Chapter 9

Diverse Models of Development and Aid Management: Experiences of Thailand, Malaysia, and the Philippines*

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1. Introduction

Past experiences in East Asian development suggest the vital importance of using aid as an integral part of development management in order to achieve shared national visions. These experiences demonstrate that it is indeed possible for latecomer countries to manage the development process and aid, as well as to eventually graduate from the latter, provided the existence of several things: a strong national commitment to development, ownership of the entire development process, and policies and institutions that promote "shared growth" (World Bank, 1993). This is not the case, however, in many parts of the developing world.

By examining the functions and coordination features of central development administration in the three East Asian countries of Thailand, Malaysia and the Philippines, this chapter endeavors to shed light upon the following questions: Why are some countries capable of meeting prerequisites for managing the development process with aid as its integral factor, while others are not?

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Where do commitment and ownership come from, and under what circumstances? What are the mechanisms and driving forces for making governments work for development? Recognizing the importance of understanding diversity among various countries, the chapter pays particular attention to country-specific coordination features, as well as to key factors that affect the actual functions and the institutional evolution of central development administration.

Thailand and Malaysia are the second-tier high performers of the East Asian Miracle economies, following behind South Korea, Taiwan, Hong Kong, and Singapore (World Bank, 1993). Both countries are generally considered to have successfully managed the development process with strong ownership (Muscat, 1994; Suehiro & Higashi, 2000; Torii, 2005), and are now also emerging as donors. During the 1970s and 80s, the economies of these two countries achieved major structural transformation, and their governments made strenuous efforts to build and enhance the functions of central development administration in order to meet the increasingly complex challenges of managing development and aid. Therefore, we consider it highly important to learn from the past experiences of Thailand and Malaysia, especially from the late 1950s through the 1980s.

In order to provide a comparative perspective, the chapter also analyzes the experiences of the Philippines especially after 1986, which was the turning point of democracy restoration. While the Philippines failed to transform its central economic agencies into strategic core centres of development management during the Marcos era (1965-1986), the post-Marcos era has seen major efforts to reorganize the central economic agencies and strengthen inter-agency coordination. Furthermore, in 1991 the country began implementing one of the most radical decentralization initiatives in all of East Asia.

2. The approach and the basic premise

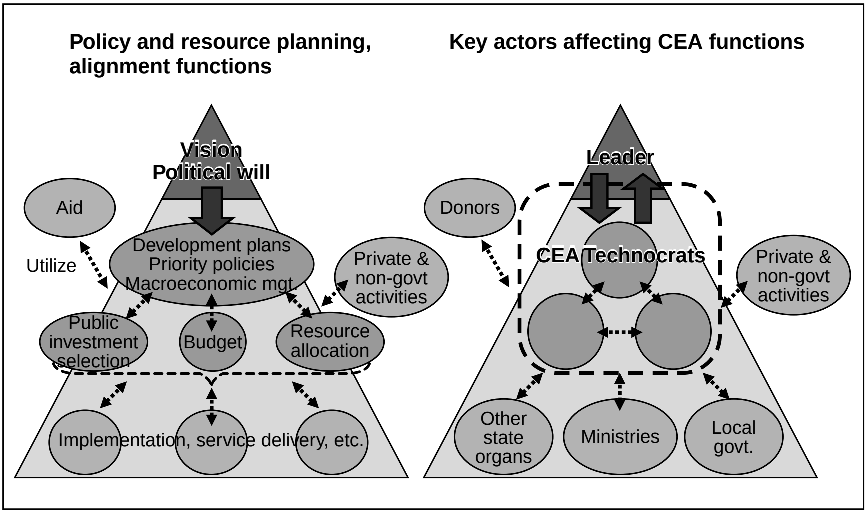
The scope of analysis

Our analysis focuses on (i) the role and functions of central economic agencies and their coordination mechanisms as agents managing the transformative development process, and (ii) actors such as leaders and technocrats who affect the functions of central economic agencies and the evolution of development administration. Figure 9-1 illustrates these perspectives.

Regarding (i), various levels of coordination exist among different actors and stakeholder groups. Nevertheless, as the first step we will primarily focus on the coordination mechanisms within central development administration. Special attention will be paid to the role and functions of central economic agencies, as well as to key factors that have affected their functions and the evolution of development administration. As a large body of literature suggests, the building of a modern central development administration was perceived as the first-priority task by top leaders in the East Asian Miracle economies during their early stages of development. As explained below, the central economic agencies in these economies functioned as the strategic core centres of development.

Regarding (ii), ideally, top leadership should provide a long-term development vision and should also possess a strong political will to realize that vision. By mobilizing and utilizing both domestic and external resources, the technocrats of central economic agencies then assume the responsibility for translating the vision into concrete action plans. This includes formulating development plans and strategies, articulating priority policies, programming public investment, and managing resources within hard-budget constraints. The technocrats are also responsible for coordinating among various stakeholders, such as line ministries, other state agencies, local governments, donors, and the private sector, in order to facilitate the implementation of priority projects and the delivery of essential public services.

Figure 9-1: Coordination Mechanisms of Central Economic Agencies (CEA)



Therefore, the key questions to be examined are as follows:

- What are the role and functions of central economic agencies in Thailand, Malaysia, and the Philippines?
- How have the coordination mechanisms actually worked? What are the roles of leadership and technocrats?
- What is the role played by development plans in policy and resource alignment, especially in the annual budget process, public investment programming and project selection, and aid management? To what extent have these instruments and resources been used in a coherent fashion?
- How have these countries succeeded (or faced difficulties) in formulating and enhancing such functions and mechanisms, while simultaneously overcoming various crises and shocks?
- What are key factors that have affected the functions of central economic agencies and the evolution of development administration?

Critical role of central economic agencies in managing the development process, including aid

Among a number of administrative and governance reform agendas, we attach great importance to that of strengthening central economic agencies during the early stages of development. As agents that must manage budgets, public investment, and aid, as well as provide the right incentives for private and non-governmental actors, these agencies must assume the following strategic core functions.[1]

- Align policy planning and resource mobilization while attaining strategic objectives.
- Coordinate different interests of stakeholders, including donors, both vertically and horizontally as well as domestically and externally.

The role of central economic agencies evolves over time. As the local government and private sector activities expand, their involvement in the economy is likely to become more indirect focusing, for example, on regulatory and supervisory functions. This is what occurred in the first-tier East Asian Miracle economies, and those of Thailand and Malaysia have experienced a similar evolution as well. While the recent decade has witnessed an expanded role on the part of local administration and private sector activities, this should not be equated with the marginalization of central administration. In fact, there exists a shared consensus in the international aid community on the importance of strengthening strategic planning and management capacity in developing countries, and integrating such efforts in the objectives of national development (OECD DAC, 2005).

At least two arguments highlight the role of central economic agencies. First,

1. Our argument is built on Shimomura's hypothesis, which proposes the need to identify a limited number of good governance elements, rather than attempting to establish good governance in all scores simultaneously. Shimomura (2005) argues that it is more realistic to give weight to a set of "strategic" good governance elements that may trigger development, in light of resource and capacity constraints of developing countries.

it is generally accepted that economic cases for central administration exist and require: (i) policy coordination in the presence of scale and scope economies; (ii) inter-jurisdictional externalities with spillover effects across localities, such as large-scale infrastructure development; and (iii) supporting local governments through the resource transfer of financial and technical terms (Bardhan, 1997). These are complementary to decentralized administration, which may be better equipped for managing local common resources and supplying local public goods provided that it maintains greater access to local information and accountability. Nevertheless, at the early stages of development, when financial, technical, and human resources are extremely scarce nationwide, the role of central administration in (i)-(iii) above becomes all the more important. In fact, such a role and such functions are needed to create an environment to nurture private sector development.

Second and more fundamentally, the central governments of latecomer countries must also assume a developmental role, a point that adds a distinctive dimension to Weber's concept of modern, rational bureaucracy.[2] Development is a transformative process that requires institutions promoting radical accumulation, change, and transformation (Leftwich, 1995; Stiglitz, 1998). In addition, development is an interactive process incorporating both foreign and indigenous elements (Iwasaki, 1996; Ohno, K., 2000). On the one hand, latecomer countries need to acquire the foreign elements such as modern technology, knowledge, and organizational structure through aid, trade, and investment by the private sector. On the other hand, each country has indigenous elements such as values and social institutions unique to that country, and in this sense the "economy is embedded in society" (Polanyi, 1944, p.57).

In sum, development is a process that must be undertaken at the level of the nation-state as the implementing unit. In its early stages, the central government must act as the initiators of change in order to take full charge of manag-

2. Weber outlined the key characteristics of a bureaucracy as: (i) functional specialization; (ii) clear lines of hierarchical authority; (iii) expert training of managers; (iv) decision making based on rules and tactics developed to guarantee consistent and effective pursuit of organizational goals; and (v) assignment of work and personnel based on competence and experience.

ing and coordinating external and internal stimuli. To this end, central economic agencies must function as strategic core centres of development. While implementing policies and creating the necessary institutions and attitudes conducive to development, central economic agencies must "recognize the society's unique initial conditions, identify bottlenecks and potential obstacles, deal with unexpected shocks, set long-term targets, and design comprehensive and concrete annual plans to achieve them" (Ohno, K., 1998, p. 29).

3. National contexts and performance

Overall development performance and shared growth

Thailand and Malaysia have achieved economic growth with poverty reduction over the past four decades. Although both countries faced crises and shocks, they have managed to attain relatively uninterrupted rapid growth, except for several years of severe recession in the early 1980s and financial crises in the late 1990s. The aggregate growth has been accompanied by economic stability and poverty reduction (Table 9-1). Basic social indicators in terms of life expectancy, infant mortality rate, literacy rate and human resource development all show satisfactory trends. In Malaysia, where equity was a particularly important consideration, inequality in income distribution has been reduced significantly among ethnic groups.

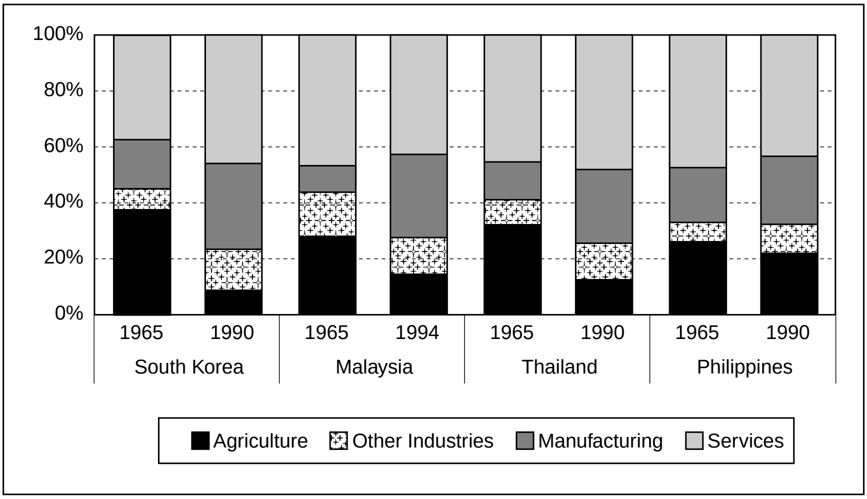
During the 1970s and 80s, the economies of Thailand and Malaysia underwent major structural transformation (Figure 9-2). In Thailand, agriculture, which used to contribute 32 percent of GDP in 1965, declined to 12 percent in 1990. Meanwhile, the share of manufacturing value-added rose from 14 percent of GDP in 1965 to 26 percent in 1990. By the 1990s, Thailand's largely agrarian economy of the 1960s had been transformed into a newly industrializing economy. The Malaysian economy was also diversified. Before independence in 1957, the economy was dominated by rubber plantation and tin mining, and manufacturing was not very significant. Subsequently, the share of manufacturing value-added increased from 9 percent of GDP in 1965 to 32 percent in 1994.

Table 9-1: Basic Socio-Economic Indicators for Selected East Asian Countries

Country	GNP per capita (US$) 1976	GNP per capita (US$) 1990	Average annual growth rate of GNP per capita (%) 1965-1990	Life expectancy at birth (years) 1990	Population below poverty line: Total (%) 1980-1989 average	Population below poverty line: Rural (%) 1980-1989 average
Korea, Republic of	670	5400	7.1	71	16	11
Malaysia	860	2320	4.0	70	27	38
Philippines	410	730	1.3	64	58	64
Thailand	380	1420	4.4	66	30	34

Sources: Compiled from World Bank, *World Development Report* (1976, 1992, 1993) and UNDP, *Human Development Report* (1992).

Figure 9-2: Structure of Production (Distribution of GDP, %)



Sources: World Bank, *World Development Report* (1992, 1996) and *World Development Indicators* (2006).

The record in the Philippines has been mixed. In terms of per capita GNP, the Philippines scored the highest among the three countries around 1950 and scored higher than Thailand until the mid-1970s.[3] Nevertheless, its economy has undergone only modest structural transformation. During the period of

3. At independence in 1946, development indicators for the Philippines matched those of South Korea and the country was regarded as a showcase for the Asian adoption of Western market economics and democratic practices (Hayllar, 2003).

1965-90, the share of agriculture in the economy declined from 26 percent to 22 percent of GDP, and that of manufacturing value-added increased from 20 percent to 25 percent.

Approaches to macroeconomic management

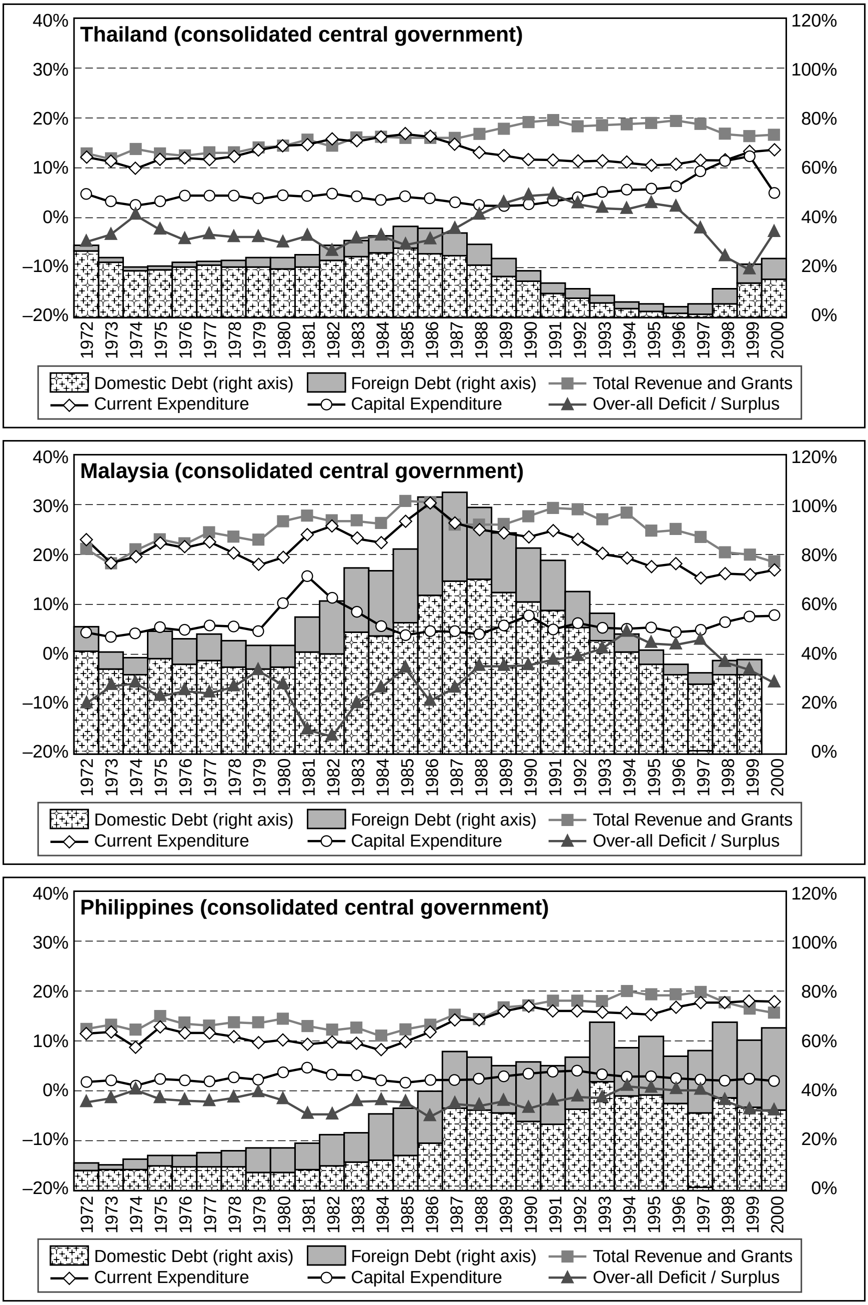
The period of the 1970s-80s was of special importance for the three countries. All three governments faced challenges to meet the increasingly complex demand for development. In response, these governments increased the levels of spending and borrowing in order to mobilize larger amounts of resources to finance development, particularly from the latter half of the 1970s.

The central economic agencies of the three East Asian countries took different approaches to macroeconomic management in light of the size of public expenditures and the level of debt financing. Figure 9-3 shows key fiscal indicators of the three countries, including the levels of total revenues, current and capital expenditures, overall fiscal balance expressed in terms of percentage of GDP, as well as the ratio of outstanding debt to GDP.

A key feature of Thailand's macroeconomic management is strong fiscal conservatism and prudent debt management. The legal limits for fiscal deficits and external borrowing were strictly adhered to. The central government expenditures accounted for around 20 percent of GDP or less. Nevertheless, the public expenditures grew in the mid-1970s and 80s, and the government borrowing, including external debt, started to rise during the first half of the 1980s. However, the outstanding debt remained at a moderate level, well below 40 percent of GDP at the highest. This is much lower than that of the other two countries. Furthermore, thanks to the accelerated growth that started from the latter half of the 1980s, the Thai government was able to turn fiscal deficits into a surplus in 1988 and reduce the outstanding debt.

In contrast, Malaysia is known for its fiscal activism. The size of Malaysia's central government expenditures and that of outstanding debt, as percentages of GDP, were the largest of the three countries. The government's adoption of

Figure 9-3: Selected Fiscal Indicators (Percentage of GDP)



Sources: IMF, *Government Finance Statistics Yearbook,* various years and *International Financial Statistics,* various years; and ADB, *Key Indicators of Developing Asian and Pacific Countries,* various years.

the New Economic Policy (NEP) in 1971—which established the overriding objective of promoting national unity through "poverty eradication" of all Malaysians and "restructuring of society" to correct economic imbalances in order to address the main cause of the ethnic riot of 1969—necessitated larger public expenditures than before. Especially, with rapidly growing development expenditures, the Malaysian government incurred sizable fiscal deficits during the late 1970s through the early 1980s. The government actively mobilized various resources, including domestic and external borrowing, throughout the 1980s.[4] Similar to Thailand, rapid growth enabled Malaysia to compress the outstanding debt, especially foreign debt. The fiscal balance turned into a surplus in 1993.

In the Philippines, the level of public expenditures has been comparable to that of Thailand and has been much lower than that of Malaysia. However, the country has had problems in allocative efficiency and productivity of public investment. During the 1980s, the government increased domestic and external borrowing to finance development programs, but is yet to be able to fully enjoy the potential benefits of these programs. The Philippines continues to face a heavy debt burden, and the resultant debt overhang limits the fiscal space.

Approaches to aid management

The three East Asian countries also differed in the degree of aid dependency. Compared to today's Sub-Saharan Africa, Thailand and Malaysia were less dependent on aid. Even in the late 1980s when these countries actively mobilized resources for financing development, aid, which included the less concessional loans from the World Bank and the Asian Development Bank (ADB), accounted for about 10 percent of the total government expenditures in Thailand and about 4 percent in Malaysia. Still, in Thailand, aid was an important source of financing development expenditures. The Philippines had

4. Petroleum revenues and the Employees' Provident Fund (EPF) were other important sources of financing growing public expenditures.

the highest level of aid dependency at about 18 percent in the late 1980s. This level is comparable to those of Vietnam and Kenya (about 20 percent) but is much lower than that of Tanzania (near 80 percent) today.

All three countries expanded their volume of aid mobilization during the 1970s and 1980s. This was also the period when the composition of donors and the mix of grants and loans changed drastically. The size and complexity of aid increased by the 1970s-80s, and the central economic agencies of the three countries came to face greater challenges of aid management than before, including the need for prudent external debt management and careful analyses of cost-and-benefit and feasibility of prospective investment projects.

The three countries responded differently to the increasing challenges of aid management. Thailand actively used aid throughout the 1980s, but successfully avoided heavy and protracted dependency. Moreover, the Thai government was sensitive to the concessionality of loans, as well as comparative advantages of respective donors. While some shifts of donor composition were unintended and were influenced by the international environment, the others were the result of the government's conscious efforts to strategically and selectively utilize aid. For an example of an unintended shift, until the mid-1970s, the United States (US) was the largest bilateral donor in Thailand, providing massive grant aid including technical assistance. The US defeat in the Vietnam War in 1976 brought a major change in Thailand's geopolitical role in US security concern and resulted in a sharp decline in US aid. Then the World Bank, the ADB, and Japan became the three largest donors, and accordingly loan aid increased. In contrast, the shift of donor composition during the 1980s largely reflected the Thai government's strategic decision. In this period, the Thai government consistently increased the mobilization of Official Development Assistance (ODA) loans, which was mostly from Japan, reducing its reliance on the less concessional loans, except for the years of 1997-1998 when Thailand faced a severe financial crisis and had to depend on the infusion of quick-disbursing loans from the World Bank and the ADB.

Malaysia was less dependent on aid than were the other two countries. Nevertheless, in the 1970s, Malaysia experienced shifts of donor composition and of grant-loan proportion. For about a decade after independence, the United Kingdom (UK) was the largest donor in Malaysia and provided grant aid including technical assistance. The UK's position as the largest donor was followed by the US. By the mid-1970s, the World Bank and Japan increased their loan aid and became the largest donors. Similar to Thailand, Malaysia used aid selectively. Aid mobilization was largely limited to the areas where the introduction of new knowledge and technology was desired, and the government tacitly avoided donor intervention into the domestically sensitive policy areas.

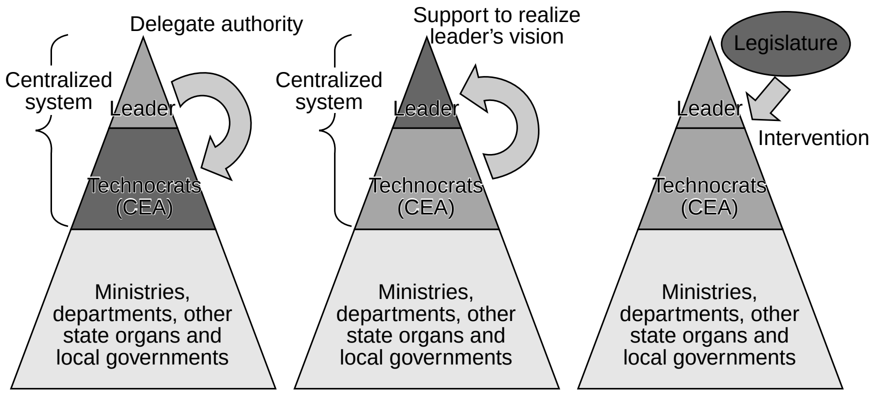
The Philippines mobilized aid actively throughout the 1970s-80s and continues to do so. With the relatively high level of debt service payments, the government has limited fiscal space for discretionary funding, including capital expenditures. This raises questions regarding the Philippine government's consciousness of securing economic and social returns of aid-funded projects and using aid for achieving development priorities.

4. Main characteristics of development and aid management

Diversity in institutional design and coordination mechanisms

The analysis in Section 3 suggests that the central economic agencies of Thailand, Malaysia, and the Philippines have different performance records and approaches to macroeconomic and aid management. There exist variations in the type of development management and the nature of ownership among the three countries. The central economic agencies of Thailand and Malaysia have built the capacities to act as strategic core centres for development management and have contributed to establishing strong ownership especially in the 1970s-1980s. The Philippines is currently making efforts to strengthen its strategic core functions by institutionalizing intra-agency coordination mechanisms and improving aid management.

Figure 9-4: Major Characteristics of Development Administration



<Thailand>
"Bureaucratic polity"
Centralized system managed by elite technocrats who were delegated authority from political leaders

<Malaysia>
"Top-down" development administration
Centralized system led by political leaders and supported by elite technocrats to realize leaders' vision

<The Philippines>
Especially after 1986
"Dual track" development administration
Dual system administered by executive branch but challenged by legislative intervention

Each country has a different way of organizing and coordinating development administration. The countries' institutional design and coordination features vary significantly in terms of, for example, the existence of a super-ministry, the functional division of labour among ministries and agencies, the relationship between top leadership and technocrats, and the relationship between the Executive and Legislative branches. Even though Thailand and Malaysia have each built a core country system for development management, the institutional design of their development administration differs. Figure 9-4 shows the major characteristics of development administration in the three countries and the various types of development management and functional features of central economic agencies.

In Thailand, a highly centralized system was created and administered by the economic technocrats called *bureaucratic polity* who were granted by the top political leaders the authority to plan and administer policies. According to Fred W. Riggs, Thailand's bureaucracy functioned as a focal point of power and influence in the governing process (Riggs, 1966, p.312). Until the late 1990s, the technocrats of central economic agencies assumed a key role in formulating and implementing development policies. In terms of the configuration of central economic agencies, no single super-ministry existed, and the responsibilities for economic policymaking have been shared among the core macroeconomic agencies: the National Economic and Social Development Board (NESDB), the Bureau of Budget (BOB), the Fiscal Policy Office (FPO) and the Public Debt Management Office (PDMO, established in 1999) of the Ministry of Finance (MOF), and the Bank of Thailand (BOT). Fiscal and monetary decisions have been left almost entirely to these core macroeconomic agencies (Christensen et al., 1993). As a result, the economic technocrats have been insulated from political interventions and have been able to exercise substantive power. This has enabled the government to maintain macroeconomic stability and coherent economic policies, even when the political situation was volatile during the 1970s.[5] The stable and predictable macroeconomic environment has contributed to promoting the activities of the private sector.

In Malaysia, top-down development administration is in place. It is the top political leaders that have served as the driving force of development management and institution building efforts. Since independence in 1957, the successive Prime Ministers have exercised strong leadership, and the technocrats of central economic agencies have served as the support arm to realize the visions provided by the Prime Ministers. The bodies responsible for policymaking have been concentrated in the Prime Minister's Department—such as the Economic Planning Unit (EPU), the Implementation and Coordination Unit (ICU), and the Public Service Department (PSD)—as well as the Ministry of Finance (MOF). Among these, the EPU functioned as the super-ministry, taking a lead role in the formulation of long- and medium-term visions, including the level and allocation of development budget, and collaborating with the MOF in the annual budget process. Malaysia has inherited such strong central control from the colonial administration.

5. Such technocrat-led economic management changed under the Thaksin administration (2001-2006) until Prime Minister Thaksin was ousted by the military coup in September 2006. While he was in office, he introduced a top-down approach based on new public management.

The Philippines faces a more complex situation. Its decision making structures are highly dualistic and fragmented among different government agencies and the legislature. The Congress has strong control over the Executive branch, typically in the budget process, which leads to the marginalization of economic technocrats. However, as the ongoing reforms in financial management suggest, room exists for ensuring policy coherence within the Executive branch. The basis for the current planning machinery was established in 1987 as part of administrative reorganization in the post-Marcos era. Four oversight agencies are responsible for economic policymaking: the National Economic Development Agency (NEDA), the Department of Budget Management (DBM), the Department of Finance (DOF), and the central bank. While they are the core members of Cabinet-level inter-agency coordination committees, their actual coordination needs further strengthening.

Alignment with development priorities

Despite the diversity in institutional design and coordination features, there are commonalities that have enabled the central economic agencies of Thailand and Malaysia to function as the strategic core centres of development management. There are variations in specific aspects of coordination mechanisms, such as the degree of development plans binding medium-term resource allocation and project selection. Overall, however, these central economic agencies function as the agents to plan, coordinate, monitor, and ensure that projects that are being implemented are in the national development plan and have been budgeted for.

The following features, which we call *functional principles,* have greatly contributed to the effective operations of their central economic agencies.

- Development plans are strategic enough to serve as the core document for policy alignment.
- Coordination mechanisms exist among central economic agencies to align budget, public investment programming and selection, and aid mobilization with national development priorities. Such mechanisms are accompanied by the institutionalized hard-budget constraints, as

witnessed by the comprehensive enforcement of macroeconomic guidelines.

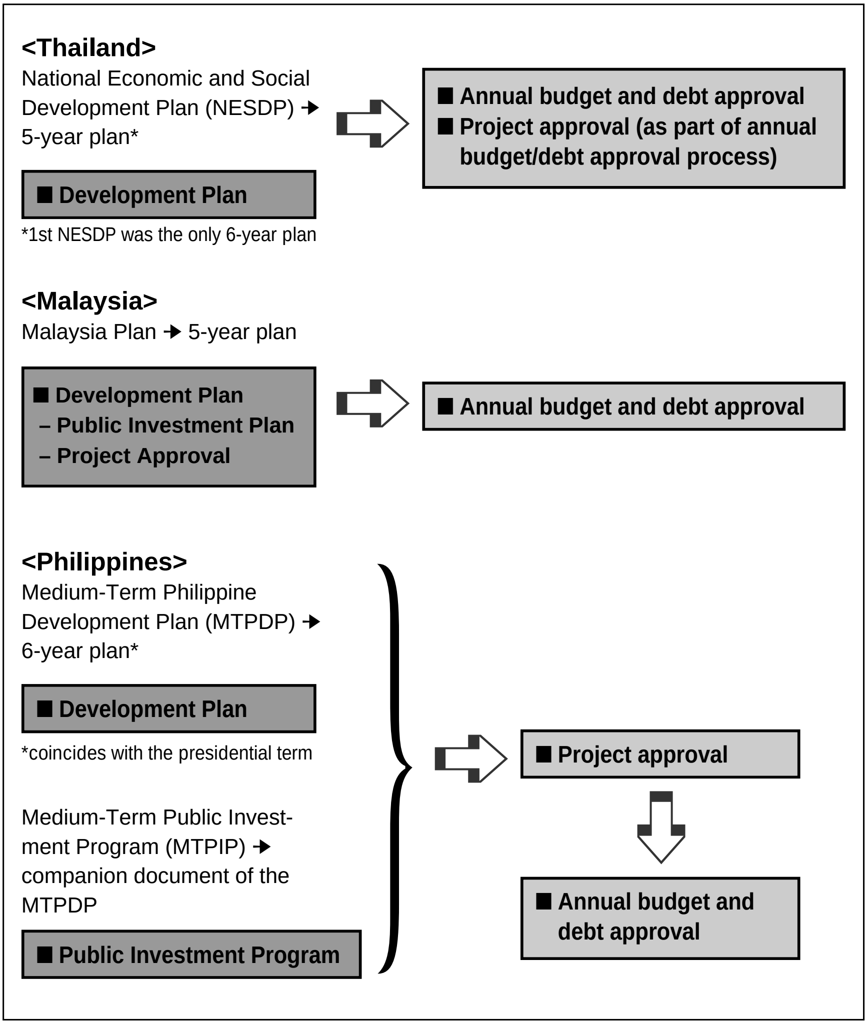
- Vertical (and to certain degree, horizontal) links exist between central economic agencies and line ministries and agencies to ensure the alignment with national development priorities.
- In this process, aid-funded projects are integrated into the national development planning, budget process, and investment programming. In principle, the same procedures and criteria are applied in designing and implementing both nationally-funded and aid-funded projects.

Figure 9-5 and Table 9-2 compare the coordination features of Thailand, Malaysia, and the Philippines regarding the coherence among development planning, budget and debt management, and public investment programming.

In Thailand, five-year development plans are indicative. They specify development priorities, but do not bind budget allocation. Public investment has been scrutinized and selected in the annual budget formulation process, not in the development planning process (except for the period of 1972-81 when the third and fourth development plans contained the public investment plans). This system allows for flexibility in the medium-term planning, while enabling the technocrats to conduct vigorous scrutiny in the annual budget process. The BOB serves as a vertical link between the core macroeconomic agencies and the spending agencies, enforcing hard-budget constraints. Notably, the BOB dispatches “Mobile Units” (a team of budget analysts) to each department for detailed reviews of the planned and ongoing projects and programs. Legal limits for fiscal deficits and external borrowing have been strictly enforced through the coordination among the core macroeconomic agencies.

In Malaysia, five-year development plans are directive, with budget implications. They contain public investment plans, and investment selection has taken place as part of the development planning process. The Malaysian system ensures linkages between development plans and public investment plans.

Figure 9-5: Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming



It also enforces the budget and sector ceilings during the plan period, although there is room for making adjustments at mid-term reviews. A cadre of elite technocrats, assigned to the central economic agencies as well as the planning divisions of various ministries and agencies (called the "planning cells") assume critical functions, providing vertical and horizontal links during the development and investment planning, budget formulation and execution, and

Table 9-2: Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming

	Thailand	Malaysia	Philippines
Degree of coherence in coordination mechanism	• Coherence; policy alignment with development priorities, with fiscal discipline; weak linkage among central economic agencies and line ministries • Prime Minister-chaired national committees created to address priority agenda (esp. the 1980s)	• Strong coherence; policy and resource alignment with development priorities; strong linkage among central economic agencies and line ministries	• Coherence?; limited policy and resource alignment; weak inter-agency coordination
Development Plans (DP)	• Indicative plan, utilized as strategic core documents • Development priorities clearly indicated • Budget allocation not specified (securing room for flexibility)	• Directive plan, utilized as strategic core documents • Development priorities and resource allocation clearly indicated • Budget allocation specified during plan period (but adjusted at mid-term review)	• Still insufficient as strategic core documents (ongoing effort to align President's 10-point agenda) • Budget allocation not specified
Budget formulation	• Rigorous scrutiny of all projects in annual budget process by BOB • PPBS introduced in 1982; MTEF introduced after 2003	• Annual budget formulated as a rolling plan to implement DP • PPBS introduced in 1969; MBS introduced in 1990	• Ongoing effort to synchronize DP, PIP, and annual budget from 2000 (incl. MTEF introduction) • Congressional intervention into budget process
Public Investment Plans (PIP)	• Public investment selected in the subsequent budget and debt approval process (except for the 1970s—3rd and 4th DPs)	• Public investment selected as part of development planning process	• PIP prepared in parallel with development plans, but their linkages remain weak
Project approval and monitoring (incl. ODA projects)	• Project approval integrated into budget/debt approval process • Application of same procedures for ODA and locally-funded projects	• Project approval conducted as part of development planning process • Application of same procedures for ODA and locally-funded projects	• Project approval conducted after PIP process and before budget process (lacking rigorous scrutiny) • Dual approval process for ODA and locally-funded projects (incl. "pork barrel" funds)

Notes: MBS: Modified Budget System; MTEF: Medium-Term Expenditure Framework; PPBS: Planning Programming Budget System.

implementation monitoring.[6] The annual budget process is consultative, and the MOF organizes budget dialogues with the concerned agencies, including the business sector.

In the Philippines, overall, six-year development plans and medium-term public investment plans have limited roles in the alignment of policy and resources with development priorities. The linkages between the two plans remain weak, and there exist no budget ceilings for development plans and public investment plans. Therefore, the public investment plan tends to be viewed as a "wish list" of projects. Since the late 1980s, the Philippines government has been making strenuous efforts to better synchronize the development planning, public investment planning, and budget formulation, for example, by introducing the Medium-Term Expenditure Framework (MTEF) and other new instruments. Nevertheless, such efforts are often challenged by congressional interventions in the annual budget process (typically, by the use of "pork barrel" funds). Such congressional interventions undermine the credibility of the development plans and public investment plans.

When Thailand and Malaysia each established a basis for development administration, they also endeavoured to ensure that aid be integrated into the existing system. For example, Thailand and Malaysia have applied the same procedures and criteria for locally-funded and ODA projects throughout the investment planning and monitoring processes, except under special circumstances (for example, where donors require the application of more rigorous environmental and social safeguards). They also had a mechanism to ensure the allocation of local counterpart funds for ODA projects. In the Philippines, throughout the project selection and monitoring processes, the procedures and criteria applied for locally-funded projects are less rigorous than those applied for ODA and BOT projects.

6. The *modus operandi* of the Thai agencies is shared responsibilities based on subtle check-and-balance, while that of Malaysia is (at least in intention) systemic application of rules with centralized power given to the Prime Minister's Department. Such differences may come from historical factors. The institutions and decision-making processes of Thailand are the "product of particular historical experiences and a unique cultural context" (Brewer, 2003, p.189); on the other hand, Malaysia's public administration today owes much to the inheritance from the colonial legacy.

In Thailand and Malaysia, their development plans throughout the 1970s and 1980s contained detailed discussions on the policies of aid utilization, such as the proportion of aid in overall resource mobilization, the priority areas of requesting donor assistance, the expected role of major donors, the status of project implementation, and the measures to be taken to improve aid-absorption capacity. These issues are less clearly articulated in the past development plans of the Philippines—at least until the current plan covering the period of 2004-2010.[7] Furthermore, since the 1990s, the Malaysian government has strengthened the articulation of its international cooperation policy. The recent development plans extensively discuss various channels of cooperation—bilateral, regional, and multilateral cooperation, as well as the Malaysian Technical Cooperation Program (MTCP)—and provide the perspectives of an emerging donor and a responsible member of the global community.[8]

Dynamic evolution of development administration and strategic use of aid toward graduation

Both Thailand and Malaysia have used aid strategically to build and enhance development administration so that the governments could better realize policy and resource alignment with development priorities. Their experiences show the process of dynamic evolution of institutional development. The following three ways in which Thailand and Malaysia have achieved this are worth mentioning.

First, the two governments recognized the importance of having an "exit plan" and treated aid as a temporary, supplementary resource, as well as an instrument to enhance efficiency, to fill domestic financial and capacity gaps. At the

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7. In this sense, the latest Medium-Term Philippines Development Plan is notable because it discusses selectivity of ODA. ODA is regarded as the preferred source for financing large infrastructure projects that require huge funds, as it is relatively soft with its lower interest rates and longer maturity period (Government of Philippines 2004, Medium Term Philippines Development Plan).
8. Since the Seventh Malaysian Plan (1996-2000), one chapter which discusses Malaysia's international cooperation policy has been added. Previously, this topic was included in the chapter of public sector program and its financing.

formative stages of development administration, the leaders and technocrats established strong alliances and managed the process of absorbing, internalizing and institutionalizing foreign expertise into the local contexts. Throughout this process, they treated aid as an integral part of development management and successfully combined it with home-grown systems and knowledge.

Like many of today's developing countries, Thailand and Malaysia did not have strong institutional bases at the initial stage of development. During the 1950s-60s the economic technocrats in Thailand and Malaysia actively sought advice from foreign experts from sources such as the US, the UK and the World Bank on such topics as the general direction of development policies, the drafting of national development plans, and the organizational structure of their development administration.[9] A notable point is the existence of strong political and technocratic commitment and the alliance of these actors toward building a functioning development administration. The political leaders initiated this process and assigned motivated technocrats to undertake such endeavours. The first generation of elite technocrats played a critical role. The elite technocrats not only acquired foreign knowledge, but also took measures to build core functions of the country system and instituted programs for human resources development from a long-term perspective.[10]

Second, these governments mobilized aid and managed donors skilfully to realize a balanced aid relationship. The governments were mindful of which sectors or activities were more appropriate to receive donor assistance.[11] They

9. The World Bank mission, which advised a development program for Thailand in the late 1950s, stated that "it will be most difficult, if not impossible, to find suitably trained and sufficiently experienced Thai personnel who can be spared from present assignments to fill all these important senior positions" (World Bank, 1959, pp. 217-218).

10. For example, in Thailand, Dr. Puey Ungphakorn, former Governor of the BOT (1959-1972) played a key role in institutionalizing the disciplinary functions across the core macroeconomic agencies. In Malaysia, Tan Sri Thong Yaw Hong is noted as the first Malaysian head of EPU, who successfully replaced the post occupied by foreign experts in 1961 and initiated training programs for building human resources basis among the Malaysian technocrats. By 1965, Malaysia largely completed the replacement of expatriates with local officials in the public sector.

11. The Thai government also actively utilized aid for large-scale infrastructure projects, not only to fill financial gaps, but also to take advantage of donor presence as the third party and their technical guidelines to ensure project implementation would be transparent.

also had good understanding of comparative advantages among donors regarding technical expertise and financial conditions and made full use of this knowledge in aid mobilization. In the case of Thailand, the government strived to retain bargaining power against donors in various ways. These included: (i) deliberately seeking a variety of donor advice to gather different perspectives; and (ii) instituting an agency specializing in administering technical cooperation (DTEC) so that the government could have a holistic picture, match country needs with donor expertise, and apply uniform procedures for technical cooperation including the assumption of counterpart funds. The Malaysian government was cautious about donor interventions into domestic policies, especially those related to the basic direction of the NEP. Thus, the government, through the External Assistance Section of the EPU, took the initiative in deciding the sectors or activities where aid could be more properly and effectively utilized. In principle, aid mobilization was limited to the sectors and programs where the government wished to acquire new technology and large financial resources.

Third, as new donors, Thailand and Malaysia now utilize the experiences and institutional mechanisms that were built at the time when they were aid recipients. In 2004, DTEC was formally transformed into the Thailand International Cooperation Agency (TICA) as an agency responsible for providing technical cooperation.[12] In the same year, the Neighbouring Countries Economic Development Cooperation Agency was also established to provide financial assistance in the Greater Mekong Sub-region, with the participation of professionals experienced with debt management at PDMO/FPO. In Malaysia, the External Assistance Section of EPU started the MTCP in 1981, extending technical cooperation to Asian, Middle-Eastern, and African countries mainly in the form of training and dispatching experts.

The Philippines has had mixed experiences of aid management throughout the 1970s-80s. The creation of centralized administration by President Fernando

12. DTEC had started to provide technical cooperation to the neighbouring countries even before the TICA was established.

Marcos in 1972, with NEDA at its core, did not contribute to strengthening inter-agency coordination among central economic agencies. Aid management by NEDA was fragmented and largely donor-driven, and there was virtually no strategic and procedural coordination of ODA projects. Nevertheless, the ongoing efforts under the post-Marcos governments to strengthen the NEDA functions of public investment appraisal by reinvigorating the Investment Coordination Committee, and post-evaluation—primarily for large-scale projects financed by ODA and public-private partnership such as BOT—are notable and suggest possibilities that aid can provide an opportunity to introduce the more rigorous, transparent, and technically sound criteria and may serve as an entry point to bring broader institutional reforms. At the same time, setting up a dual and exceptional system for ODA projects might lead to inefficiency and create an additional administrative burden. It is important that the achievements made in reforming ODA management be integrated into the ongoing efforts to building a functioning country system.

This review has shown that institution building is a dynamic process and that, if properly mobilized and utilized, aid can serve as a good stimulus for institutional changes. By the time Thailand and Malaysia encountered the challenges of further enhancing their development administration to overcome shocks and crises and to manage their structural transformation (in the 1980s for Thailand and in the 1970s-80s for Malaysia), the basic foundations for development administration had been already put in place. It was the political leaders and their allied technocrats that pushed forward the upgrading of development administration by selectively utilizing foreign expertise.

The importance of political environment

The functional principles mentioned in the previous sections are necessary but not sufficient conditions for ensuring the operations of central economic agencies as strategic core centres of development management. The experiences of the three East Asian countries suggest that the political environment also matters. Each country encountered shocks and crises in the course of development, and the political environment greatly affected the ability of their central economic agencies to respond to them and sometimes even turning them into opportunities for reforms and broader institutional changes. In particular, the following factors are important in this regard:

- Quality of leadership;
- Alliance between leadership and competent technocrats around common development visions (especially shared growth); and
- Technocratic insulation from political interventions, based on the existence of a broad political coalition for realizing development for the benefit of the whole country.

First, with regard to the quality of leadership, the experiences of Thailand and Malaysia confirm that political leaders played a vital role in providing development visions and setting the direction for changes when this was necessary. This type of leadership mattered, especially during times of crises and at various turning points of development. Furthermore, as explained above, the style of leadership affected the working modality of the countries' central economic agencies, as well as the decisions on forming and enhancing development administration. As the Philippines' experience during the Marcos era suggest, building a centralized administrative framework itself is not enough to make the central economic agencies work. There is a real need to look into the interplay between the political leadership and technocrats, in addition to the functions of the central economic agencies.

In this sense, Thailand was blessed with well-balanced, visionary, and committed leaders at critical stages. This was particularly the case, for example, with Prime Ministers Sarit (1959-1963) and Prem (1980-1988). In the late 1950s through the early 1960s, Prime Minister Sarit was instrumental in establishing the basic foundations for coordination mechanisms led by the central economic agencies. Sarit also defined the modality of the leadership-technocrat alliance for subsequent administrations, which was the principle of delegating the authority to plan and administer economic policies. Based on this principle, economic technocrats were empowered to discharge strategic core functions, allowing political interference into the policymaking process to be minimized during periods such as the volatile 1970s. Following this period, during the 1980s, Prime Minister Prem demonstrated balanced leadership in guiding the country. Thailand went through a macroeconomic crisis and structural transformation in the early 1980s, when Prem took the initiative to create national-level committees to facilitate the planning and implementation coordination of priority agenda that included macroeconomic policy, Eastern Seaboard Development, rural development, and private sector participation. Prem entrusted NESDB to act as a focal point for this task.

Throughout the past decades, during the era of Prime Ministers Razak (1970s) and Mahathir (1981-2001), Malaysia enjoyed overall political stability. These were political leaders who demonstrated a strong sense of commitment and dedication to national development. Political leaders in Malaysia have also played a vital role in managing crises, as has been clearly illustrated by their ability to turn them into opportunities. Following the 1969 ethnic riot, for example, Prime Minister Razak took decisive action to cope with the crisis, reuniting the country by embracing a national vision based on the NEP, and reforming the existing development administration in order to facilitate its implementation. In the 1980s, Prime Minister Mahathir provided Malaysia's new vision for the next stage of development, and also initiated a number of administrative reforms to enhance efficiency and public-private coordination.

Secondly, in addition to the importance of leadership, it is also crucial that strong alliances exist between leadership and competent technocrats toward the goal of realizing common visions. While leadership style has varied, the economic technocrats of Thailand and Malaysia fully assumed responsibility for realizing the national development visions that were shared with the political leadership. In this regard, development plans served as core strategic documents and a basis for policy and resource alignment. Aid in these countries was also aligned with development priorities, and utilized as an integral part of development management.

With regard to technocratic competency, public sector base salaries were systematically lower than their private sector counterparts in all of the three East Asian countries. Still, the incentive structure for the economic technocrats in

Thailand and Malaysia appeared to be more favorable than that of the Philippines. As of 1992, the public-private salary gap in Malaysia and Thailand was about the same as the average for other low- and middle-income countries, but higher than in the Philippines.[13] Thailand and Malaysia have competitive, merit-based recruitment to a bureaucracy, which has attracted competent and motivated individuals from good universities. Moreover, in Thailand, finance-related agencies have their own personnel and recruitment programs, and the salaries provided by these agencies were said to be about 30 percent higher across the board than in the rest of the public sector (Campos & Root, 1996). In Malaysia, officials who belong to "planning cells" are not affiliated with a specific ministry or agency. They receive joint training of managerial skills and ethics, and rotate amongst the planning cell positions in order to play a central role in the policy process. Such systems in the two countries have created an esprit de corps based on professionalism, strengthened bureaucracy, and facilitated technocratic insulation from political pressures. This situation continued in both countries at least until early 1990s, when the private sector became a more attractive place for employment than the public sector.

The third point is closely related to the above two. The degree of political insulation affects the ability of economic technocrats to formulate and implement policies in keeping with national goals with "a minimum of lobbying for special favours from politicians and interest groups" (World Bank, 1993, p.167). Although Legislative intervention into the Executive branch itself should not be viewed negatively, since it provides an important check- and-control function as the representative of the electorate, the political interventions driven by vested interests in the absence of shared development visions could be detrimental to technocratic efforts to achieve priority development policies. In other words, it is important that there exist a broad political coalition focused on realizing development under a common vision for the benefit

13. Singapore, where public sector salaries are higher on average than private sector salaries, is a notable exception. By contrast, the ratio of public to private sector salaries was 30-40 percent for both Thailand and Malaysia, and only 20-30 percent in the case of the Philippines. South Korea and Taiwan had smaller public-private salary differentials in comparison with Thailand, Malaysia, and the Philippines.

of the whole country. The Philippines is a typical example of failure, where the administrative reforms initiated by the Executive branch have been frustrated by Congressional interventions without shared national visions. By comparison, the economic technocrats of Thailand and Malaysia are politically insulated to a greater degree. Their policymaking process has been largely led by the Executive branch, with Parliament playing a passive role in the budget process. In these countries, central economic agencies assumed full responsibility for macroeconomic management, as well as development and investment planning. Above all, the leaders and economic technocrats in both Thailand and Malaysia strived for shaping development visions aimed at promoting shared growth, and then collaborated in order to translate them into workable plans and facilitate their implementation.

5. Implications for today's developing countries and donors

Our findings confirm the vital importance of strengthening the central economic agencies, which direct, plan and coordinate economic policymaking as strategic core centres of development management. The findings also show that the quality of leadership and technocrats was the key driver of making the governments work for development in Thailand and Malaysia. The experiences of the three East Asian countries examined here suggest that (i) diverse coordination models of central development administration exist; (ii) certain functional principles are essential to the operations of central economic agencies to ensure policy and resource alignment with development priorities; (iii) political environment greatly influences the abilities of key actors, such as political leaders and economic technocrats, to discharge functional principles; and (iv) the presence of visionary and committed leadership at turning points is vital. When guided by quality leadership, it is possible to turn shocks and crises into opportunities for reforms and institutional changes.

Five policy recommendations can be extracted from these analyses, the first three directed to today's developing countries and the last two mainly for donors.

- The commitment to development by both political leaders and economic technocrats is essential. Equally important, such commitment must be translated into practical actions to realize shared growth through the alliance of leaders and technocrats using concrete development strategies and institutional arrangements.
- To this end, it is important that the governments of developing countries identify the most suitable coordination arrangements for the operations of central economic agencies of their countries, which can secure certain functional principles. After learning different models, they must decide which elements can be adopted, or adjusted to better fit to their local contexts.
- Governments should use aid for “graduation.” It is important to have an “exit plan” from the beginning of aid receipt, find a good match between exogenous models and the existing systems, and use aid as part of their coherent development efforts. We believe that these are essential elements of the ownership concept which reflect East Asian experiences.
- Donors should recognize institutional variations among developing countries and tailor their assistance to country-specific circumstances. They should also understand that developing countries often have superior knowledge of their social realities. It is important to listen more to the voices of developing countries and learn from their wisdom. In countries with weak strategic core functions, donors should be especially mindful of aligning their policy and resources with recipients’ development priorities.
- Donors should pay greater attention to political environment and how it interacts with leadership, technocrats and the functions of central economic agencies, when providing aid and taking measures to improve aid effectiveness.

These are only a modest attempt to learn from the East Asian experiences in building central economic agencies and managing the development process and aid. In the future, it will be useful to broaden the scope of the analysis to include the more diverse actors and stakeholder groups. Furthermore, the vital importance of the political and technocratic commitment to development suggests that we need deeper understanding of the dynamics of institutional and administrative changes. In particular, it is necessary to examine fundamental questions such as the manner in which visionary and committed leaders emerge, how a cadre of motivated and competent professionals can be attracted for national development; and when aid can play a catalytic role in inducing institutional changes without jeopardizing country ownership. There is also a need to examine the implications of accelerating decentralization and globalization for the institution building effort by today's developing countries, including that of strengthening central economic agencies.

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