

Payment Procedure of Public Works in Thailand

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Abstract: This paper analyses the performance of payment procedures in Thai public projects. The results of the investigation are summarised based on contracts, submitted invoices and copies of payment sheets. The graphical presentation of duration analysis of the projects illustrates significant payment formations in each project. It is considered that source of funds, trustworthiness, financial stability of clients, disagreement between prime contractor and engineer, bureaucracy, method of payment, government policy and economics situation has played major role in performance of construction payment.

Keywords: Payment procedure, performance of payment, efficiency.

1. INTRODUCTION

Instability of organisations can be observed by the several indication factors. One significant factor is time required for the procurement and payment systems, or in other words, the prime contractors have not received the payment in a regulated period. This behaviour of weakness can be also observed from prime contractor's side. They tend to play a safe policy in the chronically uncertain environment, by reducing the number of permanent employees on their payrolls, by elongating their payments due and selling off unnecessary construction machines. Governmental regulations causing payment delays manifest themselves in the form of delays in the release of foreign currency required for importing materials and equipment, delay in customs clearance and bureaucratic procedures. Traditionally construction contracts also play a momentum impact on delaying payment procedure as it governs the procedure of each activity so as to assess the structures or making payment after engineer verification of works completed. The completed work is

paid after the engineer has made an inspection and issued the certificate of completion. The payment is usually made by interim payment as the work progresses. It is unusual that the payment is made before the completion of work. Regardless, an advance payment is made by the client before commencement of the project. The possible consequence is that the whole industry is economically affected by any drying up of the cascade of payments downward from the top of the pyramid. It is too easy for an owner with cash flow problems to try to help his situation by delaying payments to the prime contractor who then finds it difficult to make the payment to his subcontractors on a timely basis.

2. OBJECTIVE

The objective of this study is to clarify the actual performance in payment procedure with Thai public projects. The key task is to study the payment procedure of public works in Thailand from obtained information. Therefore, the best approach is to adopt randomly

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selected samples. The number of samples is 98 public projects which are selected from different regions. The data is found in payment summary sheets from government agencies and from domestic/international prime contractors. This research project is based upon results obtained from a pilot study undertaken on investigating key elements that contribute to the level of success or failure payment systems between the client and prime contractor. The pilot study involves an interview with key project managers such as senior managers, vice presidents, owners, government officers, site engineers, quantity surveyors and accountants who have been responsible for these projects. All of the companies involved are engaged in individual projects exceeding 250 million baht in construction cost. This paper aims to add to the body of knowledge of efficiency in payment by providing valuable insights from very senior level executives in organisations and government agencies. It is often very difficult to gain access to such individuals for in-depth discussion.

3. METHODOLOGY OF STUDY

This approach is mainly concerned with the examination of statistical data in public construction payment procedure in Thailand. There are two main data sources in this method. Namely: original and residual. The original data consists of original documents or official files and records, such as government book keeping records of payment and construction company record books. The residual data consists mainly of the calculated or justified data which is derived personally. The residual data is derived from the payment summary sheets along with agreed time periods for making payments to prime contractor. The archival research method is the most applied approach in this research, as it enabled by access to a vast quantity of data from the already widely accepted publications. The greatest difficulty in this research is to obtain the payment summary sheets and the contract

agreements as well as the actual date of each activity in payment procedure. Information on the type of clients and financial sources are shown in tables 1 and 2.

Table 1: Type of clients in public projects.

Classification	Number of projects
Government	64
Quasi-government	32
Local-government	2
Total	98

Table 2: Profiles of financial sources.

Classification	Number of projects
ADB	29
IBRD	7
JBIC	27
OECD	1
Central	15
Own	19
Total	98

4. DELAYING PAYMENT PROCEDURE

The individual performance in each government agency and quasi government authority is shown in figure 1 and 2. The number indicates the average number of days used in each stage of payment process. Table 3 represents the summary of client's performance. The result in table 3 is calculated by the subtracting the number of days written in the contract agreement procedure clauses from the actual number of days used in payment. In each stages of activity, the performance is calculated by following the designed method. The designed method is divided into three stages. The first stage is the submission of invoice from prime contractor. The second stage is inspection and issue of the certificate of partial/final completion from engineer. And the third (final) stage is the client making payment to prime contractor.

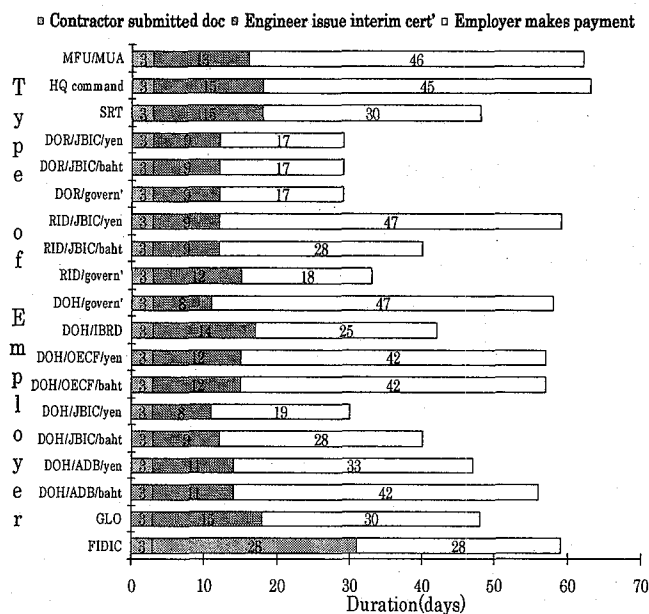


Figure 1: The performance of government projects.

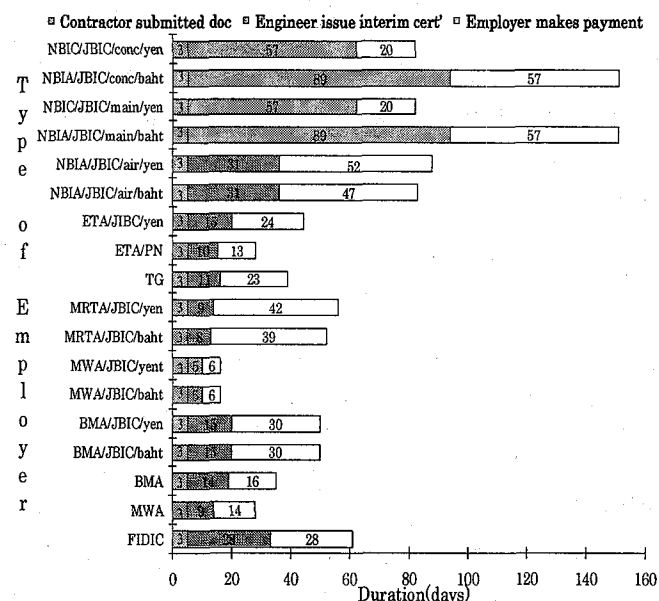


Figure 2: The performance of quasi-government projects.

It is found that the delay in payment procedure occurs in the second and the third stage. The factors that cause delay in the second stage are, **the disagreement between engineer and prime contractor factor**. This is due to the measurement of each side. It is difficult to obtain the exact result. Therefore, each party tries to protect their benefits as much as possible. **The over workload factor**, which is a result of shortage staffs in the engineering department. **The unfamiliar with loan procedure factor**. This factor happens with newly opened projects or newly assigned engineers. **The adverse weather factor**, which causes difficulty with the undertaking of the engineer's inspection. The third stage

of payment process is delayed by **unfamiliar with loan procedure factor**. This is as result of newly recruited or assigned staff. **The mode of payment factor**, which is due to regulation of payment systems in Thailand. In the case of international loan projects, **the trustworthiness between lender and borrower** is another vital factor. Therefore, for the sake of transparency, the double standard for inspection is introduced. Other factors are the budget allocation delays and the bureaucratic factor.

Table 3: Mean number of days used in payment process.

Client (project/currency)	Submit (days)	Inspect (days)	Payment (days)
Government (delay/ baht)	0	+3	+10
Government (delay/foreign)	0	-3	+12
Quasi&Local (delay/ baht)	0	+14	+11
Quais&Local (delay/foreign)	0	+6	+16

Note: (-) = advance, (+) = delay

The characteristic of public payment for every monthly payment is showed in figure 3-4. The horizontal axis represents the duration and the vertical axis represents the number of days used to complete the payment procedure. The level of height in each point indicates the seriousness which payment has been affected by delaying factors in each month (the higher in point is, the longer time needed to complete the payment procedure). It is found that the pattern of payment in government projects can be classified into 2 main groups. The category is based on the number of days used to exercise the payment procedure. The first group (figure 3) is the projects which consume a time of less than 50 delayed days for completion of the payment procedure. The second group (figure 4) is the projects contain at least one payment cycle which consumes a time of greater than 50 delayed days for the completion of payment procedure. **The factors which cause the first group** are agreed on quantity and quality of work between engineer and prime contractor, familiarity with loan procedure, sufficiency in resources and motivation, not being over workload, a minimum number of minor accidents, a minimum of adverse weather, clearly understanding the drawings,

and open communications between the parties involved. These mentioned factors aid the performance of the project to the level of time being consumed less than 50 delayed days to complete the payment procedure. In contrast, those factors also send the performance of the project downward if the level of each factor is more pronounced in worse ways such as serious disagreement between engineer and prime contractor, shortage of funds, unfamiliar with loan procedure, over workload, serious causalities, severe weather conditions, dispute over the drawings, and lack of open communication. Nonetheless, these factors are obtained from a combination of interview with parties involved and factors analysed.

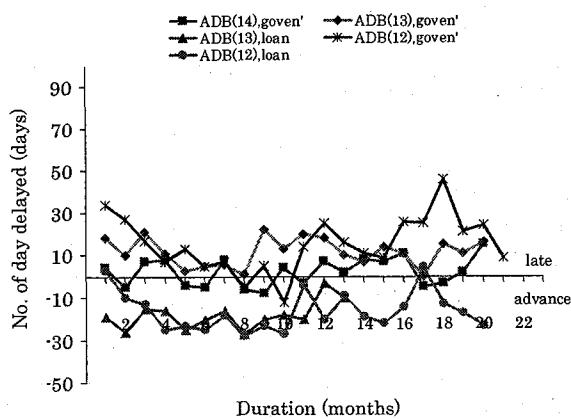


Figure 3: Characteristic of payment with overseas fund.

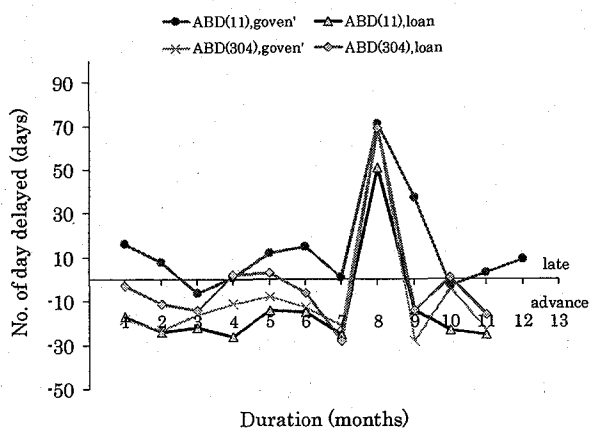


Figure 4: Characteristic of payment with overseas fund (cont).

5. CONCLUDING REMARKS

The delay in the payment procedure on Thai public works has been caused by the second and third stages (table 3). In the second stage, the most affecting factor is the disagreement in quantity and quality between the prime contractor and engineer which takes

several weeks to reach the settlement and followed by disproportion between workloads and working staff factor. It happens that the numbers of projects are far beyond their capability to inspect within regulated time. In the third stage, the most affecting factor is the shortage of funds. It is further found that the type of currency also causes a significant impact on the number of days used in the payment procedure (table 3). This is the result of rules and regulations on payment procedure imposed by the Bank of Thailand. In the case of government funded projects, the payment is only made by Thai currency. Therefore, the method of payment has to follow the regulations of payment with Thai baht whereas foreign currency is dependent on an agreement between lender and borrower for the payment. The foreign currency payment normally takes longer than the local currency payment procedure. This is a result of transaction payments between lender's and borrower's country. Therefore it can be considered that the method of payment and bureaucracy have influence on the duration of payment.

6. FUTURE STUDY

It is likely that main contractors could have developed rules of thumb for dealing with the effect of such factors on individual projects or clients rather than following their understanding from contract itself. It has been identified that prime contractors have elongated their periodic payments on both government and international loans from the clients procedure of payment activities. It is shown that the delay in payment procedures occur frequently in public projects in Thailand. Although, during the financial crisis years, the government had a policy to alleviate contractor's cash flow problems by reducing the number of days in payment as well as increasing the number interim payment applied during project duration. It is interesting to make investigation on the level of efficiency in each stage of the payment procedure. The investigation will concentrate on the performance of each party who is involved in payment procedures (prime contractor, engineers, accountants and authorised representatives). The result might provide some good proposal to recommend for more efficient method of payment procedures in Thailand.