



# Thailand's hurdle approach to budget reform

*Thailand shows that efforts to ease central controls on budgets can complement efforts to strengthen the capabilities of government agencies.*

Thailand's budget system is highly centralized. Government agencies request funds from the powerful Bureau of the Budget in numerous detailed budget lines and are subject to further central clearance when they seek to spend the funds. Detailed central control of agency spending contributes to the excellent fiscal management for which Thailand is well known. It also imposes discipline in areas where agencies traditionally overspend—such as travel, accommodations, and vehicles. But extensive central control is also costly, undermining the quality of agency spending.

## Central control—and compromised spending quality

Agency spending patterns are set at the central level and do not reflect the benefits generated in each budget line. The Bureau of the Budget bases budget allocations on historical precedents, modified by adjustment factors that are usually not explained to agencies.

In this rule-driven environment the benchmark of good agency management has been preserving or increasing historical funding levels rather than making funding more responsive to client needs, targeting programs more effectively, delivering services using fewer resources, or identifying areas where services need to be improved. Because agencies are given little responsibility for how funds are spent, they assume little responsibility for spending them better.

During budget execution, large numbers of separate budget lines contribute to end-of-year spend-ups for some budget lines and underfunding for others. When budget allocations are made in numerous small lines and any savings in a particular line are lost to the line agency, agencies have little incentive to develop the accounting and budgeting capacity to allocate funds more effectively or to deliver outputs using fewer resources. As a result agency accounting systems are often primitive, based on manual single entry accounts or even cashbooks.

Although detailed central control helps Thailand avoid overspending and distorted spending, it impedes government efforts to achieve the best value for the money. As in many other Asian countries, the budget's failure to obtain the best value for the money has long been tacitly accepted as a cost of strong fiscal control. But this shortcoming is becoming less acceptable as governments in the region assume new spending responsibilities for social and economic development, putting increasing pressure on limited resources.

## Thailand's reform strategy

Thailand's budget reform strategy seeks to retain the benefits of tight central control while avoiding its costs. Control over budget details is being transferred from the Bureau of the Budget to spending agencies, making them more responsible for managing their budget allocations—and more accountable for achieving better results.

Detailed central control facilitates effective fiscal management—but it is also costly

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But Thailand's budget reforms face a catch-22. Line agencies have little reason or opportunity to strengthen their management systems and competencies as long as highly centralized arrangements continue. But the absence of such systems and competencies is a major obstacle to relaxing centralized controls and increasing the responsibilities of poorly managed agencies.

Extensive centralized control undermines agency management—but it persists because of weak agency management. This conundrum reinforces resistance to change in highly centralized budget systems such as Thailand's. Moving beyond this dilemma requires synchronizing the dismantling of external controls with the building of internal controls. This is the main aim of Thailand's "hurdle" approach to budget reform.

### What is the hurdle approach?

In 1999 the Bureau of the Budget agreed to relinquish detailed centralized controls over line agencies conditional on their achievement of hurdle standards. These standards involved seven management areas: budget planning, output costing, procurement management, budget and funds control, financial and performance reporting, asset management, and internal audit. These areas cover the core financial and performance management competencies that a line agency needs to substitute its resource management system 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 hurdle approach differs from traditional approaches to budget reform in two main ways. First, the easing of central controls is formally linked to the strengthening of line agency management systems—as indicated by the achievement of the hurdle standards. Under more traditional budget reforms the easing of central controls is less formally tied to improvements in line agency management. The traditional approach reflects an implicit

assumption that line agencies are potentially well managed and that relinquishing central controls will be enough to realize this potential.

Second, in Thailand central controls are being reduced on an agency by agency basis. Devolution is conditional on individual agencies achieving hurdle standards. In the more traditional, across the board approach to budget reform, central controls are eased for all agencies at the same time, regardless of their management systems and competencies.

### Kick-starting reform in Thailand

The Bureau of the Budget's offer 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 locked 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 achieved to its satisfaction.

Once an agency achieved 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—a function of the size of the gaps and the intensity of the gap-filling effort.

To kick-start 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.

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 Bud-

get understand the hurdle standards to be achieved before easing central controls.

Subsequently a group of experts, funded by AusAID, developed management system standards for the seven hurdles. The Bureau of the Budget plans to consolidate the reports into a manual on budget reform.

## Benefits of the hurdle approach

Under the hurdle approach the easing of central controls follows rather than precedes the strengthening of agency management. This approach has two benefits over the reverse sequence. First, it is failsafe. This is particularly important where corruption is a problem. Where line agencies are weakly managed, there is no reason to expect the abandonment of central controls to ensure effective financial management systems or appropriate and transparent use of funds. Nor will the elimination of controls ensure that weakly managed agencies identify their outputs and performance indicators, spend funds more flexibly and cost-effectively, or improve their client focus—especially for small agencies or those out of the public limelight.

Second, the hurdle approach uses the prospect of reduced central controls to provide an incentive for agencies to improve their management. Agencies that implement hurdle standards are rewarded with increased financial autonomy. In Thailand the offer of memorandums of understanding with the Bureau of the Budget created momentum for reform that had been suppressed by the centralized environment—making it easier to initiate reform in line agencies.

## Possible problems

As noted, in Thailand close coupling of reduced central control and improved agency management meant that central control was reduced on an agency by agency basis. This approach increases the risk of stalled budget reform if agencies take a long time to achieve hurdle standards or if other agencies are reluctant to sign memorandums of understanding.

Slow progress did prove to be a problem in Thailand. 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 in 2000. In 2001 the Bureau of the Budget eased central controls on the six pioneer agencies by reducing some line item details in their budget allocations, moving toward block grants. Only in 2002 has the number of pioneer agencies been increased beyond the original six.

Progress did not proceed entirely according to the textbook. The first steps toward block grants tended to precede improvements in financial management—creating a need for further post-devolution upgrading of financial management in most pioneer agencies.

Dissatisfaction with the pace of progress has increased pressure to expedite budget reform. The prime minister has asked the Bureau of the Budget to present the budget for fiscal 2003 on an output basis, effectively requiring that the second hurdle (output costing) be achieved by all agencies (not just pioneers) before the start of the next fiscal year. To do so, the bureau has identified 66 new output-oriented programs and 300 associated output groups. A budget circular to government agencies in early 2002 asked agencies to identify their outputs within this framework.

Public service agreements will be introduced where budget allocations are the “purchase cost” of a specified package of services. This is the new face of the resource agreement envisaged in the hurdle reform model. Some block grants will be extended beyond the pioneers to all government agencies that base budget allocations on output contracts.

## Lessons

Although the jury is still out on Thailand’s budget reform, three key lessons have emerged. The first is not unfamiliar: political pressure is needed for budget reform to overcome inertia and resistance. This is particularly important in Thailand, where

Central control is eased only if agencies achieve hurdle standards

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the bureaucracy enjoys more power relative to the executive than in many other countries. If senior bureaucrats are unwilling to be actively involved in implementing reform, political pressure will be required for budget and line agencies to maintain momentum.

Second, Thailand's original hurdle approach was too complex. The concept of the seven hurdles is now part of Thai budget reform folklore, and served the purpose of emphasizing that budget reform involves not only the Bureau of the Budget relinquishing control but also spending agencies building substitute management systems and competencies. The process also increased awareness of the need for good financial management.

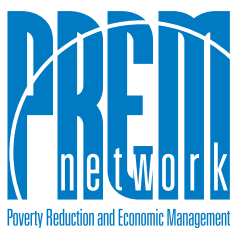
Seven hurdles were too many. The initial stage of reducing central control could involve just two hurdles for line agencies: a sound, computer-based accounting system that meets basic financial control and reporting standards, and identification and costing of agency outputs. Two hurdles would have been enough to allow the

Bureau of the Budget to start reducing central controls without risking excess waste or increased corruption.

Third, inputs from international consultants should have been better 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. Where budgeting is overly centralized, reform is as much about basic management systems as about introducing more sophisticated systems in central agencies.

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