THE ANALYSIS OF BUDGETING SYSTEM REFORM IN THAILAND

By

Sawanya Coompanthu

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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Approval as of November 21, 2007

Supervisor : Professor Tae-Jong KIM ____________________

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ABSTRACT

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The importance of budgeting system reform has already gained a widespread recognition for the past decades. Part of this trend was largely driven by overt public dissatisfaction and dwindling resources. Many countries, therefore, have adopted Performance-Based Budgeting System to some degree in order to link measured results with allocations of funding. This mechanism allowed policy makers to make informed choices among competing interests and encouraged line agencies to perform efficiently and effectively. As well in Thailand, the government tried to reform the nation's budgeting system to be more result-based by replacing the traditional Line-item (input-based) Budgeting with the Planning-Program Budgeting (PPB) in 1982 and, for the second round, implementing the Strategic Performance Based Budgeting System (SPBB) in 2003. Emphasizing on the current budgeting system, this study was to examine the reform's direction and find out 'what causes' a slow progress of SPBB reform in Thailand. Finally, the analysis found that the reform was already on the right track with a great plan and mostly appropriate supporting techniques and tools. However, Thai's government needs to concern more about building capacity and co-operation among the participants and stakeholders in order to overcome all existing barriers and accomplish the ultimate reform goals.

TABLE OF CONTENTS

TABLE OF CONTENTS (cont.)

LIST OF FIGURES

Chapter I

Introduction

The Importance of the Study

"Budget" is the most important economic policy instrument for government. It serves numerous socio-economic purposes by allocating resources in ways that promote growth and equity. The *"Budgeting System"* concerns the decisions how much money to spend and what to spend it on. Through the budgeting system, the government determines the allocation of the resources among the agencies and these decisions resulting affect the nation as a whole.

Since the 19th century, the evolution of budgeting has influenced the practice of resource allocation and use in all countries. However, budgets in developing countries have not been as effective as they should be. While many countries differ in the magnitude of their budgetary problems, there has been increased acceptance by governments that the structure of the budget process and institutions influence budgetary results. This is why the agenda to reform the budgeting system, in order to achieve a durable budgetary condition, has been given such a high priority in many countries – including Thailand.

The Royal Thai Government has introduced a number of reforms to its budget implementation and management procedures since the early 1980s. However, the reform efforts were accelerated by the financial crisis in 1997 and by the effects of the new constitution which was also promulgated in 1997. Consequently, in February 2001, the government has announced to expedite budget reform process so that budgeting becomes an effective and efficient tool for translating policies into tangible results, while empowering ministers, ministries and departments to manage with greater accountability and transparency coupled with comprehensive performance monitoring and evaluation system. And hence, in 2003, a *"Strategic Performance Based Budgeting System" (SPBB)* has been implemented in accordance with the current administrative system.

Although Thai's government has been practiced the SPBB for more than four years, the overall budgeting system – especially the allocation and execution – still be perceived as inefficient, ineffective, and unaccountable. According to the historical performances, the significant amounts of transferring/ changing funds at the end of fiscal year, the delayed of budget spending, the numbers of duplicated output among agencies, the numbers of project failure and the corruptions implied that the SPBB reform in Thailand still be far to reach its aims. Why would that be? How did they reform and did it work? What should they do to accomplish the reform? All these questions need to be answered in order to assure that Thai's government is on the right track for developing its budgeting system. To do so, an analysis of the SPBB is necessary. Therefore, the government could realize the current situation of the budgeting system reform including the problems and obstacles that occurred. Finally, this will lead to a consideration for the crucial success factors along with the further steps that could bring the Thai's government an achievement of all budgeting system reform's goals in the near future.

The Objectives of the Study

- To review the evolution of budgeting system reform in Thailand
- To review the key principles, accountability and structure of the SPBB as a current budgeting system in Thailand
- To analyze the SPBB in order to understand its current situation and be able to point out the problems/ obstacles which related to the improvement and development of this particular budgeting system
- To identify the crucial success factors and to recommend the future steps of the budgeting system reform plan

Scope of the Study

The focus of this thesis is to study and analyze the budgeting system reform in Thailand. The scope of the contexts covered only the expenditure side, not the revenue side. Although the study included an evolution of the budgeting system but the analysis emphasized only on the current practicing budgeting system, the *"Strategic Performance Based Budgeting System" (SPBB)*. Also, the best practice of other countries such as the United States, the United Kingdom, and Australia has been discussed but the study did not compare Thai's budgeting system with any other countries.

Research Methodology

Primary data is collected by interviewing with the executives and staffs from the Bureau of the Budget (Thailand) in related departments such as Budget System Development Office, Budget Policy Office, Budget Preparation Offices, Law and Regulation Office, Evaluation Offices, and Standard Costing Office.

Secondary data, the primary source of information for writing this thesis, is collected from the internet web-sites and through literature review of related articles and documents both published and unpublished. These also included the documents from other related organizations such as the Ministry of Finance, the Office of the Public Sector Development Commission and from the academic institutes in Thailand as well.

Structure of the Thesis

The thesis is divided into five chapters. After the Introductory Chapter, theoretical approaches to public budgeting and the best practices of other countries – the United States, the United Kingdom, and Australia (Victoria State) – are discussed in chapter two. Chapter three contains a brief review of Thai's budgeting system background including the structure of governance, the information about the Bureau of the Budget, budget law, and annual budgeting processes. Chapter four and five are the main body of the thesis. Chapter four contains an analysis of budgeting system reform in Thailand from the former- to the current year. More emphasis is given to the current budgeting system aspect. Its key principles, structure, and techniques/ tools are discussed. Moreover, the problems and obstacles related to the improvement and development of the current budgeting system are pointed out. Finally, chapter five presents the conclusion and recommendations including the lessons learned, possible solutions and crucial success factors which should be considered for the future steps of the reforming plan.

Chapter II

Theory of Public Budgeting & International Best Practices

Theoretical approaches to Public Budgeting

- ***The Definition & Concepts***

"Budget" generally refers to a list of all quantify-planned expenses and revenues over a definitive time period. It gives an overall picture of where the money is coming from, when it is coming in, and how it is being spent. The key concepts of *"Budgets"* and *"Budgeting"* are [1] Who gets how much for what purpose and who pays?, [2] Primary resource allocation process (expenditures) and resource extraction process (revenue), [3] Achieves institutional priorities efficiently, economically, and effectively, and [4] Opposing and reconciling different values.[1]

For the government, *"Public Budgeting"* is a tool for allocating resources and implementing strategic plans in each fiscal year. It may be stated that a public budget is an instrument at the disposal of the legislative authority. It enables to guide the economic, social, political and other activities of a community in a certain direction in order to realize predetermined goals and objectives, the results of which are not always quantifiable. The budget also contains all of the measures needed to subordinate the executive authority to the legislative authority as the representative

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[1] Michael Harris and Timothy Griffith, *Budgeting : Leadership - Theory - Process and Practice*, Business and Finance, Eastern Michigan University, November 2002.

of the voters and taxpayers. The features of a public budget ensure the unique foundation on which its preparation, approval and execution are based. In public administration the budget serves as a decision-making instrument by which priorities are set, goals and objective are established, operating programs are compiled and control exercised. A budget document is the final product in the budget process and it should be suitable for consideration and approval by the legislative authority, while the execution of its contents should realize public objectives. The quality of the budget depends on the accuracy of the supporting data, the quality of the methods used and the expertise as well as the integrity with which it has been compiled.[2]

❖ ***The Principles***

"Public Budgeting" contains the expenditure plan, as well as the revenue estimates, of the government. The classical principles for appraising budgets are[3]

[1] Comprehensiveness : The budget should include all receipts and outlays of the government. The single process would include all activities of the government.

[2] Unity : All spending and revenue-collecting parts should be related to each other. Consistent evaluation criteria should be applied to any expenditure, regardless of the government area in which it is located.

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[2] Mihaly Hogye, *Theoretical Approaches to Public Budgeting*.

[3] John L. Mikesell, *Fiscal Administration—Analysis and Applications for the Public Sector*, Pacific Grove, California, 1991.

[3] Exclusiveness : Only financial matters should be in the budget.

[4] Specification : The budget should be executed as it is enacted. Cavalier changes should not be made during the budget year.

[5] Annually : The budget should be prepared every year for the next year of agency existence.

[6] Accuracy : Forecasts should be as reasonable as possible and the document should be internally consistent.

[7] Clarity : The budget should describe what is proposed in understandable fashion. The document, in an effort to encompass all, should not bury policy intent in line-item detail.

[8] Publicity : The budget in a representative democracy should not be secret.

However, the most important budget related rules are *comprehensiveness* and a *multi-year perspective* in budget elaboration, and the capability for *monitoring implementation* so as to further *accountability* and timely adjustments.[4] These also partly correspond with specification, clarity and publicity.

- ***The Formats***

The format of public budgeting system is determined by the level at which governments need to control and manage budgets. The well-known and widely-used

[4] Francois Lacasse, Budget and Policy Making : *Issues, Tensions and Solutions in Budgeting and Policy Making*, Paris: Sigma Papers: No. 8, 1996.

formats can be summarized as follow[5]

[1] Line-item Budgeting : refers to objects or lines of expenditure – for example : personnel, supplies, contractual services, capital outlay – that are the focus of development, analysis, authorization and control of the budget. Even when a more complex budgeting technique is used, the line-item budget usually exists.

Purpose	Financial accountability
Central Question	Is the money being spent according to intention?
Problem to be Solved	Preventing misappropriation of funds
Strengths	***Weaknesses***
▪ Simplicity, ease of preparation, and recognition by all involved in process ▪ Save time ▪ High degree of control and allow for accumulation of expenditures at functional level ▪ Accumulation of expenditure data by organization for use in trend or historical analysis	▪ No incentive to change ▪ Generally prohibits shifting funds among budget categories ▪ Presents little useful information on functions and activities of organizations ▪ Not good for dealing with questions of efficiency, effectiveness, future and/or neglected concerns

[2] Planning-Programming Budgeting (PPB) : refers to budgets that are formulated and appropriated on the basis of expected results of services to be carried out by programs. Emphasis placed on identifying objectives of governmental entity and relating all program expenditures to these activities. The budget request and report are summarized in terms of broad programs rather than detail of line-item

5 Douglas Morgan and Kent Robinson, *Handbook on Public Budgeting*, Hatfield School of Government Executive Leadership Institute, Portland State University, 2002

which is less control and evaluation oriented. Conceptual framework focuses on long-term costs of programs and evaluation of different program alternatives that may be used to attain long-term goals and objectives. This format is considered as a transitional form between traditional line-item and performance budgeting.

<table>
<tr><td>Purpose</td><td colspan="2">Program accountability</td></tr>
<tr><td>Central Question</td><td colspan="2">Is the program achieving its goals and objectives?</td></tr>
<tr><td>Problem to be Solved</td><td colspan="2">Program effectiveness</td></tr>
<tr><td colspan="2"><u>Strengths</u>
▪ Provides clear linkage between program activities and budget allocation
▪ Expenditures tied to agency goals and long-term planning -- links parts to whole and present to future
▪ Useful quantitative tools
▪ Accountability mechanism</td><td><u>Weaknesses</u>
▪ Consensus on fundamental objectives of governmental entity is difficult to reach
▪ Development of long-term cost/benefit projections and program alternatives-difficult and expensive undertaking
▪ Difficult to administer since expenditures may cross organizational units-problem controlling expenditures and responsibility accounting – high potential for conflict
▪ Trained budget analysts required
▪ Voluminous amounts of data</td></tr>
</table>

[3] Performance Budgeting : Similar to planning-programming budgeting, performance budgets are constructed by program but focus on program goals and objectives; measured by short-term outputs, projected longer term outcomes, and cost/benefits analysis. Appropriations are not only linked with programs, but also with expected results specified by these performance criteria.

Purpose	Program efficiency/effectiveness
Central Question	Is the program cost-effective? Is the program effective?
Problem to be Solved	Measures of what is being accomplished

Strengths	***Weaknesses***
▪ Comprehensive decision making ▪ Expedites appropriation process ▪ Internal managerial control ▪ Provides more useful information for legislative consideration and clearer basis for evaluation of administrators ▪ Organizes budget into quantitative estimates of costs and accomplishments ▪ Eases legislative budget revisions since program activities/levels of service budgeted based on standard cost inputs	▪ Time-consuming and expensive ▪ High potential for resistance because of fear of measures being used to penalize ▪ Difficult to measure -- Limited in measuring effectiveness ▪ Need a reliable standard cost information

[4] Zero-Based Budgeting : subjects all programs, activities and expenditures to justification annually. Central point is the elimination of outdated efforts and expenditures and concentration of resources where most effective. Funding requests recommendations and allocations for existing and new programs are usually ranked in priority order on the basis of alternative service levels, which are lower, equal to and higher than current levels. This process can be used in conjunction with either line-item budgeting and/or planning-programming budgeting.

Purpose	Priority and appropriateness of what is and should be done
Central Question	What should we be doing? Are we giving appropriate priority to current programs/ activities?
Problem to be Solved	Deciding whether to continue doing what has been done in the past

Strengths	***Weaknesses***
▪ Provides opportunity for existing assumptions and activities to be re-examined ▪ Provides opportunity to reallocate resources ▪ Focus on results & outcomes ▪ Rational and Objective ▪ Emphasizes what needs to be budgeted ▪ Most useful when overall spending must be reduced	▪ Places a high burden on organizational resources ▪ Threatening -- usually create resistance ▪ Difficult to achieve comparability across organizational units ▪ No budget history ▪ Time consuming ▪ Ad-hoc judgments ▪ Requires great deal of staff time, planning, and paperwork to be worthwhile ▪ May only be appropriate for some activities on a periodic basis

The best practices of international countries

In 1990s and 2000s, many governments have taken steps to make the budgets of their countries more performance-oriented. The information about international experiences in the implementation of Performance-based budgeting (PBB) including the best practices and valuable lessons are widely available from various countries.

In initiating performance-based budgeting system, Thai's government is attempted to learn from the developed countries which have employed performance and output or results-oriented budgeting practices over the past decade with more progressive and some success. However, the best practices are based on different countries' experiences in each area and are not meant to constitute as a formal standard. Finally, the United States-, the United Kingdom-, and Australia (Victoria State) systems are considered as the appropriate models for PBB reforming in

Thailand. Their systems have some features – such as the medium-term financial planning, the contract for results, and the performance evaluating tool – that can support Thailand, if well implemented, to achieve its budgeting system reform targets.

❖ ***The United States***

In the United States, the federal budget is prepared by the Office of Management and Budget (OMB) and submitted to Congress for consideration. The budget process has three main phases which are [1] Formulation of the President's proposed budget, [2] Congressional action on the budget, and [3] Budget execution. The budget year (fiscal year) begins on October 1st and ends on September 30th. The following timetable highlights the scheduled dates for significant budget events during the year.

Timetable : Budget Calendar	
Between the 1st Monday in January and the 1st Monday in February	President transmits the budget
Six weeks later	Congressional committees report budget estimates to Budget Committees.
April 15	Action to be completed on congressional budget resolution.
May 15	House consideration of annual appropriations bills may begin.
June 15	Action to be completed on reconciliation.
June 30	Action on appropriations to be completed by House.
July 15	President transmits Mid-Session Review of the budget.
October 1	Fiscal year begins
15 days after the end of a session of Congress	OMB issues final sequestration report, and the President issues a sequestration order, if necessary.

Performance-based budgeting (PBB) is used as a results-oriented system – guided not by process but guided by performance.[6] The system emphasizes on productivity, effective outputs, quality in terms of accuracy, and timeliness. Also, the linkages between agencies' strategic plans that consist of strategic objectives, output-goals, and outcome-goals and their budget requested are the core consideration for budget allocation. For the budget execution, transfer authority varies from agency to agency. Transfers are frequently limited to 1-2 percent of appropriations for the agency and often require approval by congress. However, the transfers between capital investments or transfer programs and operating expenditures are not permitted.

The budget documents provide information on all Federal agencies and programs including performance targets as well as reports on performance in relation to last year's targets. The budget is generally reporting on a cash basis with the exemptions of interest expenses, certain employee pension plans, and loan and guarantee programs which are treated on accrual basis. Moreover, the budget presents on-budget and off-budget totals. The off-budget totals include the transactions excluded by law from the budget totals. The on-budget and off-budget amounts are added together to derive the totals for the Federal Government. These

[6] Office of Management and Budget (OMB), The president's management agenda, FY 2002

are referred to as the unified or consolidated budget totals.[7] The budget covers at least the four years following the budget year in order to reflect the effect of budget decisions over the longer term.

In addition, the Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the Federal government can achieve better results. PART is a questionnaire used to evaluate a program's purpose, design, planning, management, results, and accountability to determine its overall effectiveness. Individual program ratings are a core part of this process. Federal agencies and OMB work together to decide which programs will be reviewed each year using the PART.

❖ ***The United Kingdom***

In the United Kingdom, the budget is prepared by the Chancellor of the Exchequer and must be passed by Parliament. The public expenditure framework is based on four key principles which are [1] consistency with a long-term, prudent and transparent regime for managing the public finances as a whole, [2] the judgment of success by policy outcomes rather than resource inputs, [3] strong incentives for departments and their partners in service delivery to plan over several years and plan together where necessary, and [4] the proper costing and management of capital

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[7] Budget System and Concepts and Glossary, Analytical Perspectives, www.gpoaccess.gov

assets to provide the right incentives for public investment.

Since 1997, the Treasury presents two economic forecasts per year. In Spring, the Chancellor presents the Budget , and in Autumn, the Pre-Budget Report (PBR) is released. The time-frame of budget events can be summarized as follow[8]

Timetable : Budget Calendar		
Spring Budget	2nd April	▪ Publication of Annual Expenditure Report
	April / May	▪ Finance Committee oversees consultation process with subject committees ▪ Subject committees examine relevant chapter ▪ Send reports to Finance Committee
End Year Flexibility Announcement (before or after Summer Recess)	June	▪ Finance Committee Reports to Parliament ▪ Parliament debates this Report
Spending Review	Sep	▪ Executive publishes draft Budget and Spending Plans ▪ Subject committees examine and send reports to Finance Committee
Autumn revisions	Oct	▪ Finance Committee considers the draft budget and may propose alternative
Pre-Budget Report	Nov / Dec	▪ Finance Committee Report ▪ Parliament debates Report (mid December)
Spring revisions	Jan	▪ Executive produces proposals (having considered Parliament's recommendations)
	Jan / Feb	▪ Parliament debates Budget Bill ▪ Executive amendments and Parliamentary vote

The framework of public expenditure is divided between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).[9]

Departmental Expenditure Limits (DEL) are planned and controlled on a three year basis in biennial Spending Reviews. To encourage departments to plan over the medium term and removes the perverse incentive to use up their provision

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8 The Scottish Parliament - Information Center : *The Annual Budget Process*, April 2002

9 Barrett B. Anderson, *Biennial Budgeting : The UK's public expenditure framework*, July 2005

as the year end approaches without regard to value for money, departments may carry forward unspent DEL provision from one year into the next. However, for the full benefits to feed through into improved public service delivery, it is important that end-year flexibility and three year budgets are cascaded from departments to executive agencies and other budget holders.

Annually Managed Expenditure (AME) is an expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL. AME includes social security benefits, local authority self-financed expenditure, payments under the Common Agricultural Policy, debt interest, and net payments to EU institutions. AME is reviewed twice a year as part of the Budget and Pre-Budget Report process. The close integration of the tax and benefit system provides a strong rationale for consideration of AME in the annual budget cycle. Together, DEL plus AME sum to Total Managed Expenditure (TME), the broadest measure of total public expenditure.

Three-year Publish Service Agreement (PSA) which sets out a government's high-level aim, priority objectives and key outcome-based performance targets is negotiated between each of the main Departments and HM Treasury during the Spending Review process. At the same time, the government committed itself by providing the Service Delivery Agreement (SDA) which sets out departments' agreed strategy for delivering those high-level objectives, and how they needed to change internally to achieve best value for money in doing so. Currently, the government is implementing a full accruals system. High flexibility budget execution is provided. Agencies can freely transfer the operating appropriations to capital expenditures. In addition, the budget information is published in the Economic and Fiscal Strategy Report (EFSR) and the Financial Statement and Budget Report (FSBR).[10]

❖ ***Australia (Victoria State)***

In the Australian state of Victoria, the Expenditure Review Committee (ERC), a sub-committee of Cabinet, is responsible for monitoring all government funding decisions. The committee is comprised of the Premier, Deputy Premier, Treasurer, Minister for Finance, Minister for Transport, Minister for Education & Training, and Minister for Industrial Relations. The government sector has two budgeting processes.[11] First is the "*State budget process*" which draws together the government's estimates of revenue and expenditure for the budget year. This is called the external budget which provides appropriations to departments to deliver output. Second is a "*Departments' own budget setting process*" or internal budget. It is part of a department's internal financial management and is important for business planning, resource allocation, and performance management.

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[10] The United Kingdom's HM Treasury web-site, www.hm-treasury.gov.uk

[11] Auditor General Victoria, Budget development and management within departments *: State and Internal budgets*, May 2004

The State budget process is underpinned by the submission of budget bids to the government by departments. This involves 2-stage *"ERC"* process. Department of Treasury and Finance usually issues a *"Budget Memorandum"* in September each year that outlines the ERC process for the forthcoming State Budget.[12]

ERC Stage 1 (October - November)

The overall financial and policy strategy and direction is determined for the forthcoming Budget. Key inputs to ERC Stage 1 include

- *Growing Victoria Together* policy framework incorporating medium term outcomes, priority actions and progress measures
- Submissions from Ministers on departmental and agency high-level strategic objectives based on information from corporate plans
- Advice from the Treasurer on the aggregate Budget position and economic outlook, and on the strategic framework for managing major asset investment proposals
- Information from other sources and stakeholders process

ERC Stage 2 (December - March)

In Stage 2, ERC considers submissions from Ministers containing proposals for new output and asset initiatives. Key inputs include

[12] Victorian Government Public Sector Policy, *Expenditure Review Committee*, www.arts.vic.gov.au

- Ministerial submissions containing information on
    - medium-term departmental strategic performance issues and output statements
    - implementation plans for output/asset proposals consistent with the broad budget funding priorities agreed in Stage 1
- Any additional submissions commissioned by ERC in Stage 1
    - implementation plans for non-priority emerging cost pressures
    - departmental and whole-of-government revenue, reprioritizations and/or savings options to increase budget capacity

Based on the relative priority of proposed output and asset investment initiatives, Expenditure Review Committee (ERC) makes decisions about which outputs to purchase, for what price, and allocation of resources for new fixed asset investment projects. These decisions are made in light of the Government's broader social, economic, environmental and financial policy objectives and commitment to responsible financial management. The decisions arising out of this process, subject to formal Cabinet approval, form the basis of the annual State Budget.

The internal budget process starts with the requirement by departments to deliver outputs. These are included in the departments' corporate and business plans as service delivery targets and priorities. Internal budgeting is affected by external changes where, for example, parliamentary appropriations to purchase outputs are increased or reduced by government.[13]

In 1998, the government of Victoria implemented a comprehensive, state wide Accrual Output Based Budgeting (AOBB) System. This included the adoption of accrual based accounting and financial reporting and the implementation of a capital charging regime.[14] The main characteristic of this system was the separation of the funder (government), the purchaser (portfolio ministers and departmental secretaries), and the provider (departments' agencies or external bodies) roles. Moreover, central to the output management process from a financial management perspective was the conceptualization of linkages between funding, reporting and monitoring of defined outputs to government strategic priorities and outcomes.

In summary, the lessons from the study of other countries best practices are [1] There is no specific model of performance-based budgeting and each country needs to adjust its approach to the relevant political and institutional circumstances. However, it is worthwhile to learn from the experience of other countries. The review processes provide the opportunities for the decision-makers to select good practices to be replicated in Thailand and avoid potential pitfalls. For examples,

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[13] Australian National Audit Office, *Internal Budgeting Better Practice Guide*, February 2003

[14] Carlin M. Tyrone, *Victoria's Accrual Output Based Budgeting System : Delivering as Promised? Some Empirical Evidence,* Macquarie University - Graduate School of Management, 2003

- Annual budgeting cannot be performed properly in isolation but has to be linked to planning, in the context of a multiyear framework. The medium-term expenditure framework (MTEF) encourages cooperation across ministries and planning over a longer horizon than the immediately upcoming fiscal year. It is a tool to enhance stability, link budgets with the policy choices made, and improve outcomes by increasing transparency, accountability, and the predictability of funding.
- Public Service Agreements (PSA) and Service Delivery Agreement (SDA) incorporate improved priority setting, information about performance, and incentive effects for public sector delivery and accountability through a system of performance targets. However, it has been recognized that there are limitations to performance indicators capturing all relevant aspects dictating performance. It is easier to devise and identify outputs rather than outcomes, which are more relevant to performance.
- A program assessment rating tool (PART) review helps identify a program’s strengths and weaknesses to inform funding and management decisions aimed at making the program more effective.

> However, many PART questions contain subjective terms that are open to interpretation. Also, the yes/no format employed throughout most of the PART questionnaire resulted in oversimplified answers to some questions. It was particularly troublesome for questions containing multiple criteria for a "yes" answer. The further guidance is, therefore, necessary for a clear and consistent point of view.

and [2] Budget reform is a journey, not a destination. In some countries, it has taken several years to establish a government-wide performance management framework and they continue to make improvements. In case of Thailand, the first step in the performance-based budgeting implementation has already been taken, but effective implementation of this framework is a long-term process.

Chapter III

Background of Thai's Budgeting System

The Structure of Governance

Thailand is a constitutional monarchy, with the King as the Head of State. The leader of the government is the Prime Minister, who presides over the Cabinet of Ministers. The Thai Parliament is the supreme law-making authority, and consists of the Senate, whose members are elected for six-year terms, and the House of Representatives, whose members are elected for four-year terms. The Cabinet consists of a 36 members – the Prime Minister and 35 other ministers. A number of Deputy Prime Ministers are appointed for specific issues and areas (presently six). Smaller cabinet committees have been set up to screen and coordinate proposals before submission to the full cabinet in order to promote policy coherence across government. The structure of governance is divided into national, provincial (*changwat*) and district levels, with the provinces headed by *changwat* governors and districts by district chiefs. However, the city of Bangkok has its own governmental authority known as the Bangkok Metropolitan Authority.

The Office of the Prime Minister is a central body, which in itself ranks as a ministry, whose responsibility is largely concerned with formulating national policy. Some of its primary subdivisions are the Bureau of the Budget, the National Security

Council, the Juridical Council, the National Economic and Social Development Board, the Board of Investment, the Civil Service Commission, the Office of Public Sector Development Commission, and several other organizations vital to the formulation of national policy.

Currently, the central government is organized around 20 ministries and 143 departments. All ministries are divided on a functional basis and all staffs are career civil servants. The head of each ministry is the Permanent Secretary, who has administrative control over all the departments of the ministry – each of which is headed by a Director General. Despite being hierarchically subordinate to their respective ministry, the departments have traditionally enjoyed a great deal of *"separate identity"* from their parent ministries.

In addition to ministries and departments, two new types of government organizations have been created recently – [1] Autonomous Public Organizations (APO) which were created by transforming whole departments into the new organization form and [2] Service Delivery Units (SDU) which were created by transforming individual parts of departments. These organizations could be understood as the Thai version of full-fledged *"Executive Agencies"* regardless of their names.[15] They go beyond the organizational model of departments to embrace

[15] Jon R. Blondal and Sang in Kim, 2005 meeting of the OECD Asian Senior Budget Officials : *Budgeting in Thailand – A review of Thai budgeting system*, December 2005

increased managerial flexibility. These units generally enjoy exemptions from the general central management rules in terms of budgeting and human resource management. Examples include receiving lump-sum appropriations for their entire budget allocation and being able to hire staff on terms similar to those in private sector.

The Bureau of the Budget (Royal Thai Government)

The Bureau of the Budget (BOB) was established on February 14th, 1959 as a central agency in finance and budgeting system under the auspices of the Office of the Prime Minister. The main responsibility is to allocate the budget for Royal Thai Government Agencies and State Owned Enterprises according to the Government Policies and the National Economic and Social Development Plan; and also acts as a management consultant to all government agencies. Its primary functions are

[1] Budget Preparation – Formulates budget allocation policy, prepares guidelines, and issues budget calendar for each fiscal year for line agencies to follow. Then, the Bureau of the Budget collects budget requests, analyzes and recommends the annual appropriations to the Prime minister and the cabinet.

[2] Budget Adoption – Assists the government line agencies in articulating the budget to the parliament.

[3] Budget Execution – After the budget bill becomes effective, the Bureau of the Budget oversees budget execution through comprehensive ex-ante, or input,

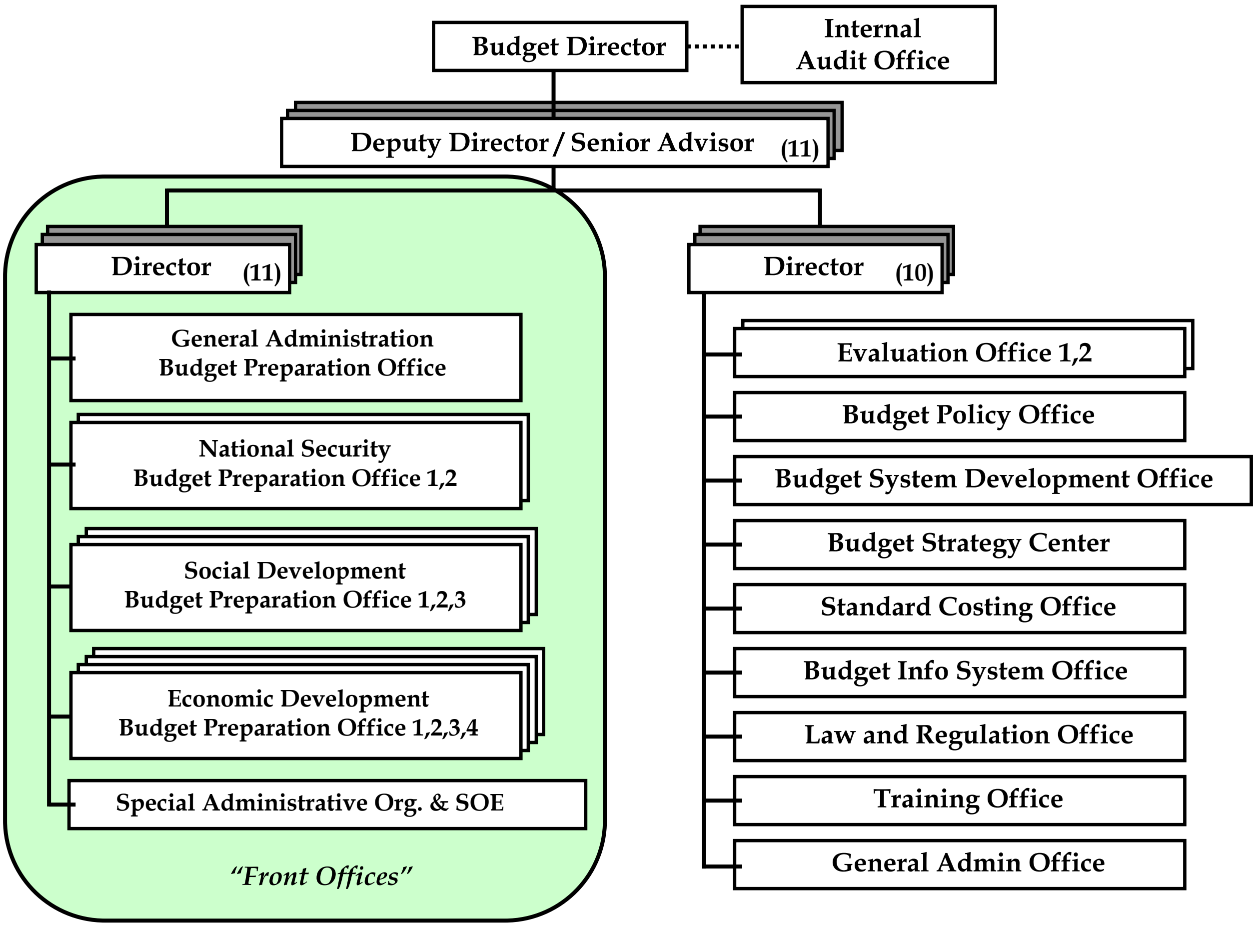
control mechanisms.

[4] Budget Monitoring and Evaluation – Monitors and evaluates the performance of public expenditures to ensure consistency with the policies and objectives of the government on the basis of transparency, effectiveness, and efficiency.

[5] Policy Advice – Works closely with the Ministry of Finance (MOF), the National Economic and Social Development Board (NESDB), and the Bank of Thailand (BOT) in formulating the national fiscal policy. Also, advices the cabinet and government line agencies for all issues that pertaining to budgeting and other actions that have budgetary impacts.

The Bureau of the Budget is headed by a Budget Director with a total staff of approximately 900 officers. Its organizational structure consists of 11 front offices as the core functions and 10 back offices. Among front offices, the Budget Preparation Offices work closely with the government’s line agencies and state owned enterprises (SOE) under their responsibilities for the policy advice, budget preparation, budget adoption, and budget execution. The total national budget is allocated to all line agencies at the Ministry’s department level. The Evaluation Offices are responsible for the budget monitoring and evaluation while the other back offices support the core functions in both technical and administration terms. The BOB’s organizational structure is illustrated in figure 1 below

Figure 1 : The BOB's organizational structure



Source : The Bureau of the Budget, Thailand

The Budgetary Procedure Act (B.E. 2502)

In Thailand, the law concerning the preparation of budget is the revised of *"Budgetary Procedure Act, B.E. 2502."* Its important principles are [16] [1] To determine the time period of a fiscal year; [2] To determine the duties of the Minister of Finance and the Director of the Budget Bureau so as to be clear and appropriate for

16 Law and Regulation Office, The Bureau of the Budget, Thailand

the new plan of the budgetary procedure; [3] To determine the essentials of the content of the budgetary documents so as to be taken as a standard form; [4] To determine the principle concerning the drawing and payment of money from the treasury, the keeping of money and the sending of money to the treasury so as to be more efficient; and [5] To determine the liability of the finance officials. The details of the Budgetary Procedure Act, B.E. 2502 (1959) (amended) consist of 34 Sections (see Appendix).

Annual Budgeting Process

The fiscal year in Thailand is the period of time from the October 1st of one year to the September 30th of the following year. The annual budgeting process can be divided into two phases:[17] [1] Budget Preparation and [2] Budget Approval.

Budget Preparation Timetable[18]

January - February	"*Gang of Four*" prepare economic assumptions Bureau of the Budget updates baseline projections Spending ministries prepare and submit their initial budget bids
March	Aggregate budget ceilings established for individual ministries
April	Spending ministries submit second budget bids – in line with their ceilings
May	Budget finalised and submitted to parliament

[17] Budget Strategy Center, Budget System Development Office, and Budget Policy Office – The Bureau of the Budget, Thailand

[18] As applied for fiscal year 2006 budget.

The annual budget preparation process begins 10 months earlier, i.e. January. The first step is to determine the economic assumptions applicable for the budget. This is carried out jointly by four key central economic agencies, colloquially known as the *"Gang of Four."* These are the Bank of Thailand (central bank), the Ministry of Finance (taxation; cash and debt management), the National Economic and Social Development Board (macroeconomic analysis; central planning machinery) and the Bureau of the Budget. The consensus forecast is submitted to the Prime Minister for final approval. This should conclude in February. At the same time, the Bureau of the Budget will be updating its baseline estimates (medium-term expenditure framework) for the continuation of current government policies. This will involve a review of last year's operational and financial performance with frequently informal contacts between analysts at the Bureau of the Budget and officials at spending ministries. However, the baseline forecast for out-years is not published; it is an internal Bureau of the Budget document only. Parallel to this, spending ministries will be working on their budget submissions and submit their initial bids in February.

Spending ministries submit these bids before the overall expenditure ceilings are decided. These initial bids are generally wildly in excess of any realistic expectations of funding. At this stage, the Bureau of the Budget is in a position to formulate the budget framework for the following year. Based on the work of the

Gang of Four, the total resources available for next year's budget will be known. The update of the baselines for current activities will have been completed, thus revealing how much money is left for new initiatives. The Bureau of the Budget will then propose expenditure ceilings for each ministry. These will be submitted to the Prime Minister for approval. Each minister is then required to submit a new spending request (second budget bid) by the end of April.

Spending ministries are granted an aggregate ceiling which they can reallocate among their various programs and agencies – subject to final approval by the Bureau of the Budget. The Bureau of the Budget evaluates each bid for new funding against three dimensions:

- Is it in line with government priorities?
- Is the agency making the bid the correct administrative unit to be carrying it out?
- How does it contribute to empowering lower levels of government?

In evaluating the bids, the Bureau of the Budget establishes an internal budget committee headed by the budget director and five internal sub-committees. The sub-committees reflect the organization of the Bureau into five analytical areas. Each sub-committee is headed by the respective deputy director responsible for that area. Following the review of the sub-committees, the internal budget committee reviews their conclusions and makes any amendments and then submits them to the prime minister for his final approval. The Cabinet then formally approves them.

In addition, the Parliament also authorizes a comparatively large discretionary fund – the *"Central Fund"* – to the Prime Minister to meet new priorities during the year. The use of this fund is prima facie a strong indication of the government's priorities. While about 80 percent of total government outlay is pre-determined in the budget formulation and approval phases, the other 20 percent is deposited in the central fund which can be operated as an in-year discretionary fund for specific purposes such as enhancing national's competitiveness and sustainable development, emergency projects, etc. This serves to create additional flexibility in budget implementation.

For the second phase – budget approval – the 1997 Constitution imposed time limits on how long the House of Representatives and the Senate have to consider the Budget. In the case of the House, it is 105 days. A general session of the House lasts 120 days so this essentially means that the House has its entire session to deliberate the budget proposal. The Senate has 20 days to finish its deliberations and make an up-or-down vote on the budget. If either the House or the Senate has not finished the consideration of the budget within these periods, the budget is deemed to have been approved by them.

Budget Approval Timetable	
End May	Budget is introduced in the House of Representatives by the Prime Minister – *First reading* takes place immediately
July-September	*Scrutiny Committee on the Budget* reviews government's proposal
September	Informal negotiations between Government and Opposition on amending the Budget *Second reading* – votes on each individual amendment to the budget *Third reading* – up-or-down vote on the budget as a whole
Late September	Senate take one up-or-down vote on the budget as a whole following 2 day debate

The parliamentary budget process starts with the Prime Minister introducing the government's budget in the House of Representatives. This generally occurs in May and usually follows the ceremony for the King's annual convocation of the National Assembly. Following the Prime Minister's *budget speech*, the leaders of Opposition political parties counter with their different economic and social outlooks and how they would be reflected in the budget if they were in power. This is a *"macro-debate"* where different political philosophies are aired rather than any specifics of the budget. Following this debate – which constitutes the *First Reading* of the budget – a vote is taken. This is considered a vote-of-confidence in the government. If the government were to lose this vote, the government would resign and a new election would be called. If the vote is won, as is normally the case, a

“Scrutiny Committee” is selected to examine the government’s budget proposal.

The Scrutiny Committee is an *Ad Hoc* committee which is formally selected anew each year. The Committee is a joint Legislative-Executive Committee with the government nominating about one-fourth of the total 79 memberships and the Minister of Finance serves as the chairman. The Committee normally divides into several sub-committees to address the different sectors of the budget. During the sub-committee’s meetings, the relevant Minister, the Permanent Secretary, and heads of subsidiary departments (agencies) appear. The meetings are not open to the public.

After that, the budget goes to a plenary session of the House of Representatives for its *Second Reading*. For the budget, this is a technical session where all the amendments previously agreed informally by the government and the Opposition are made official. An individual vote is taken on all the separate amendments. The *Second Reading* normally occupies several full days. Then, the final and *Third Reading* is a pro-forma event where an up-or-down vote is taken on the budget as a whole incorporating the amendments made during the *Second Reading*.

Following its approval in the House of Representatives, the budget is transmitted to the Senate which can only make an up-or-down vote on the budget in total. Once the House of Representatives an the Senate have approved the budget, it is submitted to His Majesty the King for Royal Assent. Although it has always been the case for the budget, Royal Assent is by no means automatic. The Royals have a solid checks-and-balances role on government, on behalf of the people. This is an informal aspect to the Thai parliamentary budget process.

Highlight of the budget policy trends

Following the Asian financial crisis of 1997, the Royal Thai Government has taken strong macroeconomic steps to stimulate the economy. Fiscal policy is one of the most important tools for economic management. Expansionary fiscal policy includes the usual budget deficits, foreign-financed spending, and tax burden reduction. Table 1 shows the budget structure with an itemized breakdown of government revenues and expenditures.

Table 1 : The latest 10-fiscal year budget structures (FY 1998 – FY 2007)

Unit : Million Baht

Budget Structure	1998	1999	2000	2001	2002
1. Expenditures	**830,000**	**825,000**	**860,000**	**910,000**	**1,023,000**
% of GDP	17.1	17.2	17.1	17.9	18.9
1.1 Current	**519,505.8**	**586,115.1**	**635,585.1**	**679,286.5**	**773,714.1**
% of total budget	62.6	71.1	73.9	74.7	75.6
1.2 Capital	**279,258.1**	**233,534.7**	**217,097.6**	**218,578.2**	**223,617**
% of total budget	33.6	28.3	25.2	24.0	21.9
1.3 Principle Repayments	**31,236.1**	**5,350.2**	**7,317.3**	**12,135.3**	**25,668.9**
% of total budget	3.8	0.6	0.9	1.3	2.5
2. Receipts	**830,000**	**825,000**	**860,000**	**910,000**	**1,023,000**
2.1 Revenues	**782,000**	**800,000**	**750,000**	**805,000**	**823,000**
% of GDP	16.1	16.7	14.9	15.8	15.2
2.2 Domestic Borrowing	**48,000**	**25,000**	**110,000**	**105,000**	**200,000**
% of GDP	1.0	0.5	2.2	2.1	3.7
GDP	**4,861,000**	**4,783,000**	**5,032,102**	**5,091,400**	**5,399,600**

Table 1 (Continued)

Unit : Million Baht

Budget Structure	2003	2004	2005	2006	2007
1. Expenditures	**999,900**	**1,163,500**	**1,250,000**	**1,360,000**	**1,566,200**
% of GDP	17.0	18.0	17.5	17.4	18.5
1.1 Current	**753,454.7**	**836,544.4**	**881,251.7**	**958,477**	**1,135,988.1**
% of total budget	75.4	71.9	70.5	70.5	72.5
1.2 Capital	**211,493.5**	**292,800.2**	**318,672**	**358,335.8**	**374,721.4**
% of total budget	21.1	25.2	25.5	26.3	24.0
1.3 Principle Repayments	**34,951.8**	**34,155.4**	**50,076.3**	**43,187.2**	**55,490.5**
% of total budget	3.5	2.9	4.0	3.2	3.5
2. Receipts	**999,900**	**1,163,500**	**1,250,000**	**1,360,000**	**1,566,200**
2.1 Revenues	**825,000**	**1,063,600**	**1,250,000**	**1,360,000**	**1,420,000**
% of GDP	14.1	16.4	17.5	17.4	16.8
2.2 Domestic Borrowing	**174,900**	**99,900**	**-**	**-**	**146,200**
% of GDP	2.9	1.6	-	-	1.7
GDP	**5,868,000**	**6,476,100**	**7,142,400**	**7,786,200**	**8,471,400**

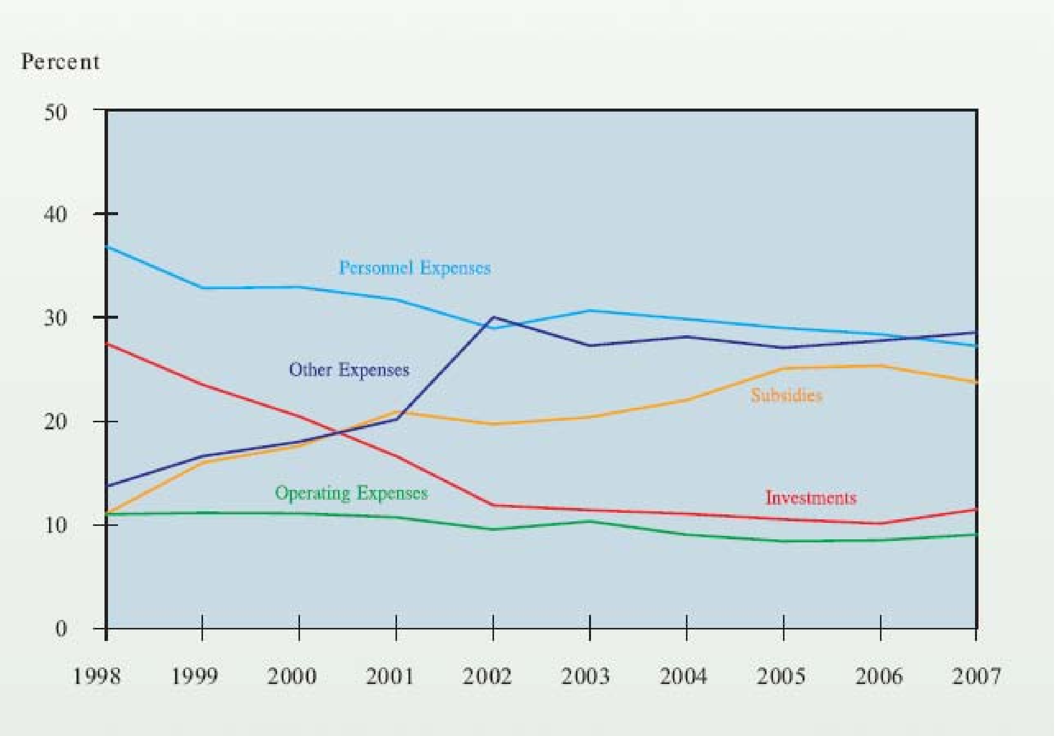
N.B. Growth rates of GDP are at current market prices.
Sources : (1) Bureau of the Budget (2) Ministry of Finance

According to table 1, several years of post-crisis deficit spending by the government in addition to the liabilities incurred in the international bailout program continue to weigh down the economy. The government's annual budget deficit as a percent of GDP was a manageable 1.0% in 1998, and then soared to a peak 3.7% of GDP in 2002. Fortunately, the government revenues have reached expected targets in 2002 and the same trend of revenue was continued for the several following fiscal years. Consequently, it allowed the government to be able to close the deficit gap and adopt the balanced budget policy in fiscal year 2005 – 2006. However, Thai government (interim government from the military coup in September 2006) has made a decision to run the budget deficit again in fiscal year 2007 with an intention to keep the country's economic growth and reflect the government's actual spending costs.[19] The government would still focus on maintaining the fiscal discipline and economic stability for the budget management by adopting the sufficiency economy philosophy to manage the spending budget. It would adhere to the transparent, fair, saving, efficient and balanced approaches to developing the country's social, economic, natural resource and environment affairs.[20]

In addition, for the expenditure side, it can be classified into five objects of expenditure – personnel, operating, investment, subsidies, and other. The available funds from national budget sources mostly spent for the personnel expenses and least for the investment and operating (as shown in Figure 2). Therefore, in order to make the budget allocation harmonious and responsive to the government's policy of maximizing benefits from the budget expenditures, Thailand needed a strong effort to control the amount of current expenditure and manage the remaining funds with efficiency, productivity and cost-effectiveness.

[19] Budget in Brief 2007, The Bureau of the Budget, Thailand
[20] Speech of Prime Minister Surayud Chulanont, Thailand Board of Investment press releases, 2007

Figure 2 : Budget appropriation by objects of expenses (FY 1998 – FY 2007)



N.B.

Personnel expenses

Expenses on personnel administration in public sector, e.g. salaries, permanent wages, temporary wages, and wages for employees under contracts.

Operating expenses

Expenses on administration and operations, e.g. remuneration, services other than personnel and supplies, public utilities

Investments

Expenses on equipments, land, buildings and related expenses

Subsidies

Expenses on support for operations of local administrative organizations, private organizations and other juristic persons. These expenses are classified as personnel expenses, operating expenses and investments.

Other expenses

Expenses that cannot be classified by the above categories or expenses that Bureau of the Budget specifies to be made from this account. These expenses are also classified as personnel expenses, operating expenses and investments.

Chapter IV

Analysis of Budgeting System Reform in Thailand

Budgeting System in former years

Thai's budgeting system has undergone continuous development since the early 1980s. The country replaced its first budgeting system, Line-item or Input-Based, with Planning-Programming Budgeting System (PPBS) in 1982, and again transformed the PPBS with the current budgeting system known as Strategic Performance Based Budgeting System (SPBB) in 2003. When- Why- and How did these reforms happen are analyzed and discussed as follow;

❖ ***Line-item (Input-Based) Budgeting System***

Thailand budgeting system has been traditionally highly centralized. In the first stages of the Budget Bureau's establishment (1959), the State Administration structure was not as complicated as today. Moreover, the aggregate budget ceiling was not large, and the structure of government functions were less complicated. The early stage of budgeting, therefore, focused on the details of expenditures. This system is known as Input-Based budgeting, also widely known as the Line-item budgeting system. The system process focused on the documentation and subsequent control of the amounts of resources earmarked for various activities. It generates an itemized and proportioned plan for budget spending.

Under this system, the budgeting practice is based on bottom-up bidding and bargaining for funds between department heads and the Bureau of the Budget. The Bureau of the Budget (BOB) controls each agency's spending in detail through numerous separate budget allocations (detailed line itemizing). Each agency is subject to further BOB controls through the four monthly funds allotment process. To help resolve the tension between line item detail and operational flexibility, line agencies can transfer funds between their detailed budget lines. However transfer arrangements are complex and rely heavily on BOB approval, contributing to line agencies chronically under-spending their budget allocations by the end of the budget year.

Although the detailed central control helped avoid over-spending and distorted spending of the agencies, it also impedes government effort to achieve the best value for money. The reason is because BOB based budget allocations on historical precedents with little or no reference to the results of the spending, and made incremental (or decremental) changes to last year's allocations in response to newly emerging policy priorities. Agencies were then have little incentive to develop the accounting and budgeting capacity to allocate funds more effectively or to deliver outputs using fewer resources because they assumed little responsibility for how funds are spent, instead tried to focus on increasing their historical funding level.

❖ ***Planning-Programming Budgeting System (PPBS)***

Due to the failure of Thai budgeting system to promote efficiency spending and value for money, the government therefore has made several attempts to introduce more results focused budgeting. The earliest was the introduction of program budgeting when the oil price crisis in the early 1980's began to place pressure on Thai public finances.

In 1982, the Bureau of the Budget designed the Planning-Programming Budgeting System (PPBS) to replace the Line-item Budgeting System. Under PPBS, the budgetary process was improved in many ways. The improvements include; [1] Preparing and evaluating budget expenditures by sectors; [2] Emphasizing program output, evaluation, planning and economic analysis functions; [3] Reducing central budget control and giving greater delegation of authority to departments to manage their plans and projects; and [4] Using computer facilities to automate routine allotments. This new system create a stronger link between agency allocations and the government's policy objectives than under traditional Line-item budgeting. It enables the level of spending for each policy objective to be tracked for budget prioritization and control. Moreover, the physical consequences of budget spending in each program were reported to a newly created Evaluation Office in BOB in order to assess their cost effectiveness.

At the beginning of reform, PPBS was not fully practicing. It appears that BOB was reluctant to use ex post output information available from its Evaluation Office for budget tracking and control. Rather than funds being allocated to agencies in program blocks, detailed line itemization continued as the basis for budget allocation and tracking in parallel with the new PPBS framework. Until 1997, the government again was forced to accelerate its budget reform by the economic crisis and the passage of the new Constitution. Consequently, in 1999, ***"Financial and Performance Management Standards"*** has been used as a major tool to relieve detailed centralized controls over line agencies. The standards involved seven management criteria, known as ***"7 Hurdles"***, that line agency needs to meet to substitute for external, centralized controls. External controls can then be loosened with less risk of wasted resources and greater chance of attaining better outcomes from government spending. The seven hurdles include

[1] Planning process – is to define long-term government targets, agency mission and service delivery plans to be consistent with government policies and strategies. This process requires both top-down and bottom-up medium term expenditures framework.

[2] Costing and Output Specification – are methodologies to assist government agencies in defining agency outputs, cost effectiveness and value for

money for government services. They are also critical for proper prioritization of scarce resources.

[3] Financial and Performance Reporting – is the mechanism critical to establishing a tangible accountability system. The performance information should be accurately reported and fed back into resource allocation process.

[4] Financial Management and Fund Control – is to ensure prudent, legal, and efficient utilization of funds in accordance with the intent of budget bill as approved by the Parliament.

[5] Procurement Management – is to enforce a transparent, effective and efficient procurement process. It is critical to achieve long-term cost effectiveness and operational flexibility.

[6] Asset Management – is to maximize asset utilization and to ensure operational efficiency. Proper asset maintenance increases asset productivity and long-term return on asset.

[7] Internal Auditing – is critical to financial devolution. Decreased central control must be replaced by strong internal control mechanisms by agencies.

The Bureau of the Budget offers to ease central controls led to quasi-contractual arrangements between the bureau and six pioneer agencies set out in signed memorandums of understanding. These agreements committed the pioneer agencies into management upgrades intended to fill gaps in the seven hurdle areas. The agreements also committed the Bureau to reducing central controls once the hurdles are cleared to its satisfaction. Once an agency met the hurdles, a resource agreement with the Bureau of the Budget was intended to formalize the agency's more devolved budget arrangements. The timing of the agreement depends on the time the agency takes to fill the gaps in the hurdle areas.[21]

To start a reform, the Bureau of the Budget assigned each pioneer agency a sector expert from a foreign government agency (mostly from Australia and New Zealand) that had introduced similar decentralized management. Thus, the consultants' experience with introducing modern agency management systems was both hands-on and sector-specific.[22] Each expert prepared a report identifying gaps in their assigned agency for the seven hurdle areas, together with strategies for filling the gaps. The reports gave the agencies a feel for the size of their gap-filling tasks and helped the Bureau of the Budget understand the hurdle standards to be achieved before easing central controls. Subsequently, a group of experts developed management system standards for the seven hurdles and the Bureau of the Budget consolidated the reports into a manual on budget reform.

[21] Geoffrey Dixon, The World Bank : *Thailand's hurdle approach to budget reform*, PREM Notes No. 73, page 2, August 2002

[22] Budget System Development Office – The Bureau of the Budget, Thailand

However, slow progress did prove to be a problem for this reform. The original hurdle approach was too complex. Seven hurdles were too many for the initial stage of reform. There was much confusion in pioneer agencies over what was required to achieve hurdle standards, reflecting overly ambitious standards and aggravated by limited technical assistance for budget reform. Moreover, inputs from international consultants were not integrated with budget reform efforts. Some consultants focused on later-stage reforms, such as introducing accrual budgeting, rather than on the immediate need for basic financial management systems in line agencies. In 2001, the Bureau of the Budget finally eased central controls on the six pioneer agencies by reducing some line-item details in their budget allocations and moving toward block grants, although no agencies had completely met the standards. Consequently, the block grants allocation ran into trouble because agency accounting systems were not able to meet required financial accountability standards.

Current Budgeting System

When it had become clear that PPBS failed to work effectively, the second round of Thai's budgeting reform in order to attempt more for a result focused budgeting was occurred. In February 2001, the government announced a plan to expedite budget reform process which aimed that budgeting becomes an effective and efficient tool for translating policies into tangible results, while empowering ministers, ministries and departments to manage with greater accountability and transparency coupled with comprehensive performance monitoring and evaluation system. Since then, the focus of the reforms has shifted from the application of technical management tools to a concern for the implementation of the strategic goals of the government. In particular, there was a shift in emphasis from the application of the technical tools for financial and performance management standards – 7 hurdles – to *"Strategic Performance Based Budgeting"* by linking the government's processes for setting government policy goals to the budget processes.

❖ ***Strategic Performance Based Budgeting System (SPBB)***

In 2003, the Bureau of the Budget has improved and developed the Strategic Performance Based Budgeting System (SPBB) by taking into account the national target, the devolution of power in decision making, planning, implementing and executing the budget to ministries and agencies under a clear administration structure and accountability, aiming of a better utilization of the budget. Moreover, the prime minister asked the Bureau of the Budget to present the budget for fiscal 2003 on an output basis, effectively requiring that the second hurdle – costing and output specification – be achieved by all agencies. To do so, the Bureau has identified 66 new output-oriented programs and 300 associated output groups and asked the agencies to identify their outputs within this framework.[23] The budgeting system placed more emphasis on the importance of results, in the forms of both outputs and outcomes. This initiative requires all government agencies to set objectives and determine clear work processes which are assessable and to make budget allocation more responsive to the people's needs in a tangible way.

"The Key Principles" of the SPBB includes

- Policy driven with strategic allocation : translate government policy into action; government agencies are worked with clear missions and strategies and verifiable performance indicators

- Forward looking : both financial and performance expectation are to be forecasted over the medium-term (current budget year plus three forward estimated years) to acknowledge the obligations of present policies

- De-concentration : ministers are to be empowered to manage budgeting affairs with greater autonomy and be held accountable for results, so that they will have freedom to execute budgets and take accountability for their own actions

- Comprehensive coverage : all fiscal activities and risks are to be accounted for and included in fiscal and budget policy formulation

- Good Governance : transparency and clear accountability of all parties

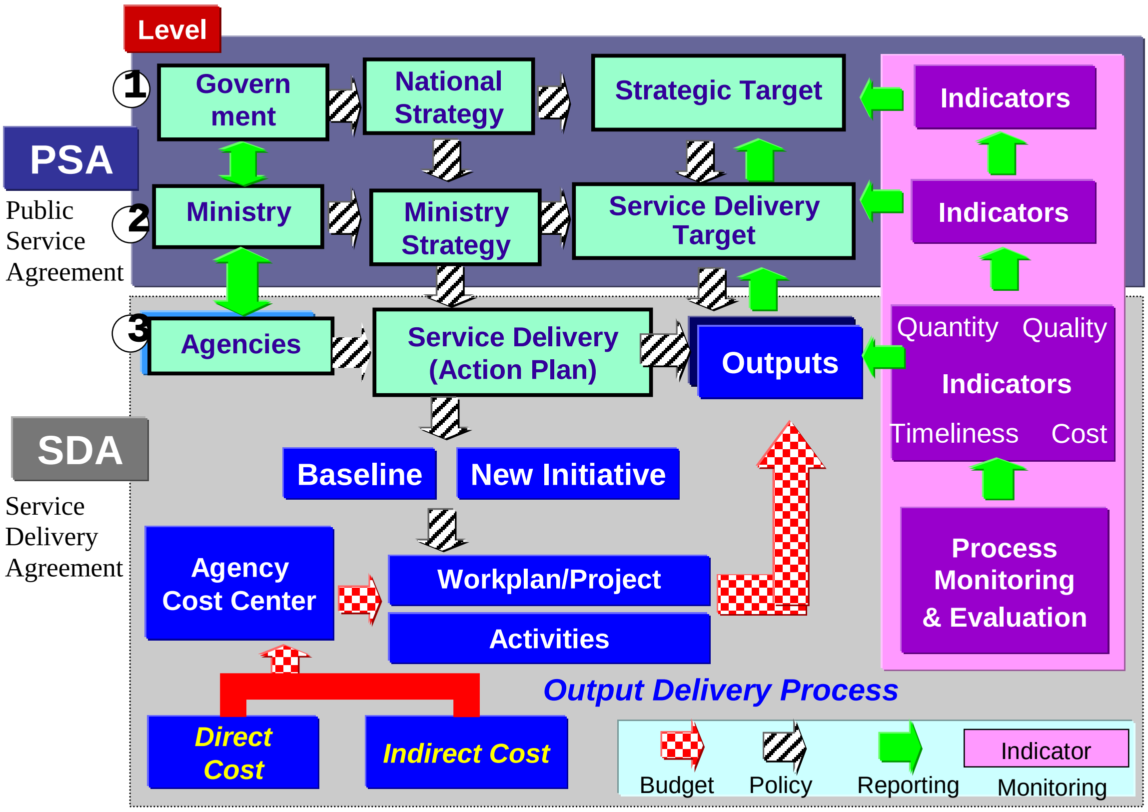
[23] Geoffrey Dixon, The World Bank : *Thailand's hurdle approach to budget reform*, PREM Notes No. 73, page 3, August 2002

in the system; comprehensive, accurate, and timely financial and performance reports are to be made available to the cabinet, parliament and the people

The ***"Accountability and Structure"*** of the SPBB is illustrated in figure 2. The accountability is divided into three levels which are government, ministry, and agency.

At first, the cabinet or its agent will develop the top level targets – strategic targets – to signal clear government priorities. The strategic targets are developed from the government policy, five-year national economic and social development plan, and the constitution. These targets are to span four years matching the term of the government. They must be explicit and prioritized so that they can drive budget allocation. In any case, the achievement of these strategic targets becomes the responsibility of the government as a whole. Ministers, then, take these strategic targets with their own ministry and departments missions and develop ministry service delivery targets. Again, these targets must also span for four years. The achievement of these ministry targets falls on the minister. Once ministry targets are set, agencies must decide on their output mix that is consistent with the achievement of the ministry targets. The accountability at this level falls on the director generals of agencies for the production of outputs at the agreed cost, quantity, quality, and timeliness. Cost is calculated for the outputs, and this is where budgeting occurs.

Figure 3 : Accountability and Structure of SPBB



Source : The Bureau of the Budget, Thailand

From this structure it can be seen that government policy drives output identification and specification. However, one notable feature of this structure is the distinction between strategic and other government services. The agencies' regular public services have to be separated from their strategic programs. An example of a regular service is the issuance of driver-license which is an output of the Land Transport Department. Such regular services are also subjected to stringent performance expectation, such as time taken to get a license or basic driver's skills, and operational efficiency requirements.

Performance indicators are to be developed for all levels. Monitoring and Evaluation of outputs and outcomes at all levels are integral to the budget process and must be conducted on a continuous basis and must feed back into the budget planning and preparation process for subsequent years. In addition, the figure also demonstrates the scope of the Public Service Agreement (PSA) and Service Delivery Agreement (SDA) which will make, if fully implemented, the accountability for the achievement of all levels more explicit.

Many ***"Techniques & Tools"***, learned from the experiences and best practices of other countries, have been introduced and applied for supporting this second round budget system reform. The core processes of reforming can be analyzed as follow;

[1] Translate policies into action (policy driven with strategic allocation) by

✧ Applied the medium term (4-year) fiscal planning and priority setting – the ***Medium Expenditure Framework (MTEF)*** – with both top-down and bottom-up projections. The ***"Top-down"*** projection is a rolling four years macro fiscal projection, taking consideration various economic assumptions and the government's fiscal policy target. The overall expenditure ceiling is set through a top-down approach. With this scheme in place the government can plan its fiscal outcome target, such as level of surplus or deficit over the medium term. The ***"Bottom-up"*** MTEF is the baseline projection of government expenditures given that no new policies are implemented over the projection horizon. This is calculated from department level information, and represents the minimum cost of continuing operation. This will also help line agencies to better plan their operation as they have some knowledge of funding availability over the medium term. Collectively, the top-down and bottom-up MTEF will provide the government with necessary information to better align available resources with planned expenditures, and contribute greatly to prudent fiscal policy formulation and fiscal discipline.

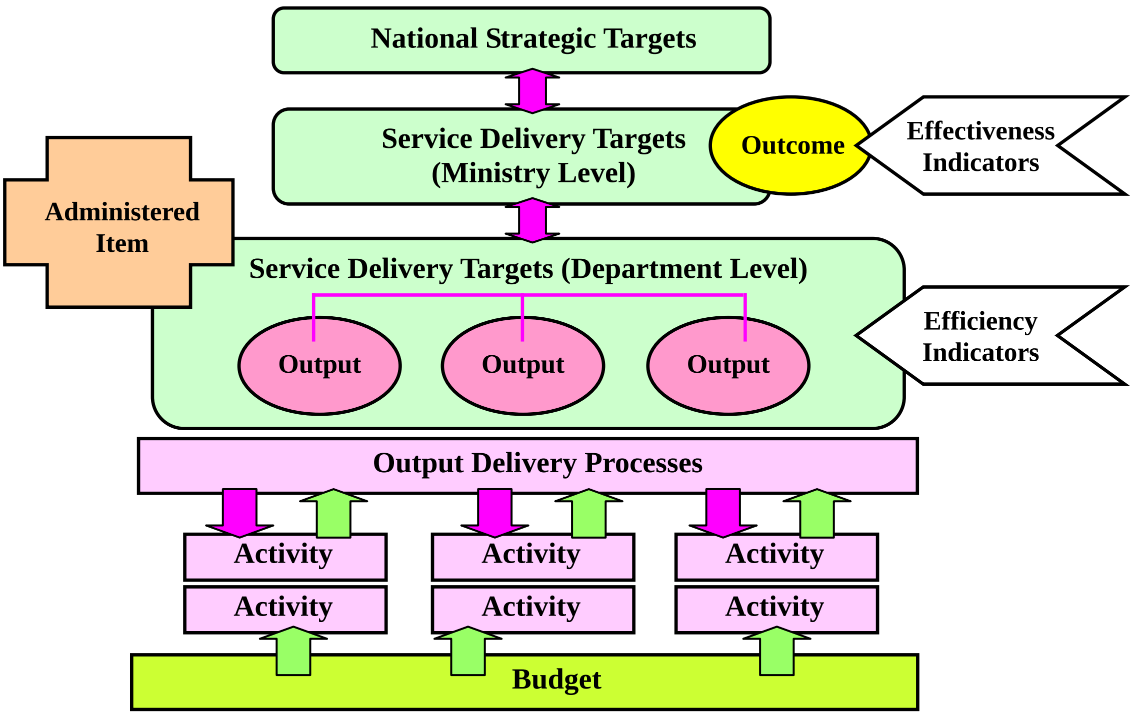
- Developed the ***Strategic Dimension – Function, Area, and Agenda.***

The system of planning and targets are integrated and linked from national level down to operational level. Public policies are run in three dimensions *"Function Based"*, "*Area Based"*, and "*Agenda Based*" simultaneously to effectively drive key policies, provide public services, and enhance area specific competitive advantages.

The budget allocation plans are also followed these strategic dimensions. First is by *"Function"* or by ministries and departments which includes both *essential* and *strategic services* with everything consistent with government policy and budget allocation policy and in accordance with their legal prerogatives. Second is by *"Area"* for provinces, provincial clusters and agencies operating overseas. Third is by *"Agenda"* or a special issue that the government stresses. This cuts across ministries and agencies that involve close cooperation between them but with clear agenda sponsor or champion and supporting ministries and agencies. One element in this third dimension was a pot of money called the *"Central Fund"* allocated solely at the Prime Minister's discretion (although requiring cabinet endorsement).

✧ Developed the ***Outcome/Output Structure.*** To present the budget on an output basis requires all government agencies to define their outputs. They must attempt to separate the outputs (results) from the activities (processes) and also define the outcomes (consequences of the results) as shown below in figure 4.

Figure 4 : The Outcome/Output Structure



Source : Budget System Development Office, The Bureau of the Budget, Thailand

The outcomes, as specified by government, are achieved through the combined impact of departmental outputs and the government administered items (generally programs). The output must be quantifiable and related to outcomes under the national strategic target. Efficiency output indicators are generated by agencies to monitor the performance of their output delivery by measuring the quality, quantity, timeliness, and cost of delivering each output. These indicators are an important part of agencies' performance reporting to external stakeholders, such as parliament and the community, via such documents as Portfolio Budget Statements and agency annual reports. Besides, effectiveness outcome indicators and any changes in external or environmental phenomena that may effect achievement of a particular outcome, both in broad terms and in term of specific impacts, are also be tracked and reported at the outcome level. These indicators, therefore, provide feedback to help government agencies learning and redesign of the component outputs and/or activities to better achieve the specified outcomes. In addition, effective budget allocations which is in accordance with national strategies and in full support of government policies are ensured by these linkages of plan and targets.

[2] Empower the agencies with greater accountability and transparency by

✧ Engaged the agencies with the performance agreement – ***Public Service Agreement (PSA)*** and ***Service Delivery Agreement (SDA).*** The performance of portfolio ministers is measured against the PSAs, while departmental heads are held to account for the SDAs. These agreements somewhat formalize the promise of managerial accountability although they are not yet fully enforced.

For ministry level, PSA is signed between a portfolio minister(s) and the Prime Minister or his/her agent. PSA links ministry service delivery targets with government strategic targets, and holds ministers accountable for achievement of agreed outcomes. The agreement contains government level strategic targets, ministry service delivery targets, indicators, indicative budget, and responsible minister(s). PSA can be single ministry or multi-ministry in nature, in instances when achievement of outcome depends on cooperation of many ministries – such as tourism, Aids prevention, or poverty alleviation. In this case, all responsible ministers are included in the PSA which should serve to facilitate closer cooperation towards common targets. However, the PSAs are not signed for the whole of government, and hence will not cover the entire budget. They are signed only for ministries or functions that the government wants to emphasize.

For department level, SDA is signed between the Director Generals of agencies and the portfolio minister. SDA links agency outputs with ministry service delivery targets, and holds Director Generals accountable for the achievement of outputs at the agreed cost, quantity, quality, and timeliness. The agreement contains the ministry delivery targets and agency outputs, budget, indicators, and responsible officials. The SDAs are signed with every department, and hence collectively will cover the entire budget accounting for all government outputs.

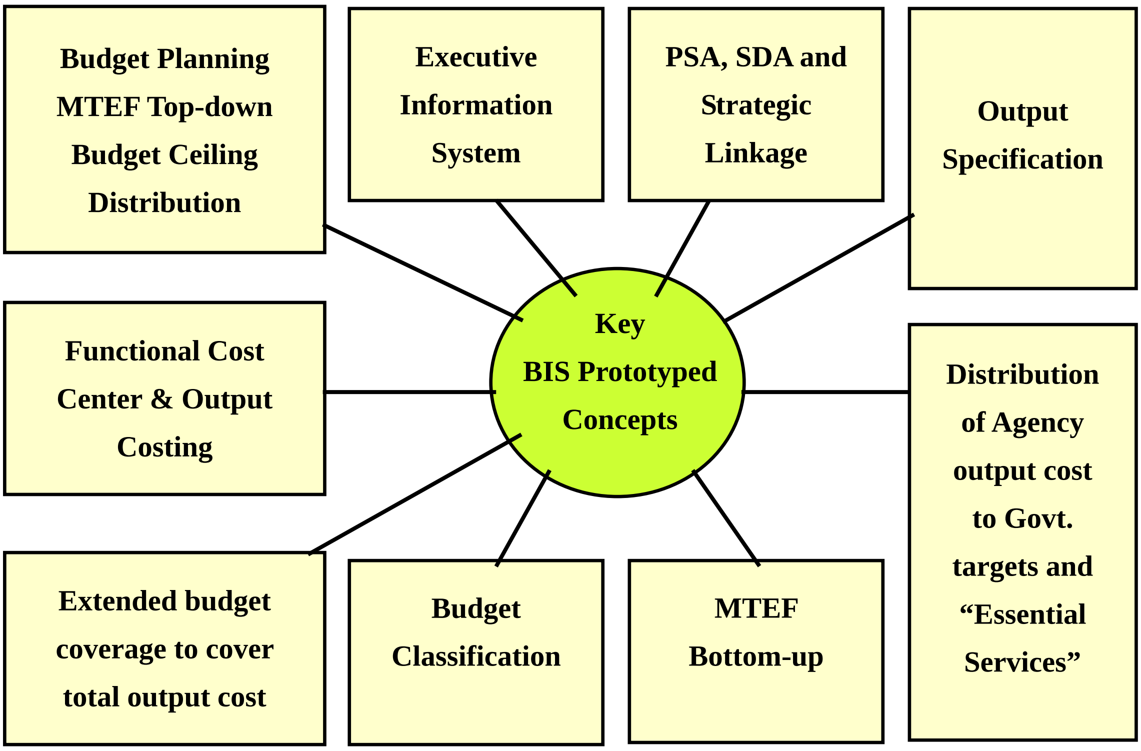
✧ Increased flexibilities to operate budget for all ministries and provincials. BOB ***loosed some regulations*** that would allow the agencies (1) to make change or to transfer funds within the same categories under the same program (not affect the output targets or the core objective of the budget), and (2) to manage remaining budget between and among operations items/activities (not tie up with the future budget/ not for unplanned overseas trips or costly durable article/ building/ land). However, all the change and transfer issues would be informed to the BOB.

In addition, under ***the 1999 Decentralization Act***,[24] the BOB must allocate funds to local government organizations (provincials) with at least 35 percents of national public revenue by the year 2006 (increased from 20-percent in 2001 and 8-percent in 1999). These funds will be allocated as a block grants subsidy toward each provincial with the appropriate amount setting by Office of the Decentralization to Local Government Organization Committee (DLOC).

✧ Developed the ***Budget Information System (BIS)*** prototyped which initially will be an in-house system. The key concepts are shown in figure 5.

[24] Office of the Decentralization to Local Government Organization Committee, www.dloc.opm.go.th

Figure 5 : Key Concepts of Budget Information System Prototyped



Source : Budget Information System Office, The Bureau of the Budget, Thailand

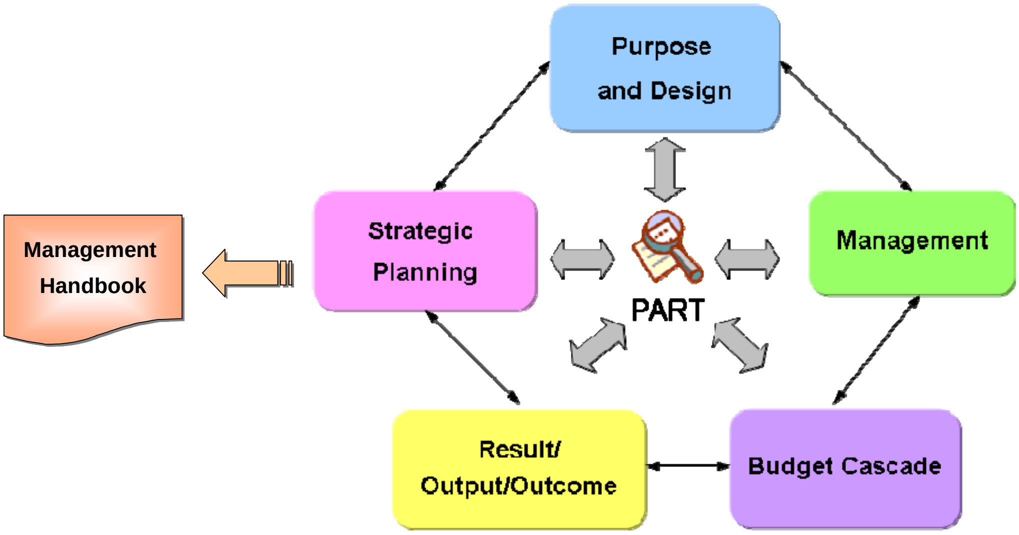
Currently, some functional can be used for supporting the budget processes, but still a lot more to develop. Finally, if fully developed, BOB has planned to integrate it with public sector platform (Government Financial Management Information System: GFMIS) in order to enhance accessibility for users and increase transparency overall.

[3] Create comprehensive performance monitoring and evaluation system by

✧ Implemented the ***Performance Assessment Rating Tool (PART).*** Using the United States' Program Assessment Rating Tool (PART) as a prototype model, the Bureau of the Budget adopted its own Performance Assessment Rating

Tool (PART) system which included a set of 30 questions covering 5 dimensions – purpose and design of the project, the strategic planning, the management structure and capability, the resource management, and the results of the project.

Figure 6 : The Performance Assessment Rating Tool (PART)



Source : Evaluation Office, The Bureau of the Budget, Thailand

Performance Assessment Rating Tool (PART) is used to ascertain the capabilities of public agencies. These five dimensions cover the whole project cycle

- Pre-evaluation (before budget spending)
- Interim-evaluation (during operations)
- Post-evaluation (after implementation)

PART is done every year during October to February, so that the rating can be used in the budget preparation process which normally begins in February.

Initiated in 2004 with a number of pilot projects, the use of PART is now expanded to cover 40 agencies in 20 ministries.

"Problems and Obstacles"

As mentioned before, because of a keen interest in upgrading the management of the public budgeting and dissatisfaction with the slow pace of the 'hurdles' approach, Thai's government decided that all ministries and agencies would move to the new performance and results budgeting system – *Strategic Performance Based Budgeting System (SPBB)* – which became effective in the fiscal year 2003. Consequently, there was concern voiced that this universal move was too rapid and that some ministries and agencies were not up to the task.

Although the Bureau of the Budget has improved and developed various techniques and tools for supporting the SPBB, the reform still be far to reach its aims. According to the study and analysis through literature review and BOB executives/staffs interview, the reform was already on the right track with mostly appropriate techniques and tools. However, there are two main causes that slowing down this mission which are ***insufficient competency*** and ***incomplete cooperation.***

[1] Insufficient Competency – the rapid and comprehensive budget system reform has strongly effected both government agencies and BOB in order to prepare/ improve their resources/capacity and take immediately respond for the changes.

Therefore, the most severe problems for some government agencies included

- ✧ Failed to translate the national policies into action – agencies face the difficulty to develop and link their service delivery plans/targets and performance measures with the government strategic targets, to define outputs (strategic vs. regular and/or output vs. activity) which are consistent with the achievement of ministry service delivery targets, and to set the appropriate performance indicators (especially in terms of quality and cost). Moreover, some agencies are unable to estimate the medium-term expenditure due to an inadequate experience and information. Thus, by sending the unreal data to BOB, it wasted times for screening and correcting before these bottom-up data can be used together with the top-down projections.

- ✧ Failed to manage the block grants effectively – local government organizations (provincials) are found to be unable to operate and manage their block grant subsidies in terms of result based. According to the BOB monitoring and evaluation reports, most of provincials' performances are below the standard. The spending was inappropriate, unworthy (over spending), and even could not reach their output targets. Besides, based on the Office of the Auditor General's reports, some provincials' budget operating processes are not transparency. Many projects and activities seem to be involved with the corruptions which are now under the processes of examination.

For the BOB, the severe problems due to an insufficient competency are

✧ Unable to provide professional advices for agencies – the SPBB reform concepts including techniques/ tools are developed by the back offices (budget policy office, budget system development office, and budget strategy center, etc.) and then shared the final knowledge with the front offices (budget preparation office) for implementation. Consequently, front offices usually denied giving advices to their responsible agencies due to their unclear knowledge. The back offices, on the other hand, can handle better in theoretical ways but could not clearly adapt for the real cases. Finally, the agencies still lose the way to solve their critical problems and could not drive the reform with fully efforts.

✧ Imperfect performance measurement – some evaluation reports are inaccurate (agencies over-grade themselves in self-assessment report/ BOB evaluation staffs prepare reports based on their judgements without site-visiting) or incomplete (annual report for long-term projects/outputs), so that these become useless information which could not support any further decision-making processes. Moreover, measuring some indicators – especially at the outcome level or in term of quality measure – seems to be too difficult for BOB. These are costly, time consuming, and no assurance of success. And in case of setting mismatch indicators, which sometimes happened, could mislead the measurement results.

[2] Incomplete Cooperation – among the budgeting reform participants and stakeholders (government agencies, BOB, and political sector), considering to keep or discard the reform rules depends on the circumstance or significant benefit/ loss.

✧ Government agencies, in the budget execution process, have no incentive to take strong efforts to produce all outputs stated in their agreement (Public Service Agreement or Service Delivery Agreement). There are no worthy rewards or severe penalties in case of success or failure. The agreements, therefore, are the same as general documents for some agencies. Moreover, in case of a multi-ministry PSA, the result is worst because of lacking co-operation and communication between the host (main responsible ministry) and the supporting ministries for running the tasks.

✧ The Bureau of the Budget (BOB), in the budget planning/ preparation process, sometimes has to irrationally cut-down some total amount of agencies' budget in order to meet the overall ceiling. This does cause the agencies difficulty to re-arrange their strategic plans (change- decrease- or cancel projects/ outputs/ activities/ indicators) which could possible affect the national outcomes as well.

✧ Political Sector (Parliamentarian), in the budget approval process, has not embraced the performance and results orientation of the budget with parliament's deliberations generally focused on inputs. This does pose a challenge to the effective sustainability of the outcomes and outputs framework.

In addition, another important obstacle is the national political situation. Since the military coup in September 2006, the nation's public tasks are now run by the interim government. The draft budget procedure act which has been adjusted in order to support the current budgeting system is pending for the cabinet approval. Some significant techniques and tools such as PSA, SDA, and empowerment/ decentralize management, therefore, can not formally and legally be used as well.

Chapter V

Conclusion and Recommendation

Conclusion

Today, when the management of money is more important than ever, budgeting system plays an enormous role in controlling operations efficiently and effectively. Although there is not any unique system likely to be applicable to all countries, a good system for managing budget should be able to produce complementary performance outcomes of fiscal discipline and sustainability, effective allocation of budgetary resources according to policy priorities, and operational efficiency in executing public expenditure programs.

In Thailand's history, the failure of the budgeting system to focus on the results of government spending has concerned successive governments since the early 1980s and Thai's government has made several attempts to introduce more results focused budgeting. The Planning-Programming Budgeting System (PPBS) which creates a stronger link between agency allocations and the government's policy objectives was introduced in 1982 to replace the traditional Line-item (Input-Based) Budgeting System. This enabled the level of spending for each policy objective to be tracked for budget prioritization and control. However, program budgeting failed to work effectively in Thailand. The current budgeting system, "*Strategic Performance*

Based Budgeting System" (SPBB), then, was introduced in 2003. This is a large step forward for Thai's budget system reform. The SPBB is mainly focused on reforming budget preparation by creating more formal links between budget allocations to agencies and government strategy. Such reforms are expected to transform Thai budget processes from highly centralized, inflexible, and distortedly practices to a system where the public purse commands performance from line ministries. The devolution of budget management to ministries and agencies was accompanied by greater accountability – through strategic controls, performance contracts, and greater transparency of results. Moreover, the Bureau of the Budget has studied international best practice and has adapted many ideas to suit the unique Thai cultural and socio-economic tradition. And hence, new techniques/ tools – such as medium term expenditure framework, outcome/output structure, public service agreements, performance assessment rating tool, etc. – have been developed for supporting the achievement of this particular budgeting system. In this method, the entire planning and budgeting framework is result (output/outcome) oriented.

However, comparing with a private sector, the budgeting system of public sector is cumbersome. It needs to go through many processes before moving into the budget execution phase and post-execution analyses; furthermore, the entire process involves the collaboration of different bodies throughout the government. This collaboration is not only for budget preparation, negotiation and approval processes, but also for the spending approval after the whole budget allocation is finalized. Consequently, these really created many problems and obstacles for the reform. According to this study, it can be argued that only a great reform implementation plan with appropriate supporting technical/tools is not enough. Besides, in order to accomplish the ultimate reform goals, Thai's government needs to concern more about the compliance and response from all participants and stakeholders toward the overall reform processes.

Lessons Learned

While Thailand's quest for *"Results-based"* budgeting system reform is still a long way from success, experience to date suggests many key lessons which are

[1] Reforms, especially a comprehensive type, should be launched gradually, in line with capacity. The detailed design of change is also important. It needs the institutional mechanisms that provide clear guidance on rules, processes and procedures, roles and responsibilities that support reform formulation and implementation.

[2] Policy legitimization is crucial, especially in a bureaucratic culture that values rules and regulations. The government is to be commended by drafting the necessary legislations to support the reform effort. This does help for building

awareness and consensus to establish the reform to all participants and stakeholders.

[3] Strong executive command and support is necessary. There are some bureaucratic stakeholders (including the Bureau of the Budget) and even politicians who are adversely affected by reform. Many incur costs – loss of power or other benefits, and face the effort required to understand new systems documented in a different language and in which traditional control points disappear.[25] Therefore, reform of this magnitude is not possible without clear "*political*" direction and support as a whole. Political pressure is required on both Budget Bureau and line agencies to maintain reform momentum.

[4] Leadership and co-ordination are critical. Participants and stakeholders must accept the principles of reform, and must be consulted as equal partners during implementation. One agency cannot reform an entire bureaucratic system. High-level leadership across several complementary and mutually reinforcing areas is required. This leadership must extend from the top of the bureaucracy to empower change agents below. Leaders must ensure that reform is comprehensive, integrated, and coordinated across agencies. The Medium-Term Expenditure Framework, for example, will require coordinated effort from the BOB, the Ministry of Finance, the Bank of Thailand, and the National Economic and Social Development Board.

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[25] Bowornwathana B., *Governance Reform in Thailand : Questionable Assumptions, Uncertain Outcomes*., An International Journal of Policy and Administration, Vol. 13, No. 3, July 2000

[5] Incentives are important when reforms are implemented. The effect on the overall incentive framework, and available capacity, should determine the substance and speed of reform efforts. However, only rules that can be enforced and institutions that will matter should be introduced. A demonstration of early gains (rewards) or losses (penalties) is important to generate and reinforce the will to implement reforms and to keep minds focused.

[6] Robust reforms evolve in unexpected ways. They require sustained effort over time, with attention paid to proper sequencing. Consequently, implementation strategies must be accompanied by careful monitoring of whether objectives are being met, as well as flexibility in feeding back what is learned *on the ground* to enhance the reform's effectiveness.[26]

[7] There is no such a unique budgeting system that can be fit for all countries. Each country has different socio-economic and cultural traditions. While international best practices around the world provide invaluable sources of inspiration, the countries must carefully adapt them to the current local conditions. Besides, hosting or attending the international conferences/ forums which provided the related topics of the reform – such as the OECD Asian Senior Budget Officials Meeting – can upgrade the knowledge with clearer and broader perspectives.

[26] Dana Weist, Dr., *Reflections on Thailand's Budget Reform,* The Bureau of the Budget Year Book, p. 192-194, March 2003

In addition, there is an interesting issue to keep in mind about *How would "success" in Strategic Performance Based Budgeting be defined?* In attempting to link resources to results, simply to increase the supply of performance information is not enough. Performance problems may well prompt budget cuts or program eliminations, but they may also inspire enhanced investments and reforms in program design and management if the program is deemed to be of sufficiently high priority to the nation. Conversely, even a program that is found to be exceeding its performance expectations can be a candidate for budgetary cuts if it is a lower priority than other competing claims in the process. The success of performance budgeting, therefore, cannot be measured merely by the number of programs *"killed"* or a measurement of funding changes against performance *"grades."* Rather, success must be measured in terms of the quality of the discussion, the transparency of the information, the meaningfulness of that information to key stakeholders, and how it is used in the decision-making process.[27]

Recommendations for Assuring Success

According to the problems/ obstacles and lessons learned from the budgeting system reform, Thailand needs to implement the Public Expenditure Management/ Review (PEM/R) and ascertain that it becomes standard operating procedure in the

[27] David M. Walker, *Performance Budgeting : Opportunities and Challenges*, Comptroller General – United States General Accounting Office, September 2002

budgetary process. The World Bank's PEM handbook argues that improvements in PEM require[28]

- A greater focus on performance - the results achieved with expenditure. This has the potential to engage all stakeholders in pursuit of budgetary and financial management reform.

- Adequate links between policy making, planning and budgeting. This is essential to sustainable improvements in all dimensions of budgetary outcomes.

- Well-functioning accounting and financial management systems. These are among the basics that underpin governmental capacity to allocate and use resources efficiently and effectively.

- Attention to the links between budgeting and financial management systems and other service-wide systems and processes of government – for decision making, organizing government, and personnel management. Well-performing public sector requires that all component parts work well and, where appropriate, together.

Thai government, therefore, can start from reviewing all techniques, tools, human capabilities, and other supporting resources at the Bureau of the Budget and line ministries/agencies. Then, continue to improve the country's PEM by[29]

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[28] The World Bank, *Public Expenditure Management Handbook*, June 1998

[29] The Bureau of the Budget, *Public Expenditure Management/ Review (PEM/R) in Thailand,* December 2006

- Increasing fiscal inter-relationship among government agencies in all levels
- Increasing roles of government agencies concerning Public Expenditure Management/ Review (PEM/R)
- Refining design and structure of all PEM components and move forward with the clear step-by-step operational plan for each PEM component
- Developing institutional capacity – including a comprehensive strategy for specific staff training linked to phased operational plan – and effective system support programs

The core objective for performance budgeting reform is enhanced allocative and productive efficiency in public expenditure – with the link between funding and performance measures. In case of Thailand, this linkages need to be further strengthened. Agencies need to proactively participate. The central agencies must continue their development works. Finally, the most important of all is to accelerate capacity building both for institutions and individuals in order to improve the reform participants' abilities to overcome all immediate problems.

Comparing with the other literatures reviewed, this dissertation has found the similarly conclusion that mistakes and setbacks are a normal and inevitable part of the reform processes. Reformers require a long-term perspective because fundamental change demands sustained effort, commitment and leadership over many generations. Assuring a success, reform programs had to be engineered – a reform plan formulated, an implementation strategy agreed, and implementation managed to achieve the objectives and sustain the reform initiative. Additionally, the reform program had to be sold to the main stakeholders in the budget system and a reform team had to be identified and empowered to carry out the reform.

APPENDIX

BUDGET PROCEDURE ACT
B.E. 2502(1959)
(amended)

BHUMIBOL ADULYADEJ, P.R.
Given on the 27th day of October B.E. 2502
Being the 14th Year of the Present Reign

By Royal Command of His Majesty King Bhumibol Adulyadej it is hereby proclaimed that:

Wheras it is proper to amend the law on budget procedure;

His Majesty the King, by and with the advice and consent of the Constituent Assembly in its capacity as Parliament, is graciously pleased to enact an Act as follows:

Section 1. This Act is called the "Budget Procedure Act B.E. 2502".

Section 2. This Act shall come into force on and from the day following the date of its publication in the Government Gazette.

Section 3. The Budget Procedure Act B.E. 2499 shall be deleted.

Section 4. In this Budget Procedure Act:

"Appropriation" means a legislative enactment authorizing a department or ministry to expend public money (a) in accordance with existing law (b) limited to an amount not exceeding the sums specified and (c) restricted to the period and purposes set forth in the authorization.

"Budget items for the following year" means the budget item provides for payments in the following year which are restricted to the period and purposes set forth in the authorization.

"Budget year or fiscal year" means the period of time commencing with the 1st of October of each year and terminating with the 30th of September of the succeeding year. The fiscal year shall be named by the Buddhist Era numeral for the said succeeding year.

"Debts" means obligation to pay in terms of money, goods, or services; being created from loan, guarantee, purchasing or job order by credit, or others.

"Allotment" means the portion of an appropriation that is designated for spending in a specific allotment period.

"Government agency" means Ministry, Bureau, Department and Public Bodies but does not include state enterprises or any work unit under the Local Administration Act.

"State enterprise" is defined as:

(a) government organizations or business units owned entirely by the government;

(b) a company or registered partnership of which more than 50% of the capital is contributed by a government branch;

(c) a company or registered partnership of which more than 50% of the capital is contributed:

(i) by a government branch;

(ii) by a state enterprise; and

(iii) by (i) and (ii);

(d) a company or registered partnership of which more than 50% of the capital is contributed by a government branch and/or state enterprise under (a) and/or (b) and/or (c); and

(e) a company or registered partnership of which more than 50% of the capital is contributed by a government branch and/or state enterprise under (a) and/or (b) and/or (c) and/or (d).

"Treasury" means Changwad Treasury or Amphur Treasury and also the Deposit Account of Ministry of Finance at the Bank of Thailand.

"Goverment advance" means a sum of money which the Ministry of Finance expends and allows government agencies to hold and expend for their expenditures according to rules and regulations set forth by the Ministry of Finance.

"Director" means Director of Bureau of the Budget.

"Minister" means the Minister of Finance.

Section 5. The Prime Minister and the Minister of Finance control this Act and shall have power to issue ministerial rules to work in accordance with the Act and with the powers and responsibilities of the Office of the Prime Minister or the Ministry of Finance.

Ministerial rules shall come into force on and from the day following the date of their publication in the Government Gazette.

Section 6. The Director shall have the power and duty to make the budget and to act as provided in this Act and also shall have powers and duties concerning the budget as follows:

(1) to require government services and state enterprises to make receipts and expenditures budgets in accordance with the forms and rules, including particulars as may be prescribed by the Director;

(2) to analyse budgets and expenditures of government services and state enterprises;

(3) to fix, increase, or reduce allotments in accordance with working requirements and government's financial powers;

(4) to fix allotment periods.

Section 7. To carry out the provisions of this Act, the Director shall be empowered to summon government services and state enterprises to submit information as may be found proper and the director or officer authorized by the Director shall have the power to inspect all books, accounts, documents and other evidences of government services and state enterprises.

For the purpose of the foregoing paragraph, the officer authorized by the Director shall be deemed a competent officer under the Penal Code.

Section 8. The annual budget submitted to the legislature ordinarily shall consist of:

(1) an auxiliary statement setting forth monetary and fiscal status and policy, the principal elements of the budget, and relation between estimated receipts and expenditures;

(2) a comparative table of receipts and expenditures for the past year, present year, and the year for which the expenditure budget is estimated;

(3) an explanation concerning receipts estimates;

(4) a commentary (justification) concerning expenditure budget estimates;

(5) a report concerning the finances of state enterprises;

(6) an explanation concerning present debts of the government as well as proposals for additional loans;

(7) a report of the receipt and use of money or property donated to the government;

(8) a draft annual budget act.

<u>Section 9</u>. If, upon submitting a budget, the estimated revenue under existing laws is less than the total estimated expenditures, a statement shall be given to the legislature of the way in which the imbalance is to be corrected, but if the amount is higher, a statement shall be given as to the way in which the excess is to be used to ensure the greatest benefit.

<u>Section 9</u> bis. If, after promulgation of the annual expenditure budget act or supplementary expenditure budget act, expenditures exceed receipts, the Ministry of Finance is empowered to borrow funds for expenditure as may be necessary. In any case, loans made under this section in any one year shall not exceed:

(1) twenty percent of the total expenditure and supplementary expenditure budgets, and;

(2) eighty percent of the budget set for redeeming loans.

Loans under the provisions of the event (1), may be made through the issuance of treasury bills, bonds or other instruments as may be appropriate. Issuance of treasury notes shall conform to the law on treasury notes. In respect of the issuance of bonds or other instruments, the Ministry of Finance is empowered to issue ministerial regulations prescribing the currency to be borrowed, conditions or procedures as well as expenses for the issuance of bonds or other instruments, including management of all matters concerning the loan.

Section 10. A central fund may be set up as a separate item in the annual budget or supplementary expenditure budget of government agencies or state enterprises. It also may provide for reserve for emergency or necessity in use of the central fund.

Section 11. Extra-annual expenditure budgets will be allowed in the event it is expected that an expenditure budget will not be used within the budget year. Extra-annual expenditure budgets must indicate their termination date.

Section 12. The heads of government services or state enterprises shall appoint an official as budget officer who shall have duties concerning the budget of that government service or state enterprise.

Section 13. The Minister responsible for the government service or state enterprise or Minister who by law supervises or controls the business of the state enterprise shall be responsible for filing the annual budget of that government service or state enterprise with the Director within the period of time prescribed by the Director.

In the event the state enterprise is a company or registered partnership, the Minister responsible for the government service or state enterprise which owns the capital shall be responsible under the foregoing paragraph.

If such annual budget is not filed within the period prescribed under the provisions of the first paragraph, the Director may fix an annual budget as he may think fit.

Section 14. Compensatory expenditures to replenish the fund for treasury balance or expenditure reserve under Section 29 bis, will be shown separately in the Budget Act, and will be considered as expenditures of that particular year.

Section 15. The Director shall submit the annual budget to the President of the Council of Ministers at least two months prior to the beginning of the budget year in order that the Council of Ministers may submit it to the legislature.

Section 16. If the Budget Act is not promulgated in time for the new budget year, the expenditure budget for the past budget year in the meantime shall continue to apply subject to the rules and conditions prescribed by the Director with the approval of the President of the Council of Ministers.

Section 17. In the event it is necessary to spend or incur debts in excess of or apart from amounts prescribed in the budget act for the year, the Council of Ministers may submit a draft supplementary budget act to the legislature and shall indicate the source of revenue to cover the proposed supplementary expenditure budget.

The preparation of a supplementary budget shall be in accordance with the procedures prescribed by the Director.

Section 18. Expenditure budgets fixed for one government service or state enterprise under an annual budget act or supplementary budget act may not be transferred to the use of another government service or state enterprise unless by Act.

Section 19. An amount budgeted for expenditure by a government service or state enterprise under one item in an annual budget act, supplementary budget act, or transferred budget act, may not be transferred or used under another item unless by authorization of the Director, but the Director may not give authorization in the event the effect would be to increase expenditure of the category secret service funds or for a new work or project unless with the approval of the Council of Ministers.

The Director shall have power to allocate disbursement of expenditure items fixed in a central fund to government agencies or state enterprises.

In case of necessity, the Director with the approval of the Prime Minister may transfer one item of expenditure in a central fund in order to increase other items within the same fund.

Section 20. The use of expenditure budgets for government services or state enterprises as provided in each item of the annual budget act or supplementary budget act shall conform to the rules prescribed by the Director.

Section 21. The Minister shall be responsible for budget control in order to ensure conformity with laws, rules or regulations and also shall have the following powers and duties:

(1) to compile state financial accounts;

(2) to prescribe with the approval of the Council of Ministers rules or regulations concerning treasury payments, the keeping of funds and remittance of funds to the treasury;

(3) to arrange for the inspection of documents concerning the drawing and payment of funds, the creation of obligations, as well as other documents concerning the receipt and keeping of funds and their remittance to the treasury;

(4) to prescribe and control accounting system, report forms, and documents concerning the drawing and payment of funds and debts;

(5) to prescribe with the approval of the Council of Ministers rules or regulations on government advances and to publish them in the Government Gazette.

Section 22. The Minister shall be empowered to summon government services and state enterprises to give information as he may think fit and shall be empowered to authorize competent officers to examine all books, accounts documents and other evidence of government services and state enterprises.

For the benefit of the preceding paragraph, the competent officers assigned by the Minister shall be also deemed officers under the Penal Code.

Section 23. Except as provided in Section 23 ter, government services and state enterprises may make payments or incur obligations only as specified in the annual Expenditure Budget Estimates Act or Supplementary Expenditure Budget Estimates Acts or as empowered by other laws but shall be prohibited from making payments or incurring obligations pursuant to the annual Expenditure Budget Estimates Act or Supplementary Expenditure Budget Estimates Acts until funds for the particular allotment have been approved.

Section 23 bis. No government service excepting the Ministry of Finance may incur obligations whether as loans or guarantees except as provided in Section 23 ter.

Section 23 ter. If state enterprises which are not juristic persons need to borrow funds for operations, the Ministry in charge is empowered to make the loan under the following conditions:

(1) in the case of investment loans, the state enterprise has to submit capital budget plan to NESDB Committee for consideration;

(2) prior approval from the Minister and Director is required, and if the amount exceeds five million Baht, prior approval of the Council of Ministers shall be required too.

Money borrowed under this section may be paid to the state enterprise for use in accordance with its objectives without need to remit it to the treasury.

Section 24. All money received by a government service as owner thereof whether under law or rules and regulations or in payment by virtue of its power and duties or contract or from allowing the use of government property or the collection of income from government property shall be remitted to the Treasury under the rules or regulations prescribed by the Minister unless otherwise provided by law.

Any government service which receives money given for the purpose of expenditure in the activities of such service or money arising from property given in order that its proceeds may be expended in the activities of such service may expend or incur obligations up to the amount of money received without need to remit it to the treasury.

The Ministry may provide otherwise in respect of a government service which receives money under an aid or cooperation program with a foreign government, United Nations Organisation, United Nations specialized agency, other international organization or any person whether by loan or gift including money which the government service receives in consequence of such aid or cooperation program with no need to remit such money to the treasury.

The Minister may authorize government services which receive money in the following cases to expend such money without need to remit it to the treasury:

(1) money received in nature of compensation for damage or waste of property and required to be spent for the repair or recovery of the property;

(2) receipts of government services which are hospitals, schools or any other place giving public service or public welfare;

(3) money received from indirect operations by the power of the Minister and Director.

Receipts in the event of (2) and (3) may be expended only in accordance with regulations approved by the Minister and Director.

Section 25. Deleted by Budget Procedure Act (No. 2).

Section 26. Any government official or employee of a government service who commits an act incurring an obligation or pays money or knowingly consents to or permits such act in violation of this Act or rules or regulations issued pursuant hereto, apart from criminal liability under other laws, shall be liable to the government service for the amount of money which the government service paid or becomes obligated for as well as damages.

Any third person who receives benefit from an act in violation of this Act or rules or regulations issued pursuant hereto as mentioned in the foregoing paragraph shall be jointly liable with the offender under the foregoing paragraph unless it is shown that he acted in good faith without knowledge of the violation of the said Act or rules and regulations.

The provisions of the first paragraph shall not apply to government officials or employees who protested in writing an instruction of their superior that to act in conformity with such instruction might be contrary to law or rules and regulations.

Section 27. Funds may be drawn from the treasury under any annual expenditure budget estimate only within the fiscal year of such budget unless:

(1) the budget item provides for payments into the following year;

(2) the budget item is in respect of an obligation incurred prior to the expiration of the fiscal year or the later drawing has been approved by the Council of Ministers and funds have been set aside under the rules or regulations concerning payments from the treasury.

In the event of (2), the period for drawing funds from the treasury shall be extended by not more than six calendar months of the succeeding fiscal year, unless there is need to draw funds from the treasury after this period, which will require the agreement of the Ministry of Finance in each case.

Section 28. Funds may be drawn from the treasury under an extra-annual expenditure budget only within the period prescribed in the law on the expenditure budget unless the extra-annual budget has created obligations prior to the expiration of the period and funds have been set aside under the rules or regulations concerning treasury payments in which case the period for drawing funds from the treasury shall be extended by not more than three additional calendar months.

Section 29. The Minister shall be empowered to order payment of government advances from the treasury.

Section 29 bis. There shall be a fund payable by the Minister from the treasury to be called "Expenditure Reserve" of one hundred million Baht. Payments may be made from this fund in case of necessity in the interests of the national government with the approval of the Council of Ministers and when a payment has been made, a compensatory expenditure shall be requested to replenish the fund.

Section 30. At the end of a budget year the Minister shall without delay publish in the Government Gazette a report of receipts and payments for the past budget year.

The State Audit Council after auditing the report of receipts and payments under the foregoing paragraph shall submit a report of the audit to the Council of Ministers for referral to the legislature.

Section 31. Action pursuant to the Annual Budget Act B.E. 2502 shall be governed by the laws on budget procedure in effect prior to the date this Act comes into force except the provisions of Section 27 which shall apply from the date this Act comes into force.

Section 32. The budget year B.E. 2503 shall commence on the 1st January B.E. 2503 and shall terminate on the 31st December B.E. 2503. The draft annual expenditure budget act shall be submitted to the legislature prior to the end of October B.E. 2502.

The budget year B.E. 2504 shall commence on the 1st January B.E. 2504 and shall terminate on the 30th September B.E. 2504, and the draft annual expenditure budget act shall be submitted to the legislature prior to the end of October B.E. 2503.

Section 33. Any government service drawing treasury funds under the system of payment before inspection prior to the date this Act comes into force may continue to do so for not more than six months from the date this Act comes into force.

Section 34. Deleted by Budget Procedure Act (No. 2).

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