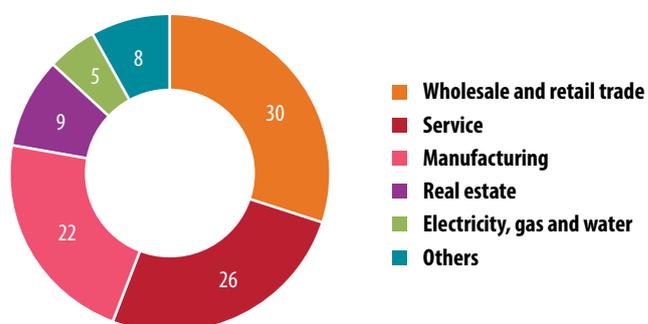
Figure 3.2: FDI growth rate in target industries



Source: Bank of Thailand

Notes: Figures are in current US\$ millions. 2015 and 2016 data are provisional.

Figure 3.3: Loans related to sectors (2014)



Source: Bank of Thailand

The small and medium-sized enterprise (SME) sector has fluctuated in recent years. While the contribution of SMEs to GDP has risen from 36–37 percent over 2010–2013 to 41 percent in 2015, the number of people employed by SMEs fell 8 percent in 2014. The largest sectors are services, trade and maintenance and manufacturing.²⁷

Loans for SMEs have grown annually since 2010, rising from THB 2.9 billion to THB 4.8 in 2016.²⁸

The majority of loans in 2014²⁹ went to the trade and service sectors, with manufacturing SMEs accounting for just over a fifth of loans (Figure 3.3).

Access to credit is vital for a flourishing SME sector that can contribute toward national sustainable development objectives. Access to credit overall has improved in recent years³⁰ and is not seen by SMEs as a major constraint according to the latest World Bank Enterprise Survey, though it was the fifth-most-commonly-cited concern for medium-sized firms specifically.

27 The Office of SMEs Promotion, *SMEs White Paper 2015*. <http://www.sme.go.th/eng/index.php/data-alert/alert/report-smes-year/report-year>

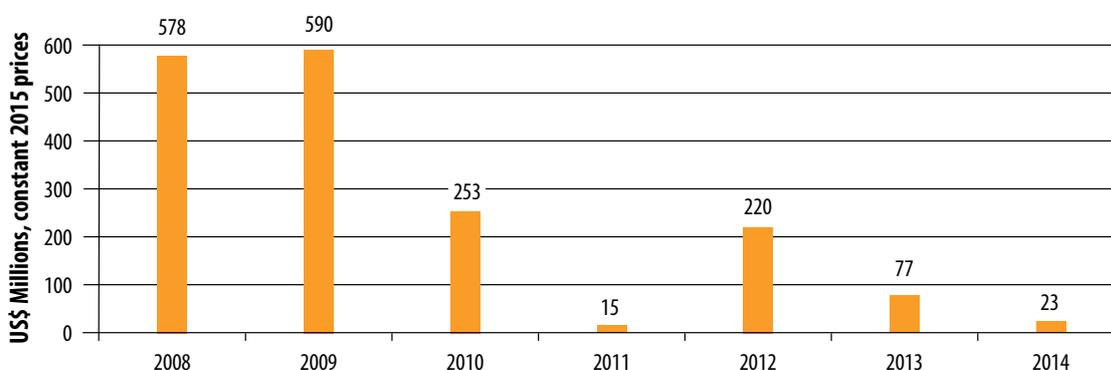
28 Figures are in current prices.

29 Asian Development Bank, 'Asia SME Finance Monitor', 2015. <https://www.adb.org/publications/asia-sme-finance-monitor-2014>

30 For example, Thailand's ranking on getting credit in the World Bank's 'Doing Business surveys rose from 97th in 2016 to 82nd in 2017.

3.3 International public finance

Figure 3.4: Access to international climate finance



Source: Development Initiatives, 2016³¹

The international public finance that Thailand receives is relatively small in volume. Official development assistance (ODA) totalled \$327 million in 2015. 38 percent of this was concessional loans while technical cooperation was also significant, totalling \$51 million. OOF—financing that is typically less concessional—totalled \$275 million.

Thailand had received fairly significant volumes of international public climate finance, though following the country's graduation to upper-middle-income status in 2010, access to this finance has declined (Figure 3.4). International official climate finance fell from a peak of almost \$600 million in 2009 to \$23 million in 2014.

Thai official development assistance

In 2003 the Government of Thailand decided to end the receipt of concessional finance and to initiate a Thai programme of ODA to become an aid provider. Since then, Thailand has established a programme that provides concessional finance through the Neighbouring Countries Economic Development Cooperation Agency (NEDA), Ministry of Finance, and capacity building and human resource development through the Thailand International Cooperation Agency (TICA), Ministry of Foreign Affairs, among other agencies. Concessional finance is primarily provided for neighbouring countries while TICA's activities also focus on the neighbouring countries and beyond to other ASEAN countries as well as many developing countries outside the region. International training courses, scholarships, study visits (typically for government officials) and development cooperation projects in other developing countries under bilateral and trilateral cooperation frameworks, are the primary modality for assistance from TICA.

Thai ODA in 2015 totalled \$78.9 million, of which 82 percent went to Thailand's neighbouring countries (CLMV). The vast majority of finance went to Lao PDR at \$41.2 million (of which \$34.6 million was concessional loans) and \$18.5 million to Myanmar.

31 Development Initiatives, *Climate finance and poverty*, 2016. <http://devinit.org/post/climate-finance-and-poverty/>

4. Integrated national financing framework

Thailand has achieved much developmental progress in recent years but the years ahead present new challenges that require stimulating greater volumes of private sector investment and sustainably mobilizing government revenues. The country aims to escape the middle-income trap while also escaping from an inequality trap and an imbalanced environmental trap. To do so means mobilizing private investments that can stimulate growth in higher value-added industries which enhance the environment. It also means mobilizing and maximizing the impact of public finance that delivers services for the poorest people and invests in the transition to a greener development model.

In this context it is pertinent to examine the framework through which government manages its strategies toward the diverse range of resources and financing instruments through which these investments can be made.

The lens of an integrated national financing framework provides a basis on which this ‘big picture’ perspective on financing policies and institutions can be examined. The Addis Ababa Action Agenda states that “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts”.³² The Inter-agency Task Force on Financing for Development states that integrated national financing frameworks, which consider all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.³³ An integrated national financing framework has six building blocks which work together in a coherent overall system designed to align a government’s financing strategy across all resources. These are: leadership and institutional coherence, a vision for results, a financing strategy, financing policies for specific flows, monitoring and evaluation and accountability and dialogue (see Annex: *What is an integrated national financing framework?*).

This chapter uses the integrated national financing framework concept to examine the financing policies and institutional structures being used by the Government of Thailand to identify areas where reforms could strengthen their overall approach.

Leadership and institutional coherence

While a comprehensive, integrated financing strategy has not been developed (see chapter 3, *Financing landscape*) the Prime Minister’s Office retains oversight of all key components of the government’s financing strategy as well as the planning functions whose visions these financing strategies aim to implement.

32 UN, ‘Addis Ababa Action Agenda’, 2015, paragraph 9. http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

33 UN, Report of the Inter-agency Task Force on Financing for Development. *Financing for Development: Progress and Prospects*, 2017. <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>

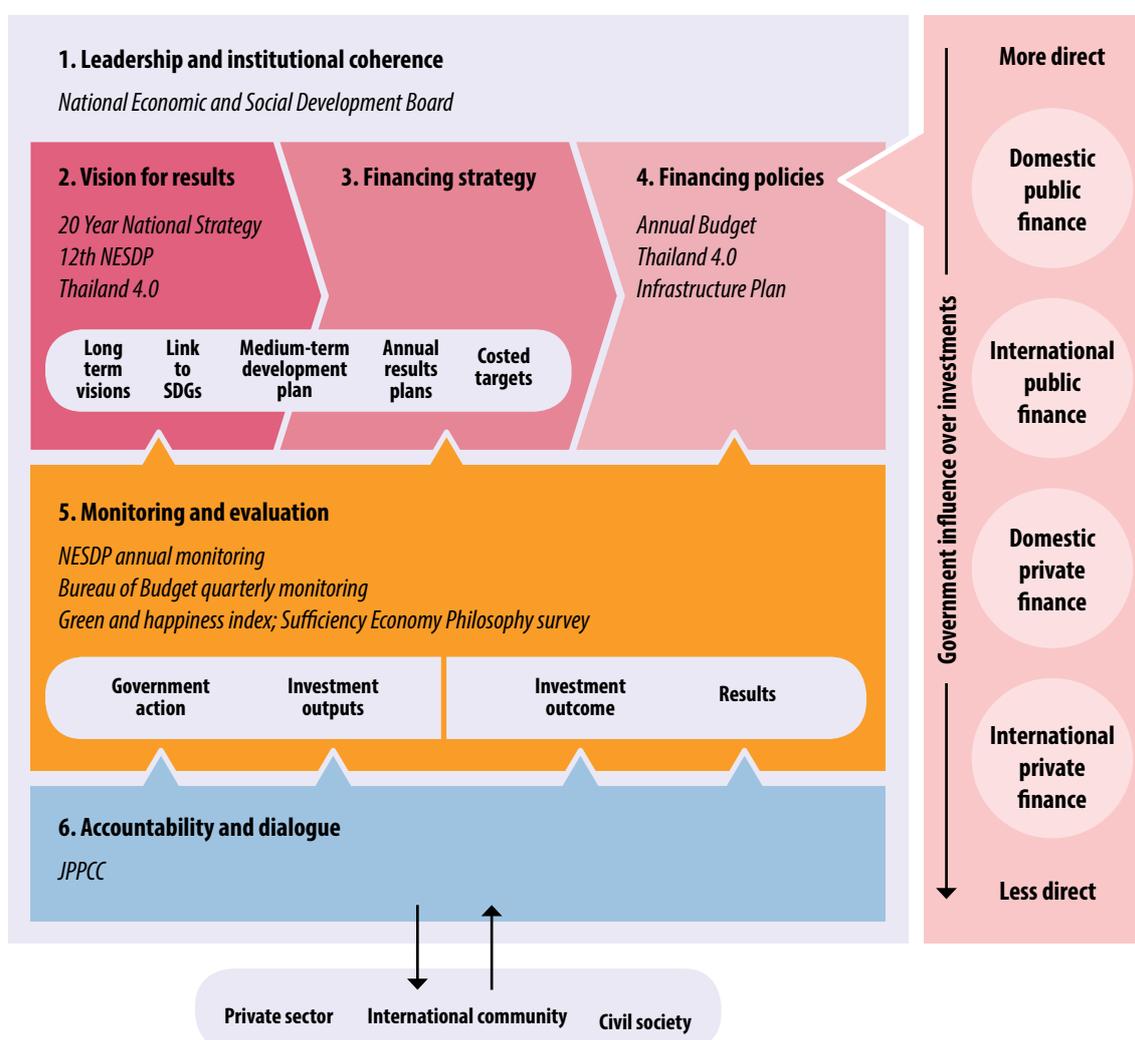
The National Economic and Social Development Board (NESDB) which is responsible for developing the main development plans sits in the Prime Minister's office while the Thailand 4.0 economic model was developed in collaboration between the Prime Minister's Office and the Ministry of Commerce. This centralized oversight provides a basis for strong consistency across financing strategies and coherency overall.

The Bureau of the Budget, which is also housed in the Prime Minister's Office, is responsible for determining fiscal ceilings for the budget each year and plays a central role in ensuring alignment between the budget and NESDP.

Thailand has made important steps in localizing the SDG agenda and considering how it should be incorporated into national planning. A National Committee for Sustainable Development was established in June 2015 to lead and coordinate this work, in advance of the SDGs being formally agreed at the 2015 UN General Assembly. The committee is chaired by the Prime Minister and is comprised of three sub-committees, for: SDGs mobilization, promotion of understanding and evaluation on the implementation of sufficiency economy, and the database. Together these sub-committees will produce a roadmap on the SDGs that is aligned to national plans.³⁴ They also developed Thailand's first voluntary review of SDG implementation, which was presented to the 2017 High-level Political Forum.

34 12th NESDP.

Figure 4: Overview of Thailand's integrated national financing framework



Notes: This diagram is based on the conceptual diagram of an integrated national financing framework, see Annex for more details. JPPCC: Joint Public-Private Consultative Committee for Solving Economic Problems.

Vision for results

Thailand's development vision has historically been articulated through a series of five-year plans, the NESDPs, which have recently been complemented by two reform agendas, the 20-Year National Strategy and a cross-cutting economic model, Thailand 4.0. Supporting all these agendas is the Sufficiency Economy Philosophy, which has provided foundational principles on which to build national planning since the mid-2000s. The overall objectives of these agendas together and the country as a whole are "security, prosperity and sustainability".³⁵

35 12th NESDP.

The 20-year strategy will provide long-term direction for the country's development. It has been introduced as a tool to 'energize' the implementation of the five-year plans and outline objectives that will be built toward cumulatively. The prosperity component of the overarching objectives, for example, aims for Thailand to become a high-income, developed country by 2036. While the overarching objectives and six main strategies of the 20-year strategy have been agreed, its details are to be developed and will be finalized following the signing of a related Strategy Act into law.³⁶

The 12th NESDP is the key medium-term plan that guides policy implementation. It consists of six primary strategies which align to those in the 20-year strategy, as well as four cross-cutting or supporting strategies. Each of these 10 strategies has a lead ministry that is responsible for reporting back on overall results. Each strategy is further broken down into a series of plans and master plans which also have specified institutional arrangements. There are 29 plans overall.

Thailand 4.0 presents an outline of a new economic model that cuts across the strategies of the NESDP and 20-year strategy. It deploys five agendas designed specifically to overcome three 'traps'—a middle-income trap, an inequality trap and an imbalanced trap. Institutionally, the NESDP and 20-year strategy are managed by the NESDB, which is housed in the Prime Minister's Office, while Thailand 4.0 is managed between the Prime Minister's Office and the Ministry of Commerce.

The NESDP and Thailand 4.0 present complementary sets of objectives (Table 1) and each outline quantified targets. Some of these targets are replicated across policies, such as reaching economic growth rates of 5 percent within 5 years. Other targets quantify different aspects of the same objectives—for example the NESDP aims to reduce inequality by raising the incomes of the poorest 40 percent of people by 15 percent while Thailand 4.0 aims to increase social well-being by reducing the Gini coefficient to 0.36 (over a longer-time horizon). This has implications for a centralized monitoring and review system (see chapter 4, *Monitoring and review*).

Many of these outcomes align to those of the SDGs and the 2030 Agenda for Sustainable Development, while the 12th NESDP in particular was designed in consideration of the SDGs.³⁷ The National Committee for Sustainable Development has completed a review of the SDG targets and their alignment to these national plans. It has identified a set of 30 SDG targets that are priority for Thailand. Within these 30, 20 are considered actionable while the other 10 will require capacity building among government agencies to facilitate delivery.³⁸ As in many other countries, the government faces the challenge of how to build an integrated structure for policymaking and delivery across ministries with specific mandates and functions.

Financing strategy

While the national plans lay out a vision and direction for the sustainable development results that the country is driving toward, there is no clear, comprehensive plan for mobilizing the investments that will be needed to realize that vision.

36 Author's meeting with NESDP.

37 Foreword the 12th NESDP.

38 Meetings with the Ministry of Finance and NESDP.

Both the NESDP and Thailand 4.0 provide some guidance on particular instruments or types of financing that will play an important part in the implementation and realization of the strategy. The 12th NESDP recognizes this phase in Thailand's development as crucial to push forward with domestic and international investment growth and calls for investment in research and development especially to be scaled up.³⁹ It encourages public–private partnerships in mega projects and also calls for a broader tax base. The 12th NESDP has cost estimates⁴⁰ associated with it—though these appear⁴¹ to be based on the resources that are likely to be available given ongoing trends, rather than on estimates of the investments needed—and they are not featured in the published plan itself. At a more disaggregated level, many of the master plans which focus on establishing a more detailed vision and implementation framework for specific aspects of the overall NESDP do include estimates of the investments needed.

Nevertheless the lack of an overall financing strategy about the public and private investments that are needed means that there is no clear foundation on which to base the financing policies that aim to mobilize these investments in practice. Without this, the risk of duplication, misalignment or lack of clarity is heightened. High-level priorities which require the mobilization of a range of different resources may be poorly coordinated.

The strategic objectives to reduce inequality, restructure toward a digital economy with increased R&D spending, and boost green growth, will require a mixture of public and private investments. Increasing investment and services from the budget and state-owned enterprises will be needed, while domestic private firms while need to be stimulated and foreign firms attracted. There will be many overlaps: certain types of financing will impact on multiple aspects of these objectives. Establishing a sense of the overall scale and types of investments needed to achieve the objectives in an overall financing strategy can provide a foundation on which to base the more detailed financing policies that will implement each aspect of the national agenda. It will provide a clear understanding of the aims for policies in each area and the social, economic and environmental outcomes that mobilizing each type of finance should contribute toward. It will give the agencies involved in delivering each of these financing policies a clearer sense of their long-term responsibilities and the types of partnerships and collaboration they should develop.

Finally an overall financing strategy could provide the space to drive forward necessary changes to financing that are of a more structural nature. Often these changes, such as restructuring the tax revenue system, take significant time to implement and pay-off.

39 A target from Thailand 4.0 associated with this imperative from the 12th NESDP is that R&D expenditure reaches 4 percent of GDP.

40 Presentation by Dr Porametee Vimolsiri, Secretary General of the NESDB, *Enhancing Infrastructure Development for Thailand's Future Growth*, December 2015. http://www.boi.go.th/upload/content/5.%20Enhancing%20Infrastructure%20Development%20f_92919.pdf

41 The growth in 'needed investment' levels for public and private investments over the life of the plan is equal to that of recent trends, though implies a slight shift away from SOE investment toward on-budget government investment. See slide 31 of a presentation by Dr Porametee Vimolsiri, Secretary General of the NESDB, *Enhancing Infrastructure Development for Thailand's Future Growth*, December 2015. http://www.boi.go.th/upload/content/5.%20Enhancing%20Infrastructure%20Development%20f_92919.pdf

Financing policies

Domestic public finance

Budgeting is an annual process in Thailand, overseen by the Bureau of the Budget. A fiscal ceiling is determined for the year and ministries submit proposals for annual spending. New to the process in the 2017/2018 fiscal year is strategic-based consolidated budgeting. This requires establishing a strategic-based committee for all strategic plans which are run by more than one ministry. These are designed to enhance and deepen alignment across government on common policy priorities, especially cross-cutting issues. These ministries must come together and submit a joint proposal. Once proposals are submitted, the NESDB, Bureau of the Budget and Ministry of Finance allocate the budget across projects within the fiscal ceiling. This process uses the 12th NESDP as the basis for evaluating submission proposals, to ensure that there is a link between the outcomes targeted by spending and longer-term national objectives. The overall budget process is being reviewed at the time of writing, however, and will change with new legislation that is being developed. This may include a move toward a more integrated, results-based budget system.⁴²

Revenue is collected by the Departments of Revenue and Customs and Excise in the Ministry of Finance. Reforms underway at the time of writing in both of these departments are designed to rebalance the tax model while being cost neutral (i.e. not affecting the overall level of revenues). These reforms are designed to make the tax system fairer overall, while enhancing its business-friendliness, and increasing its efficiency with the introduction of smarter technology. While Thailand's revenues have been growing healthily in recent years, over the long term there will be a need to retain this trajectory while also monitoring the distributional impact of taxation.

Following the East Asian financial crisis of the late 1990s, Thailand altered its approach toward debt, becoming more prudent in borrowing and focusing primarily on domestic sources of credit in order to avoid the risks of exchange rate fluctuations impacting foreign-currency denominated debt. The government has two debt rules: to maintain the ratio of public sector debt to GDP to less than 50 percent, and to limit central government debt to less than 25 percent of the budget.

Private finance

Thailand 4.0 is the key headline policy for private sector development. It outlines a vision of an innovation-driven economy in which private investment is a key driver. The policy builds on the emphasis in the 12th NESDP for the development of the digital economy.

Thailand 4.0 focuses on stimulating development in ten target industries, five of which are established industries⁴³ that aim to deepen production and develop value chains; while the other five are newer industries that can become new engines of economic growth.⁴⁴ Realizing this vision and stimulating

42 12th NESDP

43 These industries are: next-generation automotive, smart electronics, high-income tourism and medical tourism, efficient agriculture and biotechnology, and food innovation.

44 These industries are: automation and robotics, aerospace, bio-energy and bio-chemicals, digital, and medical and health care. Source: Thailand Board of Investment, 'Thailand Investment Review', January 2017.

private sector investment will require progress across a range of areas,⁴⁵ including infrastructure and skills development.

Developing infrastructure is a key part of Thailand's plans to stimulate private investment, a policy change from recent years during which infrastructure investment has been lower. Infrastructure features fairly high on the list of business' perspectives on the constraints to growth—electricity and transportation were the second and third most highlighted issues in the World Bank's Enterprise Survey⁴⁶ with a combined 36 percent of survey respondents listing one of the two as their biggest obstacle to growth.

The Transport Infrastructure Development Master Plan 2015–2022 covers five modes of transport and aims to help improve the country's logistics and transport systems, thereby reducing the cost of business and increasing the connectivity of poorer regions of the country to help stimulate development and boost access to services. The plan has been costed at a total THB 3.38 trillion,⁴⁷ with over half frontloaded to be initiated or opened for bidding in the first 18 months of the plan. It is to be funded from a mixture of sources, with borrowing by government and state-owned enterprises expected to account for more than 60 percent of the total and a target to mobilize 21 percent of the necessary finance through public–private partnerships (PPPs).

As well as infrastructure, PPPs will play an important role in financing investments in education, science, technology and innovation, and water and sanitation systems among other priorities. The PPP Strategic Plan 2015–2019 outlines a pipeline of 66 projects with a total investment of THB 1.66 trillion. A public-private-people partnership project, the Pracharath Policy, has been established to promote social enterprises in all provinces across three pillars – agriculture, product processing by small and medium enterprises, and community tourism. It includes the Pracharath SME development fund which totals over \$570 million (20 billion THB).⁴⁸ A new law in 2013 was designed to enable the scaling up of PPPs and to increase their efficiency. It revised and streamlined the process for developing PPPs, reducing the time needed to establish a PPP from 25 to 9 months.⁴⁹

Finally, the Board of Investment plays a key role in promoting investment opportunities and offering specific incentives to invest. It has developed a set of criteria that offer investors incentives (in the form of tax breaks) for investments that display innovation or enhanced competitiveness, or which are made either in the country's poorest provinces or in industrial development areas.⁵⁰ There is therefore a broad linkage between the types of investments that are incentivized and those prioritized in Thailand 4.0, though the linkages could be strengthened if the indicators were aligned.

45 International Monetary Fund, IMF Article IV Country Report for Thailand, 2016.

46 World Bank Enterprise Surveys: Thailand, 2016. <http://www.enterprisesurveys.org/data/exploreeconomies/2016/thailand>

47 Presentation by Dr Porametee Vimolsiri, Secretary General of the NESDB, *Enhancing Infrastructure Development for Thailand's Future Growth*, December 2015.

48 Thailand's voluntary national review to the High-level Political Forum, 2017.

49 Presentation by Dr Ekniti Nitithanprapas, Director General of the State Enterprise Policy Office, *Financing infrastructure in Thailand*, October 2016.

50 Thailand Board of Investment, 'A guide to the Board of Investment 2016', 2016. http://www.boi.go.th/upload/content/BOI-A_Guide_2016-EN-20160930_52508.pdf

Monitoring and review

There are processes for monitoring progress across government, though no comprehensive framework to draw them all together or actively monitor the impact of different types of financing together.

A framework for monitoring the 12th NESDP involves a series of agreed indicators for each strategy, which the lead institutions are responsible for reporting on. There is an annual reporting process and conference to review progress. A separate monitoring process related to the budget involves ministries reporting to the Bureau of the Budget on a quarterly basis with progress on outputs—the spending and investment made using public finance—and outcomes. Further indices such as the Green and Happiness Index and the Sufficiency Economy Philosophy survey have been established but are not used systematically.⁵¹ As noted earlier, Thailand 4.0 introduces another slightly different set of indicators to be tracked. The risk of multiple reporting systems is an increased administrative burden. The risk of multiple sets of indicators is a lack of clarity about prioritization.

Monitoring of financing within existing systems focuses primarily on public finance and could be expanded to more directly track the investments mobilized from other resources, the outcomes they generate and the contributions they make toward the headline objectives of the national plans. This would give government greater insight into the impacts that different financing flows can have on various aspects of sustainable development outcomes, to inform more targeted policymaking.

Accountability and dialogue

Platforms for dialogue between government and other stakeholders are important for building trust and shaping government policy around the types of financing and investments that these actors will make toward sustainable development. Dialogue is a basis for sharpening and refining policy, to ensure that it sets out realistic roles for the type of financing in national plans, effectively addresses the constraints to private investment and creates incentives or mechanisms to ensure a positive impact on all aspects of sustainable development. Dialogue throughout the policy lifecycle can inform on the effectiveness of implementation and post-intervention reviews. The Joint Public-Private Consultative Committee for Solving Economic Problems (JPPCC) is the main mechanism for dialogue with the private sector though substantive engagement on policy design, implementation and review is ad hoc.

51 See presentation by NESDB Director of Development Evaluation and Communication, *Monitoring Framework in Thailand: Status, Challenges and Good Practices*, 2013. [https://wpqr4.adb.org/lotusquickr/cop-mfdr/PageLibrary482571AE005630C2.nsf/0/32B59B61ABF2DFFA48257C630026A847/\\$file/4b%20Monitoring%20Framework,%20Thailand%201_Witaya%20Pintong.pdf](https://wpqr4.adb.org/lotusquickr/cop-mfdr/PageLibrary482571AE005630C2.nsf/0/32B59B61ABF2DFFA48257C630026A847/$file/4b%20Monitoring%20Framework,%20Thailand%201_Witaya%20Pintong.pdf)

5. Climate finance

Climate finance will have an important contribution to make if Thailand is to achieve the balanced progress across all dimensions of sustainable development that it is aiming for. Whether helping reduce emissions in support of greener growth, or building resilience and reducing the damage caused by climate change, financing will be important to help communities, private firms and other actors develop sustainably.

The government is taking steps to establish systems to strengthen the management of on-budget climate finance. Building on from a climate public expenditure and institutional review⁵² the government has developed guidelines for climate change budgeting analysis (CCBA) that can be institutionalized in the budget process.⁵³

CCBA aims to improve government's understanding of the impact of its spending and investments on mitigating greenhouse gas emissions and adapting to the impacts of climate change. It will establish a process built into the budget submissions process (Figure 5) that identifies the mitigation or adaptation benefits of the projects or programmes being proposed. This uses a tagging and scoring approach that can usually⁵⁴ be undertaken using expert opinion, without being a major administrative burden on officials, though larger projects that cost over THB 1,000 million require a more thorough cost-benefit CCBA. It is designed to help justify the funding being requested by projects.

Overall, CCBA will help government to understand and manage the way it invests in mitigation and adaptation, and the impact of those investments. Following project approval and implementation, it will enable the development of climate change weighted accounts and closer monitoring of the outputs of government spending and investment. Through outcome monitoring and project evaluations government will be able to link the financing it spends through various projects to their impact and contribution toward the headline goals of green growth and environmental protection. This in turn will enable on-budget spending that is more closely aligned to the objectives of national plans and more effective in achieving impact.

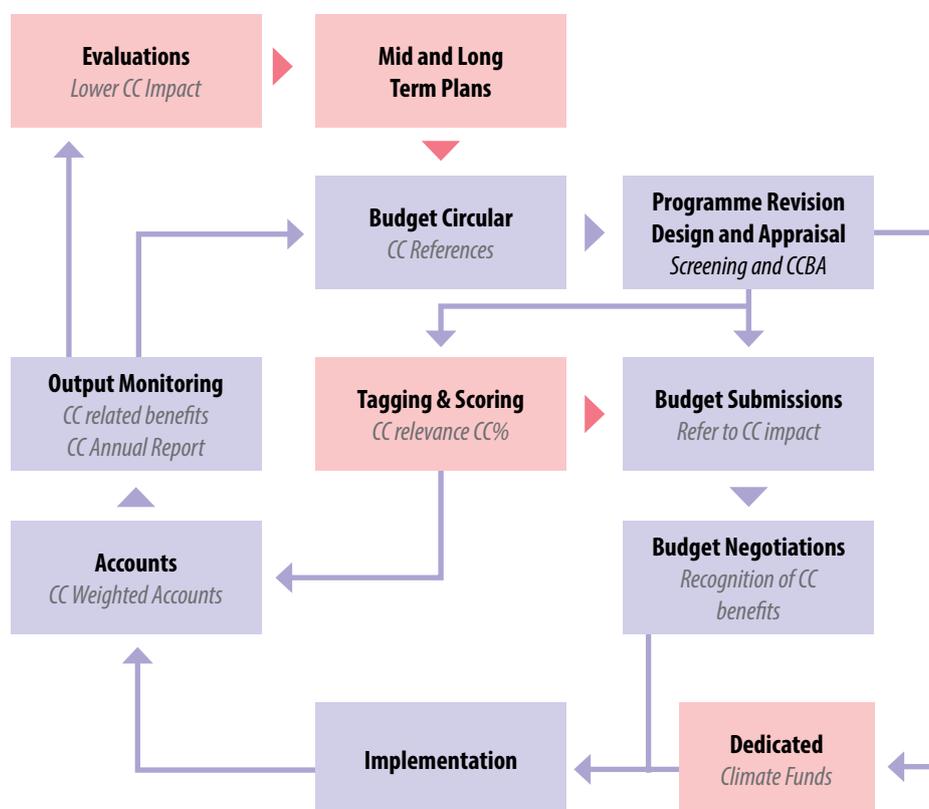
The institutionalization of this process is a medium-term goal, but the government is taking steps toward it, undertaking training and capacity building among relevant ministries. Earlier pilots have also been completed with the Ministry of Agriculture and Cooperatives and the Ministry of Energy. The Office of Natural Resources and Environmental Policy and Planning, which is leading the drive toward CCBA, is also considering how it could be used to understand climate change, disaster risk management, biodiversity and poverty reduction together.⁵⁵

52 UNDP in Thailand, 'Thailand Climate Expenditure and Institutional Review', 2012. http://www.th.undp.org/content/thailand/en/home/library/environment_energy/CPEIRThailand.html

53 UNDP in Thailand, 'Climate Change Benefit Analysis CCBA Guidelines', 2016. http://www.th.undp.org/content/thailand/en/home/library/environment_energy/climate_change_benefit_analysis_ccba_guidelines.html

54 For projects costing between THB 50,000 and THB 1,000 million

55 UNDP (David Abbott), *Towards an Integrated Financing Framework for Climate-change, Disaster Risk Management, Biodiversity and Poverty Reduction*, forthcoming.

Figure 5: The role of climate change budget analysis in the budget and planning system

Source: UNDP and the Government of Thailand, 2016⁵⁶

Note: climate change influence on activities in grey

In addition to developing a CCBA system that will allow enhanced tracking of climate finance spending across ministries, the government is also developing plans to establish a dedicated on-budget fund for climate finance. At the moment there are two on-budget funds that focus on energy security, the Energy Conservation Fund and ESCO, which have a secondary focus on energy efficiency and promoting renewable. Plans for a new fund whose primary focus is on mitigation and adaptation are being developed by the Office of Natural Resources and Environmental Policy and Planning and other ministries. It aims for the fund to be established within two years.

International climate finance has, in recent years, provided significant volumes of climate finance for Thailand (see Figure 3). However, following Thailand's reclassification as an upper-middle-income country, international climate finance declined, from close to \$600 million in 2009 to \$23 million in 2014. Many development partners shifted their approach away from providing finance toward technical assistance and supporting pilot projects designed to test and catalyse domestically-led climate initiatives. Overall the reduction of international climate finance has had a medium-term impact on the delivery of climate change initiatives which may offer lessons for other countries in the region. It is partly a budget

56 UNDP and the Government of Thailand. 'Climate Change Benefit Analysis CCBA Guidelines', 2016

issue, in that it takes time to build the consensus and political drive to establish domestic funds financed from the budget, like the one Thailand plans to launch in 2019, even in a context of growing public revenues like Thailand's. However, the larger constraint may be technical expertise. Many previous climate change initiatives were supported by international expertise that has been scaled back. While the government has developed packages of training, courses and qualifications, it will take time to build a sufficient critical mass of Thai people with the technical knowledge and understanding to be able to drive forward climate adaptation and mitigation programmes on an increasing scale.

Sustainability in the private sector: maize farming

Charoen Pokphand Group (CP group) is one of Thailand's largest companies and has played a leading role in developing and implementing sustainability principles within the private sector in Thailand. The company⁵⁷ has installed '3-Benefit' sustainability principles that underpin its business models, by aiming to create benefits for the country, community and company. These include targets to reduce its greenhouse gas emissions and water consumption by 10 percent, and to reach 100 percent responsibly sourced materials and supply chain management by 2020. The company has been an active member of the UN Global Compact since 2003.

The company is Thailand's largest producer of poultry and as such also the largest purchaser of maize. Maize farming supports over 400,000 households in Thailand and over 5 million tonnes are produced annually.⁵⁸ However certain practices in the industry have negatively impacted biodiversity, contributed to air pollution and contaminated water. Land degradation is a further issue, particularly farming on steep slopes in Thailand's mountainous northern areas. In response to this issue, CP group developed a policy of only purchasing maize that could be proven to have been grown on slopes with an incline of less than 30 degrees. The aim was to encourage farming on flatter land, thereby reducing the erosion and degradation of land on steeper slopes. While there were some problems with the initial implementation of this policy, which had been announced suddenly, the company is now working with the government and farmers to identify and move relevant farmers onto flatter land.

57 See Charoen Pokphand Group, 'CP Group Sustainability Principles': <http://www.cpgroupglobal.com/sustainability>

58 UNDP briefing note on sustainable maize farming.

6. Recommendations

Thailand has a clear headline vision of the balanced development that it wants to achieve in the next phase of its history, though its ambitious objectives will require mobilizing the right scale and mix of resources for this to be realized. There are steps that the government could consider taking to strengthen the policies and institutional structures it uses to manage financing policy across all resources in line with this vision.

Clarify the linkages between key national agendas

There is broad alignment between the key national policies—the 20-Year National Strategy, the NESDP and Thailand 4.0—but ambiguities exist in how they relate to each other as does misalignment in some details. For example, targeted progress in similar areas is in some cases measured by different indicators. As the details of the 20-Year National Strategy are developed, this alignment could be clarified to provide a stronger foundation for short and medium-term planning and delivery. This is recognized in the 12th NESDP, which calls for the “seamless linkages of development strategies at all levels.”⁵⁹ Within the ASEAN region, Thailand could learn from the experience of Malaysia in designing a hierarchy of ‘cascading’ development strategies: a long-term vision, a ten-year economic model, a series of five-year plans and two-year rolling budgets that provide an interlinked vision for development, combined with mid-term reviews to allow flexibility and adaptation as needed.⁶⁰

Establish an overarching financing strategy

Realizing the balanced development that Thailand aims for will require investments from a wide range of resources—public and private, domestic and international. The instruments that make up these resources are diverse, complex and often have impacts on many aspects of sustainable development beyond their primary purpose—investments in key economic industries can create jobs, boost skills and impact the environment, for example. Mobilizing these resources requires a series of policies focused in each area—including to raise government revenues, invest public finance, stimulate foreign direct investment and stimulate domestic SME growth. Ensuring that these policies are grounded in a clear overall financing strategy that outlines their respective roles and expected contributions to sustainable development would help to increase their focus and effectiveness.

Such an overarching financing strategy could be incorporated in the 20-Year National Strategy as it is developed. It could be supported and owned by a senior cross-government body that takes responsibility for cohesive policymaking on financing across ministries. The government may wish to consider a fuller DFA and integrated financing solutions process to support this endeavour. Other countries in Southeast Asia such as the Philippines and Timor-Leste have used a DFA to prompt thinking about longer-term financing in this way.

⁵⁹ 12th NESDP, page 20.

⁶⁰ See the Malaysia DFA produced within this project and/or the ASEAN regional report (*UNDP, Financing the SDGs in ASEAN*).

Strengthen systems for monitoring the impact of financing

Existing monitoring systems do not systematically track the outcomes that different types of financing generate or the contributions they make toward national sustainable development objectives. Building indicators and data collection process into existing monitoring frameworks that allow the government to track and link the volumes of financing mobilized, the outcomes generated and the contributions made toward headline objectives could inform a more precise understanding of the strengths of different types of financing and different instruments in contributing toward overarching objectives. A call to this effect is made within the 12th NESDP which, when focusing on enhancing the role of the private sector in economic and social development, states that “Corporate governance should be emphasized, and business targets should be linked to the nation’s development”.⁶¹

61 12th NESDP, page 261.

Annex 1: What is an integrated national financing framework?

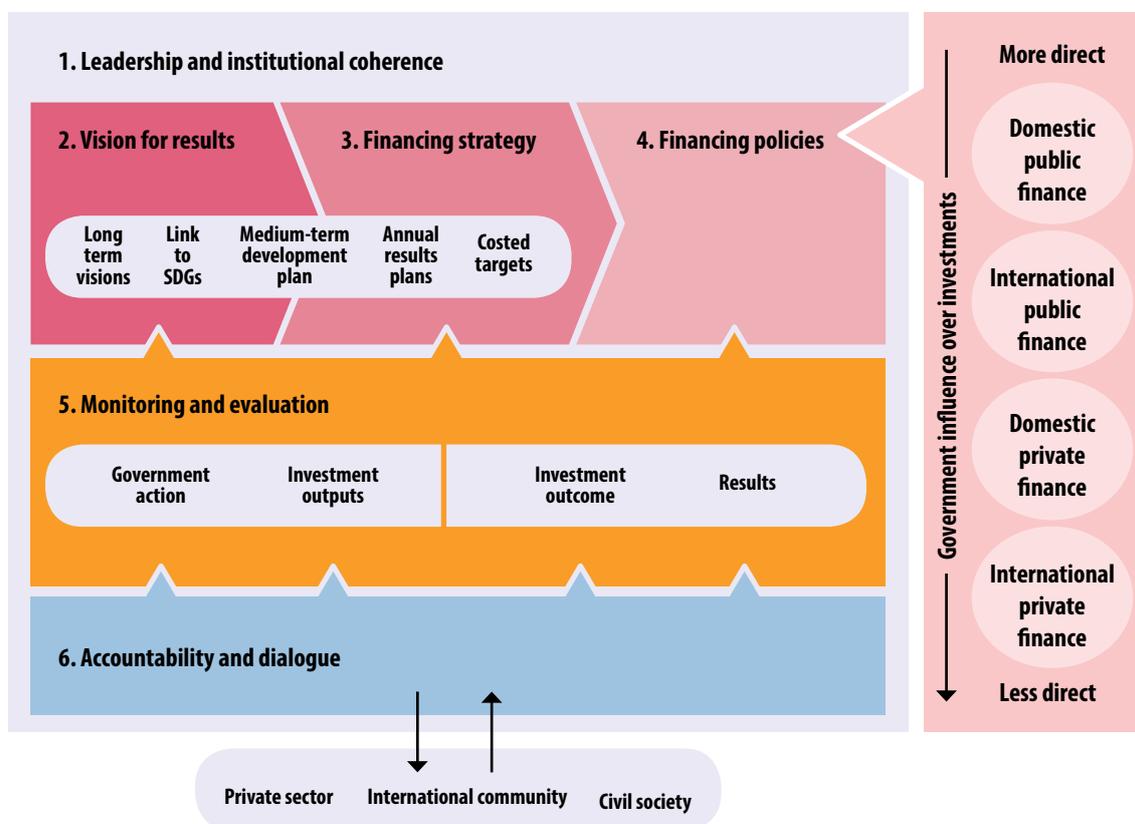
An integrated national financing framework is a holistic, integrated system of policies and institutional structures that government has in place to manage its financing strategies across all resources in a coordinated, aligned manner (see figure). The concept is built around six building blocks that are designed to help governments evaluate their existing structures holistically and determine what reforms can strengthen the functioning of the system as a whole.

The six building blocks of an integrated national financing framework are:⁶²

- 1) **Leadership that facilitates coherence across government:** leadership from the highest levels of government to bring together key actors and build an integrated, aligned approach to mobilizing the investments necessary to achieve the country's goals.
- 2) **A clear vision for results:** the foundation of a framework is clarity on the direction and desired sustainable development outcomes that the country wants to achieve in the long term. This may link to the regional Vision 2025 agenda or international Agenda 2030 and may include estimates about the costs of the investments needed to realize it.
- 3) **An overarching financing strategy:** an overarching strategy for mobilizing, channelling and investing the resources needed to make the vision for results a reality that incorporates the contributions that all resources (public and private, domestic and international) can make to sustainable development outcomes.
- 4) **Aligned financing policies:** the annual and medium-term plans that build on the financing strategy to invest public finance and mobilize and stimulate financing from other actors. This covers a range of policies such as medium-term expenditure frameworks, tax revenue strategies, industrial development strategies, small and medium enterprise strategies, national aid strategies, among many others.
- 5) **A strong monitoring, review and evaluation system:** an integrated system for planning for and monitoring the contributions that different types of financing can make toward sustainable development outcomes.
- 6) **Participatory processes for accountability and dialogue:** mechanisms to build the trust necessary to mobilize contributions from stakeholders outside government, to make sure financing policies are designed and delivered effectively, and ensure a voice for citizens, civil society, business, development partners and other actors in financing sustainable development progress.

62 Based on: Asia-Pacific Development Effectiveness Facility, *Achieving the Sustainable Development Goals in the era of the Addis Ababa Action Agenda: Progress in Establishing Integrated National Financing Frameworks*, 2016. http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

Figure 6: An integrated national financing framework for sustainable development



Source: Achieving the Sustainable Development Goals in the era of the Addis Ababa Action Agenda, AP-DEF, 2016⁶³

63 Asia-Pacific Development Effectiveness Facility, *Achieving the Sustainable Development Goals in the era of the Addis Ababa Action Agenda: Progress in Establishing Integrated National Financing Frameworks*, 2016. http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/achieving-the-sustainable-development-goals.html

Annex 2: Data sources and methodology

Financing flows data

Analysis of financing flows has been undertaken from the country perspective; thus national data sources were preferred over international data sets, where adequate coverage and metadata were provided. Across the 10 country papers and regional report included in this project, all financing data and analysis are in constant 2015 US\$, unless otherwise specified. Data from national sources reported in national currencies have been converted into constant US\$ using exchange rates and GDP-based deflators, following normal practice.

Domestic public finance

Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double-counting with international resources) and government borrowing from domestic sources (i.e. domestic financing). Data was sourced from the Ministry of Finance.

Domestic private finance

Domestic private finance refers to investment by the domestic private sector in the country. Data are based on private gross fixed capital formation (GFCF), with FDI deducted in order to obtain estimates for domestic private investment alone.

International public finance

International public finance includes official development assistance (ODA), other official flows (OOFs) and government borrowing from international sources. ODA is sourced from OECD DAC data. OOFs data are sourced from OECD DAC Table 2B for all countries, as comprehensive data on this type of finance are not readily available from national sources. Government borrowing refers to lending received or guaranteed by the state from bilateral and multilateral institutions and private entities. For consistency across country papers and to ensure that overlaps with ODA loans and OOFs could be accounted for, data for this flow were also sourced from international data sets for all countries.

International private finance

International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data are based on national sources for all countries. Remittances data is sourced from the Bank of Thailand. Portfolio equity data is sourced from the World Bank. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank's International Debt Statistics for all countries; this was done for consistency across the country papers and due to the patchy coverage and availability of data on this type of finance in national sources.

