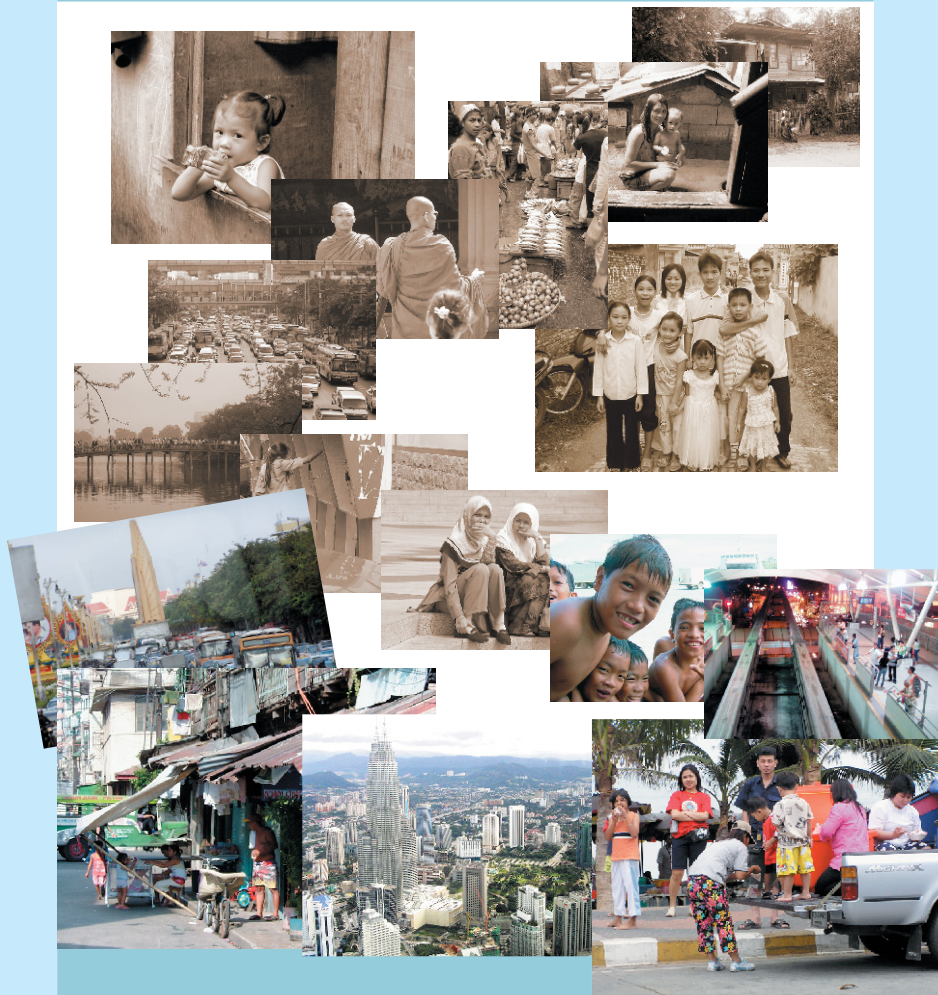


GRIPS Development Forum

Managing the Development Process and Aid

— East Asian experiences in building
central economic agencies —



March 2007



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—East Asian experience in building central economic agencies—

March 2007

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Acronyms and Abbreviations

| | |
|----------|--|
| ACO | Agency Central Office |
| ADB | Asian Development Bank |
| BAAC | Bank for Agriculture and Agricultural Cooperatives |
| BESF | Budget Expenditures and Sources of Financing |
| BNM | Bank Negara Malaysia |
| BOB | Bureau of Budget |
| BOT | Bank of Thailand |
| BOT | Built-Operate-Transfer |
| BSP | Bangko Sentral ng Pilipinas |
| CEA | Central Economic Agency |
| CGD | Comptroller-General's Department |
| CIPO | Center for Integrated Planning and Operations |
| DAC | Development Assistance Committee |
| DBCC | Development Budget Coordination Committee |
| DBM | Department of Budget Management |
| DOF | Department of Finance |
| DP | Development Plan |
| DPEC | Development Projects Examination Committees |
| DPWH | Department of Public Works and Housing |
| DSR | Debt Service Ratio |
| DTEC | Department of Technical and Economic Cooperation |
| EO | Executive Order |
| EPF | Employees' Provident Fund |
| EPU | Economic Planning Unit |
| ESDC | Eastern Seaboard Development Committee |
| ESDP | Eastern Seaboard Development Program |
| FAP | Foreign Assistance Plan |
| FELDA | Federal Land Development Authority |
| FPO | Fiscal Policy Office |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GOCC | Government Owned and Controlled Corporation |
| IAPG | Inter-Agency Planning Group |
| ICC | Investment Coordination Committee |
| ICT | Information and Communication Technology |
| ICU | Implementation Coordination Unit |
| IMF | International Monetary Fund |
| InfraCom | Infrastructure Committee |
| INTAN | National Institute of Public Administration |
| JBIC | Japan Bank for International Cooperation |
| JPPCC | Joint Public-Private Consultative Committee |
| LDP | Local Development Plans |
| LEDAC | Legislative Executive Development Advisory Council |
| LGC | Local Government Code |
| LGU | Local Government Unit |
| MBS | Modified Budget System |
| MIDA | Malaysian Industrial Development Authorities |
| MOF | Ministry of Finance |
| MTCP | Malaysian Technical Cooperation Program |
| MTEF | Medium-Term Expenditure Framework |
| MTPDP | Medium-Term Philippine Development Plan |
| MTPIP | Medium-Term Public Investment Program |

| | |
|---------|--|
| MTRIP | Medium-Term Regional Investment Plan |
| MYR | Malaysian Ringgit |
| NDP | National Development Policy |
| NDPC | National Debt Policy Committee |
| NDPC | National Development Planning Committee |
| NDWC | National Development Working Committee |
| NEB | National Economic Board |
| NEC | National Economic Council |
| NEDA | National Economic Development Agency |
| NEDB | National Economic Development Board |
| NEDP | National Economic Development Plan |
| NEP | National Economic Policy |
| NEP | New Economic Policy |
| NESDB | National Economic and Social Development Board |
| NESDP | National Economic and Social Development Plan |
| NIDA | National Institute of Development Administration |
| NPC | National Planning Council |
| NVP | National Vision Policy |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OECF | Overseas Economic Cooperation Fund |
| OESD | Office of the Eastern Seaboard Development Committee |
| OPIF | Operational Performance Indicators Framework |
| OPP | Outline Perspective Plan |
| PDAF | Priority Development Assistance Fund |
| PDMO | Public Debt Management Office |
| PES | Presidential Economic Staff |
| PIA | Program Implementation Agency |
| PIP | Public Investment Plans |
| PM | Prime Minister |
| PPBS | Program Performance Budgeting System |
| PPBS | Planning Programming Budget System |
| PSD | Public Service Department |
| RDC | Regional Development Committee |
| RDC | Regional Development Council |
| RDIP | Regional Development Investment Program |
| RDP | Regional Development Plan |
| RED | Rural Economic Development |
| RPIP | Regional Public Investment Plan |
| SDC | Social Development Committee |
| SEER | Sectoral Effectiveness and Efficiency Review |
| SEPU | State Economic Planning Unit |
| SIDA | Swedish International Development Cooperation Agency |
| SOE | State-Owned Enterprise |
| SPM | Strategy Planning Matrix |
| SPPBS | Synchronized Planning, Programming and Budgeting System |
| SPS | Strategic Performance System |
| TA | Technical Assistance |
| TICA | Thailand International Cooperation Agency |
| TTEC | Thai Technical and Economic Committee |
| UN | United Nations |
| UNESCAP | United Nations Economic and Social Commission for Asia and the Pacific |
| USAID | United States Agency for International Development |

Managing the Development Process and Aid
—East Asian experience in building central economic agencies—

Table of Contents

Acronyms and Abbreviations

Acknowledgements

| | | |
|------------------|---|------------|
| Chapter 1 | Introduction and Overview | 1 |
| 1. | Introduction..... | 1 |
| 2. | Key Perspectives and the Outline of This Study | 2 |
| 3. | Approach and Basic Premise of This Study | 3 |
| 4. | Contexts for Development Management in Thailand, Malaysia, and the Philippines..... | 9 |
| 5. | Synthesis and Main Findings of the Study (from Chapters 2-7) | 13 |
| 6. | Implications for Today’s Developing Countries and Donors | 27 |
| Chapter 2 | Institutional Framework for Development Administration and the Role of Central Economic Agencies | 29 |
| 1. | Thailand..... | 30 |
| 2. | Malaysia..... | 33 |
| 3. | The Philippines | 37 |
| Chapter 3 | The Role and Characteristics of Development Plans in Policy and Resource Alignment and the Evolution of Development Planning | 41 |
| 1. | Thailand..... | 41 |
| 2. | Malaysia..... | 54 |
| 3. | The Philippines | 64 |
| Chapter 4 | Mechanisms for Macroeconomic Coordination | 69 |
| 1. | Thailand..... | 69 |
| 2. | Malaysia..... | 77 |
| 3. | The Philippines | 83 |
| Chapter 5 | Public Investment Programming and Project Approval | 91 |
| 1. | Thailand..... | 91 |
| 2. | Malaysia..... | 100 |
| 3. | The Philippines | 105 |
| Chapter 6 | Case Study: Eastern Seaboard Development Plans in Thailand | 111 |
| 1. | Overview of the Eastern Seaboard Development Plan (ESDP) | 111 |
| 2. | Major Driving Forces Pushing the Plan Forward | 115 |
| 3. | Other Issues to be Considered | 129 |
| 4. | Conclusion | 131 |
| Chapter 7 | Key Factors Affecting the Formulation and Enhancement of Development Administration | 133 |
| 1. | Key Factors Affecting the Formulation and Enhancement of Development Administration..... | 133 |
| 2. | Summary | 149 |

| | |
|-------------------|------------|
| Appendices | 151 |
|-------------------|------------|

| | |
|-------------------|------------|
| References | 160 |
|-------------------|------------|

Figures

| | | |
|-----|--|-----|
| 1-1 | Coordination Mechanisms of Central Economic Agencies | 4 |
| 1-2 | Development Process: Systemic Interaction | 6 |
| 1-3 | Development Management and Aid | 8 |
| 1-4 | Structure of Production: Distribution of GDP (%) | 10 |
| 1-5 | Major Characteristics of Development Administration | 14 |
| 1-6 | Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming | 19 |
| 2-1 | Policymaking Structure in Thailand | 32 |
| 2-2 | Administrative Machinery in Malaysia (Federal and State Levels) | 35 |
| 3-1 | Chronological Outline of the Development Plans and Political Leaders of Thailand, Malaysia and the Philippines | 42 |
| 3-2 | Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand | 44 |
| 3-3 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in Malaysia | 56 |
| 3-4 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines | 67 |
| 4-1 | Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand | 70 |
| 4-2 | Macroeconomic Coordination Mechanism in Thailand | 71 |
| 4-3 | Trend of Expenditures by Five-Year Planning Periods (1972-1991) | 72 |
| 4-4 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in Malaysia | 78 |
| 4-5 | Macroeconomic Coordination Mechanisms in Malaysia | 79 |
| 4-6 | Trend of Development Expenditures by Five-Year Planning Periods (1971-1990) | 80 |
| 4-7 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines | 84 |
| 4-8 | Macroeconomic Coordination Mechanisms in the Philippine | 85 |
| 5-1 | Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand | 92 |
| 5-2 | Project Approval Process Prior to 1992: All Public Investment Projects in a Theoretical Sense (Based on the National Economic and Social Development Board Act of 1978) | 96 |
| 5-3 | Project Approval Process (Recent Normal Procedures with Shortcut)—Public Investment Projects Less Than One Billion Bath, Finance Fully from the Government Budget | 97 |
| 5-4 | Project Approval Process (Recent Normal Procedures)—Public Investment Projects (Including SOE Projects) Over One Billion Baht | 98 |
| 5-5 | Project Approval Process After 1992: Public and Private Partnership Projects Over On Billion Baht (Based on the Act on Private Participation in State Undertaking in 1992) | 99 |
| 5-6 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in Malaysia | 100 |
| 5-7 | Project Approval Process for the Malaysia Plans (Five-Year Development Plans) | 104 |
| 5-8 | Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines | 106 |

| | | |
|-----|---|-----|
| 5-9 | Project Approval Process—Public Investment (Namely ODA and BOT) Projects Subject to ICC Approval | 110 |
| 6-1 | Overview of the Coordination and Decision-Making Mechanisms | 121 |
| 6-2 | Coordination Relating to Annual Budget Approval Processes. | 124 |
| 6-3 | Coordination Relating to Technical Assistance Approval Processes | 126 |
| 6-4 | Coordination Relating to Loan Approval Processes | 127 |
| 6-5 | Map of Thailand | 132 |
| A-1 | Selected Fiscal Indicators (Percentage of GDP) | 152 |
| A-2 | Mobilization of Official Development Finance. | 153 |
| A-3 | Budget Cycle in Thailand | 156 |
| A-4 | Budget Cycle in Malaysia | 157 |
| A-5 | Budget Cycle in the Philippines. | 158 |

Table

| | | |
|-----|---|-----|
| 1-1 | Basic Socio-Economic Indicators for Selected East Asian Countries | 10 |
| 1-2 | Aid Dependency | 12 |
| 1-3 | Type of Development Management and Functional Features of Central Economic Agencies (CEAs) | 16 |
| 1-4 | Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming | 20 |
| 1-5 | Dynamisms of Development Administration including the Use of Aid. | 24 |
| 4-1 | A Chronology of Public Debt Policy, 1959-1990. | 74 |
| 7-1 | Dynamics in Development Administration and the Use of Aid as Seen in Thailand, Malaysian and the Philippines | 135 |
| 7-2 | Thailand: Key Factors Affecting Development Administration. | 147 |
| 7-3 | Malaysia: Key Factors Affecting Development Administration. | 148 |
| 7-4 | The Philippines: Key Factors Affecting Development Administration | 149 |
| A-1 | Estimates of per Capita GDP and Ratios of Public to Private Sector Salaries in Selected Developing Countries | 159 |

Boxes

| | | |
|-----|--|----|
| 3-1 | Malaysian Bureaucracy and the Role of the “Planning Cell” Officials | 57 |
| 4-1 | “Mobile Unite” and the Role of Budget Analysts in the BOB | 76 |
| 4-2 | Coherence among Development Plans, Project Approval, and Annual Budget Allocation | 81 |
| 4-3 | Administrative Efforts vs. Legislative Interventions. | 86 |
| 4-4 | Complementarities among MTEF, OPIF and SEER. | 89 |

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The report was based on a review of relevant literature, as well as the results of interviews and information that were gathered through a series of country visits made by the writing team to Thailand and Malaysia (October 2005 and January 2006) and the Philippines (October 2005 and March 2006). While in Thailand and Malaysia, the team had the opportunity to interview former senior government officials who had taken charge of development policy formulation in the 1960s-1980s. In the Philippines, the team was also able to interview former senior government officials who were involved in the reorganization of development administration that started in the late 1980s. These interviews were extremely valuable to us, in terms of helping us to shape our understanding regarding specific country perspectives—as well as the challenges of managing the development process with aid as an integral factor.

The preparation of this report involved consultations with a number of researchers and practitioners, both in Japan and abroad. These included brainstorming workshops in Hanoi (June 2006) and Nairobi (July 2006), as well as a feedback seminar held in Tokyo (November 2006). The brainstorming workshops have helped the team to better understand the perspectives of today's developing countries in Asia and Africa, while the feedback seminar in Tokyo provided the team with valuable opportunities to receive comments and input into the draft report. The feedback seminar was enriched by the active participation of distinguished panelists Mr. Nophadol Bhandhugravi (Thailand), Mr. Jegasothy Jegathesan (Malaysia) and Mr. Takeo Matsuzawa (JBIC), all of whom kindly shared their perspectives on development and aid management based upon their respective experiences as policymakers and practitioners.

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We fully recognize that the building of development administration is a long-term undertaking, and that further work is needed in order to comprehend a multitude of factors affecting the function and evolution thereof. This report, therefore, should be considered as a first step toward this larger endeavor. Finally, responsibility for the views expressed in this report—as well as any errors therein—rest with the members of the writing team.

Chapter 1 Introduction and Overview

1. Introduction

Past experiences in East Asian development suggest the vital importance of utilizing 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.¹

By examining the functions and coordination features of central development administration in the three East Asian countries of Thailand, Malaysia and the Philippines, this study 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? 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 amongst various countries, this study pays particular attention to country-specific coordination features, as well as to key factors that have affected the actual functions and the institutional evolution of central development administration.

One of the key ingredients of the “East Asian Miracle” is frequently said to be the creation of central economic agencies that are responsible for strategic planning, resource management, and coordination. Another factor is said to be the existence of a cadre of economic technocrats who are insulated from narrow political pressures. Under strong political leadership, economic technocrats formulated and implemented growth-oriented economic policies such as diversification, upgrading of economic structures, and effective management of natural resource rents while also adhering to macroeconomic stability and addressing social and equity concerns (“shared growth”) (World Bank 1993; Campos & Root 1996; Iwasaki 1996). At the same time, it has also been recognized that today’s successful countries did not necessarily possess strong institutional bases at the initial stage of development. The experiences of East Asian countries have confirmed that state-building is a dynamic process, and that conscious and continuous efforts are of critical importance.

Thailand and Malaysia are the second-tier high performers of the “East Asian Miracle” economies (following behind South Korea, Taiwan, Hong Kong, and Singapore). 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–1980s, 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 admin-

¹ Botswana is a notable exception in Sub-Saharan Africa.

istration 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 both countries—especially from the late 1950s through the 1980s.

In order to provide a comparative perspective, the study 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 centers 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. Key Perspectives and the Outline of This Study

Since a key feature of this study is to bring country perspectives to the center of analysis, we conduct our study from the standpoint of the developing countries in question. Rather than presenting universally granted, ideal types of development administration and governance reforms, we attempt to learn from real experiences in order to better understand how the three East Asian countries organized themselves for pursuing priority development goals. In addition, we consider how they coordinated and dealt with various stakeholders, including donors, while simultaneously overcoming various crises and shocks. By placing a strong emphasis on the perspectives of these countries, we hope that this study will serve as a useful reference for other developing countries that are making efforts to build and enhance their development administration. We also hope that the study will add new insights to today's debates regarding the effectiveness of aid itself.

This introductory chapter provides an overview of the entire report. It first explains the approach and basic premise of the study, and then discusses the macroeconomic and aid management undertaken by central economic agencies in Thailand, Malaysia, and the Philippines. Next, it summarizes the main findings of the study, touching upon the diversity of institutional design amongst central economic agencies, coordination mechanisms for aligning policy and resources with development priorities, the dynamic evolution of development administration with the strategic use of aid toward “graduation,” and key factors affecting both the functions of central economic agencies and the evolution of development administration. A brief summary of the case study of Thailand's Eastern Seaboard Development Plan is also provided. Lastly, this chapter discusses the implications of these countries' institution-building experiences for developing countries and donors today.

The subsequent chapters of this report are organized as follows.

- Institutional framework for development administration, and the role of central economic agencies in the three East Asian countries of Thailand, Malaysia, and the Philippines (Chapter 2)
- Roles, characteristics, and evolution of development planning (Chapter 3)
- Approach to macroeconomic management and mechanisms for macroeconomic coordination (Chapter 4)
- Approach to public investment programming and project approval, as well as the mechanisms

therein (Chapter 5)

- Case study of Thailand’s Eastern Seaboard Development Plan (flagship infrastructure investments at the time of structural transformation of the country) as an example of country-owned development and aid management (Chapter 6)
- Key factors affecting the formulation and enhancement of development administration, including the strategic use of aid toward “graduation” (Chapter 7)

3. Approach and Basic Premise of This Study

3-1 Scope of Analysis

This study focuses its analysis 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. The diagrams below illustrate these perspectives (Figure 1-1).

The key questions to be examined throughout this study are as follows:

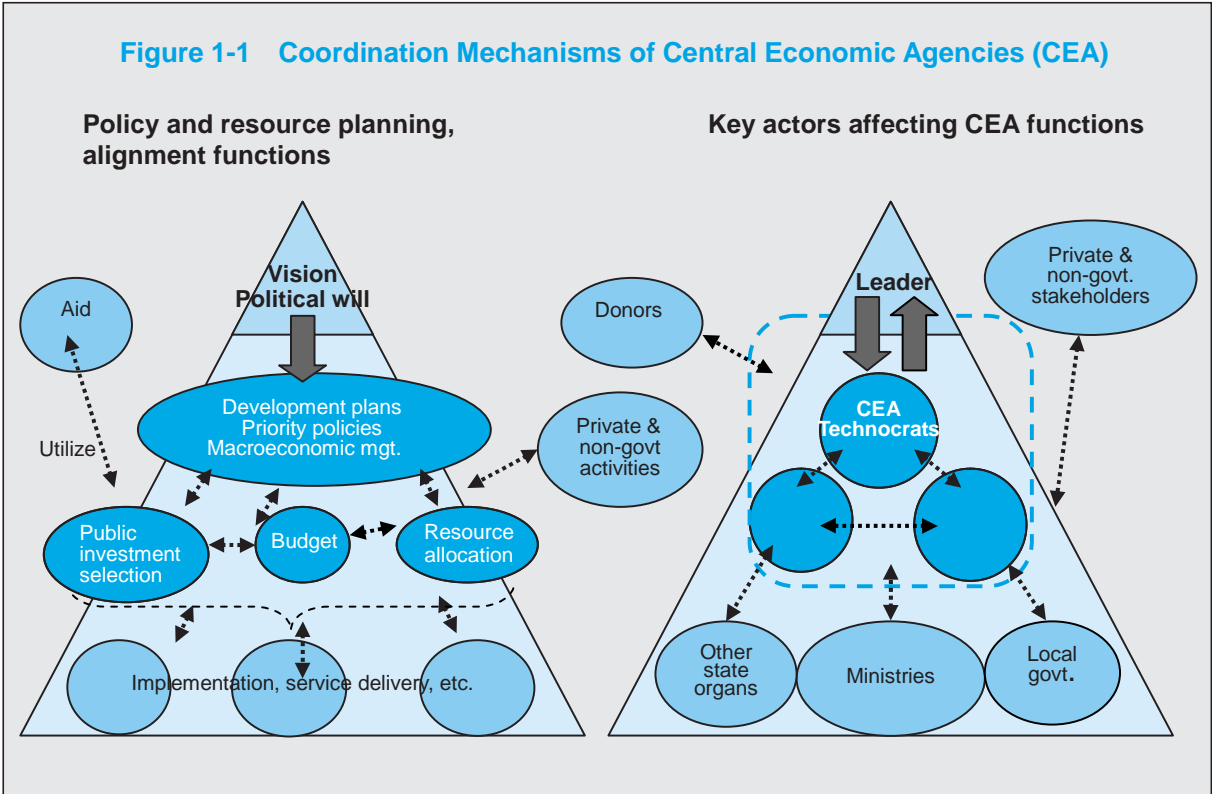
- What are the role and functions of central economic agencies in Thailand, Malaysia, and the Philippines?
- How have the coordination mechanisms actually worked? What are the roles of leadership and technocrats?
- What is the role played by development plans in policy and resource alignment, especially in terms of annual budget process, public investment programming/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?

As Figure 1-1 shows, various levels of coordination exist with regard to different actors and stakeholder groups. Nevertheless, as the first step toward the larger endeavor, this study 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—in particular, central economic agencies—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 centers of development. Thus, while we duly recognize the important role of the private sector and local administration in pursuing shared growth, the coordination features with these actors will not be the main focus of our analysis in this report.

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 plans of action. 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 amongst various stakeholders (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.

The perspectives shown above are consistent with the findings regarding the “East Asian Miracle” and related studies (World Bank 1993; Campos & Root 1996), as well as a wide selection of literature regarding developmental states in East Asia (Johnson 1982; Haggard 1990; Wade 1990; Evans 1995; Leftwich 1995, and others). This is the case even though their views may differ on such issues as the desirable level of state intervention in the market, the degree of state autonomy and embeddedness in society, and the degree of tolerance existing toward the authoritarian regime. In this regard, we consider it highly important to analyze the experiences of Thailand and Malaysia, which are regarded as the second-tier high performers in East Asia, while also conducting a comparative perspective with the Philippines.



3-2 Basic Premise

Our study is built upon two premises: (i) the critical role of central economic agencies in managing the development process, including aid; and (ii) the need to enhance the conventional concept of ownership, based on East Asian perspectives. With respect to (i), as mentioned earlier, these actors will not be the main focus of our analysis although we do indeed recognize the important roles played by the private sector and local administration in economic development. With respect to (ii), we take the view that aid is one of many various resources (e.g., financial, technical and intellectual) that may be used to support the development process, and that more holistic perspectives are necessary in order to address ways to enhance the development performance of respective countries (which should in turn lead to effectiveness of aid). Thus, this study does not intend to narrowly discuss ways to enhance aid effectiveness *per se*.

3-2-1 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. This is because as agents that must manage budgets, public investment, and aid, as well provide the right incentives for private and non-governmental actors,² these agencies must assume the following strategic core functions:

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

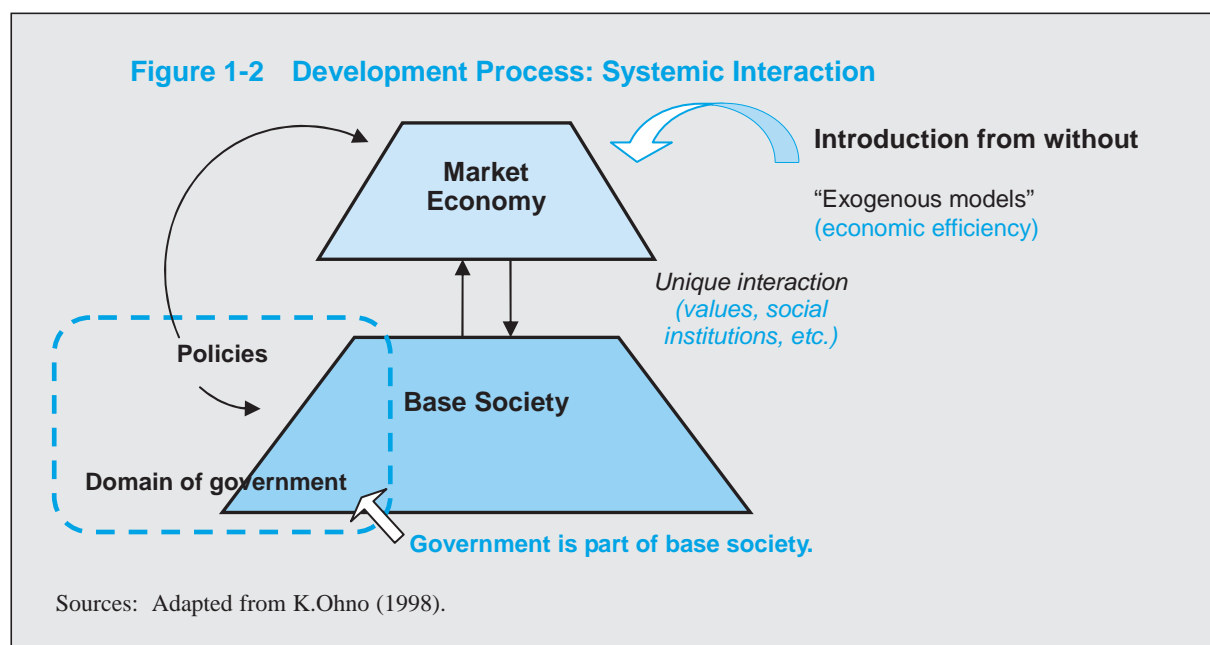
Certainly, the role of central economic agencies evolves over time. As the local government and private sector activities expand, moreover, their involvement in the economy is likely to become more indirect—focusing, for example, upon regulatory and supervisory functions. This is what occurred in the case of the first-tier “East Asian Miracle” economies, and—as this study will show—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 with regard to 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).

² Our argument is built on Shimomura’s hypothesis, which proposes the need to identify a limited number of “strategic” good governance elements, rather than attempting to establish good governance in all scores simultaneously (Shimomura 2005). In light of resource and capacity constraints of developing countries, it is more realistic to give weight to a set of strategic good governance elements that may trigger development.

At least two kinds of arguments place importance on the role of central economic agencies. First, it is generally accepted that economic cases for central administration exist and require: (i) policy coordination in the presence of scale and scope economies (such as macroeconomic management); (ii) inter-jurisdictional externalities, with spillover effects across localities (such as large-scale infrastructure development); and (iii) support to 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. Such a role and such functions should also provide 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.³ Development is a transformative process (Stiglitz 1998) that requires institutions promoting radical accumulation, change, and transformation (Leftwich 1995). In addition, development is an interactive process incorporating both “foreign” and “indigenous” elements (Iwasaki 1996; K. Ohno 2000). On the one hand, latecomer countries face the need to acquire the “foreign” elements—such as modern technology, knowledge, and organizational structure—in forms such as 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—that mean the “economy is embedded in society” (Polanyi 1944: 57) (see Figure 1-2).



³ 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.

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 managing and coordinating external and internal stimuli. While implementing policies and creating the necessary institutions and attitudes conducive to development, central economic agencies in particular 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” (K. Ohno 1998: 29).

3-2-2 East Asian Views of Ownership in the Development Process

When taking into consideration the role of aid in the development process, we argue that there is a need to enhance the ownership concept by properly incorporating perspectives from East Asia. There is a shared consensus on the importance of government ownership in the development process (Johnson & Wasty 1993; Killick 1998; Booth 2003), and numerous literature discusses how governments and donors should better collaborate in order to promote ownership. The Paris Declaration of Aid Effectiveness (2005) that was endorsed at the high-level OECD meeting is the latest international initiative in this regard. The declaration puts ownership at the top of the hierarchy of development partnership toward making aid effective. It stipulates that “partner countries (should) exercise effective leadership over their development policies and strategies and co-ordinate development actions,” and that donors should “respect partner country leadership and help strengthen their capacity to exercise it” (OECD DAC 2005, paras. 14-15). While such an international initiative is laudable, we feel that today’s global debates do not sufficiently capture the dilemma faced by latecomer countries.

The rhetoric of ownership and partnership tends to mask a tension that lies inherent in the aid relationship. Certainly, aid facilitates recipient countries’ access to finance, goods, knowledge and technology—all of which are essential input for the process of socio-economic development. However, excessive dependence upon aid may have the effect of constraining recipient countries from exercising policy autonomy. Furthermore, donor thinking and priority areas of assistance often tend to be influenced by global development trends, and do not necessarily pay due regard to the specific needs of developing countries. It is critically important, therefore, to cope with this dilemma when countries endeavor to manage the development process by utilizing aid.

The deeper understanding of the nature of the development process (as discussed above), and the experiences found within the “East Asian Miracle”, reveal several essential elements of government ownership that are insufficiently covered in today’s global debates (see Shimomura & I. Ohno 2005 for more detailed discussions). These elements are:

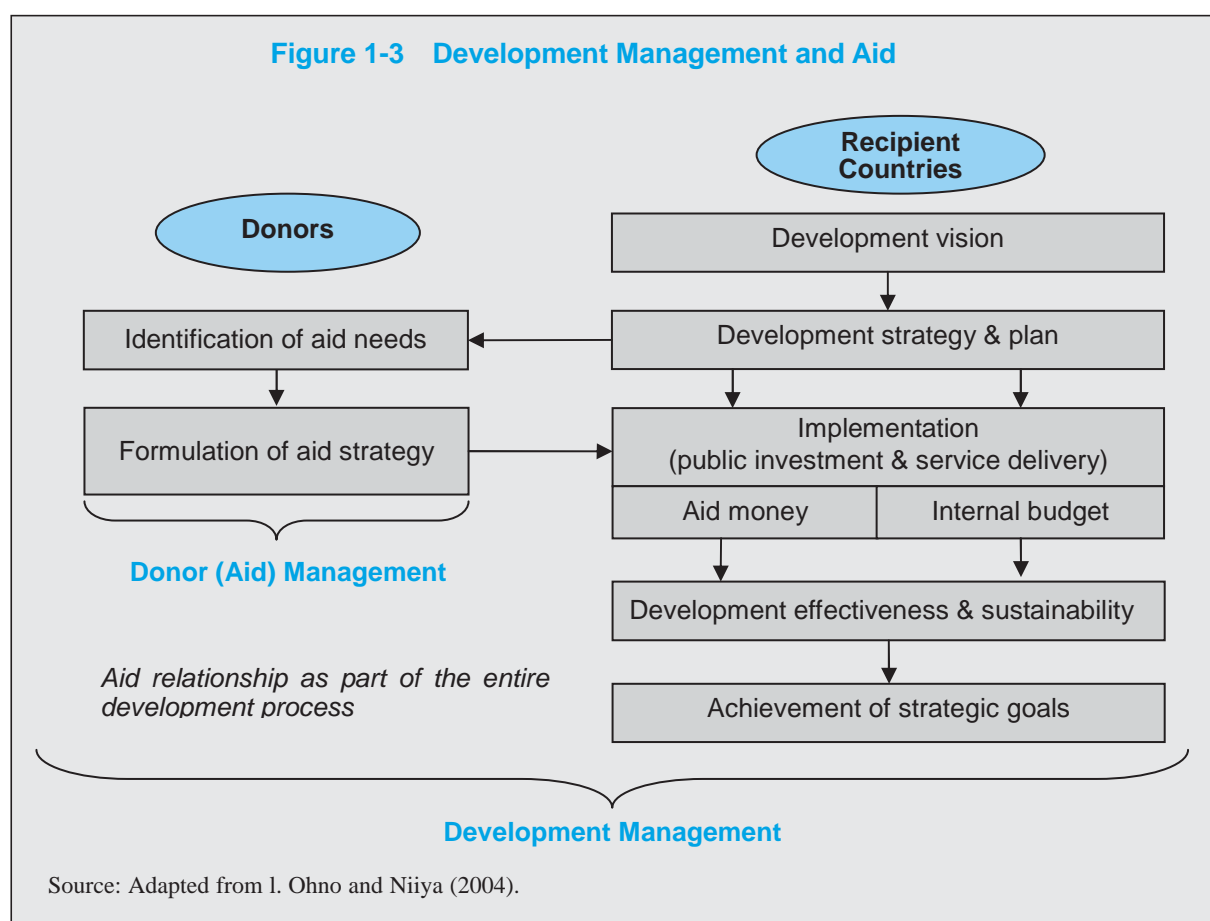
- management of donors and aid as part of the entire development process;
- willingness to graduate from aid, supported by an “exit plan”; and
- management of policy ideas, with selectivity and through “translative adaptation.”⁴

⁴ The concept of “translative adaptation” is based on Maegawa (1994).

First, ownership should be viewed as the capacity to manage the entire development process, and hence coordinate aid as part of its own coherent development effort (see Figure 1-3). Governments should initiate and formulate national development plans and strategies, identify specific needs to be financed by aid, present aid requests and negotiate with donors, match aid programs and projects with their own internal resources, implement various developmental activities, and monitor and evaluate results. Here, the aid relationship is just one component of development management; a means to achieve the national goal of promoting growth and establishing wealth-sharing mechanisms on a nationwide scale. In this regard, we are concerned that recent donor discussions of ownership tend to focus on an aid relationship assuming that donors dominate development policy agenda, and that the development process in recipient countries is dictated by the aid relationship.

Second, ownership should be based on the strong will and commitment of national leaders to build a self-reliant economy. Development plans and strategies should assume eventual “graduation” from aid, and should be supported by a concrete vision and realistic measures for growth promotion and domestic resource mobilization (an “exit plan”). Although most national development strategies embrace equitable and sustainable growth as their stated objectives, this should not be a mere slogan.

Third, ownership should include the capacity to reinterpret relevant elements of exogenous model(s) of development strategy (“translative adaptation”), and adapt them to the prevailing conditions in a particular developing country. However, it is often the reality that “some donors seem to believe that owner-



ship exists when recipients do what we want them to do but they do so voluntarily” (Helleiner 2002:255).⁵ We believe that true ownership should mean the capacity of a developing country to choose from alternative policy prescriptions—even if they are not granted by the international aid community. When a country decides to rely on external advice or foreign models, policymakers and technocrats must conduct a thorough assessment of alternatives and carefully adapt the policy content and sequencing to the country-specific context at both the design and implementation stages.

4. Contexts for Development Management in Thailand, Malaysia, and the Philippines

4-1 Overall Development Performance and Shared Growth

Among the three East Asian countries examined in this study, Thailand and Malaysia have achieved steady 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 1980s and financial crises in the late 1990s. Moreover, the aggregate growth has been accompanied by economic stability and poverty reduction (see Table 1-1). Basic social indicators—in terms of life expectancy, infant mortality rate, literacy rate and human resource development—all show satisfactory trends. Especially, in Malaysia, equity was an important consideration. Inequality in income distribution has been reduced particularly between ethnic groups.

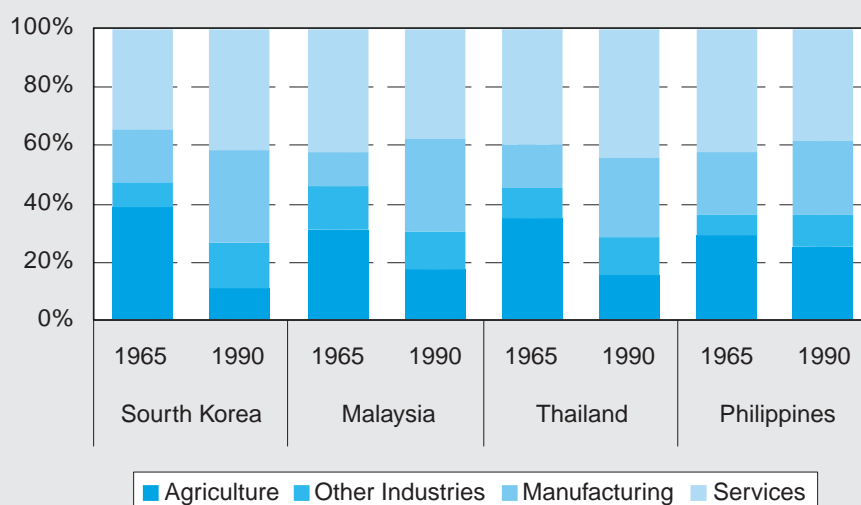
During the 1970s and 1980s, the economies of Thailand and Malaysia underwent major structural transformation (see Figure 1-4). In Thailand, agriculture, which used to contribute 32 percent of GDP in 1965, declined to 12 percent in 1990. Meanwhile, the share of manufacturing value added rose from 14 percent 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 agriculture and tin mining, and manufacturing was not very significant. During 1965-1994, the share of manufacturing value added increased from 9 percent of GDP in 1965 to 32 percent.

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.⁶ Nevertheless, its economy has had limited structural transformation. During the period of 1965-1990, 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.

⁵ For example, drawing on the experience of heavily aid-dependent sub-Saharan Africa, the conventional views claim that it is more realistic and sufficient for recipient countries to take policy prescriptions “off the shelf” from donor agencies (Morrissey 2001; Booth 2003; SIDA 2003).

⁶ 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).

Figure 1-4 Structure of Production: Distribution of GDP (%)



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

Note: Data for Malaysia in 1990 are based on figures in 1994.

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

| Country | GNP per capita (US\$) | | Average annual growth rate of GNP per capita 1965–1990 (%) | Life expectancy at birth 1990 (years) | Population below poverty line | |
|--------------------|-----------------------|------|--|---------------------------------------|-------------------------------|-----------------------------|
| | 1976 | 1990 | | | Total (%) 1980–1989 average | 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: Data are compiled based on World Bank, *World Development Report* 1976, 1992, 1993 and UNDP, *Human Development Report* 1992.

4-2 Macroeconomic and Aid Management by Central Economic Agencies

4-2-1 Approaches to Macroeconomic Management

The period of the 1970s-1980s was of special importance for all three of these 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 amount of resources to finance development, particularly from the latter half of the 1970s.

Careful analysis shows that 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 A-1 shows key fiscal indicators of the three countries, including the

levels of total revenues, current expenditures and capital expenditures, and overall fiscal balance, expressed in terms of percentage of GDP (left axis). The bar graphs show the ratio of outstanding debt to GDP (right axis), covering both foreign and domestic debt.)

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 (or less) of GDP. Nevertheless, the public expenditures grew in the mid-1970s and 1980s, and the government borrowing started to rise during the first half of the 1980s, including external debt. 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 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 balances 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.⁷ 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 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.

4-2-2 Approaches to Aid Management

The three East Asian countries examined here 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 (including the less concessional loans from the World Bank and the Asian Development Bank (ADB)) accounted for

⁷ Petroleum revenues and the Employees' Provident Fund (EPF) are other important sources of financing growing public expenditures.

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 the highest level of aid dependency at about 18 percent in the late 1980s (see Table 1-2). 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.

Table 1-2 Aid Dependency
(Sum of ODA and development finance from the World Bank and the ADB)

| | ODA+WB+ADB amount received (US\$) | | ODA+WB+ADB as a percentage of total central government expenditure | | ODA per capita 1988 | ODA as a percentage of GNP 1988 |
|-------------|-----------------------------------|------------|--|-------|---------------------|---------------------------------|
| | 1975 | 1988 | 1975 | 1988 | | |
| Malaysia | \$181 mil | \$391 mil | 6.1% | 3.8% | \$6.1 | 0.3% |
| Philippines | \$314 mil | \$1403 mil | 12.0% | 17.7% | \$14.3 | 2.2% |
| Thailand | \$177 mil | \$862 mil | 8.0% | 9.9% | \$10.3 | 1.0% |

Sources: Amount of aid (ODA+WB+ADB, gross) is calculated based on OECD/DAC, *International Development Statistics (IDS)* online, <http://www.oecd.org/dataoecd/50/17/5037721.htm>. Aid amount as a percentage of expenditures is calculated based on ADB, *Key Indicators of Developing Asian and Pacific Countries 1993*. Data for ODA per capita and ODA as a percentage of GNP/GDP are based on World Bank, *World Development Report 1990*.

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. Figure A-2 shows the trend of mobilization of official development finance, classified by funding type, together with the information on the top five donors. The expansion of aid volume, shifts in donor composition and funding type imply that the size and complexity of aid increased by the 1970s-1980s and that 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 analysis of cost-benefit and feasibility of prospective investment projects.

The three countries responded differently to cope with the increasing challenges of aid management. Thailand actively used aid throughout the 1980s, but successfully avoided heavy (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 (mostly from Japan), reducing its reliance on the less concessional loans (except for the years of 1997-1998 when Thailand faced a severe financial cri-

sis 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-1980s 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 utilizing aid for achieving development priorities.

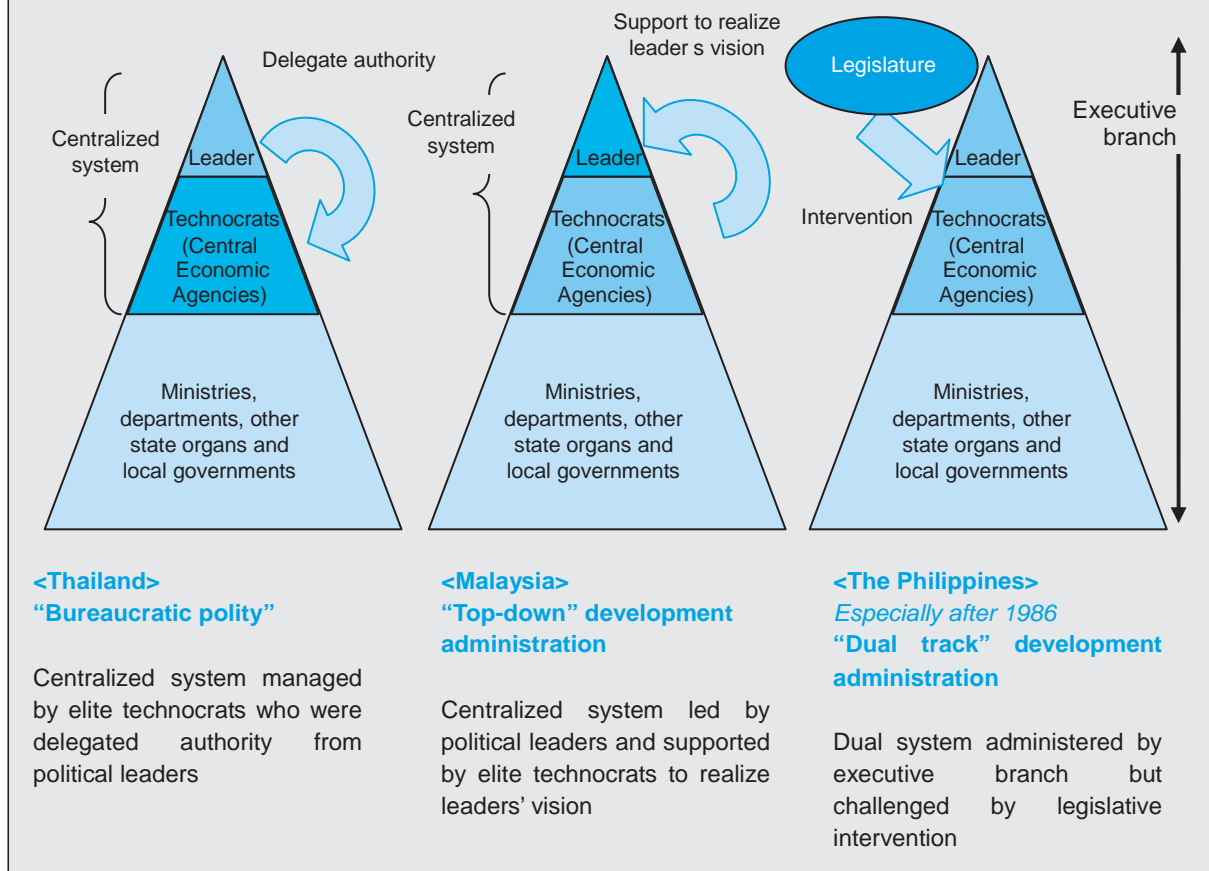
5. Synthesis and Main Findings of the Study (from Chapters 2-7)

5-1 Diversity in Institutional Design and Coordination Mechanisms of Central Economic Agencies

The analysis in section 4 suggests that the central economic agencies of Thailand, Malaysia, and the Philippines have different performance records and approaches to macroeconomic and aid management. The subsequent analyses in the main report show that there exist variations in the type of development management and the nature of ownership among the three countries. In our view, the central economic agencies of Thailand and Malaysia have built the capacities to act as strategic core centers for development management and have contributed to establishing strong ownership (especially in the 1970s-1980s), as illustrated in Figure 1-3 (in section 3-2). The Philippines is currently making efforts to strengthen its strategic core functions, by institutionalizing intra-agency coordination mechanisms and improving aid management.

Our study finds that each country has a different way of organizing development administration and that there are diverse models of coordination. The countries' institutional design and coordination features vary significantly in terms of, for example, the existence of a super-ministry, their functional division of labor, the relationship between top leadership and technocrats, and the relationship between the Executive and Legislative branches. In this sense, it should be noted that even though Thailand and Malaysia have each built a core country system for development management, the institutional design of their development administration differs. Figure 1-5 and Table 1-3 show the major characteristics of development administration in the three countries and the summary of various types of development management and functional features of central economic agencies.

Figure 1-5 Major Characteristics of Development Administration



In Thailand, a highly centralized system was created and administered by the economic technocrats, who were granted by the top political leaders the authority to plan and administer policies (often called “bureaucratic polity” (Riggs 1966: 312)⁸). Thus, 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 exists, 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 environment was volatile during the 1970s.⁹ The stable and pre-

⁸ According to Fred W. Riggs (1966), Thailand’s bureaucracy functioned as a focal point of power and influence in the governing process.

⁹ Such technocrat-led economic management has changed under the Thaksin administration, which took office in 2001 and introduced a top-down approach based on new public management. Following the September 2006 military coup that ousted Prime Minister Thaksin, it is yet to be seen whether the post-Thaksin administration will continue using the new top-down public management approach.

dictable macroeconomic environment has contributed to promoting the activities of the private sector.

In Malaysia, it is the top political leaders that have served as the driving force of development management and institution building efforts (“top-down” development administration). 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). Especially, the EPU functions 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.

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 the role of economic technocrats. Also, 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.

Table 1-3 Type of Development Management and Functional Features of Central Economic Agencies (CEAs)

| | Thailand (esp. 1970s-1980s) | Malaysia (esp. 1970s-1980s) | Philippines (late 1980s-now) |
|---|---|--|--|
| Type of development management | <ul style="list-style-type: none"> • Strong ownership in managing development, including aid • Strong fiscal discipline, prudent debt management • Active but selective use of aid; exit plan from aid | <ul style="list-style-type: none"> • Strong ownership in managing development, including aid • Fiscal activism; overall balanced macroeconomic management • Selective use of aid; exit plan from aid | <ul style="list-style-type: none"> • Ownership?; ongoing effort to strengthen aid and development management • Problems of allocative efficiency; heavy debt burden • Selective use of aid? |
| Features of development administration | <ul style="list-style-type: none"> • Centralized system, with strong inter-agency coordination and shared responsibilities among core macro CEAs (see below*) • Empowerment of CEA technocrats from top political leader | <ul style="list-style-type: none"> • Centralized system, with rule-based operations installed in the coordination machinery (EPU as super-ministry) • Multi-layered inter-agency coordination mechanisms for planning and implementation • “Top-down” development administration, with CEAs serving as technical support arm to realize PM’s vision | <ul style="list-style-type: none"> • “Dual track” system, with executive branch challenged by congressional intervention • President-led, NEDA Board and cabinet-level inter-agency coordination bodies; ongoing effort to strengthen CEA coordination |
| Functional responsibilities of CEAs | <p><Prime Minister’s Office></p> <ul style="list-style-type: none"> • NESDB*: development planning, development budget, public investment selection, aid • BOB*: budget • DTEC: technical cooperation <p><Ministry of Finance></p> <ul style="list-style-type: none"> • FPO* + PDMO* (1999–): fiscal policy and debt management, loan aid <p><Central Bank></p> <ul style="list-style-type: none"> • BOT*: monetary policy | <p><Prime Minister’s Dept.></p> <ul style="list-style-type: none"> • EPU: development planning, development budget, public investment selection, aid • ICU: public investment monitoring • PSD: personnel management <p><Ministry of Finance></p> <ul style="list-style-type: none"> • MOF: budget, fiscal policy and debt management <p><Central Bank></p> <ul style="list-style-type: none"> • BNM: monetary policy | <p><Executive Branch></p> <ul style="list-style-type: none"> • NEDA: development planning, development budget, public investment selection, aid • DBM: budget • DOF: fiscal policy and debt management <p>Central Bank: monetary policy</p> <p><Legislative Branch></p> <ul style="list-style-type: none"> • LEDAC: Legislative Executive Development Advisory Council |

Notes:

- Thailand: NESDB (National Economic and Social Development Board); BOB (Bureau of the Budget); DTEC (Department of Technical and Economic Cooperation); FPO (Fiscal Policy Office); PDMO (Public Debt Management Office); BOT (Bank of Thailand)
- Malaysia: EPU (Economic Planning Unit); ICU (Implementation and Coordination Unit); PSD (Public Service Dept.); MOF (Ministry of Finance); BNM (Bank Negara Malaysia)
- Philippines: NEDA (National Economic and Development Authority); DBM (Dept. of Budget Management); DOF (Dept. of Finance); BSP (Bangko Sentral ng Pilipinas)

5-2 Policy and Resource Alignment with Development Priorities—Coherence among Development Planning, Macroeconomic Management, and Public Investment Programming

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 centers 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.

More specifically, our study finds that the following features (or “functional” principles) have greatly contributed to the effective operations of their central economic agencies.

- The content of development plans is strategic enough to serve as the core document for policy alignment.
- Coordination mechanisms exist among central economic agencies to align budget, public investment programming (or public investment 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/agencies to ensure the above 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 1-6 and Table 1-4 compare the coordination features of Thailand, Malaysia, and the Philippines in light of 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. 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 implementation monitoring.¹⁰ 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.

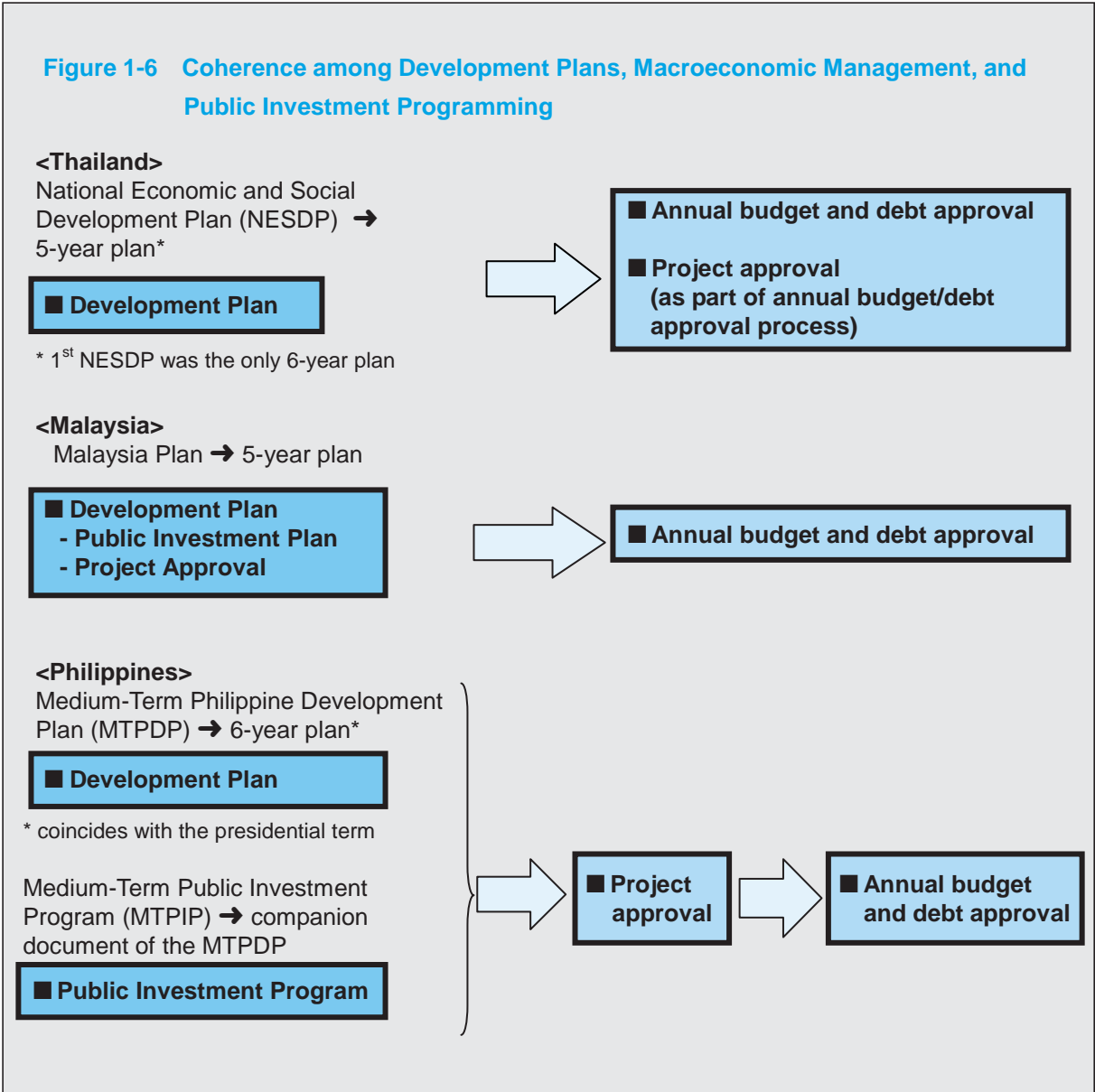
When Thailand and Malaysia each established a basis for development administration, they also endeavored to ensure that aid be integrated into the existing system. For example, Thailand and Malaysia have applied the same procedures and criteria for locally-funded and ODA projects throughout the investment 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.

In Thailand and Malaysia, their development plans (throughout the 1970s and 1980s) contain 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 2004-2010.¹¹ Furthermore, particularly since the 1990s, the Malaysian government has strengthened the articulation of its international cooperation policy. The recent devel-

¹⁰ Here, 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: 189); on the other hand, Malaysia’s public administration today owes much to the inheritance from the colonial legacy.

¹¹ 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).

opment 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.¹²



¹² Since the Seventh Malaysian Plan (1996-2000), one chapter has been added, which discusses Malaysia’s international cooperation policy. Previously, this topic was included in the chapter of public sector program and its financing.

Table 1-4 Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming

| | Thailand | Malaysia | Philippines |
|---|---|--|---|
| Degree of coherence in coordination mechanism | <ul style="list-style-type: none"> • Coherence; policy alignment with development priorities, with fiscal discipline (but less macro-sector link) • Effective Prime Minister-led, national committees created to address priority agenda (esp. the 1980s) | <ul style="list-style-type: none"> • Strong coherence; policy and resource alignment with development priorities (macro-sector link) | <ul style="list-style-type: none"> • Coherence?; limited policy and resource alignment; weak inter-agency coordination |
| Development Plans (DP) | <ul style="list-style-type: none"> • Indicative plan, utilized as strategic core documents • Development priorities clearly indicated • Budget allocation not specified (securing room for flexibility) | <ul style="list-style-type: none"> • 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) | <ul style="list-style-type: none"> • Still insufficient as strategic core documents (ongoing effort to align President's 10-point agenda) • Budget allocation not specified |
| Budget formulation | <ul style="list-style-type: none"> • Rigorous scrutiny of all projects in annual budget process by BOB • PPBS introduced in 1982; MTEF introduced after 2003 | <ul style="list-style-type: none"> • Annual budget formulated as a rolling plan to implement DP • PPBS introduced in 1969; MBS introduced in 1990 | <ul style="list-style-type: none"> • Ongoing effort to synchronize DP, PIP, and annual budget from 2000 (incl. MTEF introduction) • Congressional intervention into budget process |
| Public Investment Plans (PIP) | <ul style="list-style-type: none"> • Public investment selected in the subsequent budget and debt approval process (except for the 1970s—3rd and 4th DPs) | <ul style="list-style-type: none"> • Public investment selected as part of development planning process | <ul style="list-style-type: none"> • PIP prepared in parallel with development plans, but their linkages remain weak |
| Project approval and monitoring (incl. ODA projects) | <ul style="list-style-type: none"> • Project approval integrated into budget/debt approval process • Application of same procedures for ODA and locally-funded projects | <ul style="list-style-type: none"> • Project approval conducted as part of development planning process • Application of same procedures for ODA and locally-funded projects | <ul style="list-style-type: none"> • 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.

5-3 Dynamic Evolution of Development Administration and Strategic Use of Aid toward “Graduation”

As stressed in section 3-2, an essential element of country ownership, from East Asian perspectives, is the commitment and capacity to manage the entire development process and use aid as its integral part. In this sense, 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 done well are worth mentioning.

First, the two governments recognized the importance of having an “exit plan” and treated aid as a temporary, supplementary resource (and efficiency-enhancing measure) to fill domestic financial and capacity gaps. At the 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-1960s the economic technocrats in Thailand and Malaysia actively sought advice from foreign experts (from sources such as the United States and the United Kingdom) and international organizations (such as 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.¹³ 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 endeavors. 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 (see Chapters 2, 3 and 7 for the role of Dr. Puey Ungphakorn, former Governor of the BOT, in institutionalizing the disciplinary functions across the core macroeconomic agencies and the role of Tan Sri Thong Yaw Hong, who became the first Malaysian head of EPU, replacing the post occupied by foreign experts).

Second, these governments mobilized aid and skillfully managed donors to realize a balanced aid relationship. The governments were mindful of which sectors or activities were more appropriate to receive donor assistance.¹⁴ They also had good understanding of comparative advantages of respective

¹³ For example, 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: 217-218).

¹⁴ 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.

donors (in light of technical expertise and financial conditions) and made full use of them in aid mobilization. In the case of Thailand, the government strived to retain bargaining power against donors through various ways. These ways include: (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—against domestic resources—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.¹⁵ In the same year, the Neighboring 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 the case of Malaysia, the External Assistance Section of EPU started the MTCP in 1981, extending technical cooperation (mainly in the form of training and dispatching experts) to Asian, Middle-Eastern, and African countries.

The Philippines has had mixed experiences of aid management throughout the 1970s–80s. The creation of centralized administration by President Fernando 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 (see Chapter 2). 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 Built-Operate-Transfer, 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 cause the government 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.

The above aspects show 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 the two countries

¹⁵ DTEC had started to provide technical cooperation to the neighboring countries even before the TICA was established.

encountered the challenges of further enhancing their development administration to overcome shocks and crises and to manage their structural transformation (for example, in the 1980s for Thailand and in the 1970s–1980s 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. Table 1-5 summarizes the dynamic evolution of development administration.

5-4 A Case Study of Thailand’s Eastern Seaboard Development Plan

Thailand’s Eastern Seaboard Development Plan is an example of country-led development and aid management in the 1980s (see Chapter 6 for details). It was a flagship regional development plan aimed at export-oriented industrialization, receiving a high priority in the Fifth (1982-1986) and the Sixth (1987-1991) development plans. The Plan had unprecedented scale and was composed of a multitude of projects in infrastructure development, industrial estates, urban development, water resources, and environmental management.

With a strong commitment to realize this Plan, Prime Minister Prem Tinsulanonda established special coordination and decision making mechanisms exclusively for the Plan. These include (i) a cabinet-level national committee, chaired by the Prime Minister (Eastern Seaboard Development Committee); (ii) sub-committees, chaired by the ministers of government agencies in charge; and (iii) a secretariat, or the Office of the Eastern Seaboard Development Committee within the NESDB. The mechanisms combined top-down (policy issues) and bottom-up (technical issues) approaches and facilitated both vertical and horizontal coordination. The presence of a cabinet-level committee enabled quick decision making on priority policy issues (*de facto* “fast track” process) and strategic use of donor assistance. The mechanisms also incorporated multi-layered check and balance functions. The NESDB secretariat office acted as an influential liaison to plan and implement, and highly motivated, competent technocrats were recruited (seconded from ministries and agencies) for this task.

Nevertheless, the Plan provoked a lot of controversies at its early phase of implementation. The Thai economy at the time suffered from macroeconomic imbalances caused by oil shocks, global stagflation, and a slump in primary commodity prices. The Thai leaders were faced with a dilemma. While building modern infrastructure was urgently necessary to strengthen export capacity, the government also needed to adopt stringent measures to cope with macroeconomic crises. The opinions of the two major donors were also divided, with Japan arguing for the timely execution of the Plan and the World Bank arguing against it. The Thai government assumed full responsibility for steering this process by conducting its own analysis and revising the Eastern Seaboard Development Plan. The Thai leadership reached a set of workable solutions and successfully negotiated with the two dominant donors. The fact that Thailand pursued its own way in spite of uneasy relations with the major donors deserves special attention.

Table 1-5 Dynamics of Development Administration including the Use of Aid

| | Thailand | Malaysia | Philippines |
|--|---|--|---|
| Formation of development administration | <ul style="list-style-type: none"> Late 1950s-early 1960s: with donor advice (World Bank, US, etc.), basic foundations for four-agency coordination mechanisms established; disciplinary functions institutionalized. | <ul style="list-style-type: none"> Late 1950s-early 1960s: with donor advice (World Bank, US, UK, etc), basic foundations for planning and coordination mechanisms established, with strong role of Prime Minister's Dept. | <ul style="list-style-type: none"> 1970s: centralized development administrative body (NEDA) created, to support President Marcos's dictatorship. After 1986: NEDA reorganized, and inter-agency committees began to facilitate coordination. |
| Enhancement of development administration | <ul style="list-style-type: none"> 1980s: national-level committees and sub-committees established to facilitate coordination of priority policy agenda (e.g., rural development, regional development, private sector participation). Public-private coordination system strengthened. | <ul style="list-style-type: none"> 1970s: new functions (esp. ICU) added to existing administrative machinery to implement NEP. 1980s: greater efficiency of public administration pursued, and public-private coordination system strengthened. | <ul style="list-style-type: none"> 1990s: inter-agency committee functions institutionalized, and ODA management strengthened. Congressional intervention undermined above efforts by executive branch. |

5-5 Key Factors Affecting the Functions of Central Economic Agencies and the Evolution of Development Administration

It should be noted that the “functional” principles mentioned in sections 5-2 and 5-3 are necessary, but not sufficient conditions for ensuring the operations of central economic agencies as strategic core centers of development management. The experiences of the three East Asian countries, moreover, 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—sometimes even turning these shocks and crises into opportunities for reforms and broader institutional changes. In particular, the following factors become 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 focused on 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, 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 explained in section 5-3). As the Philippines’ experiences during the Marcos era suggest, building a centralized administrative framework itself is not enough to make the central economic agencies work. Thus, there is a real need to look into the interplay existing between the political leadership and technocrats, as well as 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, private sector participation. In addition, 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 as it was blessed with 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 development 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 (see Table A-1). 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, relative pay in Malaysia and Thailand was about the same as the average for other low- and middle-income countries, but was still higher than in the Philippines.¹⁶ Thailand and Malaysia have competitive, merit-based recruitment to a bureaucracy, which has attracted competent, motivated individuals from highly selective 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, have strengthened bureaucracy, and have 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 factors. 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 favors from politicians and interest groups" (World Bank

¹⁶ Singapore is a remarkable exception, with public sector salaries that are higher on average than private sector salaries. South Korea and Taiwan also had lesser degrees of differentials compared to those of Thailand, Malaysia, and the Philippines. 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.

1993: 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 of the whole country. The Philippines is a typical example, 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.

6. 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 centers 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 (especially in Thailand and Malaysia). The real experiences of the three East Asian countries examined here suggest that:

- Diverse models exist of coordination in central development administration;
- Certain “functional” principles are essential to the operations of central economic agencies, especially in order to ensure policy and resource alignment with development priorities;
- The political environment greatly influences the abilities of key actors, such as political leaders and economic technocrats, to discharge the above “functional” principles; and
- Especially, the presence of visionary and committed leadership at the turning points is vital. When guided by quality leadership, it is possible to turn shocks and crises into opportunities for reforms and institutional changes.

Key messages emerging from our study are the following. The former three are directed to today’s developing countries, and the latter are mainly for donors.

- The commitment to development by both political leaders and economic technocrats is essential. Equally, it is essential to translate such commitment into practical actions through the alliance of leaders and technocrats, using concrete development strategies and institutional arrangements to realize shared growth.
- 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, while giving due attention to certain “functional” principles. It is useful to learn different models and decide

which elements can be adopted, or adjusted to better fit to their local contexts.

- Governments should be mindful of utilizing aid for “graduation.” It is important to have an “exit plan” at the beginning of their 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, building on East Asian experiences.
- Donors should recognize institutional variations that exist in respective developing countries and tailor their assistance to the country-specific circumstances. They should also understand that developing countries often have superior knowledge of their respective social realities. It is important to listen more to the voices of developing countries and learn carefully from their wisdom. Moreover, in the countries with weak strategic core functions, donors should be especially mindful of promoting policy and resource alignment of their assistance with recipients’ development priorities.
- Donors should pay greater attention to the 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.

This study is 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: (i) how and under which circumstances visionary and committed leaders emerge; (ii) how and when a cadre of motivated and competent professionals can be attracted for national development; and (iii) how and under which circumstances aid can play a catalytic role in inducing institutional changes, without jeopardizing country ownership. Also, there is 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.

Chapter 2 Institutional Framework for Development Administration and the Role of Central Economic Agencies

This chapter will analyze the institutional framework for development administration, as well as the role and functions of central economic agencies in Thailand, Malaysia, and the Philippines. It will also review the historical background for the formulation and evolution of development administration in these countries.

As a general rule, strengthening central economic agencies is widely considered one of the priority agendas among administrative and governance reforms. This is so particularly in the case of latecomer countries, since these agencies must assume a “developmental” role and act as agents in order to manage the transformative development process. As was stressed in Chapter 1, central economic agencies acting as strategic core centers of development management are responsible for formulating and monitoring development plans, managing budgets, prioritizing and programming public investment (including large-scale infrastructure development), mobilizing both domestic resources and foreign assistance, and providing a stable macroeconomic environment that is conducive to private sector development. To this end, central economic agencies must align policy planning and resource mobilization in order to attain strategic objectives, as well as coordinate the different interests of various stakeholders. This must take place, moreover, vertically and horizontally in addition to domestically and externally.

Such work is critical, especially at the early stage of development. Certainly, the role of central economic agencies evolves over time, and their involvement in the economy is likely to become more indirect—focusing upon regulatory and supervisory functions, for example—as private sector activities expand. Nevertheless, the central governments of latecomer countries must build and strengthen the core functions of development administration, often utilizing the more advanced expertise and knowledge, and then discharge the strategic core functions mentioned above. In this sense, we consider it important to examine the role and functional responsibilities of these agencies in the three East Asian countries at their early stages of development (at the stage of major reform in the case of the Philippines), including the means by which their institutional foundations have been built for today’s development administration.

From the late 1950s and 1960s, the governments of Thailand and Malaysia embarked on the task of building modern development administration, including the formulation and strengthening of central economic agencies. Both countries had sought intellectual advice from foreign experts and donor agencies, especially at the formative stage of development administration. In the case of the Philippines, a major restructuring of existing development administration (which had been built at the time of the former President, Fernando Marcos) took place after 1986 as part of the democracy restoration process. Since then, a series of administrative reforms have taken place to strengthen the respective central economic agencies, as well as inter-agency coordination within the administrative machinery. In this chapter, we will provide country-specific accounts of the institutional framework for and the evolution of development administration, as well as the role and functions of central economic agencies. We will focus on the late 1950s-1980s in the case of Thailand and Malaysia, and from the late 1980s to the present in the case of the Philippines.

1. Thailand

1-1 Institutional Framework for Development Administration and the Role of Central Economic Agencies

Until the 1990s, the principal driving force behind Thailand's economic and social development planning, as well as its institution building, emerged from within the bureaucracy, rather than political leaders. Hence, Thailand's policy formulation and implementation processes are characterized by the outstanding effect that the "bureaucratic polity" has on them. The concentration of elite technocrats in central economic agencies, where they handle policy formulation and macroeconomic management, resulted in a highly centralized bureaucracy. Furthermore, a sweeping sense of political and economic urgency, which reached its peak in the 1980s, in regard to issues of national security and development, financial circumstance, and industrial strategies served to reinforce the perceived need for the bureaucratic polity. Despite political instabilities in the 1970s, Thailand remained determined to move ahead with economic development, and this validated the public's support for the role of technocrats in initiating and executing policy and programs as they deemed fit.

In terms of the configuration of central economic agencies, no single super-ministry exists, and for decades, economic policymaking in Thailand has utilized the subtle ability of the core macroeconomic agencies to check and balance each other. These agencies are: the National Economic and Social Development Board (NESDB), the Bureau of the Budget (BOB), the Fiscal Policy Office (FPO) and the Public Debt Management Office (PDMO, established in 1999) of the Ministry of Finance, and the Bank of Thailand (BOT). They have together quite successfully maintained both prudence in macroeconomic management, and relatively strict discipline in fiscal and monetary matters. The distribution of specific functional tasks, and their corresponding authorities, assigned in regard to planning, programming, and budgeting, as well as the implementation and monitoring thereof, traverses a broad range of different organizations not limited to the core macroeconomic agencies.

The NESDB serves as the central coordination agency therein, responsible (in the ascendant, until the end of the 1980s) for formulating national development plans and strategies, and also, in collaboration with other government agencies, granting approval to investment projects undergoing appraisal. Incidentally, the NESDB was referred to as the "technocrat center" throughout the 1980s, most notably for the strong power it held. The BOB prepares, executes and monitors all terms and matters pertaining to the budget. It is responsible for establishing a ceiling on the budget based on analyses provided by the FPO, as well as scrutinizing items of strategic priority for budget allocation. The FPO sets the overall framework for expenditures and establishes ceilings on annual external borrowing. This role is still different from that of the PDMO, which enforces ceilings on external debt and monitors foreign loan projects. The BOT is responsible for monetary and exchange policy.

Each of these agencies duly exercises authority over operations within their assigned field and no singular organization has been created to oversee the structural whole. While each agency has been authorized to take charge of development planning within the bounds of its own mandate, an umbrella network for sharing information on priority policy issues and important macroeconomic data has been put in place to facilitate their operations. Therein, links allowing for workable coordination of the

NESDB, BOB, FPO, and BOT have been built in, expressly for the expedition of important decisions in times of need.

In addition to these core macroeconomic agencies, the Department of Technical and Economic Cooperation (DTEC) has been responsible for managing foreign technical assistance. The DTEC serves as a single window for administering technical assistance, as well as coordinating and prioritizing technical assistance requests from the executing agencies (e.g., line ministries and agencies). It also requests counterpart funds for the BOB on their behalf, provides necessary funding to the executing agencies, and monitors overall implementation. Financial assistance for matters including foreign loans is managed by the PDMO, which is one of the core macroeconomic agencies.

Both the DTEC and the PDMO have worked closely with the NESDB, the BOB, and the FPO to ensure that aid be treated as an integral part of development policymaking. Figure 2-1 shows Thailand's policymaking structure, including macroeconomic and aid management functions.

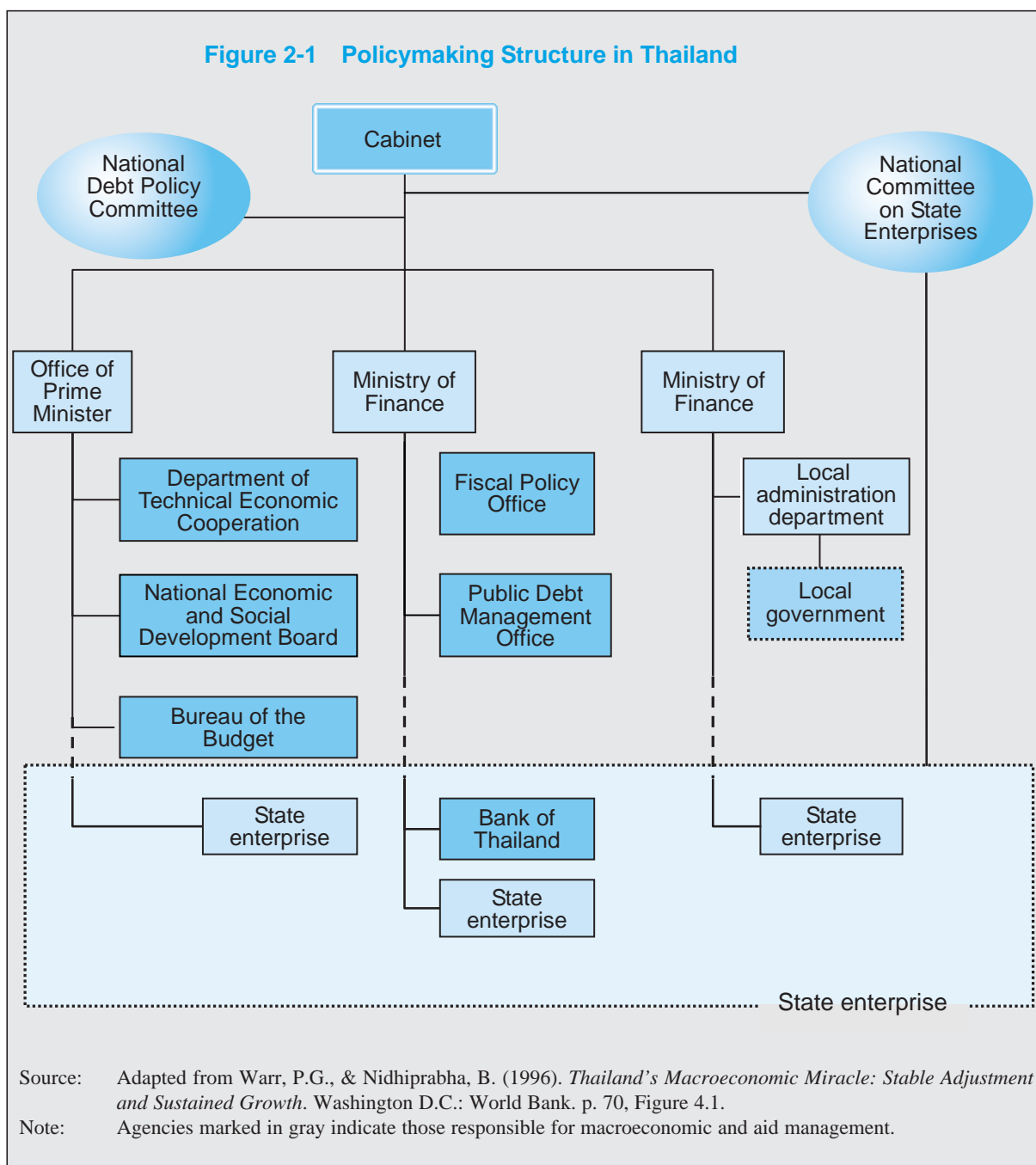
1-2 Historical Background and the Formulation of Development Administration

The institutional foundations of Thailand's modern, development administration date back to the establishment of the National Economic Development Board (NEDB) under the Prime Minister's Office in 1959. The NEDB, renamed as the National Economic and Social Development Board (NESDB) in 1972, was the result of a recommendation by the World Bank survey mission in 1957 that a permanent planning agency be set up to undertake economic studies and prepare national development plans. Also in 1959, the BOB was established in the Prime Minister's Office as a separate entity from the Comptroller-General's Department (CGD) of the Ministry of Finance. The heads of the NESDB and the BOB enjoy the same rank as Deputy Ministers (Suehiro 2005). The FPO was created within the Ministry of Finance in 1961, and the BOT—which has the longest tradition among the country's central economic agencies—was established in 1942. The inter-agency coordination mechanism among these core macroeconomic agencies has since been sustained and continues to play a central role in Thailand's macroeconomic policy-making.¹⁷ More recently in 1999, the PDMO was created through a transfer of selected divisions and units from the FPO and the CGD to ensure coherent public debt management under one single agency.¹⁸

¹⁷ Upon taking office in 2001, Prime Minister Thaksin has introduced a new public management approach in the public sector. In October 2002, he radically reorganized the government's administrative structure. The real impacts still remain hard to measure, however, particularly with the September 2006 military coup that ousted Thaksin.

¹⁸ The PDMO was established on October 1, 1999 as a unit in the Office of the Permanent Secretary for Finance. On October 9, 2002, the PDMO became a new department within the Ministry of Finance. See also PDMO web site: http://www.pdmo.mof.go.th/About_PDMO/Eng_index_KnowUs.htm.

Figure 2-1 Policymaking Structure in Thailand



Notably, during the late 1950s-1960s, Dr. Puey Ungphakorn, a British-trained economist and the longest-serving governor of the BOT (1959-1971), made a critical contribution to institutionalizing such coordination mechanisms based upon financial conservatism (see also Chapter 7). Prior to assuming the position of the BOT governor, Dr. Puey served as director of both the BOB and the FPO and was closely involved in implementing the government's fiscal discipline plan. He sent close technocrat aides and allies to take up key positions within each agency, using them to facilitate inter-agency coordination (Suehiro 2000). His professionalism had a profound influence on young technocrats in these core macroeconomic agencies. To this day, the importance of coordination mechanisms operating in the core macroeconomic agencies remains unchanged, though some evolution in the broader structure

has taken place. Current mechanisms for coordination include the formation of national committees and sub-committees (formal mechanisms), as well as technical dialoguing and coordination (informal mechanisms). On the other hand, coordination between NESDB and line (non-central) agencies has often been noted for its weakness.

Thailand began to receive economic aid in 1949, when it was admitted to membership in the World Bank and the International Monetary Fund (IMF). The World Bank made its first loan to Thailand in 1950, and the years 1949-1950 also saw the launching of economic and military aid programs to Thailand from the United States (US), as well as the initiation of Fulbright program for financing higher education for Thais in the US. Aid-related activities were scattered through the bureaucracy in these early years, as there was no government entity to perform aid-receiving functions. This led to the establishment of the Thai Technical and Economic Committee (TTEC) in 1950 to plan and administer the US aid program. The need to strengthen aid administration beyond US aid program became evident as the size and complexity of foreign assistance expanded during the 1960s, and the TTEC became a department in the Prime Minister's Office in 1963 under the new name of the DTEC.¹⁹

2. Malaysia

2-1 Institutional Framework for Development Administration and the Role of Central Economic Agencies

Since gaining its independence in 1957, the strong political will and integrity of each successive leader of Malaysia (Malaya until 1963) has driven a national devotion to itself to development planning and institution building. All of Malaysia's prime ministers have possessed sound vision, a strong sense of commitment and dedication to ensuring success in development initiatives for the sake of the public's best interests. The Malaysian bureaucracy was supportive of initiatives set forth by political leaders and obligingly engaged itself at multiple levels to make these visions a reality. A strong shared sense of urgency over wanting to establish a united Malaysian nation—a country of peoples ethnically integrated and living in harmony and partnership—reinforced the public's ability to accept the role of technocrats in bringing this overriding policy objective to fruition.

A notable feature of Malaysia's administrative machinery is its strong emphasis on planning and development implementation. These functions are concentrated in the agencies in the Prime Minister's Department, the Ministry of Finance (MOF), and the Central Bank (Bank Negara). The Economic Planning Unit (EPU) in the Prime Minister's Department, which is charged with the preparation for the government's medium- and long-term plans and mid-term plan reviews, has been the key institution for development planning. It is the deciding authority on critical issues surrounding economic activities, including those affecting investment selection and development budgeting. The EPU also serves as a focal point for international cooperation, as it coordinates financial and technical assistance

¹⁹ Based on Muscat (1994). In 2002, DTEC was incorporated into the Ministry of Foreign Affairs and became the Thailand International Cooperation Agency (TICA) in 2004 as an aid-giving agency.

from both bilateral and multilateral agencies, and also manages the government's technical assistance program toward other developing countries. The Implementation and Coordination Unit (ICU), another agency in the Prime Minister's Department, ensures the coordination and implementation of government policies, programs and projects at the national, intergovernmental, and federal and state levels. The MOF manages public finance and is responsible for formulation and implementation of the budget in close coordination with the EPU. The Central Bank focuses on monetary and financial matters.

Malaysia's planning system is a two-way interactive process between the EPU, line ministries, agencies and state governments. The EPU plays the key role in matching micro-level projects with macro-level plans by combining "top-down" and "bottom-up" approaches. Planning from the top, i.e., setting macro-level parameters, is determined in the context of the Inter-Agency Planning Groups (IAPGs). The EPU serves as the secretariat for each of the IAPGs, whose work precedes the formulation of any development plan. Planning from the bottom, on the other hand, essentially involves the line ministries, agencies and state governments, which translate the sectoral master plans into specific programs and projects.

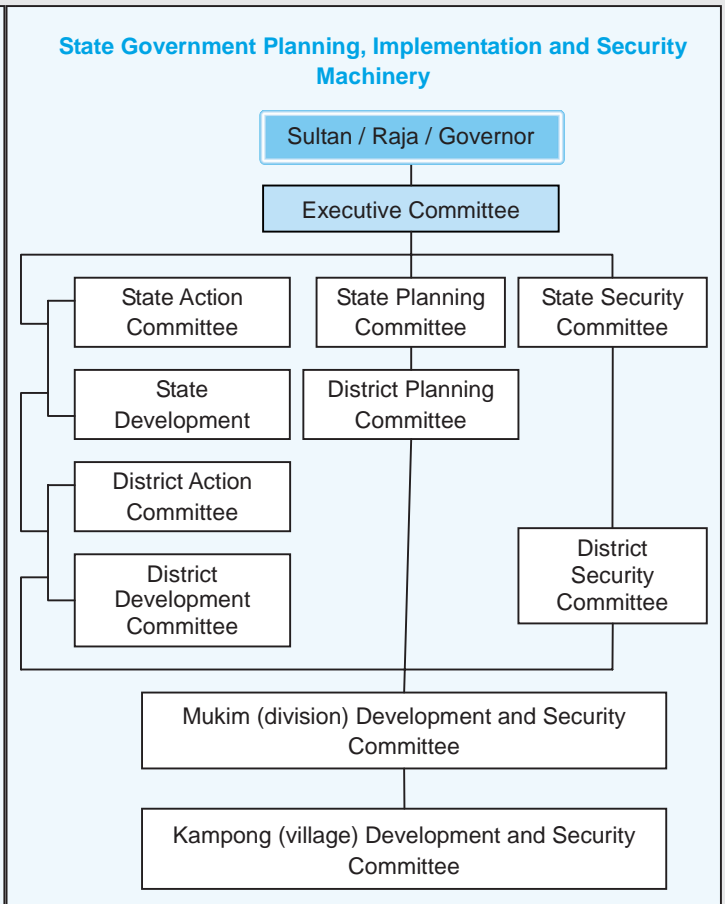
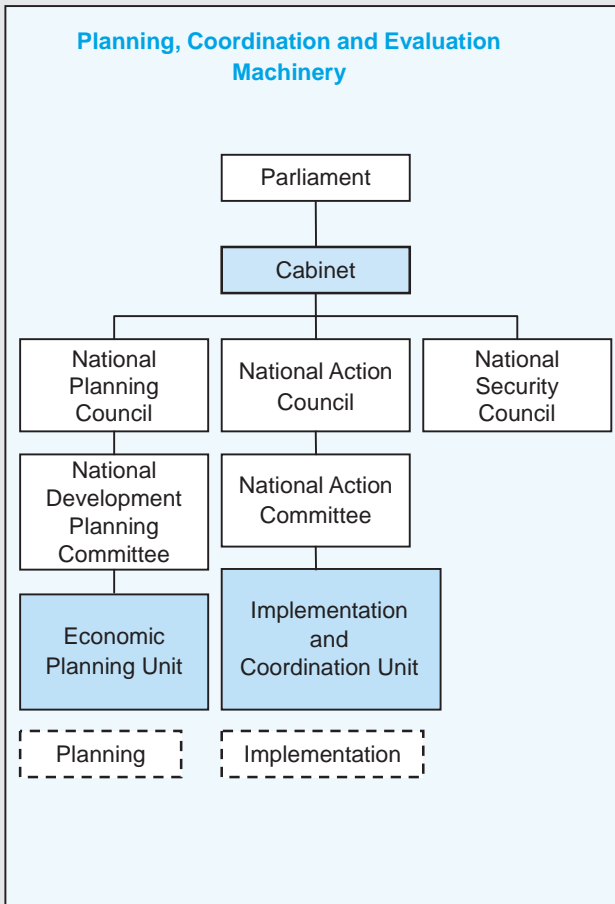
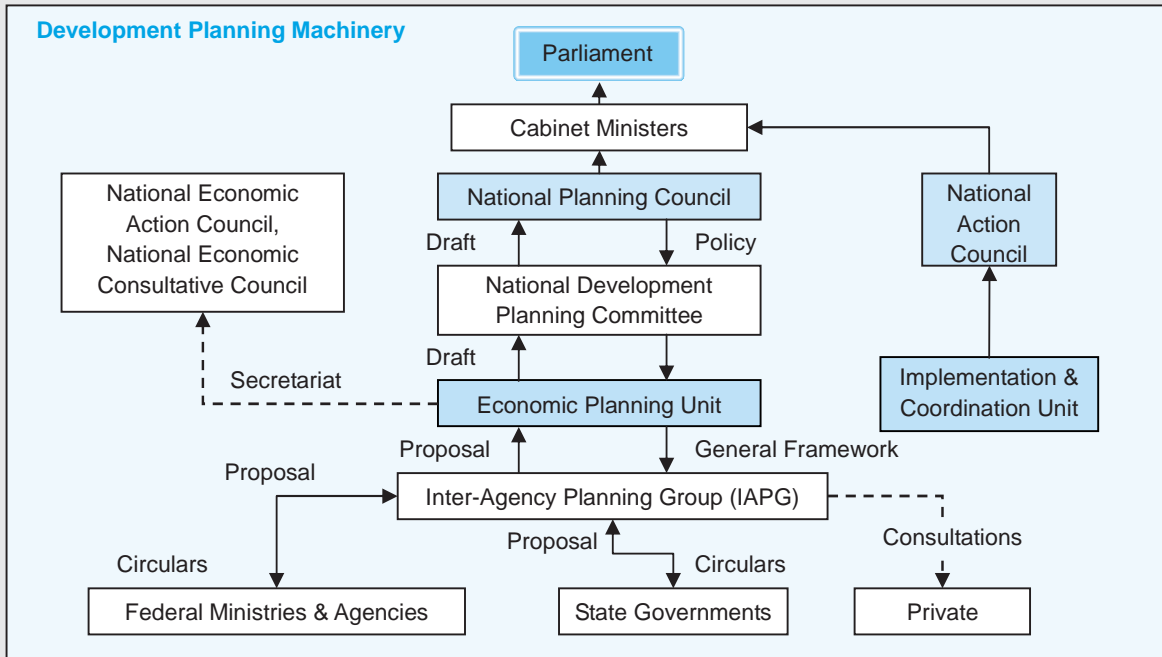
Figure 2-2 shows the structure of Malaysia's present planning and implementation machinery at the federal and state levels. For each of the planning and implementation functions, there exist high-level, inter-agency coordination mechanisms. The National Planning Council (NPC) is the highest level of decision-making with regard to socio-economic matters. Chaired by the Prime Minister and comprising key economic ministers, the NPC serves as the economic committee of the Cabinet. The NPC is served by the National Development Planning Committee (NDPC), which is the highest planning committee at the official level and is responsible for the formulation and detailed consideration of development plans, programs and projects. It is chaired by the Chief Secretary to the Government and consists of the heads of all development ministries including the Governor of the Central Bank and the Minister of Finance. The EPU acts as the secretariat, and a similar planning setup exists at the state and district levels.²⁰

The National Action Council (NAC) is the highest level of decision-making in terms of the overall implementation and coordination of development strategies. Under the chairmanship of the Prime Minister, the NAC meets regularly with selected government agencies for intensive review of their progress and problems. The ICU serves as the secretariat and regularly submits reports pertaining to problems encountered and progress made in development implementation (Nik Hashim Hj & Wan Ibrahim 1994). A similar institutional setup also exists at the state and district levels. Until the 1980s, the NDPC had also been responsible for matters of implementation and coordination. During the latter part of the Mahathir administration, the National Development Working Committee (NDWC) was created as the highest level committee for government officials in this area (Torii 2005).

In this way, the EPU ensures coordination with other central ministries, federal agencies (i.e., national

²⁰ This paragraph is based on the description given in "Development Planning in Malaysia," Economic Planning Unit, Prime Minister's Department (provided by the EPU officials to the GRIPS team in October 2005).

Figure 2-2 Administrative Machinery in Malaysia (federal and state levels)



Source: Economic Planning Unit, Prime Minister's Department. 2004. "Development Planning in Malaysia." Putrajaya, Malaysia.

line agencies), state government offices and the private sector by functioning as the secretariat for various inter-agency councils, committees, sub-committees and groups. As a super-ministry, the EPU assumes strategic core functions and acts as the operational core center, simultaneously both “top-down” and “bottom-up” in approach, of planning process and economic sector activities. Regardless of changes to political administrations over time, the basic foundation for planning and coordination has been steadfastly both utilized and maintained to this day.

2-2 Historical Background and the Formulation of Development Administration

The foundation of Malaysia’s development administration was built in two stages. The first stage, which was immediately after independence during the late 1950s-1960s, was concerned with setting up the original planning machinery. The second stage during the 1970s was concerned with reinforcing the coordination and implementation function in order to effectively execute the goals of the New Economic Policy (NEP). Former Prime Minister Tun Razak, who was also Deputy Prime Minister and the Minister of Rural Development from 1957 to 1970, played a vital role during both stages. The basic features of administrative machinery established in the 1970s remained unchanged, and were further enhanced under the Mahathir administration (1981-2003) in terms of achieving greater efficiency.

During the first stage, the country was heavily dependent on economic and military aid from the UK at the time of independence in 1957, and the new government also had limited experiences in development planning. The government had sought technical assistance from the World Bank, and it established a small Economic Secretariat headed by an expatriate adviser following the recommendations of the 1955 World Bank report. In 1961, this office was upgraded into an EPU that was staffed with its own economic officers and attached to the Prime Minister’s Department. In the same year, the government also established the National Development Planning Committee (NPDC), with the EPU as its secretariat. According to Esman (1972), Malaysia largely completed the replacement of expatriates with local officials in the public sector by 1965, although their professional skills still remained insufficient. In this regard, the first generation of elite technocrats played a critical role. For example, Tan Sri Yaw Hong, who became the first Malaysian head of EPU, replacing the post occupied by foreign experts, not only took measures to build core functions of the country system, but also instituted programs for human resources development from a long-term perspective (see also Chapter 7).

During the second stage, top leadership decided to create the ICU in 1971. Prime Minister Razak, who had adopted the NEP, considered it essential to set up a mechanism for ensuring effective implementation of expanding public expenditures. Building on his previous experience with rural development as the Minister of Rural Development, Prime Minister Razak instituted nationwide systems for planning and monitoring the implementation of priority development activities by establishing lines of communication and coordination between different levels of public agencies. Such systems, known as “RED Book” and “Operations Room,” were built on British army practices (see Chapter 3 for their detailed accounts).

3. The Philippines

3-1 Institutional Framework for Development Administration and the Role of Central Economic Agencies

The main feature of development planning and administration in the Philippines is its “dual track” nature. Particularly since the late 1980s, technocrats have been consistently worked to bring about institutional reform that would strengthen development planning and administration and enable the efficient and effective delivery of public services, as represented in the administrative channel. On the other hand, legislators have been challenging this administrative channel, especially when it comes to the budgeting process, and their interference has led to allocative distortions (“legislative intervention”). The fact that this sort of political intervention has been institutionalized in the budget system markedly distinguishes the Philippines from Thailand and Malaysia. Also, since the Philippines, upon the enactment of its Local Government Code (LGC) in 1991, was one of the first countries in the region to decentralize, the regional and local dimensions of development planning and administration have posed unique challenges.

The basis for current planning machinery within the executive branch was established in 1987, when a major reorganization of the National Economic Development Board (NEDA) took place with the promulgation of the new Constitution and Executive Order (EO) 230. Key agencies responsible for policymaking in the Philippines are the NEDA, the Department of Budget Management (DBM), and the Department of Finance (DOF). The NEDA, which consists of the NEDA Board and the NEDA Secretariat, formulates annual, medium and long-term economic and social development plans (both national and regional). It also reviews and programs investment projects, while monitoring and evaluating their implementation. The NEDA Board is the government’s highest socio-economic planning body, chaired by the President and made up of a subset of Cabinet members and the Governor of the Central Bank. The NEDA Secretariat is the staff agency for formulating national and regional development plans and public investment plans, i.e., the Medium-Term Philippines Development Plan (MTPDP), the Medium-Term Regional Investment Plan (MTRIP), the Regional Development Plan (RDP), and the Regional Public Investment Plan (RPIP). NEDA also serves as a focal point for international cooperation, coordinating financial and technical assistance from both bilateral and multilateral agencies. The DBM is the staff agency of the President on national budgeting and is responsible for budgeting and finding funding sources for approved projects listed in the MTRIP. The DOF is responsible for generating budgetary funding, and supervises the Bureau of Internal Revenue, the Bureau of Customs and the Bureau of Treasury. Also, the Bangko Sentral ng Pilipinas (BSP) is responsible for monetary and financial policies.

There are six cabinet-level interagency committees, all headed by the President, assist the NEDA Board in accordance with its functions. These include: (i) the Development Budget Coordination Committee (DBCC); (ii) the Infrastructure Committee (InfraCom); (iii) the Investment Coordination Committee (ICC); (iv) the Social Development Committee (SDC); (v) the Committee on Tariff and Related Matters (TRM); and (vi) the Regional Development Committee (RDC). The membership of each Committee consists of selected Cabinet Secretaries and other executive officers heading departments responsible for implementing the development plans.

Among the six cabinet-level inter-agency coordination committees, the DBCC and the ICC are the principal bodies overseeing budget and public investment planning on behalf of the President and the Cabinet. The DBCC is the point committee for reconciling macroeconomic and development objectives, while the ICC is the gatekeeper in deciding what projects will be financed (Medalla 2004). The NEDA Board approves projects only upon the recommendation of the ICC. The DBCC is chaired by the Secretary of the DBM, and the ICC is chaired by the Secretary of Finance. NEDA, DBM, DOF, and BSP are principal members of both committees. In addition, the Infrastructure Committee (Infra-com), which is chaired by the Secretary of Public Works and Highways,²¹ prepares the infrastructure program to be funded from the annual government budget. The NEDA Director General serves as either the chairman or vice-chairman of the six committees give above, except for the DBCC.

The NEDA Director General is also authorized to assemble technical committees consisting of line departments and agencies, as well as partners from the private sector, civil society and/or academe for the specific purpose of planning and implementing sectoral plans. As for regional planning, the RDC was created to translate national development goals, strategies and targets into specific regional objectives, and, in turn, to flesh out and adopt respective regional plans and policies for approval at the national level. Hence, the planning process at work in the Philippines can be considered as being a combination of top-down and bottom-up approaches, facilitated by the utilization of interagency committees and coordination channels.

Apart from the cabinet-level committees, there exists a joint cabinet-legislative consultative and advisory body to the President that is called the Legislative-Executive Development Advisory Council (LEDAC). The LEDAC was established in 1992 under the Ramos Administration, for the purpose of facilitating coordination between executive development planning and congressional budgeting. By incorporating legislative input into development planning and investment programming exercises early on, the LEDAC intends to achieve the goals set out in the plan by facilitating subsequent deliberation on the part of legislators to fund the priority programs and projects, as well as minimize congressional changes during the budgeting process. While it is outside the NEDA organizational structure, the NEDA Secretariat serves as a secretariat to the LEDAC.

3-2 Historical Background and the Formulation of Development Administration

Development planning in the Philippines started as early as 1935. The National Economic Council (NEC) was created then out of recognition for the need to institutionalize a central planning body, particularly one capable of generating rapid, yet balanced, socioeconomic development. The Program Implementation Agency (PIA) and its successor body, the Presidential Economic Staff (PES), were created in 1962 and 1966, respectively, as part of a number of administrative innovations introduced under the Five-Year Integrated Socioeconomic Program for 1963-1967. The PES later evolved into

²¹ The annual infrastructure program forms part of the proposed National Expenditure Program and the Budget Expenditures and Sources of Financing (BESF) that are submitted annually to Congress for approval. Funding is authorized by the annual General Appropriations Act, as well as by the Public Works Act (which authorizes multi-year infrastructure projects).

another planning agency, ultimately diffusing the functions of the NEC.

In 1972, when President Ferdinand Marcos declared marshal law, the functional responsibilities vested in the NEC, the PES and other ad hoc economic institutions were consolidated into one planning body, the NEDA. Thus, it was during Marcos administration (1965-1986) when a centralized administrative body for planning, the NEDA, was created. However, this centralized system was utilized only as a means to maintain his dictatorship, inevitably resulting in power being limited to, and hoarded by, technocrats and cronies who faithfully obeyed Marcos' word. Following the declaration of marshal law, the government created eight development plans.

The oft-recognized turning point of development administration in the Philippines took place in 1986, when Corazon Aquino put an end to Marcos's dictatorship and initiated a democratization process. President Aquino's administration (1986-1992) undertook a government-wide structural reorganization, wherein the NEDA was also revamped as explained in the above. As embodied in the 1987 EO 230 by the President and the 1987 Philippine Constitution, the NEDA was authorized with the distinctive advantage of being an independent planning agency. EO 230 narrowed down and streamlined the overall structure and functions pertaining to the NEDA in two major areas: (i) development planning and policy formulation; and (ii) investment programming and ODA coordination. For example, NEDA interagency committees were streamlined and reduced in number from twelve to five.²² Prior to 1986, during the Marcos administration, the ICC and the DBCC, for example, existed as merely a formality. However, they did not quite carry out coordinating functions across different agencies and departments. As a result, information on important policy issues, including macroeconomic data for planning, investment selection, budgeting and external borrowing, was all kept in a centralized location at the NEDA, and no other agencies were in any position to grasp the larger, more comprehensive picture.

After 1986, inter-agency coordination began to take place through these committees in an ad hoc fashion, and later, during the Fidel Ramos administration (1992-1998), their functions were strengthened and institutionalized. At the NEDA secretariat-level, functions and organizational structures changed. For example, project development, previously handled by NEDA Sector Staffs, was transferred to implementing agencies, and thus Sector Staffs became more able to focus on sector coordination, policy formulation and project evaluation. As for ODA administration, prior to 1986, there were three Staffs in charge within the NEDA, namely: the Project Economic Staff in charge of dealing with multilateral donors (e.g., the World Bank and the Asian Development Bank), the External Assistance Staff in charge of USAID and other bilateral donors, and Infrastructure Staff for Japanese loans.²³ Despite the fact that each Staff had an undersecretary of its own, there was little coordination in the process of interpreting ODA-related guidelines and handling their operation, and even critical decisions and approvals appeared incoherent among them. In 1986, the three Staffs were consolidated into one insti-

²² The five committees were: the DBCC, the InfraCom, the ICC, the SDC and the TRM. The Regional Development Committee (RDC) was created later in 2004.

²³ To be exact, bilateral assistance from Japan should have been under the control of the External Assistance Staff; however, the Infrastructure Staff in effect took charge since assistance from Japan then was mostly for infrastructure development. (Interviews with former NEDA officials held in March, 2006.)

tution, thereby newly establishing the Public Investment Staff. Thus, a centralized ODA management structure within the NEDA Secretariat was finally achieved, making the administration of ODA matters, including project preparation, investment selection, monitoring and evaluation, more efficient and effective. The basic structures and functions of the NEDA as established at this time have been maintained up to the present. Hence, the basic foundation for development administration in the Philippines today traces back to 1986.

Chapter 3 The Role and Characteristics of Development Plans in Policy and Resource Alignment and the Evolution of Development Planning

This chapter will analyze the role and characteristics of development planning in the East Asian countries of Thailand, Malaysia, and the Philippines. We will pay special attention to the role of development planning in policy and resource alignment functions, with an eye toward coherence and sequence in the areas of development planning, budgeting, investment programming and project approval. The first part of this chapter is also closely related to the analyses of the two chapters that follow: Chapter 4 on macroeconomic coordination, and Chapter 5 on public investment programming and project approval.

Here, we will also provide a brief overview of the evolution of development planning for Thailand and Malaysia. We will include the major characteristics of successive courses of development plans, paying attention to defining characteristics such as strategic priorities and shifts in focus. This information will not be included for the Philippines, however, where development planning has lesser policy consistency, and where the preparation of new development plans with each change of political administration—even in the midst of the previous plan—seems to indicate little significance in analyzing its evolution.

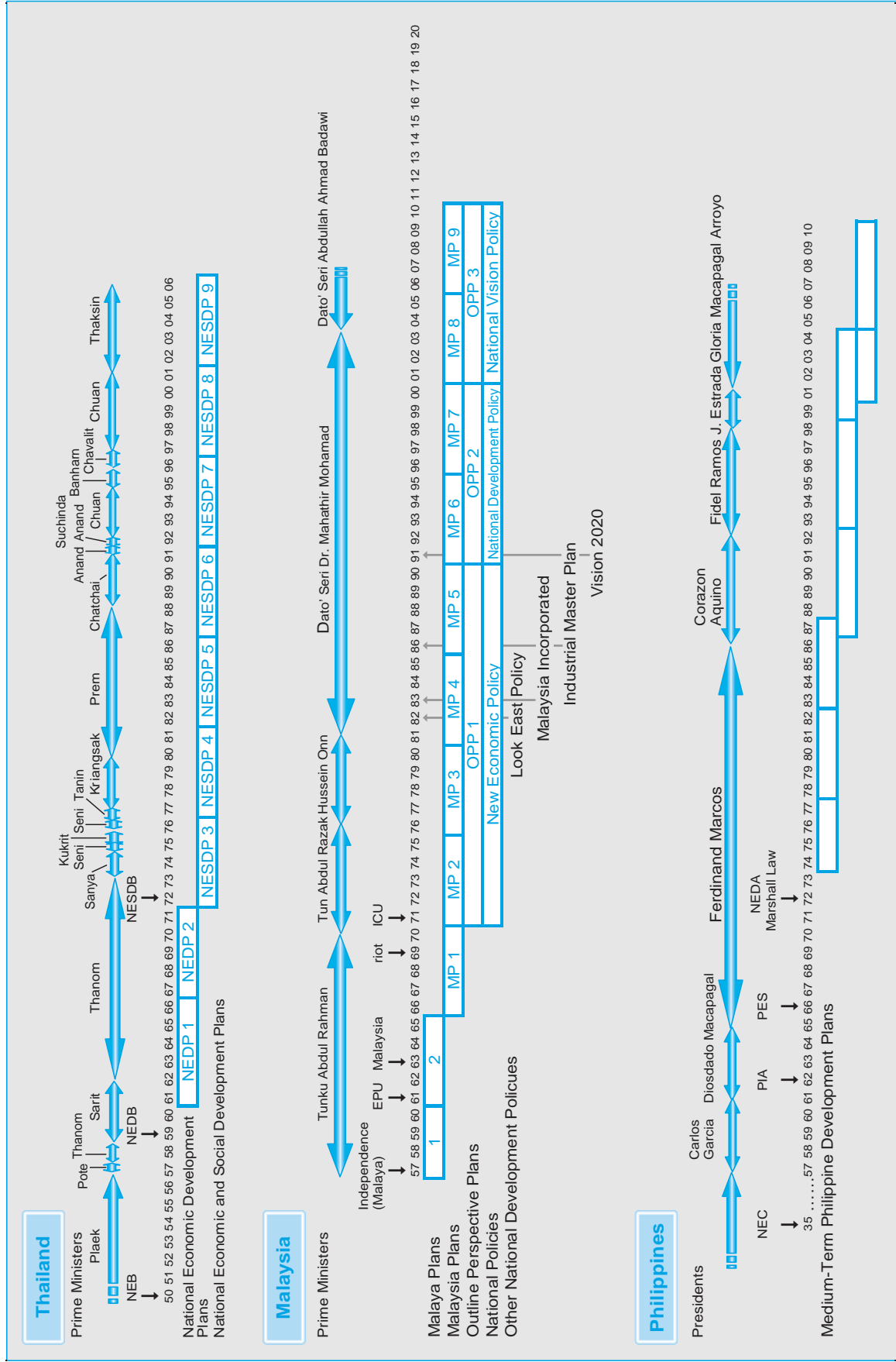
We will touch upon social, economic and political backgrounds that are unique to each country, as well as the dynamics of development administration, including the use of aid. The development plans of Thailand and Malaysia will be reviewed comprehensively, starting from the early periods of the first plans (1950s-1960s) through the current ones (2000s). For the Philippines, the review will mainly focus on the year 1986, which is commonly recognized as the country's turning point. It was only after that year, in fact, when the advancement of a modern development administration system in the Philippines first took effect (see Chapter 2 for a description of the concrete changes that occurred before and after 1986).

1. Thailand

1-1 The Role of Development Planning in Policy and Resource Alignment Functions

Thailand has two main types of national plans with respect to the alignment of policy and resources with development priorities: the five-year development plan (formally referred to as the National Economic and Social Development Plan, or NESDP) and the annual budget. With the exception of the Third (1972-1976) and Fourth (1977-1981) NESDPs, the Thai government has not introduced public investment plans (PIPs) (for more information on the framework in Thailand, see Figure 3-1: Chronological Outline of the Development Plans and Political Leaders of Thailand, Malaysia, and the Philippines). As described in Chapter 2, all central economic agencies, with the National Economic and Social Development Board (NESDB) being a focal agency, bear core responsibility for preparation of the NESDP. The Bureau of the Budget (BOB) prepares the annual budget in coordination with the NESDB and other agencies.

Figure 3-1 Chronological Outline of the Development Plans and Political Leaders of Thailand, Malaysia, and the Philippines



< Coherence Among Development Planning, Budgeting, Investment Programming and Project Approval >

Thailand's expenditure allocation among various sectors has broadly reflected its development priorities (World Bank 2000). Such general policy is not the result of the application of modern planning, nor of budgeting or solid macro-sectoral links (between, for example, the NESDB and line ministries). Rather, it is the result of close coordination around the five-year development plan and annual budget formulation among the central economic agencies—especially the BOB and the NESDB—as well as their shared responsibility for scrutinizing public investment projects (including State Owned Enterprise (SOE) and ODA-funded investment plans) and allocating annual expenditures. Since efforts to link planning and budget have taken place mainly among the central economic agencies, it is often noted that the Thai government's sectoral policies are less coordinated than macroeconomic management, and that there exists a division of macro and micro policies (Christensen et al. 1993).

In fact, Thailand's initial approach to development planning, until the Fifth NESDP of 1982-1986, had functioned primarily in a “top-down” manner, meaning that the NESDB, in coordination with other central economic agencies, had possessed almost exclusive administrative and decision-making power in regard to priorities and plans consequently passed down the line of command, thereby effectively bottlenecking input from line agencies and ministries. This held true even in relation to smaller-scale sectoral programs within the NESDP. Actually, until the mid-1980s, the NESDB had no real involvement with line agencies or ministries.²⁴ The process of preparing the Sixth NESDP of 1987-1991, however, virtually changed all this due to the progression of decentralization. By the time the Seventh (1992-1996) and the Eighth (1997-2001) NESDPs were in effect, the line agencies and ministries were embarking on the preparation of their own sector plans and master plans, which would eventually contribute to the basis for subsequent NESDPs. Accordingly, the NESDB's direct involvement in the preparation of NESDP sectoral strategies shrunk as a consequence of enhanced engagement on the part of line agencies and ministries.²⁵

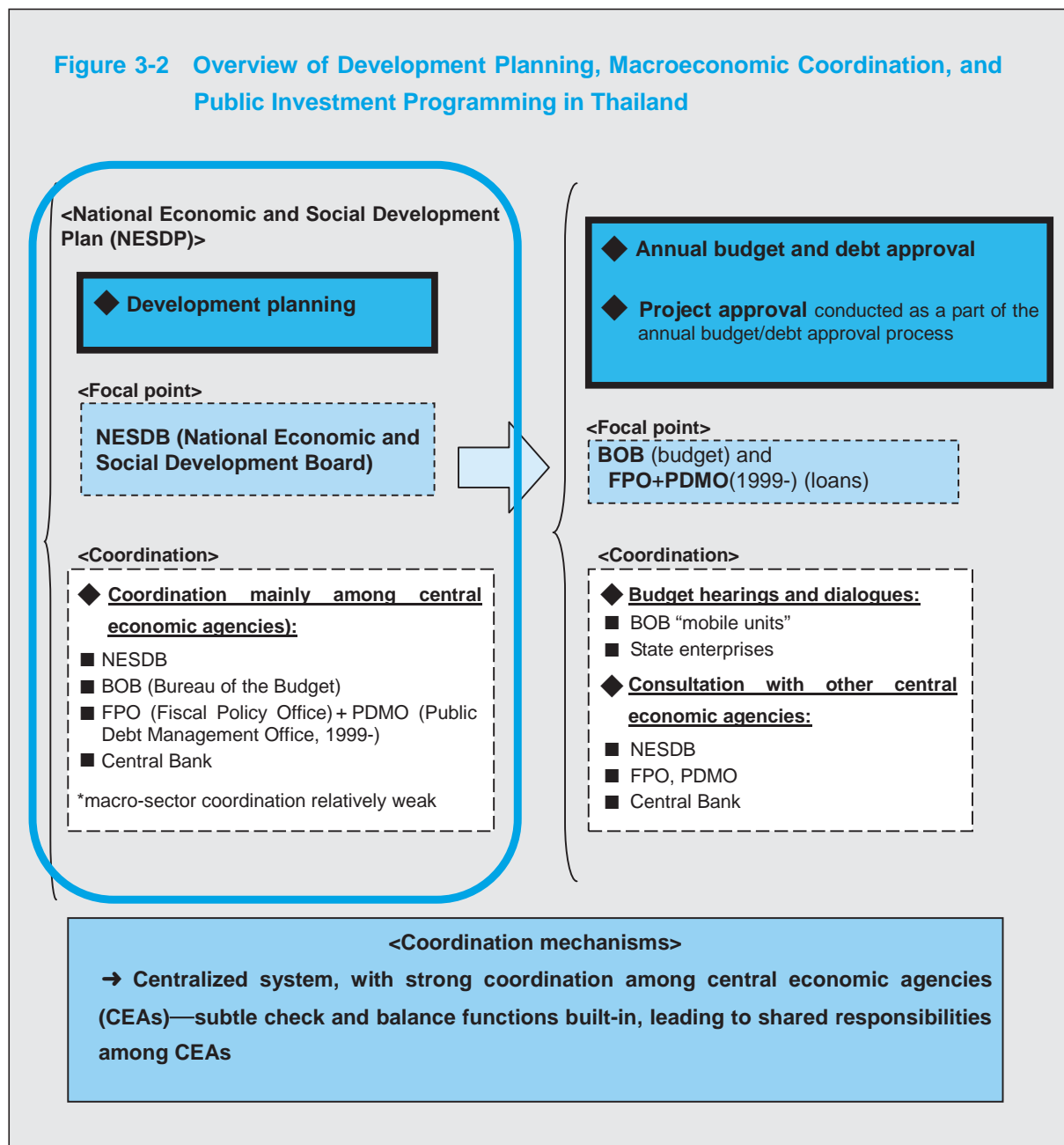
Figure 3-2 illustrates Thailand's policy and resource alignment functions in terms of development planning, macroeconomic coordination, investment programming and project approval. Thailand's NESDP has been “indicative” in nature, which is distinguishable from the practice in Malaysia, where the five-year Malaysia Plan sets the overall and broad sectoral ceiling for development expenditures during the corresponding periods. More specifically, NESDP specifies development priorities but does not bind budget allocation. In addition, the Thai government did not introduce public investment plan (PIP), except for the Third and the Fourth NESDPs, as mentioned. The NESDP, therefore, is structured with room for the flexibility necessary to accommodate any future social, political and/or economic shifts. In fact, as Figure 3-2 shows, the Thai government has taken “two-tiered approach” in deciding the selection and resource allocation for individual public investment projects—prospective development projects outlined in the NESDP must be later scrutinized and pruned throughout the annual budget process to secure necessary funding. Hence, the government can respond to future changes, as there

²⁴ Christensen et al., *The Lessons of East Asia, Thailand: The Institutional and Political Underpinnings of Growth*, The World Bank (1993), Chapter IV, p.24

²⁵ Interviews with line ministry officials held January 2006.

are time-lags between the development planning and budget allocation processes. Actual funding requirements are highly dependent on the physical progress and the prior preparation of development projects, and they are sensitive to public demand and support. For example, if local residents raise objections against the construction of certain investment projects for some reasons, the physical progress would be affected, and the disbursement projection in turn would have to be changed accordingly.

Figure 3-2 Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand



The case of the Eastern Seaboard Development Plan is a typical example, where the Thai government has taken full advantage of this “flexibility” feature. While it received the top priority in the Fifth (1982-1986) and the Sixth (1987-1991) NESDPs, the government postponed, scale-downed and even canceled some projects in accordance with the macroeconomic conditions. Pragmatic decisions were made based on the thorough assessment of economic feasibilities of specific projects during the difficult times of recession (see Chapter 6 for detail).

While their indicative qualities surely allow for flexibility, the NESDPs are generally recognized as solid, overarching core documents that stipulate national strategies, and priorities for development. Never was this recognition more heralded than during the years of the Fifth NESDP (1982-1986), often seen as “the golden era of planning”.²⁶ However, a visible decline in the significance of national planning *per se*, and the relative role therein of the NESDB, began in the late 1980s. Especially after the inauguration of the 1997 Constitution, politicians have come to increasingly challenge the efforts of technocrats outright by intervening in policy formulation and planning processes. The private sector has also stepped forward to become more involved in policy. In other words, changes to the social structure, meant to augment a more democratic society, have simultaneously triggered an increase in the leverage held by stakeholders outside of the bureaucracy, while siphoning off the influence of the NESDB and, ultimately, the quality of its initiatives therein.

1-2 Major Characteristics of Each of Thailand’s Development Plans, and Corresponding Social, Economic and Political Climates²⁷

1-2-1 Overview

The first national development plan in Thailand was launched in 1961. It was, by name, the “First National Economic Development Plan (NEDP: 1961-1966)” and, to date, remains the only national plan to have covered a six-year period (all successive national plans have covered five-year terms). According to the “*Five Decades of NESDB*” (NESDB 2000), the main objective of the First and the Second NEDPs was to stimulate expansion of the economy by introducing the concept of “development with growth.” In relation to this, the First NEDP adopted a project-based planning approach, which aimed at implementing basic infrastructure projects for economic development. The corresponding planning process was top-down in nature. The Second NEDP (1967-1971) kept the same principle of development with growth, as set forth in the First NEDP, but, in addition, it also introduced the idea of sectoral development planning. This new approach was adopted in order to identify targets, objectives and strategies within national plans and decision-making processes, as well as facilitate the development of necessary databases.

²⁶ Dr. Sanoh Unakul, “*Thailand’s Development Strategies: Past, Present and Future*”, speech delivered in Thailand at the National Defense College, Bangkok, February 13, 1986, p.65.

²⁷ Information for this section was mainly drawn from (1) “*Thailand’s Development Strategies: Past, Present and Future*”, speech delivered by Dr. Sanoh Unakul in Thailand at the National Defense College, Bangkok, February 13, 1986 and (2) “*Five Decades of NESDB*”, published by the NESDB in February 2000, on the occasion of its 50th anniversary. The latter document thoroughly reviews the history of Thailand’s development plans, the outcome of 50-years of development and its outlook for future development. (3) The original national development plans were also drawn upon for reference.

The Third Plan (1972-1976) marked a new era, as signified in the change to its name, that is, the National Economic and *Social* Development Plan (NESDP) (emphasis added by author), consciously designed to reflect the importance Thailand was ready to assign to aspects of social development, on equal footing alongside those of economic development. Accordingly, both the NESDP's coverage and its objectives were expanded. At the same time, in 1972, the planning office, formerly the Office of the National Economic Development Board (NEDB),²⁸ was renamed the Office of the National Economic and Social Development Board (NESDB) (emphasis added by author). “*Five Decades of NESDB*” also points out that the Fourth NESDP (1977-1981) introduced an intersectoral approach to development, which was a nod to the fact that existing project-based and sectoral development planning approaches had been limited in their capacity to address fundamental problems that carried an impact across multiple sectors.

The Fifth NESDP (1982-1986) contained planning processes that could also be described as strategic planning. An approach that was both intersectoral and programming-oriented, was introduced therein for use with two pillar programs: (i) rural development for alleviating poverty, and (ii) regional development, including development of the Eastern Seaboard sub-region. The programming-oriented approach was a new means to undertaking planning and budgeting wherein annual budget plans for development were compiled by integrating across the board all agencies concerned, so that the overall budget for whole programs could be easily grasped. Before this approach had been introduced, budget information for development was only attainable in a fragmented manner, as it was divided between the development budget plans of relevant government agencies. At the time of the Fifth NESDP's preparation, institutions and individuals outside bureaucracy—from both the civil society and the public at large, among other stakeholders—began to establish a participatory presence in development planning and, as a result, bottom-up planning, was soon bolstered. The Sixth NESDP (1987-1991) again employed a programming-oriented approach and, in a broader sense, also carried on the Fifth NESDP's emphasis on quality over quantity, a concept that Thailand had only recently come to more resoundingly affirm. Also, during the preparatory stage of the Sixth NESDP, the active involvement of line agencies and ministries in the planning process began to take root.

The Seventh (1992-1996) and Eighth (1997-2001) NESDPs featured the principles of sustainable development and people-centered development. In addition, a broad-based participatory approach to planning was called for, for the first time ever in the Plan's history. This dramatic shift in approach compelled the government, and in particular the NESDB as its central planning agency, to reconsider its role in the management of developmental and socioeconomic matters. The Ninth NESDP (2002-2006) adopted the philosophy of *sufficient economy*, which emphasized sustainable development, sound macroeconomic policies and the equitable sharing of the benefits of economic prosperity. The Plan currently in effect is the Tenth NESDP for 2007-2011, which was prepared with the NESDB acting as the nexus point for necessary coordination.

²⁸ Prior to the NEDB, the Planning Office in Thailand was initially named the National Economic Board (NEB). The NEB was established in 1950, in order to advise on general economic matters and recommend appropriate measures to the Royal Thai Government.

1-2-2 The First National Economic Development Plan (1961-1966)

The First NEDP was prepared during the administration of Thailand's eleventh Prime Minister, Field Marshall Sarit Dhanarajata (1959-1963), who had come to power after overthrowing the previous Field Marshall Plaek Pibulsongkram by way of a military coup. Prime Minister Sarit exercised strong leadership, wherein he aimed to attain robust economic development by, (i) adopting the concept of development through growth, and (ii) introducing, for the first time, a top-down structural approach to planning. Hence, the focus of the First NEDP was centered on the development of infrastructure, and the need for the presence of powerful, centrally-active economic agencies ready to handle these issues properly. According to Dr. Sanoh Unakul,²⁹ the former Secretary General of the NESDB, the First NEDP was regarded as the most influential among all early plans in setting the direction of national development, though, he added, it may technically have been comparatively weak due to the lack of modern planning techniques and necessary data available at the time of its conception. Dr. Unakul emphasized that, in terms of spirit and its eventual course of implementation, the First NEDP was considered to be the best. The NEDP was a collaborative production undertaken by top intellectual minds, many of whom had studied abroad, and were handpicked from a variety of fields of expertise tangential to government and academic circles. Dr. Puey Ungphakorn, governor of the Central Bank—the Bank of Thailand (BOT)—at the time, was one leading scholar prominent in the planning process. In fact, what is quite notable about the management process was Prime Minister Sarit's use of his own keen power of persuasion to mobilize and bring together so many people of different backgrounds to cooperate in one planning process. The Prime Minister also had the great foresight to, in effect, establish what has now become a foundation to Thailand's economic development planning system—a system that has continued to contribute to national development to the present day. With this in mind, one can see how, according to Dr. Unakul, democratically-minded technocrats were willing to work with the dictatorial government under Sarit, if only for the benefit of national development. In this sense, the time surrounding the First NEDP's preparation was considered a golden era for planners, where technocrats and their ideas were encouraged and valued as a national resource.

The wide personal network cumulatively held by these top minds facilitated broader support, not only from within domestic arena but also from abroad. The World Bank and the United States (US) played an important role in the national development process of this time. World Bank experts were dispatched to Thailand in 1957-58 to study the form of the country's economy and prepared a report, by request of the Thai government, titled "*A Public Development Program for Thailand (1959)*." At the time, the Thai government anticipated receiving continued assistance from the World Bank in order to procure capital investments necessary for the country's economic development. Dr. Puey Ungphakorn played a major role in requesting World Bank assistance. Both World Bank findings and proposals from the report were utilized as input for the First NEDP. In fact, the World Bank played a long-standing central role in supporting the government in planning process work, especially over the time spanning from the First NEDP to the Third NESDP. The NEDB, predecessor to the NESDB was created in 1959 based on the World Bank's recommendation that a permanent economic planning agency be

²⁹ Dr. Sanoh Unakul served as Secretary General for two terms (1973-1975 and 1980-1989). This is based on a remark he made at a presentation at the National Defense College in 1986.

established. The report also suggested that central economic agencies besides the planning agency must be built, which motivated the Thai government to formulate the national plan.

The US first allocated assistance to Thailand in September 1955 and continued until 1963. During this time, Thailand received 5.96 billion baht worth of free grants for academic and national defense objectives.³⁰ This assistance was linked to the US policy and efforts thereby to contain communism at the time of the Cold War, as well as expand cooperative economic and technical aid to Thailand.

Thus, with support from both domestic and international institutions, national development strategy took clear direction and was first set in motion. In sum, the First NEDP was highly significant in terms of its background in development, the planning process it outlined, and its content.

Other significant characteristics of the First NEDP, as pointed out by Dr. Sanoh Unakul, were³¹ :

- (i) The First NEDP was considered to be one of the most important national strategies on a global scale, as it was the first to recognize economic development as a key aspect of national policy. Before the First NEDP, the word “development” was hardly ever heard or really understood. Thus, the First NEDP succeeded in setting important development targets.
- (ii) Development became subject to its own planning process. The national plan acted as a chief tool for achieving the targets set out in national development strategies.
- (iii) The plan was used to mobilize both human and financial resources, from foreign and domestic sources, in order to accelerate national development.
- (iv) The plan coordinated a variety of development projects, bringing them together underneath one umbrella. As such, the First NEDP was groundbreaking as a national plan for its emphasis on the importance of projects *per se*.
- (v) Theoretically, all government projects should have been under the NEDP, and covered all aspects of development. However, in reality, the NEDP carried only projects that utilized the national budget and foreign financial sources through government borrowing. Furthermore, the government foremostly emphasized economic development projects, including roads, electricity and water supplies, because they were viewed as most appropriate and, thus, most likely to easily gain backing in the form of World Bank loans.
- (vi) The government had also set out clear policies to encourage investments in industry from the private and foreign sectors.

As for implementation, Dr. Unakul acknowledged that most projects were regarded as successful, albeit with initial delays due to a shortage of capable technical and administrative personnel. Because only a few development sectors were emphasized in the NEDP, the types of projects undertaken were limited as well. During the time that the First NEDP was in effect, Thailand’s economy grew so rapid-

³⁰ “*Five Decades of NESDB*”, published by the NESDB; February 2000

³¹ Dr. Sanoh Unakul has acknowledged that the plans and the planning process were not necessarily perfect. He also admitted that a national development plan was only one factor in contributing to the economic well-being of a nation, and other factors such as prevailing global economic currents and domestic political and economic changes, must be considered.

ly that, in some cases, it even exceeded NEDP development targets. This was partly due to external global factors, such as the expanding world economy, increasing market demand for Thailand's goods and services due to the Vietnam War and financial assistance being imparted by the US.

1-2-3 The Second National Economic Development Plan (1967-1971)

The Second NEDP enhanced development efforts, along the same trajectory as initiated under the First NEDP, aiming to provide basic infrastructures necessary for economic development. While the Second NEDP still put its emphasis on projects *per se*, it also took into consideration sectoral and regional/rural interests so as to foster accelerated economic and social development through better planning. Hence, the Second NEDP was regarded to be a continuation of the First NEDP, with a scope of development broadened to encompass individual economic sectors, and regional and rural areas as well.

The Second NEDP also dealt with a number of economic issues, particularly those addressing (i) controls on foreign borrowing, (ii) financial and treasury policy, and (iii) private sector development. In order to expedite private sector development, the government set up its own private sector economic development sub-committee so as to initiate a new structural mechanism for government-private sector cooperation. This sub-committee later became the Joint Public-Private Consultative Committee (JPPCC), created by the NESDB in 1981.

While the agricultural sector was substantially important to the Thai economy during the Second NEDP, at the same time the economic structure had changed from being less agriculturally-based to more industrially-based. The international market price of agricultural products, and in particular rice and rubber, had fallen, thereby obstructing Thailand's economic growth enough to prevent it from achieving its target. Accordingly, at this juncture planners began to take structural changes in the Thai economy into thorough account.

Towards the end of the Second NEDP period, national development indicators began to slow down. Thailand's economic growth was measuring below target and its first trade deficit since the 1961 initiation of national development plans occurred in 1969. In addition, the US military assistance had been cut significantly, which also inevitably affected the Thai economy. On the domestic front, problems relating to income distribution and disparities in wealth seemed aggravated, especially those between the urban, Bangkok population and its counterparts from the outer provinces. Issues of national security and corruption were openly debated, which palpably added to social and political tensions in the country.

Foreign assistance to Thailand at the time of the Second NEDP was mainly provided by the US, which actually accounted for over 70 percent of total assistance, followed by the UN and Colombo Plan member countries.³² Besides the World Bank, West Germany, the US, Japan and the Asian Develop-

³² "Five Decades of NESDB", published by the NESDB; February 2000.

ment Bank (ADB), among others, also became major lenders to the Thai government. It was during this period, with Dr. Puey Ungphakorn at the helm as acting governor of the BOT, when oversight measures for national foreign borrowing were introduced. These were later further improved to create a strong foundation for establishing the country's prudent foreign borrowing control system.

1-2-4 The Third National Economic and Social Development Plan (1972-1976)

The Third NESDP was the first plan to give priority to social development. In order to better address inequalities and other problems at the root of social tensions that had emerged towards the end of the second plan, the Third NESDP was crafted to reflect both contemporary social and political situations as well as lessons learned from the prior NEDP. Hence, the NESDP emphasized not only economic growth, but also social justice and equitable income distribution, both topics that had not been taken up adequately in previous national plans. Development guidelines stipulating important government policy of the 1970s (i.e. the time of the Third and Fourth NESDPs) were as follows.

- (i) To promote national security,
- (ii) To solve economic scarcity and raise national income levels,
- (iii) To lifting per capita income and the people's quality of life,
- (iv) To solving problems relating to unemployment,
- (v) To expand public services nationwide,
- (vi) To allocate social services to rural areas, and
- (vii) To control the population growth rate.

The Third NESDP had its name changed to the National Economic and *Social* Development Plan (emphasis added by author). At the same time, the planning office, formerly called the Office of the National Economic Development Board (NEDB),³³ was renamed to become the Office of the National Economic and Social Development Board (NESDB) (emphasis added by author) to show that due consideration was being paid to the social aspects of development as well.

As an account of the diversified objectives of development, the plan began to define new strategies meant to cover the bigger picture. These strategies included increased efficiency in production, the promotion of export activity and population control. In fact, starting with the Third NESDP, the Thai government attempted to transform its industrial strategy from one of import substitution to a more export-oriented approach to industrialization. Overall, the new plan encouraged the creation of opportunity and improvements to economic and social services, especially in regard to agricultural development as evidenced by loans from the Bank for Agriculture and Agricultural Cooperatives (BAAC), for example.

In sum, the Third NESDP paid greater attention to solving intensifying problems in the broader social

³³ Prior to becoming the NEDB, the Planning Office in Thailand was initially named the National Economic Board (NEB), as described in footnote 28.

sectors, as appropriate for the time.

1-2-5 The Fourth National Economic and Social Development Plan (1977-1981)

The Fourth NESDP was prepared at a time of political chaos and instability. Government rule was oscillating between democracy and military leadership; yet, in the midst of this uncertainty over political and economic ramifications, the planners forthrightly made their assessments and identified problems that needed to be tackled in order to produce the Fourth NESDP.

The Fourth NESDP introduced an intersectoral approach to development after the sway of sectoral development planning went into decline when, in the face of social rifts and other wide-ranging problems, planners increasingly found themselves unable to neatly separate development issues into single, specific sectors. For example, issues pinpointing natural resource management, especially for land and water resources, inherently make a prominent impact across several sectors, such as agricultural and industrial development in both rural and regional contexts, making it difficult to visibly contain them to one sectoral area.

With regard to monetary and fiscal policy, the Thai government was making an effort to solve its problems with mounting foreign debt and the current account deficit, incurred partly as a result of the second oil crisis. It enacted strict measures meant to improve fiscal conditions, most notably by raising interest rates to accumulate savings, controlling consumption expenses in private sectors, devaluing the Thai currency and generally cutting government expenditures. The ceiling on national borrowing was reasonably adjusted to a higher level as well (in 1977).

1-2-6 The Fifth National Economic and Social Development Plan (1982-1986)

The Fifth NESDP was prepared within an environment of domestic political stability, under the rule of General Prem Tinsulanonda's administration, which stood in sharp contrast to external conditions, including the global oil crisis, trade deficits and escalating debt problems, in the international economic environment. The NESDB played a vital organizational role in development planning and was viewed by Prime Minister Prem as an agency with a high level of credibility for its insight into short-term problem-solving and longer-term economic fundamentals. All policy recommendations made by the NESDB were received positively and smoothly translated into action facilitating implementation of the NESDP.³⁴ In this sense, the time surrounding the Fifth NESDP resembled a revival of the First NEDP's golden period of planning wherein the NESDB, winning the confidence of the head of the government, was positioned at the core.

The two main pillars of the NESDP, as supported by the NESDB, were: (i) rural development for alle-

³⁴ A key message from the statements of Dr. Sanoh Unakul, the former Secretary General of the NESDB (1973-1975 and 1980-1989) and active during the terms of the Fifth and Sixth Plans.

viating poverty, and (ii) regional development, which included the Eastern Seaboard Development Plan. In fact, the Eastern Seaboard Development Plan was regarded as one of the country's highest priority development programs in the Fifth NESDP. The NESDB also introduced its new approach to planning—strategic planning with an intersectoral, programming-oriented approach. In regard to rural development, the management system was recast by the creation of new organizations, such as official committees and councils, at a range of levels. Accordingly, the National Rural Development Committee was established to deliberate and coordinate policy at the national level. Prime Minister Prem served as Chair, and the secretary general of the NESDB was appointed to act as Secretariat for the committee. Facilitated by the introduction of coordination mechanisms at different levels, the formulation of planning and policy was reborn as it shifted away from its previous top-down, centralized command structure towards a more bottom-up approach. As for the Eastern Seaboard Development Plan, the NESDB also played a crucial role in its execution by overseeing central coordination as secretariat of the Eastern Seaboard Development Committee, a cabinet-level committee headed by Prime Minister Prem (see Chapter 6 for a case study analysis of the Eastern Seaboard Development Plan). Moreover, the newly formed Joint Public-Private Consultative Committee (JPPCC) served as one available channel for the private sector to get involved in policy debate and planning processes, although the bureaucratic polity was still going strong into the 1980s.

Major national-level committees assembled during the Prem administration include the following:

- (i) National Rural Development Committee,
- (ii) Eastern Seaboard Development Committee,
- (iii) Joint Public-Private Consultative Committee (JPPCC),
- (iv) National Energy Policy Committee,
- (v) Economic Advisory Council, and
- (vi) Office of the Royal Development Project Board.

All were established by Executive Order of the Prime Minister and run with the close cooperation of the NESDB, which played a significant role in coordinating and implementing government policies and plans for each committee. Prime Minister Prem himself was known to attend every meeting, where he would supervise proceedings as Chair.

Major concerns that arose during the Fifth NESDP were mostly related to issues of finance or national security. A downturn in the world economy, propelled by the global oil crisis, trade deficits, and escalating national debt, among other things, early on in the term of the Fifth NESDP slowed down development. In fact, the debt Thailand had been accumulating during the years of the Fourth NESDP now seemingly exploded. Nevertheless, the government had become dependant on borrowing in order to continue to meet military and development costs following the decrease in funding inflow with the US's withdrawal from the region after the Vietnam War. Thus, a divergence between the military and the government intensified as conflict surrounding the allocation of funds and resources to each of their national priorities, i.e. security objectives and development, proved disharmonious. Consequently, the Cabinet decided to lift the ceiling on national borrowing from 9 percent of total public expenditure

³⁵ “*Five Decades of NESDB*”, published by the NESDB; February 2000.

to 11 percent³⁵ (in 1984).

As explained by Dr. Sanoh Unakul, the most important principle found within the Fifth NESDP was national self-sufficiency. This addition demonstrates the government's deep awareness of the importance of maintaining Thailand's own economic stability, as well as the grave consequences inherent in debt burdens.

1-2-7 The Sixth National Economic and Social Development Plan (1987-1991)

In the Sixth NESDP, the main principles remained for the most part unchanged from those outlined in the Fifth NESDP, but the overall emphasis of the plan shifted to one of quality rather than quantity. Also, within this, the Eastern Seaboard Development Plan continued to be regarded by Thailand as a development program of the highest priority.

During the Fifth NESDP period, tremendous energy was spent on handling and compensating for fiscal and monetary instability. The government had the bold foresight to actually slow down, or stop, projects that could not be realistically maintained, while making sweeping adjustments to taxes and currency so as to effectively restructure the Baht economy. As far as expansive need-based revisions were concerned, the Eastern Seaboard Development Plan itself was also no exception. Policy leaders and technocrats were forced to postpone, downsize and virtually shelve numerous projects within the program. In this way, the government made painful, but necessary, adjustments for the sake of its own survival.

Hence, the Sixth NESDP was marked by its great need for adjustments, and therein "acceptable standards of quality, competitive with those of foreign countries" became a key concept in planning. Market demand and private sector participation were each more prominently taken into consideration.

With regard to the planning process, the participation of a wide range of stakeholders—including local citizens, the civil society, businesses and foreign countries—was called for in addition to the already present participation by government institutions. Various committees and sub-committees that had been established during the Prem administration (1980-1988) served as an infrastructural basis for further inter-party consultation and coordination.

On the political front, Thailand's first fully democratic administration (1988-1991) was realized with the election of General Chatchai Choonhavan as Prime Minister and all members of the Cabinet, duly elected by the public. Over time, political and economic fluidity inherent in democratic structures had contributed to the evolving, more prominent role of the private sector in development and policy, matched by a converse decline in the role played by the NESDB.

³⁵ "Five Decades of NESDB", published by the NESDB; February 2000.

The late 1980s was, as a whole, an economic boom time for Thailand. The economy was lifted into a tremendous take-off, and the foremost driving force behind this was robust export performance. In fact, efforts that Thailand had poured into transforming itself into an industrialized nation since the days of the Third NESDP were finally starting to pay off after the latter half of 1985. In addition, significant expansions of foreign investment in Thailand further heightened the country's rapid growth. This was primarily attributable to the fact that shortly after the 1985 Plaza Accord the Japanese yen had appreciated dramatically, and many Japanese investors were directed to turn towards Thailand. Thus, these external factors, compounded with the Thai government's consistent policy-based work to facilitate export-oriented industrialization and foreign investment, synergistically complemented each other to create an economic upswing for the country.

1-2-8 The Seventh (1992-1996), Eighth (1997-2001) and Ninth (2002-2006) National Economic and Social Development Plans

The main features of the Seventh (1992-1996) and Eighth (1997-2001) NESDPs were (i) sustainable development, and (ii) people-centered development. The planning processes therein were structured so that feedback from a wide-range of consultations with stakeholders across the board would be incorporated. The directionality of the Eighth NESDP, which considered people to be at the center of development, or, in other words, development of people by the people and for the people, fitted well with the spirit of the 1997 Constitution.

A restructuring of the government's role (and particularly that of the NESDB) was called for so as to keep pace with changes in the sociopolitical fabric of the country. In fact, major reorganization of many government structures took place in October 2002. By the time the Ninth NESDP (2002-2006) had come into force under the Thaksin Shinawatra administration (2001-2006),³⁶ the importance of development planning, as well as the role of the NESDB, had already weakened considerably.

2. Malaysia

2-1 The Role of Development Planning in Policy and Resource Alignment Functions

Malaysia has a number of planning tools, each with varying planning horizons set in accordance with their differing objectives and utilization. The main national plans are: the Outline Perspective Plan (OPP: ten to twenty years), the Malaysia Plan (a five-year development plan), and the mid-term review of the Malaysia Plan and the annual budget. Hence, Malaysia has a four tiered planning mechanism. These are hierarchically organized, with the Malaysia Plan, mid-term review and the annual budget serving as tools to achieve the visions and objectives envisaged in the OPP. The OPPs themselves amount to national policies, even considered master policies since they underpin all subsequent long-

³⁶ Former Prime Minister Thaksin Shinawatra was ousted in a military coup in September 2006. General Surayud Chulanont, a retired army officer and Privy Councillor, was appointed the 24th Thai Prime Minister in October 2006.

term, medium-term and short-term policies, programs and projects. There are three of these OPP national policies, and they are, in chronological order, the National Economic Policy (NEP), the National Development Policy (NDP) and the National Vision Policy (NVP). Moreover, there exist additional specific policies and programs outlined by political leaders, such as the Look East Policy and Malaysia Incorporated, both propounded by the former Prime Minister Mahathir Mohamad. Vision 2020, introduced in 1991 covers a thirty-year period, and is a statement of the country's goal to attain developed-nation status by 2020 (see Figure 3-1 for a brief chronological outline of Malaysia's development plans).

The Malaysian government has taken consistent steps to establish and enhance a structural framework for development planning as a means to realize the country's overriding objectives: promoting national unity through poverty eradication, and restructuring of society. Malaysia is a multiethnic country with socio-economic disparities visible along racial and regional lines, and devastating ethnic riot occurred in 1969. In 1971, the government introduced its New Economic Policy (NEP), a new national policy even regarded as the country's "master policy," to address issues seen to be at the root of this ethnic riot. Since then, the strategy of 'growth with equity' has served as both the basic principle and the framework's chief support.

< Coherence Among Development Planning, Budgeting, Investment Programming and Project Approval >

Malaysia's public expenditures have been largely aligned to the government's socio-economic development policies in terms of magnitude and composition, while also taking into account the external economic environment (UN 1993). Such alignment is made possible through a four-tiered planning mechanism mentioned above.

Figure 3-3 illustrates Malaysia's policy and resource alignment with regard to development planning, macroeconomic coordination, investment programming and project approval. The Malaysia Plan, which is the key working document for the implementation of the government's development program, sets out macroeconomic growth targets as well as the size and allocation of the public sector development program. This is why the Malaysia Plans are regarded as "directive" as compared to the National Economic and Social Development Plans (NESDPs) of Thailand. Regarding the financing of the Malaysia Plan, Malaysia is distinguished by virtue of the following: (i) the central role of the Economic Planning Unit (EPU) in determining the allocation of development expenditures; (ii) the enforcement of the aggregate and sectoral ceilings³⁷ of development expenditures throughout the plan period (although they are subject to revision during the mid-term review); and (iii) approval of a list of priority development projects at the time of the plan formulation. In other words, the Malaysia Plan can be regarded as the government's "statement of resource allocation" over the medium-term,³⁸ and play the role of *de facto* investment plans. The EPU plays a key role in development planning by matching

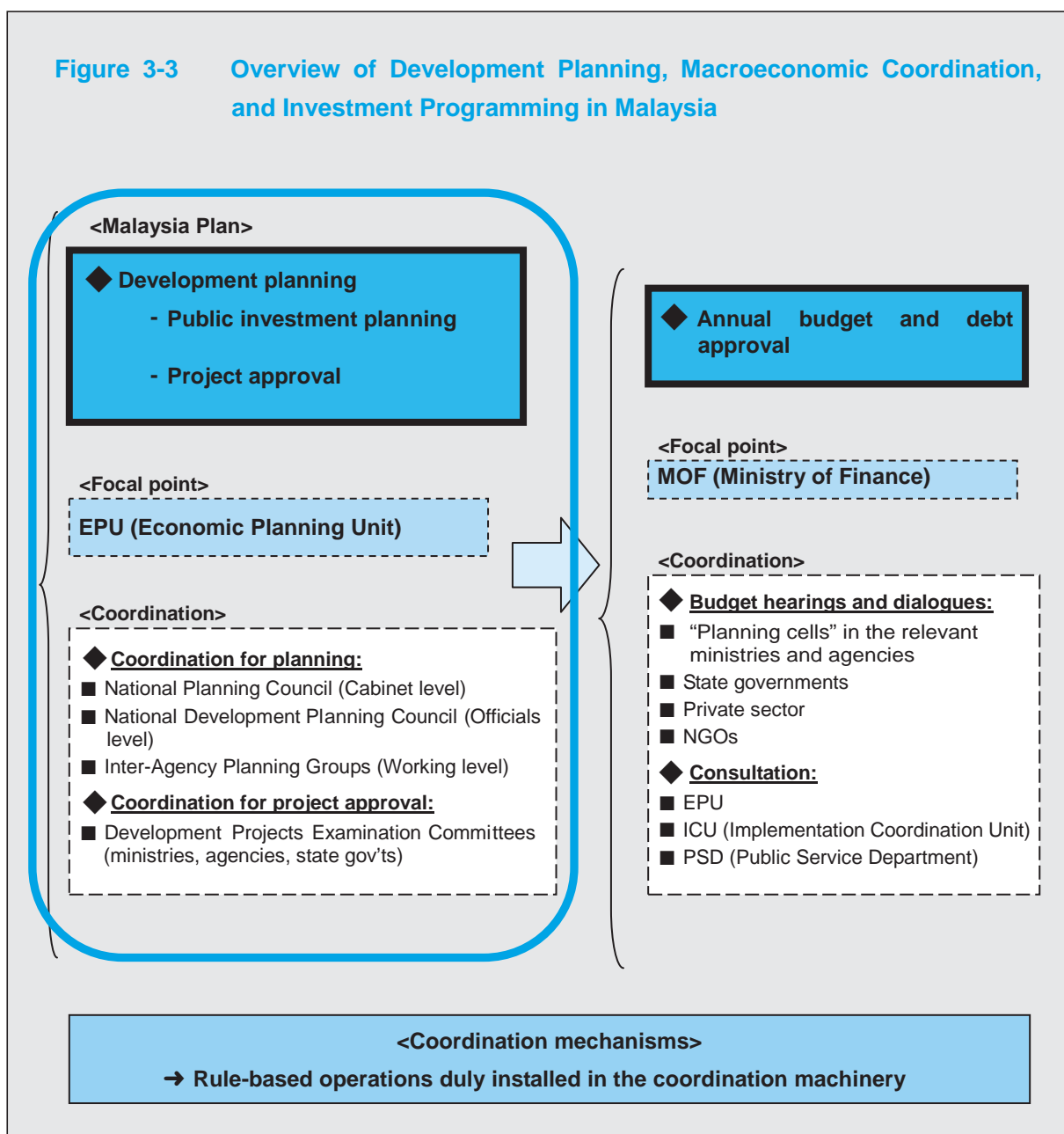
³⁷ Malaysia Plan sets not only the aggregate ceiling for development expenditures during the plan period, but also the ceilings of individual sectors (economic, social, administration, and security).

³⁸ Based on the GRIPS team's interview with Dr. Norma Mansor, Dean of the Faculty of Economics and Administration at the University of Malaya, during the GRIPS mission in January 2006.

micro-level projects with macro level plans for each sector.

More specifically, public investment projects identified in the Malaysia Plans are examined in light of national development goals, financial resource availability and distributional considerations. They are also scrutinized and prioritized in terms of project approval criteria in the development planning process, such as financial viability and implementation capacity. In sum, the Malaysia Plans specify public investment priorities backed by budget implication. Public investment projects that are reflected in the Malaysia Plans are generally implemented unless significant changes in the socio-economic situation take place that affect the plans' basic assumptions. In such cases, the plans are adjusted during mid-term reviews in order to reflect the changes.

Figure 3-3 Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in Malaysia



Therefore, the mid-term review is not just a review of the implementation status of the Malaysia Plans in light of the stated targets and schedules, but also of macroeconomic and sectoral policies and budgets. The approved ceilings are then revised in the course of the plan execution in case of changes in the federal government's financial position and the macroeconomic situation.

In this context, the annual budget may be seen as a rolling plan for the implementation of the Malaysia Plans. The annual planning exercise is undertaken by the Ministry of Finance (MOF) in conjunction with their annual budget preparation, and the EPU plays a key role in determining details of the annual development budget. The annual development budget is the translation of the government's development objectives as contained in the Malaysia Plan. Every project in the development plan is approved on the basis of its specified scope, estimated cost and allocations. In principle, this approval is reviewed every year during the annual budget exercise, when applications for annual development allocations are submitted to the MOF and the EPU (UN 1993).

A striking feature of the functions of Malaysia's administrative machinery is a key role played by a cadre of elite technocrats who are assigned to the central economic agencies (in particular, the EPU, the Implementation Coordination Unit (ICU), the Public Service Department (PSD), the MOF, and the Central Bank), as well as the planning divisions of various ministries and agencies. These positions are called "planning cells," and are occupied by the "generalist" officials who are charged with planning, implementation monitoring, budget management, and so on (see Box 3-1). Personnel rotation also takes place among these officials in order to facilitate network building, as well as the strengthening of vertical links between the central economic agencies and the spending agencies.

Box 3-1 Malaysian Bureaucracy and the Role of the "Planning Cell" Officials

The Malaysian bureaucracy is structured around three main categories: (i) administrative, executive and clerical classes (known as "general-user" or "common user" services); (ii) professional or specialist services (known as "closed services") that are staffed by professionals including doctors, engineers, dentists, architects, accountants, chemists, and legal officers; and (iii) departmental services such as customs and excise, immigration, surveys, audits, and the like. Officials who belong to the first category, or "common user services," occupy a central position in the policy process in terms of formulation, evaluation, analysis, periodic reviews, and adjustments. They rotate among the "planning cell" positions, and are not affiliated with any specific ministry or agency. Also, by receiving joint training in both managerial skills and ethics, these officials share an esprit de corps that is based on the values of professionalism and elitism.

Source: Abdullah Sanusi Ahmad, Norma Mansor, Abdul Kuddus Ahmad (2003). Similar information was provided to the GRIPS team from the officials of various government agencies and researchers during the GRIPS mission in January 2006.

2-2 Major Characteristics of Each of Malaysia’s Development Plans, and Corresponding Social, Economic and Political Climates³⁹

2-2-1 Overview

The First Malaya Plan (1957-1960) was the first integrated national development plan in Malaysia (Malaya) after it gained its independence in 1957, and since that time a number of national plans, policies and programs have been launched. Policies and programs meant to guide development had been instituted prior to 1957, but they were prepared for the people of colonial Malaya and, as such, their main objective was to keep up “law and order” in accordance with British instruction. In this section, Malaysia’s development plans and policies will be discussed by dividing them into four periods, namely: (i) the period before the NEP (1957-1970), (ii) the NEP and the First OPP (1971-1990), (iii) the Second OPP (1991-2000), and (iv) the Third OPP (2001-2010). For period (i), emphasis was placed on economic growth and development, as premised on market forces, rather than on issues of income disparity and poverty. With respect to the period (ii), directly after the 1969 race riot, new national strategies—the NEP and the First OPP—were formulated. In fact, issues of poverty and ethnically-determined imbalances were explicitly recognized and came to rest at the core of Malaysia’s socio-economic agenda. Created in direct response to the riot, the NEP was an affirmative action plan that addressed imbalances between ethnic groups as well as poverty issues. In 1971, “economic growth with equitable distribution” became the fundamental direction of Malaysian policy, and this planning route has been retained up to now. While the national plans and policies in period (iii) were basically a continuation of NEP objectives, their focus did undergo a shift towards a number of new dimensions, including concentrating on the extreme poor, improving national efficiency and competitiveness in the global market, and relying more on private sector involvement. In period (iv), major goals that had been set forth in the NEP were re-emphasized. The plans made during this period also acknowledged additional challenges generated by the forces of globalization and rapid technological improvement.

2-2-2 The Period Before the New Economic Policy (1957-1970) : The First Malaya Plan (1957-1960), the Second Malaya Plan (1961-1965), and the First Malaysia Plan (1966-1970)

Independence in 1957 was obtained while the country was still under a state of emergency (1948-1960), declared due to a burgeoning communist insurrection. Tunku Abdul Rahman Putra, the first Prime Minister of the country (1957-1970) often referred to as the “Father of Independence” and the “Father of Malaysia,” emphasized socioeconomic development as a top priority in the national agenda. Hence, development planning was primarily aimed at promoting growth—with the presumption that

³⁹ The information of this part for this section was mainly drawn from (1) “*Malaysian Politics & Government*”, Jayum A. Javan, 2003, (2) “*The Malaysian Bureaucracy, Four Decades of Development*”, Abdullah Anusi Ahmad, Norma Mansor, and Abdul Kuddus Ahmad, 2003, (3) “*Development Planning in Asia*”—Chapter 8: *Development Planning in Malaysia*, Samsudin Hitam 1993, (4) “*Malaysian Development Experience, Changes and Challenges*”, published by the National Institute of Public Administration; in Kuala Lumpur, in 1994, and (5) “*Rural Development Administration for Poverty Eradication in Malaysia: Focusing on Coordination Mechanisms*”, published by the Overseas Economic Cooperation Fund (OECE); in Japan, in 1997.

political stability necessary for this economic development would hasten the end to communist guerrilla activities.

The main objectives of the plans were to increase the socioeconomic well-being of Malaysians, especially those living in rural areas. Rural development programs were designed with an eye for preventing the intrusion of communist forces into the countryside, thereby securing a stable national administration. Thus, major undertakings during this time included a variety of rural development programs aiming to modernize the lives of rural Malaysians. Under land settlement schemes controlled primarily by the Federal Land Development Authority (FELDA), abundant jungle areas were opened up to create farm lands. The FELDA scheme involved construction of attendant infrastructure facilities as well.

The two development plans, drafted with the assistance of the United Kingdom (UK) and the World Bank, were adopted immediately after independence, namely, the First (1957-1960) and the Second (1961-1965) Malaya Plans. For the first time ever, Malaysia had to initiate a forward-looking policy for development, and simultaneously appeal for international support. The development administration it adopted was basically identical to that of the British system. The planning process outlined in the First Malaya Plan is often noted for its lack of inter-departmental coordination and the minimal amount of participation allowed to the grass-roots sector. It was just a consolidation of programs, each submitted by varying departments, that were subsequently modified and trimmed down to fit the estimated financial resources available. On the other hand, the Second Malaya Plan explicitly aimed to more effectively and rationally allocate public sector resources by taking into account a greater diversity of development process factors, and by working to improve both departmental coordination and grass-roots participation.⁴⁰

The World Bank played an important role in Malaysia's initial steps at institution building, just as it had in Thailand. World Bank experts were sent to Malaysia and prepared a World Bank report in 1955 that included an array of recommendations for building the country's development administration system. Among them was the creation of a permanent planning agency. In response to World Bank advice, a small Economic Secretariat was created—an institution that was later upgraded and annexed to the EPU in 1961. The Economic Secretariat took responsibility for formulating the first two development plans (i.e., the First and the Second Malaya Plans) incorporating the recommendations provided from donors, as mentioned.

Tun Abdul Razak bin Dato Hussein, later to become the second Prime Minister (1970-1976), was at the time appointed to be the Minister of National and Rural Development. Tun Razak introduced the RED Book and Operations Rooms, both practices known for critically shaping the Malaysian development programs over the course of the late 1950s and the 1960s. The RED Book⁴¹ was an instrument for facilitating careful and systematic preparation and implementation of development plans, all the while ensuring the participation of rural populations, so as to better meet their needs. It also expedited

⁴⁰ *“Malaysian Development Experience, Changes and Challenges”*, published by the National Institute of Public Administration; Kuala Lumpur, 1994.

⁴¹ “RED” is an acronym for “Rural Economic Development.” The RED Book program was introduced by the Malaysian government following the lead of a British army system that channeled information in a top-down manner.

coordination among numerous departments involved in any given project at each applicable level. Improvements made in terms of coordination and grass-root participation stipulated in the planning process of the Second Malaya Plan may be seen as the eventual result of the RED Book's adoption. The Operation Rooms were developed to monitor the overall implementation of programs and projects, and, in fact, they served as the basis for the Implementation Coordination Unit (ICU), established in 1971. Every administrative level, from the village to the district to the state and up to the national level housed an operations room for planning, implementing and monitoring development activities as part of a network spanning the country.

Thus, the basic foundation for planning and coordinating development in Malaysia was established during the late 1950s and the early 1960s, wherein a combination of both top-down and bottom-up approaches were introduced and gradually enhanced. After ultimately surviving the course of changes in political administration, this original framework for the facilitation of coordination is still being utilized today, albeit with the benefit of some improvements. The EPU has consistently played a critical role in providing the necessary linkages for two-way interactive processes.

Issues of poverty and income imbalance were not directly addressed in the national policies during this time despite the fact that they illuminated deep-rooted socioeconomic problems of disparity, particularly as experienced among various ethnic groups. However, discussion of such matters in political or economic forums was considered necessarily taboo, since the raw nerve that reality left exposed risked making open debate itself a matter of utmost volatility. With this as background, the Second Malaysia Plan (1971-1975), which was the first five-year plan introduced in conjunction with the NEP (1971-1990), and the OPP 1 (1971-1990) focused more on broad social problems confronting the nation.

2-2-3 The New Economic Policy and the First Outline Perspective Plan (1971-1990): The Second Malaysia Plan (1971-1975), the Third Malaysia Plan (1976-1980), the Fourth Malaysia Plan (1981-1985), and the Fifth Malaysia Plan (1986-1990)

The NEP was introduced in 1971 after the race riot of 1969. The NEP's strategy was supported by the two pillars of: (i) eradicating poverty among all Malaysians, irrespective of ethnic origin, and (ii) restructuring Malaysian society so as to correct economic imbalances and erase the identification of race with economic function. The NEP duly recognized critical problems existent within Malaysia's multi-ethnic society, and aimed to achieve a national unity as its overriding objective. Hence, the NEP emphasized an approach requiring "economic growth with equity," within which no one ethnic group would suffer deprivation in an absolute sense, provided that the whole of the economy would continue to expand. This policy approach is still operating today, taking into account the respective roles of both the public and private sectors.

The First OPP provided a macroeconomic framework for the realization of NEP objectives, and covered a twenty-year period corresponding directly to the NEP's time frame. The government acknowledged that from among the different ethnic groups, Malays and other indigenous groups experienced the highest incidence of poverty, and, as such, set out to increase opportunities available to Malays in order to correct imbalances in employment and corporate equity ownership, among other things. The

ultimate objective of the administration was to restructure society so as to reflect the ethnic composition of the Malaysian population across different sectors.

A total of four Malaysia Plans, namely the Second to the Fifth Malaysia Plans, were launched during the 20-year span of the First OPP, and they all aimed to reinforce the singular national objective of “national integration and unity.” In other words, the NEP acted as the country’s master policy and other national plans were developed as supplemental plans for translating this policy into specific frameworks and action plans enabling its solid implementation. Public investment and the NEP budget were increased during this time for the realization of this objective.

In 1970, Tun Razak ascended to become the second Prime Minister (1970-1976) after Tunku Abdul Rahman resigned. Tun Razak is affectionately and admirably called the “Father of Development,” particularly in regard to his achievements in rural development via the RED Book, mentioned above, during his time as Minister of Rural Development. Tun Razak had former experience as a bureaucrat and was capable of managing the administration while sustaining good, trusting relationships with technocrats.

Tun Razak also played a crucial role in NEP policy formulation and implementation. He highlighted the two-pillared strategy delineated in the NEP as an overarching objective for the country, in responding to the devastating ethnic riot of the 1969. Based on the Operations Rooms, the ICU was created in 1971 within the Prime Minister’s Department as an institution for overseeing performance. The ICU possessed the authority to coordinate and monitor the implementation of programs, as well as to provide feedback to related agencies. In short, by harnessing the power of organizational effectiveness and efficiency, Tun Razak laid a strong and lasting foundation—politically, administratively and philosophically—for concerted and finely integrated efforts towards national development.

Elite Malay technocrats who had been educated abroad at the PhD doctorate supported both Tun Razak’s leadership and the realization of the NEP. They dedicated themselves to improving the social and economic status of the Malays through the formulation and implementation of policy addressing ethnic issues. Hence, the NEP ultimately functioned to back the legitimacy of the technocrats.

During the second half of the term of the First OPP and the NEP, Dr. Mahathir Mohamad assumed his position as the fourth Prime Minister of Malaysia (1981-2003) and adopted a number of specific national development policies in addition to the standard OPPs and Malaysia Plans. Among his specific policies was the famous Look East Policy, launched in 1982, which promoted the adoption of work values and ethics, such as hard work, organizational loyalty, and the concept of group interest, which he believed had contributed to economic success in Japan and Korea. In 1983, Prime Minister Mahathir introduced Malaysia Incorporated to facilitate a positive and close working relationship between the public and private sectors. He believed that the public sector should be responsible for providing an environment conducive to greater private sector participation, as it would not only benefit the private sector as a matter of course, but also provide returns to the public sector, such as through funding made possible by the collection of corporate taxes. Prime Minister Mahathir believed that economic growth must come first in order to achieve the equitable distribution of resources for, and ultimate sustainability of, Malaysia’s development.

In fact, the government consistently promoted economic growth by effectuating market deregulation as a means to stimulate private sector activities, especially in the export-oriented industries. Considering the fact that business activities had historically been handled mainly by the ethnic Chinese in Malaysia, the government effectively tried to both promote and respect the vital role they played in the economy on the one hand, while introducing affirmative action measures for Malays and ethnic minorities on the other. As long as the whole economic pie shared by the country continued to grow, the objectives of the NEP would be achieved and all Malaysians would be satisfied.

Prime Minister Mahathir also introduced Vision 2020, briefly touched upon below. He is regarded as a visionary leader, a man capable of envisaging the future while coolly taking into account political, economic and social dimensions of the present.

2-2-4 The National Development Policy and the Second Outline Perspective Plan (1991-2000) : The Sixth Malaysia Plan (1991-1995) and the Seventh Malaysia Plan (1996-2000)

The National Development Plan (NDP) was formulated in 1991 to succeed the NEP. The NDP, covering a period of ten years, was basically an extension of the NEP as it upheld the same two-pillared strategy. Among the main objectives of the NDP were:

- (i) National unity,
- (ii) Economic growth with equity,
- (iii) Reduction of social and economic inequalities and imbalances among different ethnic groups,
- (iv) Eradication of development gaps between regions, especially the rural-urban divide,
- (v) Fostering a deep sense of national pride through the creation of a progressive society,
- (vi) Developing human resources, including the creation of a disciplined and productive work force through the promotion of an exemplary work culture,
- (vii) Making science and technology elementally important within socioeconomic planning and development, and
- (viii) Paying proper attention to the protection of the environment and ecology when pursuing economic development.

In addition to the above objectives, the following new dimensions to development efforts were reflected:

- (i) Eradication of poverty, focusing on the extreme poor, through a new program called “Development Programs for the Poorest,”
- (ii) Creation of a Bumiputera⁴² Commercial and Industrial Community to increase and sustain bumiputera participation in the economy,
- (iii) Emphasizing the role of the private sector in the restructuring process, and

⁴² “Bumiputera” is a Malay language reference to the peoples indigenous to Malaysia.

- (iv) Focusing more on human resource development, including the enhancement of ethical and value systems, in order to achieve the objectives of growth and distribution.

Although the basic foundation of the NDP remained unchanged from that of the NEP, the NDP had shifted its strategy, as described above. Economic growth and private sector participation were believed to be the main driving forces capable of bringing Malaysia closer to achieving the eradication of as-yet remaining poverty as well as a broader, more beneficial restructuring to society. The government acknowledged the potential of the private sector in playing a more effectual economic role and, as such, made efforts to earnestly restructure the economy by prioritizing the creation of environments conducive to greater private sector initiative. At the same time, the government marked down its direct participation in the economy.

Thus, it could be said that while the basic foundation of the planning machinery itself had been maintained well since the late 1950s, the role of the government and necessary quality of technocrats involved therein was changing. The private sector's heightened role, owing to progress in privatization and the outsourcing of public works, among other things, has changed the role of the government as well as relations between the public and private sectors within policy formulation and implementation. An example of the implications of such change could be illustrated by the fact that, whereas in the past budgeting dialogues ultimately took place in government offices and were seen as one critical process within national planning, now such negotiations are made at the more malleable public-private sector negotiation tables. This rapidly developing, and functionally effective, recent means to negotiating budgeting and other arrangement terms is less formal and often less transparent, yet it has been a critical channel for public-private coordination. Similarly, competent elites who were once drawn to serving in government agencies as technocrats are now extricating themselves from the public service field and are running to the private sector and its much higher salaries.

Parallel with the launching of the NDP in 1991, Prime Minister Mahathir introduced Vision 2020, another important policy asserting that Malaysia would become a fully developed nation by the year 2020. Vision 2020 stated Malaysia's goal and simultaneously outlined nine central strategic challenges that needed to be overcome in order to attain that goal. It was not narrow, or singularly economic, in perspective, but rather a feasible work encompassing considerations economic, political, social, spiritual, psychological and cultural in nature. After Vision 2020 had been launched, the OPPs and the Malaysia Plans came to be regarded primarily as the tools necessary to achieve it.

The Second OPP (1991-2000), which covered the ten-year period corresponding to the NDP, was an embodiment of its overarching policy. The two Malaysia Plans of this period, namely the Sixth and the Seventh, translated the development objectives contained in each of the Second OPP and the NDP into concrete action. In the Sixth Malaysia Plan, anti-poverty program strategies relating to redistribution focused on the poorest segments of the population, that is, the extreme poor. The Seventh Malaysia Plan added a new emphasis on "productivity-driven strategy" and information technology in particular was expected to play a crucial role in improving Malaysia's overall efficiency, productivity and competitiveness in the course of its development. The government embarked on the construction of a Multimedia Super Corridor as one feature program. Also, the national policy emphasized issues of how to establish a more moral and ethical society for progress.

2-2-5 The National Vision Policy and the Third Outline Perspective Plan (2001-2010): The Eighth Malaysia Plan (2001-2005)

The National Vision Policy (NVP) was launched in 2001 following the expiration of the NDP in the previous year. The new NVP saw that the basic principles of the NEP and the NDP were maintained so that realization of poverty eradication and national unity remained foremost on the national agenda.

The Third OPP (2001-2010) covered the ten-year period corresponding to the term of the NVP and embodied the objectives stipulated in the NVP. The Eighth Malaysia Plan (2001-2005), which guided the first phase of the Third OPP's implementation, acknowledged the ever-evolving challenges faced by the country, such as globalization and rapid improvements in technology.

The Eighth Malaysia Plan outlined the following policies in order to sustain Malaysia's primary master policy, unchanged since the launch of the NEP in 1971, i.e., "economic growth with equity" so as to promote the eradication of poverty as well as a beneficial restructuring of the society.

- (i) Strengthening and streamlining distributional strategies to ensure balanced participation among and within diverse ethnic-, region- and income-based groups.
- (ii) Strengthening the human resource base to ensure the availability of manpower with higher levels of knowledge, as well as technical and thinking skills.
- (iii) Adopting an integrated and holistic approach in addressing environmental and resource issues so as to attain sustainable development.
- (iv) Redoubling research and development activities.

The Eighth Plan also reflected new, emerging challenges that the country was confronting when it set its aim to:

- (i) Develop a knowledge-based economy, and
- (ii) Expand the usage of information and communications technology (ICT) within and across sectors to accelerate growth.

The overarching objectives of Malaysia (i.e. the NEP targets) could be achieved if and only if the whole economic pie shared by the country continued to grow. Hence, political leaders heed the calls to develop and enhance new sources of growth, all the while giving due consideration to challenges emerging both abroad and at home.

3. The Philippines

< The Role of Development Planning in Policy and Resource Alignment Functions >

There are mainly three types of development plans in the Philippines, arranged in accordance to their extent of coverage: the Medium-Term Philippine Development Plans (MTPDPs)—for the national level, the Regional Development Plans (RDPs)—for the regional level, and the Local Development Plans (LDPs)—for the local level, which also includes province, city, municipality and barangay. In

addition, the Medium-Term Public Investment Programs (MTPIPs) and Regional Development Investment Programs (RDIPs) are also prepared by taking the targets, goals and strategies stipulated in the MTPDPs and the RDPs, respectively, and translating them into specific, time-bound activities usually expressed in the form of programs and projects. In short, the MTPIP is a companion document for the MTPDP, and the RDIP is a companion document for the RDP (see Figure 3-1 for a brief chronological outline of the Philippine's development plans).

The notable features of development planning in the Philippines are: (i) the fact that MTPDPs, the six-year national development plans, are prepared newly with each change of political administration, and (ii) all major policy decisions are made by use of interagency coordination bodies, with the President at the head of cabinet-level interagency committees (see Chapter 2).

The MTPDP is a key document in the national planning process that is first drafted at the start of the presidential term and updated and revised in the third year of the same. The central agency for economic and social development planning is the National Economic and Development Authority (NEDA). The NEDA Secretariat (including relevant Sector Staffs) provides technical and secretariat support services to the NEDA Board and its technical committees, the Regional Development Committee, the Social Development Committee and other related bodies in regard to preparation of the MTPDPs. More specifically, the NEDA Sector Staffs coordinate both the preparation of technical papers and proposals, as well as meetings on development planning agenda, with other pertinent departments and agencies as they ready each chapter of the MTPDPs. In the case of the current MTPDP 2005-2010, the vision, the outcomes and the plan themes laid out were all based on President Arroyo's 10-point agenda and the National Development Agenda. In this sense, the priority within national development was set in a top-down manner. At the same time, a bottom-up approach to planning is also utilized in the sense that each relevant sector department and agency prepares its own sector and sub-sector plans, and the NEDA Sector Staffs coordinate matters closely with them in the course of incorporating this input into the MTPDP.

< Coherence Among Development Planning, Budgeting, Investment Programming and Project Approval >

Despite the existence of inter-agency coordination mechanisms, linkages between the MTPDP and the budget (including the MTPIP) have not always been strong. Due to frequent political interventions, the annual budget process often results in a disconnection with official development plans (World Bank 2005). Furthermore, there remains much scope for improving development planning within the executive branch as well.

Thus, to enhance linkages between the MTPDP and the MTPIP has always been a major challenge for the Philippines. While development plans in Malaysia and Thailand could each be respectively regarded as directive or indicative in nature, in the Philippines development plans are bound by only a modicum of medium-term budget constraints, which produces challenges in the later stages of translating them into reality-based, workable programs. Furthermore, political interventions in the annual budgeting process that are not in line with national development policies greatly undermine the process of development planning. It has also been pointed out that greater linkages between sectoral and national

planning, as well as between national and regional planning, are necessary for the enhancement the MTPDP utility and its tie-in with the budget. The government has been making continuous efforts to address such weaknesses.

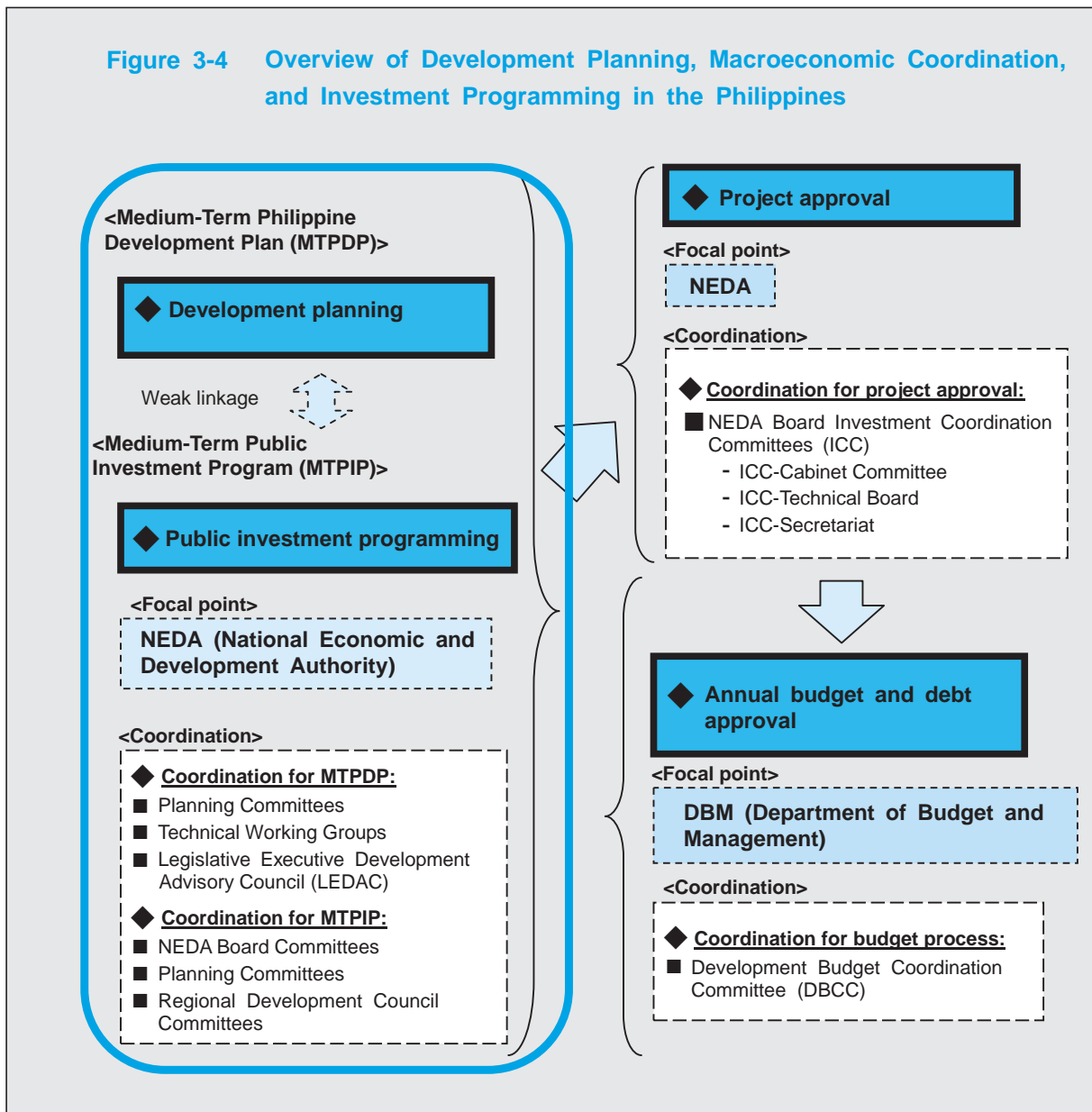
In fact, the MTPDPs and the MTPIPs were being prepared during the Marcos administration even before the turning point of 1986, but at the time the MTPIPs were really no more than a wish list of programs and projects submitted by the relevant departments and agencies. The MTPDP and MTPIP both lacked budgetary resource constraints, while prioritization of programs and projects based on thorough evaluations of efficiency and technical feasibility was virtually non-existent in the MTPIP at the time. At the regional level, the link between the RDP and the RDIP could be considered analogous to what was happening at the national level.

Figure 3-4 illustrates the alignment of policy and resource functions in the Philippines with regard to development planning, macroeconomic coordination, investment programming and project approval. In theory, the Development Budget Coordination Committee (DBCC)—which determines allocations from the government's development budget—serves as the institutional link between planning and budgeting in order to ensure conformity of the annual budget with the national development plan. In addition, the MTPIP, as a companion to the MTPDP, is intended to translate the MTPDP's targets into concrete, time-bound activities in the form of programs and projects. In other words, the MTPIP is expected to be a rolling, multi-year public expenditure program that is updated on an annual basis.

In reality, however, practice often differs from theory. First of all, the MTPDP does not provide cost estimates for proposed strategies, targets, or programs.⁴³ Neither is the MTPIP a definitive budget, in the sense that projects must still be evaluated and approved by the Investment Coordination Committee (ICC) for funding even after being included in the MTPIP. In other words, the inclusion of projects and programs in the MTPIP does not have any binding effect on the successive investment selection and budgeting process. Since the MTPIP serves as a gatekeeper for the actual investment budget, moreover, sector departments are driven to have projects included in the MTPIP. As a result, the MTPIP ends up with a wish list of projects without any prioritization—even including low-priority projects that are incoherent in terms of efficient allocation.

⁴³ Albuero et al. 1993 noted as follows: (i) The annual budget cycle is independent of the plan formulation calendar. As a result, plan targets and key programs/projects are not always taken into account in the preparation of the annual budget. (ii) The medium-term plan is not sufficiently detailed to provide guidance in terms of budget planning. Likewise, the MTPIP and the RDIPs are sometimes finalized too late to be considered in the budget. As a result, it is the annual budget—not the plan—that carries the burdens of program prioritization, project selection and scheduling.

Figure 3-4 Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines



Moreover, legislative intervention ultimately comes into play, and the dual track nature of development planning, as explained in Chapter 2, becomes obvious during the budgeting process, wherein allocative distortions are generated. Legislators try to include additional projects and programs, geared to benefit their own constituency, without rightfully going through the scrutiny process of the administrative channel. This has created a backhanded *de facto* route for local interests to be reflected in the national budget through special projects prepared by politically-motivated congresspersons. Hence, it is not uncommon for such discretionary, additional projects and programs to displace both priority projects as well as programs identified and prioritized through the administrative channel alike (see Chapter 4 for detail).

Furthermore, it is noteworthy that virtually only foreign-assisted projects and Build-Operate-Transfer (BOT) projects are intensively scrutinized as to their costs and benefits in the process of preparing the budget. These projects, typically originate in operating departments and agencies and are evaluated by the ICC. The locally-funded projects do not get as much project viability scrutiny as necessary (see Chapter 5). In addition, recurrent budgets of departments and agencies are carried forward from year to year with virtually no analysis, except for adjustments related to population changes (World Bank 1995).

Chapter 4 Mechanisms for Macroeconomic Coordination

This chapter will analyze the mechanisms for macroeconomic coordination by the central economic agencies in Thailand, Malaysia, and the Philippines. We will provide country-specific descriptions of coordination features, approaches to fiscal and debt management, annual budget formulation processes, as well as how such macroeconomic coordination is related to development planning.

During the period of the 1970s-1980s, the governments of the three East Asian countries faced the challenges of meeting increasingly complex demands for development. This included the need to expand development expenditures, ensure macroeconomic stability, and sometimes cope with shifts in donor composition. Beginning especially in the latter half of the 1970s, these governments increased their levels of spending and borrowing in order to mobilize larger amounts of resources to finance development. Thus, in each country, the central economic agencies were expected to assume a developmental role while also providing a sound macroeconomic environment.

As will be shown below, the central economic agencies of the respective countries have taken different approaches to macroeconomic management in terms of issues such as the size of public expenditures, and the level of domestic and external borrowing. In addition, the appearance of variations by country in terms of the relationship between annual budget formulation and development planning suggests that diverse models do exist with regard to macroeconomic coordination. The following analyses will cover the period from the 1970s-1980s in Thailand and Malaysia in order to understand the macroeconomic coordination mechanisms existing at the time of major structural transformations to their economies, and after the late 1980s in the Philippines in order to understand the nature of ongoing reforms and challenges faced by its central economic agencies.

1. Thailand

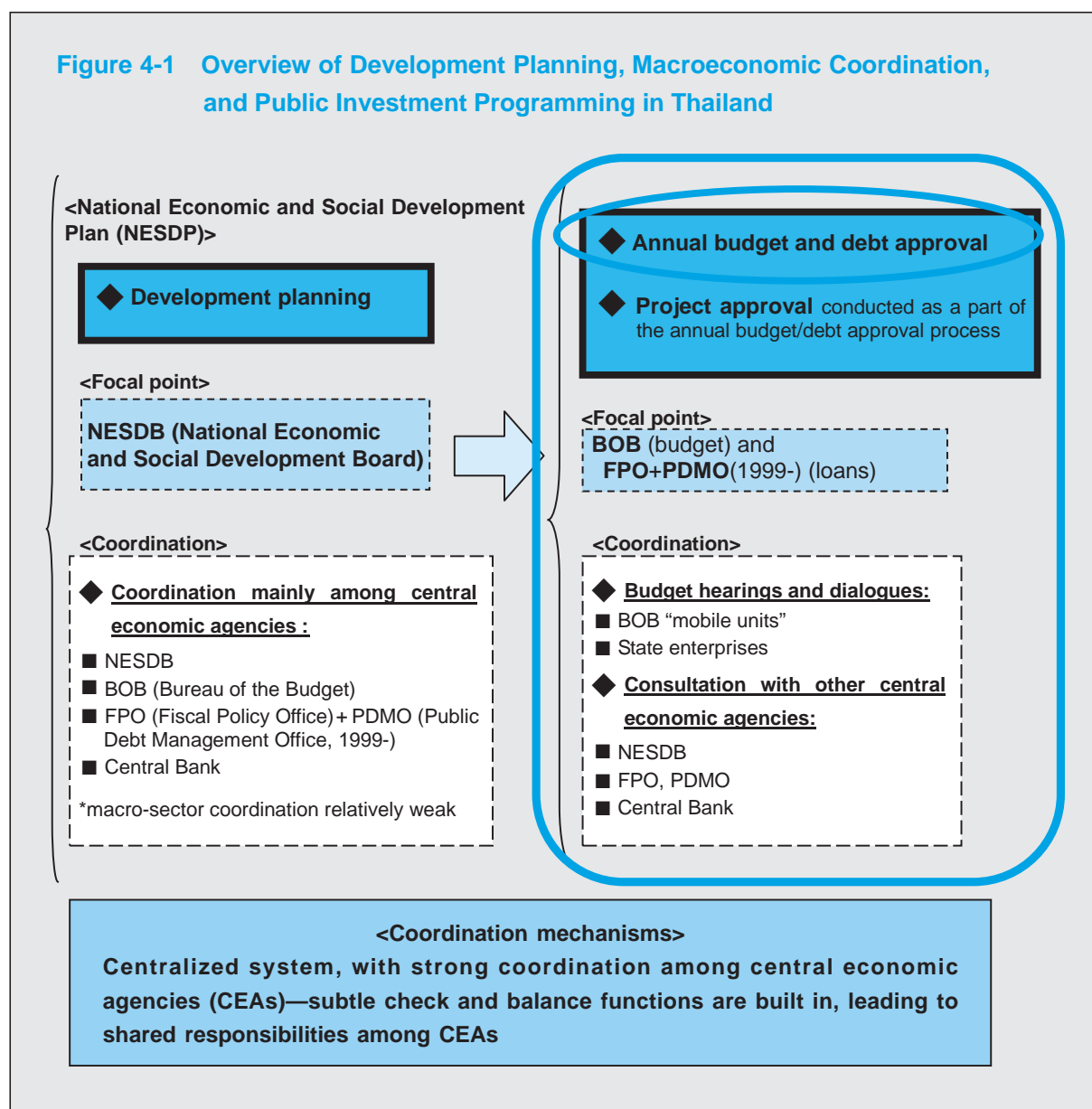
1-1 Major Characteristics of Macroeconomic Coordination

In Thailand, the processes of annual budget formulation and debt approval play a vital role in facilitating the overall alignment of policy and resources with national development priorities. Since Thailand's development planning is "indicative" in nature, it is during this annual exercise when public investment projects have been scrutinized in light of fiscal and debt sustainability (see Chapter 3 for details). Figure 4-1 highlights how such annual budget formulation and debt approval processes are related to development planning and the approval of public investment projects.

Figure 4-2 illustrates the mechanism of macroeconomic coordination in Thailand. As explained in Chapter 2, the country's core macroeconomic agencies—the National Economic and Social Development Board (NESDB), the Bureau of the Budget (BOB), the Fiscal Planning Office (FPO) and the Public Debt Management Office (PDMO, after 1999) of the Ministry of Finance, as well as the Bank of Thailand (BOT)—share responsibility for establishing the macroeconomic framework and disciplining fiscal policy. While these agencies have respective fiscal roles to play, decisions are made collec-

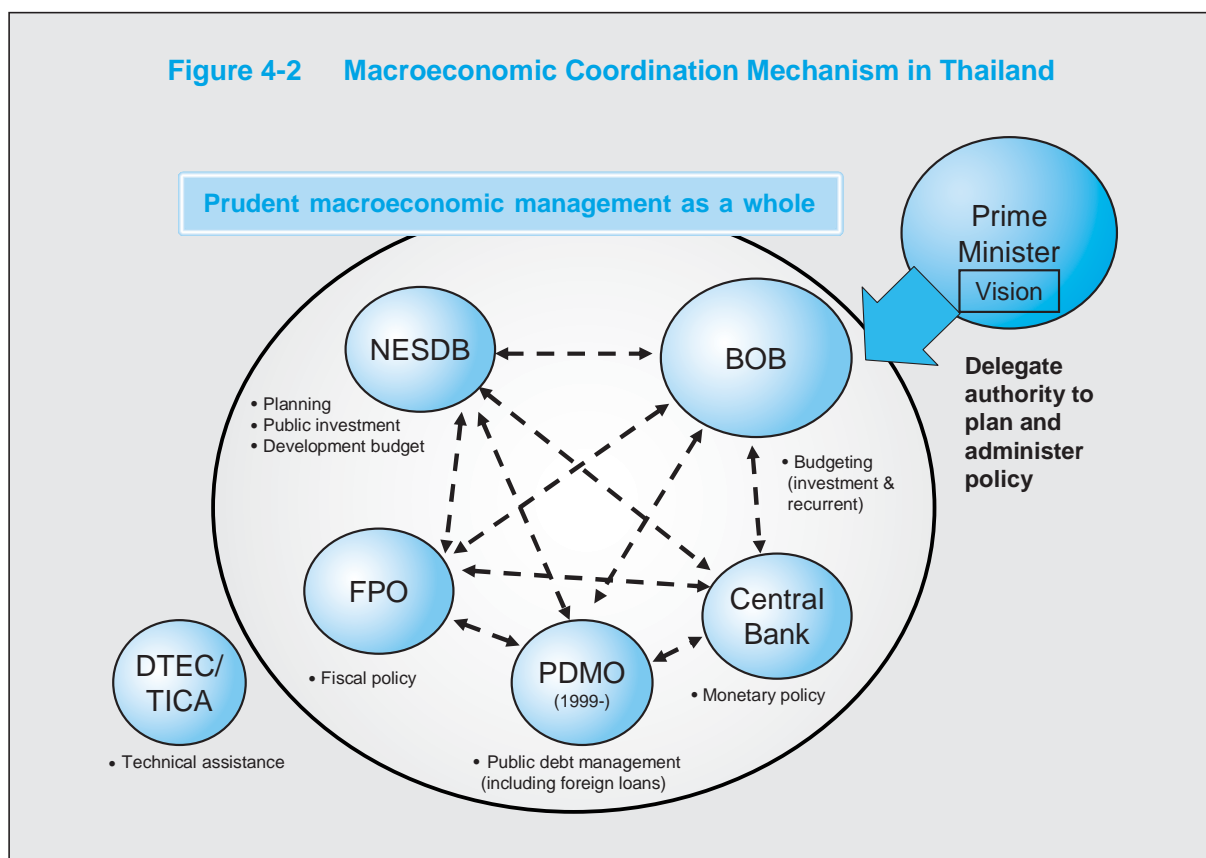
tively with regard to key macroeconomic policies. The heads of these core macroeconomic agencies are central actors, and as such they sit in the Council of Economic Ministers (a subcommittee of the Cabinet). Before ministerial discussions are held, technocrats of these agencies formulate policy options through consultation and coordination (Warr & Nidhiprabha 1996). At the same time, it has been pointed out that because of the vital importance of the annual budget and debt approval processes in Thailand’s “indicative” development planning, the BOB in particular assumes a key role among these core macroeconomic agencies (see section 1-4 for details, including the role of the BOB’s “Mobile Units”).

Figure 4-1 Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand



⁴⁴ Based on the findings of the GRIPS mission to Thailand in January 2005, as well as comments by a senior official of the Thai government who served in the FPO and PDMO (provided during a feedback seminar of this study that was held by GRIPS on November 8, 2006).

Figure 4-2 Macroeconomic Coordination Mechanism in Thailand



A more detailed description of the approaches to fiscal and debt management, as well as the annual budget formulation, by these core macroeconomic agencies will be provided in the sections that follow.

1-2 Fiscal Discipline

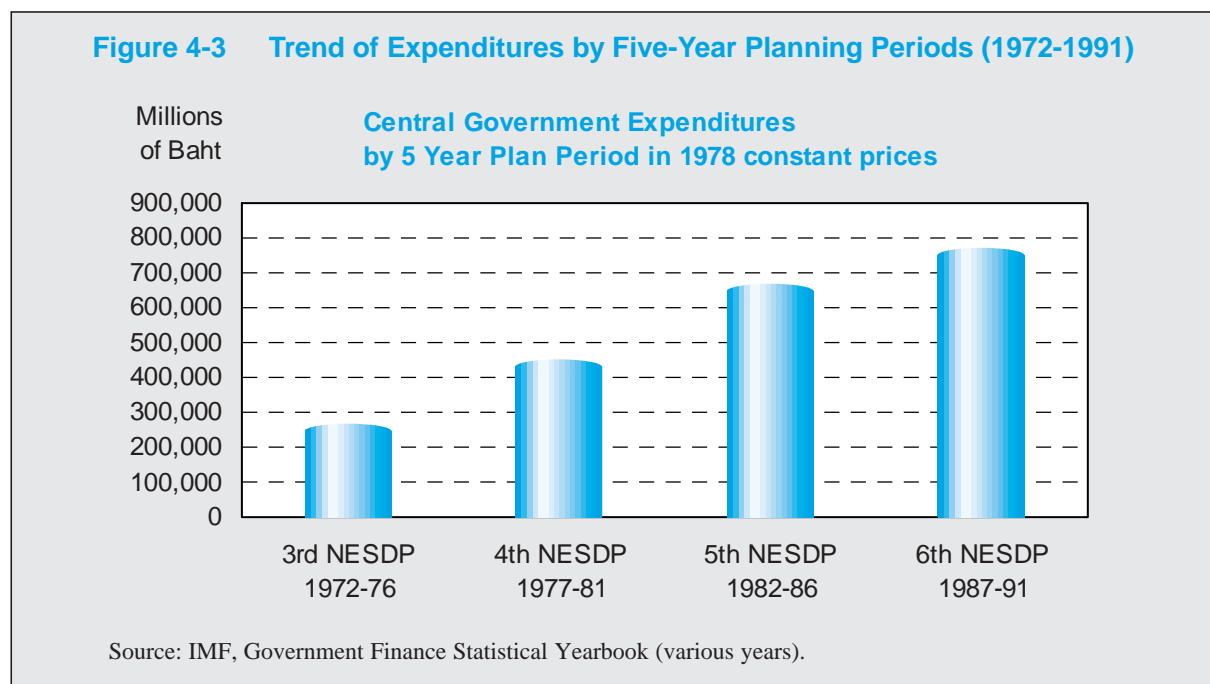
Strong aggregate fiscal discipline has been a key to Thailand's macroeconomic stability, which in turn has assisted rapid growth led by the private sector (Christensen et al. 1993). Such fiscal conservatism has been primarily the result of strong inter-agency coordination among the NESDB, the BOB, the FPO (and the PDMO after 1999), and the BOT. These core macroeconomic agencies have shared responsibility and acted collectively. They meet at the beginning of the fiscal year to decide the nature of the government's fiscal policy (for example, expansionary or contractionary, austere or free-spending, conservative or progressive) and set the ceiling for the new fiscal year. These agencies are also empowered to reject and postpone projects if they exceed the government's expenditure and external borrowing ceilings (Institute for Economic and Social Research, University of Indonesia 2005).

Thanks to a subtle check-and-balance function among the central economic agencies, the legal limit has worked as a tool to enforce fiscal discipline. Although the central government's spending increased rapidly during 1975-1985 (see Figure 4-3 and Figure A-1), the government largely succeeded in

restraining the growth of public expenditures under the legal limit (with the exception of the period during 1972-1974). The 1959 Budgetary Law limits the deficits to no more than 20 percent of government expenditures, although the law was relaxed in 1974 to accommodate the expenditures on principal repayments. The revised budget law stipulated that the size of the deficit must not exceed 20 percent of the proposed level of public expenditures, plus 80 percent of the proposed budget allocated to principal repayments. Even during the period of 1975-1985, increased spending never exceeded the legal limit, ranging from 84 to 98 percent of the maximum amount (Ramangkura & Nidhiprabha 1991).

In addition, there exists a built-in mechanism for scrutinizing financial management of state-owned enterprises (SOEs). Because SOE investments could have significant macroeconomic implications, all SOEs (including those that do not receive financial support from the government) must submit their financial plans to the BOB together with their current and capital budgets. SOE capital budgets are subject to review and approval from the National Committee on State Enterprises, whose secretariat function is shared by the NESDB, the BOB, and the FPO. SOE investment plans are scrutinized in detail at this stage, allowing the NESDB to tailor the proposed investment plans to the priorities stipulated in the five-year plan (NESDP). Once approved, projects seeking budgetary support from the government receive further review by the BOB. Such support, if granted, then becomes part of the central government's expenditure budget.⁴⁵

The externally-driven export and investment boom of the late 1980s certainly helped Thailand's fiscal adjustment efforts. Moreover, fiscal discipline was restored in the country around the same time due to the strong role played by the executive branch, as well as the close coordination among the core macroeconomic agencies.



⁴⁵ Based on Warr and Nidhiprabha (1996), pp.92-93; also confirmed by the GRIPS mission's interview with the BOB officials (January 2006).

1-3 Public Debt Management

Public debt management is another example of the Thai government's financial conservatism. The governments avoided external borrowing prior to the 1960s, and it was only after the early 1960s when it became actively engaged in foreign borrowing with the launching of its first development plan and heavy public investment in infrastructure. Thailand's adjustments to the oil price shocks of the 1970s and the high interest rates of the early 1980s were financed to a large extent by foreign borrowing, which showed a marked increase beginning in the 1970s. Thailand has managed to follow the dictum whereby such a policy remains sustainable as long as the borrowed funds are invested productively, allowing loans to be repaid (in sharp contrast, for example, to the Philippines) (Warr & Nidhiprabha 1996).

Here again, inter-agency coordination among the core macroeconomic agencies has played a central role. In 1960, the National Debt Policy Committee (NDPC) was established to monitor and regulate the foreign borrowing activities of government departments and SOEs. These core macroeconomic agencies form the principal members of the NDPC, which is chaired by the Minister of Finance and reports to the Cabinet. Review by the NDPC has become mandatory for public investment projects requiring foreign loans (Warr & Nidhiprabha 1996). According to the national borrowing regulation revised in 1985, the NDPC consists of 14 members (representatives from the Ministry of Finance, BOT, NESDB, BOB, Comptroller-General's Department, DTEC, FPO, Loan Policy and Management Division).⁴⁶ Since 1999, the newly created PDMO has acted as a secretary to the NDPC. All members are technocrats aside from the Minister of Finance and his deputy, and there was no direct political influence exerted upon the NDPC's decisions.

There has also been effective enforcement of legal limits, as the 1960 Public Debt Law set a 5 percent ceiling on the government's debt service ratio and limited the size of foreign debt service to less than 13 percent of the level of exports. Although the legal ceilings were amended by subsequent governments, such rules have acted as binding constraints on government policy. The history of Thai public debt regulations is summarized in Table 4-1.

By the mid-1980s, the NESDB had begun to closely scrutinize SOE investment plans in order to assess their implications for foreign debt service.⁴⁷ This is because by 1985 SOEs accounted for about two-thirds of the public sector's outstanding foreign debt. Not only are SOEs required to have foreign and domestic borrowing plans examined by the NDPC, but all such loans must be negotiated and signed by the FPO of the Ministry of Finance (after 1999, the PDMO).

It should also be noted that in order to avoid mismanagement of infrastructure funds, the NDPC encouraged foreign borrowing from the World Bank and other aid agencies, which are known for their strict project supervision and monitoring (Warr & Nidhiprabha 1996).

⁴⁶ Based on Regulation on National Borrowing, B.E. 2528 (1985). Initially (in 1960), the NDPC consisted of five members from the MOF, NEDB, BOB, BOT, and a foreign representative.

⁴⁷ In 1977, the foreign debt policy commission became empowered to control the foreign borrowing of public enterprises. In 1981, the MOF became empowered to negotiate foreign loans for military procurement (Ramangkura & Nidhiprabha 1991).

1-4 Annual Budget Process

Thailand’s budgetary process is distinguished by the following: (i) a centralized role of the executive agencies; (ii) limited involvement by the legislature; and (iii) a key role played by the BOB in providing a vertical link between the central economic agencies and the spending agencies (UN 1993). These are all institutional features that have contributed to sound fiscal performance. Thai budget processes were strongly centralized prior to the current budget reform, and budget preparation has been largely confined to the domain of the executive branch. At the executive level, core macroeconomic agencies are responsible for establishing the macroeconomic framework from which aggregate expenditure ceilings are determined. The BOB and the NESDB jointly prepare budget allocation strategies, and the BOB assumes a central role in facilitating the annual allocation of expenditures between the Cabinet, line ministries and departments. Moreover, because of the importance of the annual budget process in the context of Thailand’s “indicative” development planning, the BOB plays a relatively important role by serving as both a vertical and horizontal link between the core macroeconomic agencies and the spending agencies—thereby enforcing hard-budget constraints.

Table 4-1 A Chronology of Public Debt Policy, 1959-1990

| Year | Policy |
|------|--|
| 1959 | Government budget deficit limited to less than 20 percent of government expenditures. |
| 1960 | Ceiling on public sector debt service ratio (DSR) set at 5 percent. Foreign debt service of public sector limited to less than 13 percent of forecast revenue. National Debt Policy Committee (NDPC) set up to monitor and regulate foreign borrowing. |
| 1964 | Ceiling on DSR raised to 7 percent. |
| 1976 | Total public sector foreign borrowing limited to less than 10 percent of total government expenditures. Ministry of Finance empowered to borrow from abroad. |
| 1977 | Ceiling on DSR raised to 9 percent, of which 2 percent was reserved specifically for military borrowing. NDPC empowered to control foreign borrowing from public enterprises. |
| 1981 | Ministry of Finance empowered to negotiate foreign loans for military procurements. Ceiling on DSR set at 9 percent to include borrowing for both military and nonmilitary purposes. |
| 1984 | DSR ceiling temporarily raised to 11 percent for the period of 1984-1987 to accommodate refinancing program. |
| 1986 | A limit on total public sector foreign borrowing for all purposes established at 1 billion dollars per year. |
| 1990 | Limit on public sector foreign borrowing raised to 2.5 billion dollars per year. (DSR ceiling remained at 9 percent.) |

Source: Warr, P.G., and Nidhiprabha, B. (1996). *Thailand’s Macroeconomic Miracle: Stable Adjustment and Sustained Growth*. Washington D.C.: World Bank. p. 94, Table 4.7.

In contrast to Malaysia, which is a frontrunner of the Program Performance Budgeting System (PPBS), Thailand followed the line-item budget system for a considerable period of time (1959-1982). Under this system, the budgets were allocated according to established heads of expenditure such as salaries, wage payments and materials, rather than by the purpose, objective or targets set by the country's specific development plan. In 1982 the system was changed to a Planning Programming Budget System (PPBS), in order to overcome the perceived weaknesses such as over-attention to line-item details, input focus, and inflexibility in budget administration (UN 1993). The PPBS aimed to give a greater role to the ministries in allocating budgets for their departments, and for strengthening the linkages among different activities that support the same objectives by organizing a program structure across departments and ministries. In reality, however, the line-item budget system coexisted for an extensive period, and PPBS did not firmly take root. Even under PPBS, it was mostly the BOB that structured programs by interacting with the departments or ministries concerned.⁴⁸

A performance-based budgeting system, called the Strategic Performance System (SPS), was introduced in 2003 as part of the government's finance reform program under Prime Minister Thaksin. SPS includes the development of a Basis of Strategic Delivery Target, Public Service Agreement, Medium-Term Expenditure Framework (MTEF), Monitoring and Evaluation System, Budgeting Information System, etc. Specific activities include formulating the budget policy process with government policy statements and establishing a framework for revenue and expenditures framework. Both of these processes are conducted over three-year periods of time, and represent a radical departure from the past two budget systems. Theoretically, the central economic agencies are responsible for formulating government policy over three-year period, as well as the three-year revenue and expenditure framework; and ministers are responsible for arranging public service agreements with the BOB and the NESDB, and specifying strategic delivery targets and performance indicators (Institute for Economic and Social Research, University of Indonesia 2005). At present, SPS or the performance-based budgeting system is yet to be fully operational.⁴⁹

Thailand's budget formulation cycle can be summarized as follows (see also Figure A-3).⁵⁰

1-4-1 Executive Level

Toward the beginning of the fiscal year, around November-December, the central economic agencies set a budget structure that is composed of revenue projections, budgeting ceiling, debt burden and loans. Detailed budget preparation then begins in each ministry after the ceiling has been approved by the Cabinet. Budget preparation at this stage is strictly within the domain of the executive branch, with the legislative branch having no involvement (Doner & Laothmatas 1994).

⁴⁸ Based on the GRIPS mission's interview with the BOB officials (January 2006).

⁴⁹ Ditto.

⁵⁰ In Thailand, the fiscal year covers the period of October-September.

The BOB announces the Budget Guidelines in January, and requests ministries and line agencies to submit budget proposals by February. The Budget Guidelines do not set the ceiling by ministry and agency, but instead instruct spending agencies to provide information such as the status of budget approval in the previous years, results from NESDB's review of new projects, progress of ongoing projects, and so on. While personnel, operations and maintenance budgets are solely under BOB responsibility, investment projects are subject to a division of labor whereby the NESDB examines feasibility and strategic relevance, and the BOB inspects budgetary implications. While departments traditionally prepared respective budget proposals, ministers have been made responsible for proposing budget proposals more recently (especially under the Thaksin government). Budget planning was strictly an annual exercise prior to the current budget reform, with no formal, medium-term planning framework in existence.

From February to April, the BOB scrutinizes budget plans proposed by ministries and line agencies in terms of unit costs (especially for public works and equipment), adherence to the five-year plan, budget constraints, and so on. A unique feature of this process is that the BOB dispatches a team of budget analysts called a "Mobile Unit" to each department in order to conduct detailed reviews. This unit is a pivotal actor, providing vertical and horizontal links between spending agencies and core macroeconomic agencies (see Box 4-1).

When the BOB has completed its inspection, it prepares a draft budget lists classified by ministry and aggregate expenditure remaining under the budget ceiling approved by the Cabinet. It then submits

Box 4-1 "Mobile Unit" and the Role of Budget Analysts in the BOB

Within the BOB, the Budget Analysis Division assumes primary responsibility for scrutinizing the budget plans proposed by spending agencies. This division reviews the proposed plans in terms of alignment with the prioritization in development plans (using the Budget Guidelines prepared by the Budget Policy and Information Division), the status of project implementation, appropriateness of the balance between recurrent and capital expenditures, and overall resource availability. To this end, a team of budget analysts known as a "Mobile Unit," are dispatched to each spending agency (normally at the level of department), where they conduct detailed reviews of the proposed budget plans. The reviews by the "Mobile Unit" form an important, second stage of the "two-tiered approach" in selecting and deciding resource allocation for public investment projects. The budget ceiling for each department and ministry are decided on the basis of such reviews, covering both recurrent and capital expenditures, and utilizing the previous year's ceiling as reference. The same criteria and procedures are also applied to ODA-funded programs and projects. In addition, the BOB reviews the allocation of counterpart funds for all technical assistance administered by the Department of Technical and Economic Cooperation (DTEC). In this way, the Budget Analysis Division plays a pivotal role, ensuring vertical and horizontal links between spending agencies and the core macroeconomic agencies.

Source: Based on the interviews with the FPO officials in October 2005 and a NIDA researcher (former BOB official) in January 2006.

these documents to the appropriate ministries for approval or suggested changes. Following this, the BOB incorporates the suggested amendments from the ministries and submits the new draft to the Cabinet for approval. When this has been secured, the draft becomes a fiscal budget bill that is then submitted to the Parliament in June along with supporting documents (Doner & Laothmatas 1994).

1-4-2 Legislative Level

The legislature retains only a modest influence on the budget process.⁵¹ The Parliament is legally prohibited from initiating spending bills, and its role in controlling the budget is limited to its participation in the deliberations of the Budget Scrutiny Committee. This committee is empowered only to cut or reduce the original budget bill, with the exception of such items as capital repayment, interest payment and payments already earmarked by law. Moreover, the Budget Scrutiny Committee is an *ad hoc* committee that is appointed only for the purpose of budget bill consideration. It is chaired by the Minister of Finance, with the Director of the BOB acting as secretary of the Committee and representatives from core agencies answering questions from committee members. Thus, its deliberations are normally completed rapidly in order to allow the budget to be put into place by October 1 (UN 1993).

2. Malaysia

2-1 Major Characteristics of Macroeconomic Coordination

As explained in Chapter 3, the five-year plan in Malaysia is regarded as the government's "statement of resource allocation" over the medium-term. The plan is backed by fiscal and debt sustainability implications, and the approval of priority public investment projects takes place at the time of the plan's formulation. In this sense, the annual budget may be seen as a rolling plan for the implementation of the five-year plans. Figure 4-4 highlights the annual budget and debt approval processes in relation to development planning and public investment programming.

Figure 4-5 illustrates the mechanisms of macroeconomic coordination in Malaysia, where the bodies responsible for macroeconomic policymaking have been concentrated in the Prime Minister's Department and the Ministry of Finance (MOF). The Economic Planning Unit (EPU) is regarded as the super-ministry, and has a strong command over the alignment of policy and resources with development priorities. The MOF works closely with the EPU to realize the vision for long- and medium-term development plans. The EPU plays a central role in deciding the allocation of development expenditures, as well as enforcing the aggregate and sectoral ceilings of development expenditures throughout the plan period, and also selecting priority public investment projects. The MOF undertakes the annual planning exercise in conjunction with its annual budget preparation, and in light of prevailing macro-

⁵¹ It is also notable that the planning document does not require the Parliament's approval. It is submitted from the Prime Minister to the King, who then signs it. (The planning is not based on the Law, but the King's order.)

economic conditions. In other words, the MOF—guided by the EPU—is responsible for the annual scrutiny and allocation of both development and recurrent budgets under the framework of medium-term development priorities and expenditures.

A more detailed description of the approaches to fiscal and debt management, as well as annual budget formulation, by these core macroeconomic agencies will be provided in subsequent sections.

Figure 4-4 Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in Malaysia

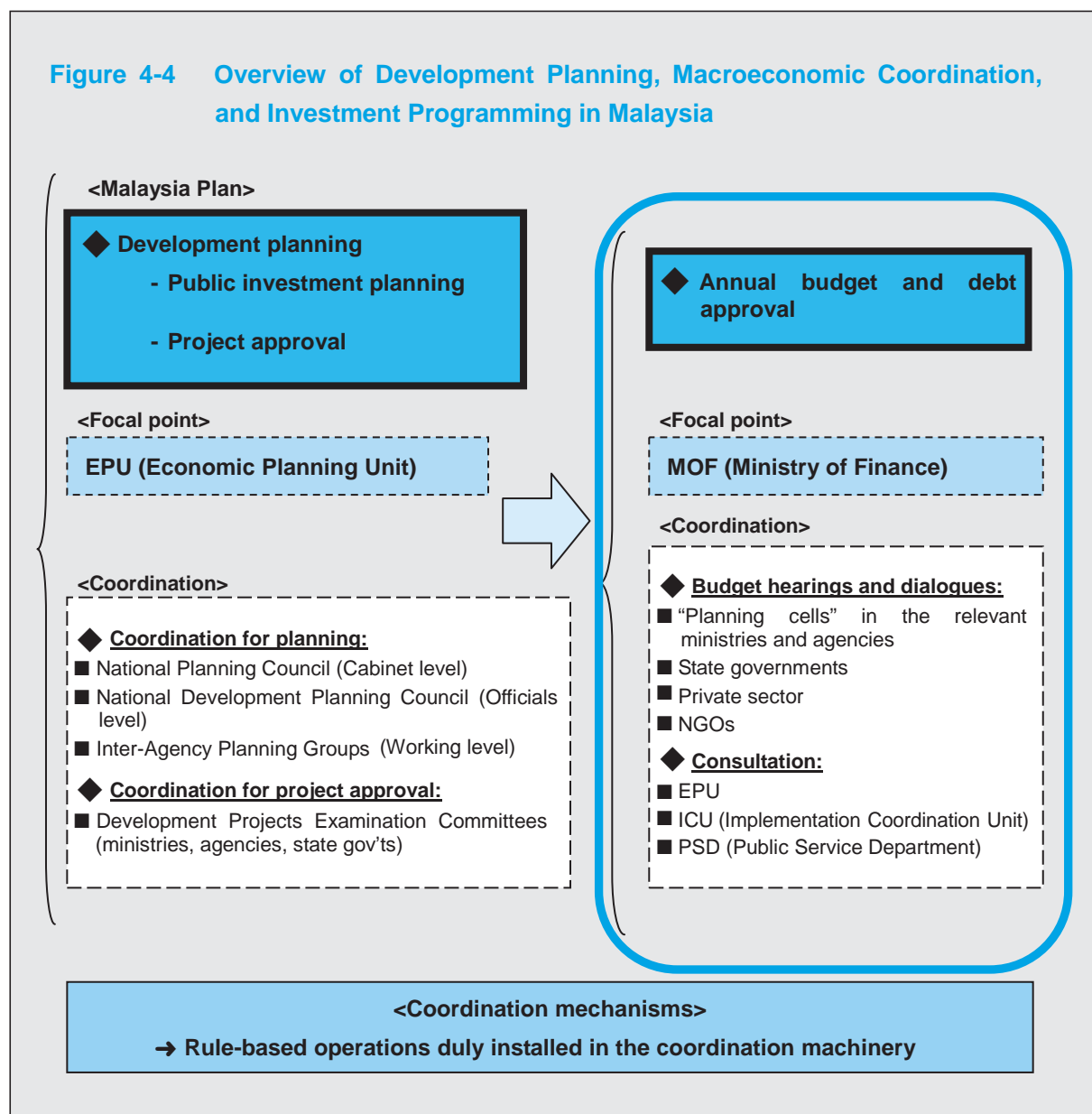
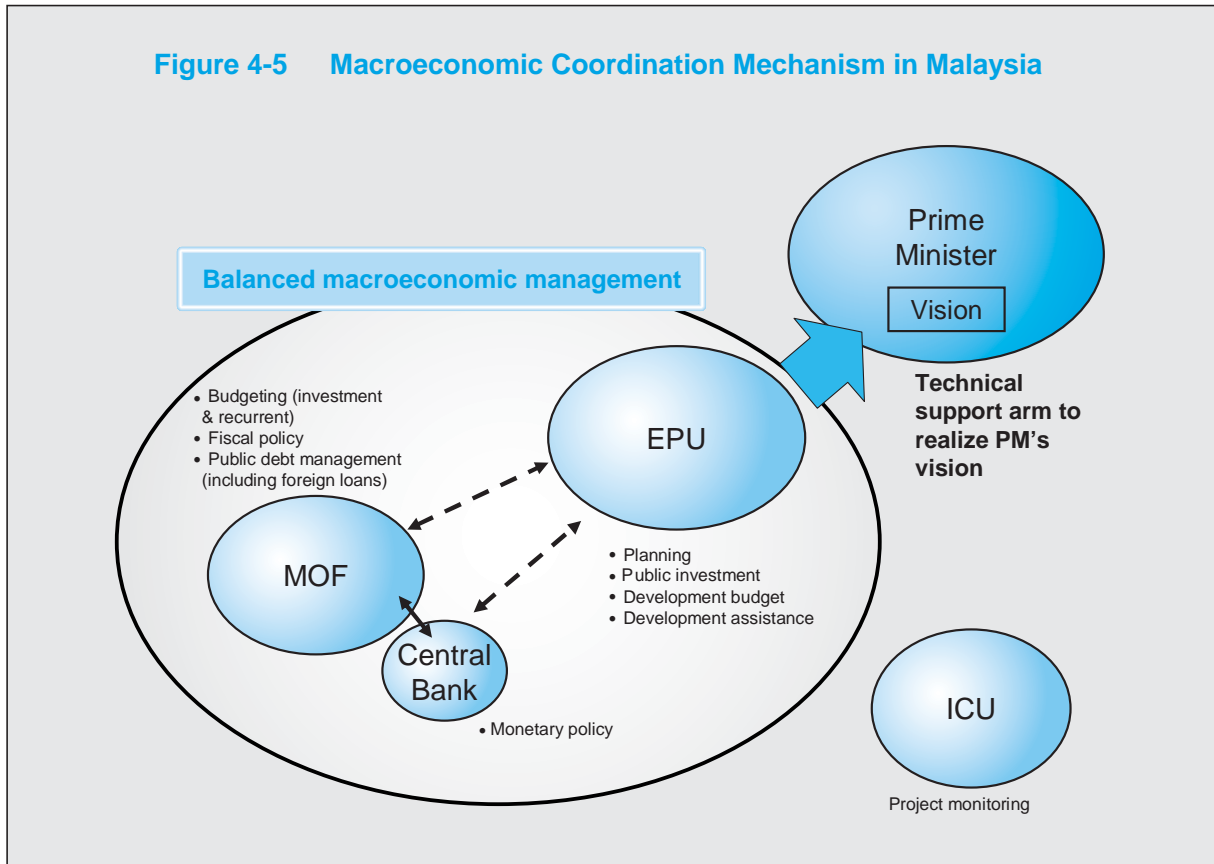


Figure 4-5 Macroeconomic Coordination Mechanism in Malaysia

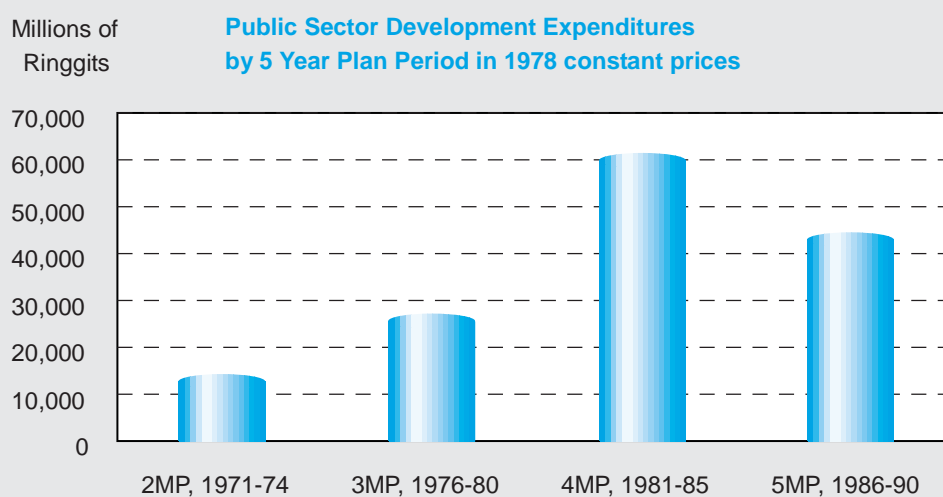


2-2 Fiscal Discipline

In contrast to Thailand, Malaysia is known for fiscal activism. The size of Malaysia's central government expenditures and that of outstanding debt, as percentage of GDP, were the largest of the three countries. During the 1970s-1980s, the Malaysian government did not necessarily adhere to financial conservatism. Geared to the implementation of the New Economic Policy (NEP), the 1970s saw rapid expansion of the government's intervention in the economy. To finance the large public expenditures envisaged under the second, third and fourth Malaysia Plans, the government took an expansionary fiscal stance until 1981, when macroeconomic imbalance reached the level of crisis (see Figure 4-6). At this time, a deficit in the government's operating budget emerged for the first time since 1972 (UN 1993), and the public sector deficit and debt also increased during the same period.

Nevertheless, overall the Malaysian government operates in accordance with a balanced budget principle. It borrows only to finance development expenditures, which are financed by external as well as domestic loans, as well as any excess revenue that remains after providing for operating expenditures. Operating expenditures for a particular year are financed from revenue collected during that year.

Figure 4-6 Trend of Development Expenditures by Five-Year Planning Periods (1971-1990)



Source: Director General Economic Planning Unit, *Mid-Term review of the Sixth Malaysia plan 1991-1995* (1993).
 Note: MP indicates “Malaysia Plan” (five-year development plan).

In mid-1982, the Malaysian government adopted austerity measures and shifted to a more prudent expenditure strategy that included economizing the operating expenditures, as well as cutting the development expenditures to bring public investment more closely in line with available domestic resources. At the time of the mid-term review, major revisions were made to the fourth Five-Year Plan (1981-1985) involving rationalization of the public sector development programs. As a result of the government’s fiscal austerity drive, federal government expenditures declined consecutively beginning in 1983. With this improvement in the economic situations, development expenditures began to recover by the late 1980s. In this way, while embracing the ambitious targets of the NEP, the Malaysian government demonstrated its willingness, pragmatism and flexibility to make the adjustments that were necessary in order to restore economic stability.

2-3 Public Debt Management

In Malaysia, the EPU and the MOF have centralized control over resource mobilization for financing development. In order to finance its fiscal deficits, Malaysia relied on both domestic and external borrowing. This was particularly the case during the 1980s, although the country managed to significantly reduce its level of outstanding foreign debt by the mid-1990s (see Figure A-1 in Appendix). Roughly, there are two sources of domestic borrowing: (i) savings generated by the Employees’ Provident Fund (EPF), as well as similar forced savings schemes; and (ii) surpluses generated by the NFPEs, especially from a national oil company called PETRONAS (Petroliam Nasional Berhad). The EPF is a compulsory savings scheme supervised by the MOF that is aimed at providing a measure of security to its

members following retirement and in their older years. Until 1990, the EPF was required to invest at least 80 percent of its total investment in government securities.⁵² PETRONAS was established in 1974, and has made important contributions to the government's revenues since this time.

As stated before, economic crisis and the resulting slow growth in government revenue during the early 1980s reduced the savings that were available to finance development expenditures. The Malaysian government increasingly resorted to financing deficits with foreign borrowings from 1981 to 1986, resulting in a sharp rise in debt service obligations among operating expenditures.

2-4 Annual Budget Process

The annual budget is prepared by the MOF in close cooperation with the EPU. The MOF allocates operating and development budgets, and the EPU appropriates development allocations across different sectors and states (Ismail Muhd Salleh & Saha Dhevan Meyanathan 1993). Although development and operating budgets are prepared and documented separately, the process for the two is quite similar—especially with regard to the timing and calendar of events. Thus, the development and operating budgets are examined together. Box 4-2 explains how the MOF and the EPU coordinate in order to determine the annual development budget allocation.

In 1969, acting as a frontrunner of public administration reform among developing countries, Malaysia moved from a traditional line-item budgeting system to a program performance budgeting system (PPBS), utilizing program and activity structures, performance measurement elements, and performance evaluation. In 1990, it shifted to an output and outcome-based budgeting system known as the Modified Budget System (MBS).

Box 4-2 Coherence among Development Plans, Project Approval, and Annual Budget Allocation

After the five-year plan is approved by the Malaysian Parliament, the relevant ministries and agencies may only start the implementation process upon obtaining budget approval from the MOF on an annual basis. The EPU circulates a list of approved projects to the various agencies after the Parliament has approved the five-year plan, and by the time the agencies have received the list, approved projects have already been listed with the Implementation and Coordination Unit (ICU) Central Computer. The agencies then begin the process of bidding for funds under the annual development budget, based on the guidelines of the MOF Circular that are distributed sometime around April of each year. In the case of funding for the first year of the plan period, where budget approval has to be obtained in the previous year during the period of plan preparation, annual budget requirements for development projects are incorporated into the agencies' overall plan submissions.

Source: Khan, M. Adli (1992), World Bank Institute Working Papers.

⁵² This was reduced to 70 percent under the amended EPF Act of 1991 (section 26). Also, the Minister of Finance has been empowered to change this figure (Umezaki 2004).

Malaysia's budget cycle can be summarized as follows (see also Figure A-4).⁵³

2-4-1 Executive Level

In the beginning of the fiscal year, the MOF and the EPU prepare an economic and fiscal report reviewing national and global economic developments, and projecting fiscal revenues and expenditures under various macroeconomic scenarios. The Cabinet then determines the government's fiscal strategy and the overall spending ceiling for the next fiscal year on the basis of this report.

The MOF requests ministries and agencies to submit operating budgets proposals in January by issuing a "call circular"—a set of budget preparation guidelines that outline budget policy, procedures to be followed, formats to be used, and the date for completion and submission. While spending agencies then proceed to prepare their proposals, the MOF makes a projection of the operating budget level in the context of the revenue that has been forecast. For the development budget, the MOF also issues guidelines such as the level and priorities of expenditures. The level of the development budget is determined based not only upon the forecast revenue, but also upon the borrowing capacity of the government and the availability of loans.

In March, prior to undertaking detailed budget examinations, the MOF holds a series of preliminary hearings and consultations with spending agencies and the private sector that are known as "Budget Dialogues." In order to ensure consensus among the central agencies regarding the conduct of budget examinations, the MOF consults with the EPU and the ICU on issues relating to development budget, as well as with the Personnel Service Department (PSD)⁵⁴ on establishment matters. In order to better incorporate business perspectives into budget priorities, as well as to respond to the growing role of the private sector in the economy, the practice of consultation with the private sector was introduced under the Mahathir administration during the early 1980s.

Budget examination by the MOF starts in April after budget submissions are received from spending agencies. The MOF then holds joint Budget Hearings with the EPU and the ICU, scrutinizing the budget proposals according to the criteria laid down in the call circular. The MOF recommends fund allocation amounts to the ministries and agencies for the coming year, based on each spending agency's capacity to implement its projects and subject to the overall plan ceilings that are in place.

During the 1970s-1980s the annual budget was prepared based on the PPBS, requiring ministries to undertake an annual review of the efficiency and effectiveness of their programs and activities. As part of its budget submission, each ministry was required to detail the past and expected performance for each of its programs and activities during the current financial year. Ministries were also required to

⁵³ Malaysia's budget year corresponds to the calendar year, i.e., January to December. The following part is based on UN 1993, as well as the GRIPS team's interview with the MOF and the EPU officials (during January 2006 mission).

⁵⁴ The PSD is the central personnel agency, responsible for all matters related to the civil service (except for recruitment and discipline, which falls under the purview of the Public Service Commission).

provide justifications in cases whereby changes were proposed in the scope of program operations or activities for the forth coming year (UN 1993).

Once the Budget Hearings are completed, the MOF prepares an annual budget to be brought before Parliament for approval in October. After the Supply Bill and Development Estimates Resolution are passed by Parliament in November, the Minister of Finance issues a General Warrant to the Accountant General authorizing the Accountant General to make payments on behalf of the ministries and departments from their respective allocations as approved by Parliament.

2-4-2 Legislative Level

Under a parliamentary system, it is often the case that the legislature has only limited influence on the budget process as long as the ruling party has a sizable majority. This has been the case for Malaysia during the past several decades, as well as for Thailand.⁵⁵ After scrutinizing the budget estimates, Parliament then passes the Supply Act that appropriates moneys according to programs, activities and general objects of expenditure.

3. The Philippines

3-1 Major Characteristics of Macroeconomic Coordination

Despite the existence of inter-agency coordination mechanisms, linkages among the Medium Term Development Plan (MTPDP), the Medium-Term Public Investment Program (MTPIP), and the annual budget have not always been strong in the Philippines. Neither MTPDP nor MTPIP provides cost estimates for proposed strategies, targets, or programs (see Chapters 3 for details). Only after public investment projects have been selected does an in-depth analysis of their fiscal and debt sustainability takes place. Figure 4-7 highlights how the annual budget and debt approval processes are related to development planning and public investment programming.

Figure 4-8 illustrates the mechanism for macroeconomic coordination in the Philippines. With the legislative branch (Congress) exercising strong power over the executive branch, the working relationship between the executive and Congress tends to be more divisive than in Thailand or Malaysia. Particularly in the budgetary process, there is an inherent tension in reconciling the conflict between the spending priorities of the executive branch and those of elected representatives in the Congress. Furthermore, the prevalence of special congressional initiatives weakens the national budget process—particularly in terms of allocative efficiency and budget comprehensiveness. Expenditures from such initiatives are frequently “off budget,” in the sense that they are not evaluated during the budget formulation stage. In sum, a “dual track” exists within the budget and public investment planning process

⁵⁵ For example, Majid Haji Hussein and John Anthony Xavier note that during the last 30 years, the parliament has merely provided minor changes in development plan (UN 1993).

that is comprised of separate administrative and legislative channels. Although Congressional scrutiny itself is an important element of democratic accountability, the problem in the Philippines is that Congressional debates do not necessarily consist of constructive discussions that are geared toward achieving a vision of shared national development. Fragmentation exists not only in the actual decision making, but also in the vision behind it.

A more detailed description of the approaches to fiscal and debt management, as well as annual budget formulation by these core macroeconomic agencies, will be provided in the subsequent sections.

Figure 4-7 Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines

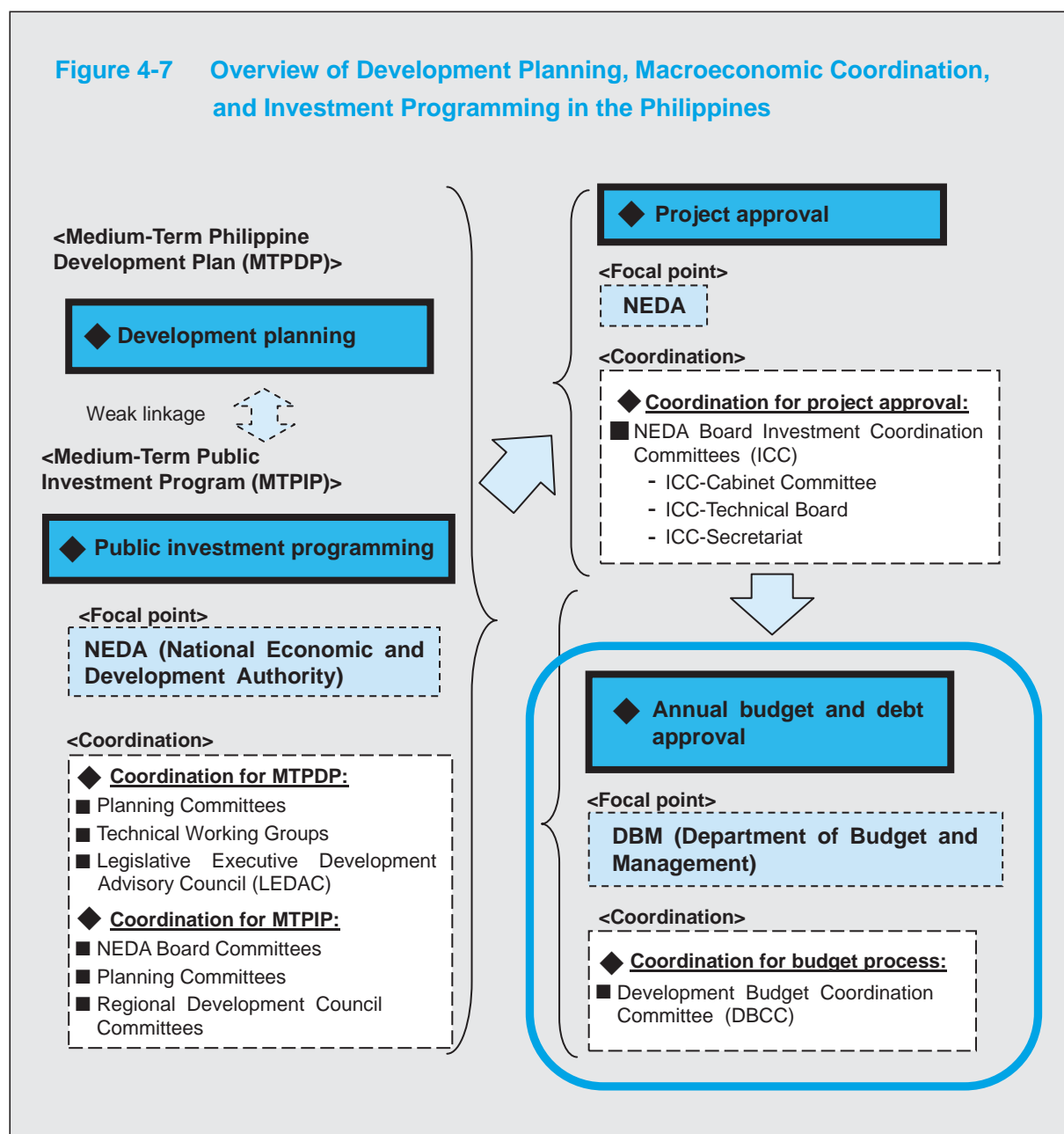
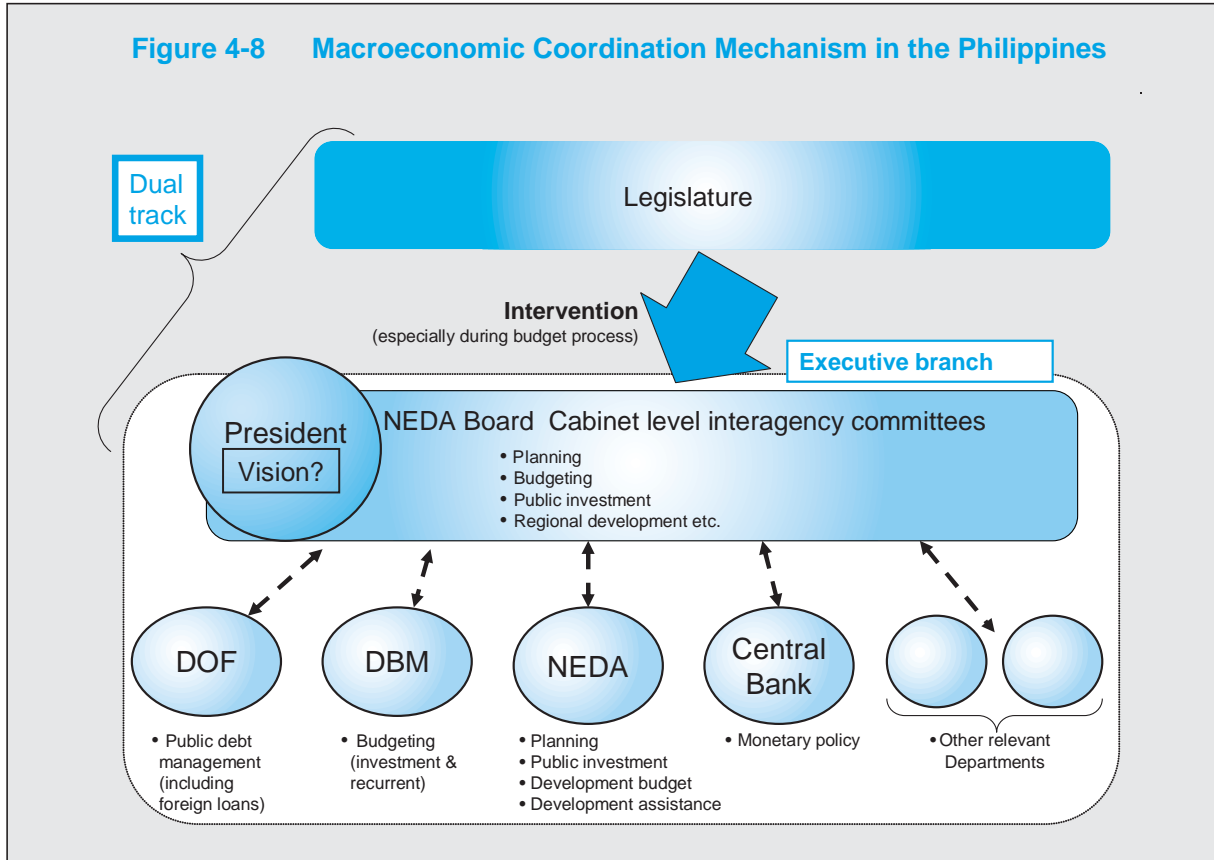


Figure 4-8 Macroeconomic Coordination Mechanism in the Philippines



3-2 Allocative Efficiency of Public Expenditures

In aggregate terms, annual average spending levels in the Philippines are comparable to those of other Asian countries, and as such, it cannot be accurately stated that the government’s spending is excessive. Public expenditures in the Philippines averaged 16.7 percent of GDP during the 1980-1990 period, which was below the average for neighboring Asian countries (about 22 percent) and much lower than that in Malaysia (30 percent) (World Bank 1995). Even during the 1990s, the annual average of fiscal aggregates in the Philippines was less than 20 percent of GDP (World Bank 2003). Therefore, apart from the revenue-side problems (i.e., the need for increased tax collections), key issues are how much the government spends relative to its revenues—and whether or not spending is efficient—rather than the level of fiscal aggregates.

In the Philippines, allocative efficiency has been seriously undermined by congressional initiatives. Congress is authorized to make budgetary reallocations by providing additional allocations for programs/projects or new items in the budgets of some agencies, as well as for the creation of special purpose funds. Individual senators and congresspersons are also entitled to a variety of additional funds for development purposes, other congressional initiatives, and compensation allowances. These congressional funds in effect represent a significant amount of “off-budget” resource allocation not subject to prioritization or the transparency requirements that are imposed upon other expenditures during the budget preparation process (World Bank 2003). (The Constitution, however, prohibits Congress from increasing the national budget submitted by the President.)

In this regard, the Priority Development Assistance Fund (PDAF) and the Department of Public Works and Housing (DPWH) Infrastructure Fund are the most prominent Congressional allocations.⁵⁶ PDAF was initially adopted as the “Countrywide Development Fund,” and appropriated in the annual budget from 1990 to 1998. The DPWH Infrastructure Fund is the other lump sum allocation in the budgets of DPWH. PDAF-listed projects are supposed to be implemented by agencies other than DPWH. Regardless of whether the allocation comes from the PDAF or the DPWH Infrastructure Fund, the expenditure is identified by the members of Congress but implemented by either a national government agency, a Local Government Unit (LGU), or a Government Owned and Controlled Corporation (GOCC). DBM estimates that in 2005, the PDAF allocation amounted to about P19 billion,⁵⁷ which is not a negligible sum because it accounts for roughly 10 percent of the total discretionary spending of the central government. The general attitude of the government officials is to regard this sort of “dual track” nature of budget and public investment planning as the “costs of running a democracy,” and as such, to make efforts to contain the potentially adverse effects of congressional initiatives by increasing the transparency and efficiency thereof (see Box 4-3).

Another issue with fiscal implications is the operational inefficiency of the GOCCs, which grew significantly during the 1970s (especially in terms of the provision of infrastructure services). During 1975-1984, the GOCC sector borrowed one fifth of domestic loanable funds and absorbed almost half of external loans to the country (World Bank 1995). Although massive privatization took place during the 1990s, when the DOF began efforts to strengthen its supervision of GOCCs’ performance, most of the existing GOCCs remain inefficient and dependent on the national government’s resource transfers. According to the World Bank (2003), while GOCCs contributed less than 2 percent of GNP by value added, their budgetary support needs accounted for 60 percent of public sector spending. Furthermore, the Foreign Borrowings Act—which sets a \$7.5 million ceiling on outstanding government guarantees of foreign loans for GOCCs—has limited effectiveness in controlling the government’s contingent liabilities since some of the largest GOCCs are exempted from being charged against this ceiling (World Bank 2003).

Box 4-3 Administrative Efforts vs. Legislative Interventions

The executive branch has been making a series of efforts to increase the transparency and efficiency of PDAF. Recent efforts include the following: (i) DBM consultation with both Houses of Congress to encourage the alignment of PDAF allocations to the President’s Ten-Point Agenda and MTPDP/RDP priorities; (ii) disclosure of general information regarding PDAF projects on the DBM website; and (iii) application of new procurement regulations to PDAF projects, including competitive bidding (expected to be fully implemented beginning in 2008).

Source: Based on the World Bank (2003), as well as information provided by the DBM officials and experts to the GRIPS mission in March 2006.

⁵⁶ Previously, there existed a number of congressional allocations chargeable against agencies’ budgets. According to the World Bank (2003), the government achieved a breakthrough in 2002 by localizing these congressional allocations to the PDAF and DPWH lump-sum budgets and sparing other department budgets from its distorting impact.

⁵⁷ Based on an interview with a DBM senior official held in March 2006.

3-3 Annual Budget Process⁵⁸

The annual budget process has multiple, lengthy stages because Congress (both the House and the Senate) exercise strong power to change the budget proposal that has been submitted by the executive branch.⁵⁹ While Congress cannot raise the expenditure program proposed by the President, it has the prerogative of reallocating provisions for various budget lines and imposing conditions on their utilization (e.g., the use or waiver of competitive procurement procedures on the supply of services, and the award of construction contracts during calamities). In addition, Congress may pass special legislation provided that the national treasurer certifies that funds are available for the budgets requested, or that funds are forthcoming from other revenue sources.

The Philippines' budget cycle may be summarized as follows (see also Figure A-5).⁶⁰

3-3-1 Executive Level

Among the six cabinet-level inter-agency coordination committees (as explained in Chapter 2), the Development Budget Coordination Committee (DBCC), a top-level interagency fiscal policy coordination body, is vital for its role in linking the annual budget to the overall development plan. The DBCC is composed of the following members: the Secretary of the Department of Budget Management (DBM) as chairman, the Governor of the Central Bank (Bangko Sentral ng Pilipinas), the Secretary of the Department of Finance (DOF), the Director General of the National Economic Development Authority (NEDA) and a representative from the Office of the President. Within in the DBCC, each agency/department has its own role: the DBM is responsible for resource allocation and management, the DOF is in charge of revenue generation and debt management, the Central Bank focuses on monetary measures and policy, and the Office of the President works as an oversight agency.

The DBCC determines overall expenditure levels, revenue projection, deficit levels and the financing plan, and then submits all of these to the Cabinet and to the President. After approval of budget parameters by the President and the Cabinet, the DBM issues a Budget Call sometimes around January-February that directs the different governmental agencies to prepare their budget proposals in accordance with approved overall budget ceilings and parameters. The NEDA has primary responsibility only in the first stage, which is the approval of budget parameters by the DBCC. In the past, NEDA also participated in budget forums and technical budget hearings, but this is no longer being conducted due to the government's recently implemented austerity measures.⁶¹

The DBM then holds a series of technical Budget Hearings and Budget Forums by department and agency in April-May in order to set indicative expenditure ceilings of departments and agencies that

⁵⁸ Unless otherwise specified, this section draws on UN 1993 and updated information obtained during the GRIPS mission in March 2006.

⁵⁹ For example, as of March 2006, the FY 2006 budget was yet to be approved by Congress (based on information given to the GRIPS mission in March 2006).

⁶⁰ The Philippines' budgetary year corresponds to the calendar year, i.e., January to December.

⁶¹ Based on the GRIPS mission's interview with NEDA officials (in March 2006).

are consistent with the sectoral and subsectoral ceilings set by the DBCC. The departments and agencies in turn issue guidelines for their regional offices, which conduct budget consultations in close coordination with the Regional Development Councils (RDCs). These regional offices then submit their RDC-approved budgets to their respective head offices in Manila, which in turn collate all budget proposals that have been submitted by regional offices throughout the Philippines in order to consolidate them into a single agency departmental budget proposal.

The DBM then scrutinizes the budget proposals in order to make the overall expenditure level consistent with that determined by the DBCC and approved by the President. In July, the DBM presents an overall proposed budget to the Cabinet and then to the President, who submits the proposed budget to Congress in the form of a detailed National Expenditure Program that is also accompanied by the Budget of Expenditures and Sources of Financing (BESF), the President's Budget Message, and the Regional Allocation of the Expenditure Program.

3-3-2 Legislative Level

Within Congress, the House Committee on Appropriations and the Senate Finance Committee serve as the principal committees for the review of the proposed BESF submitted by the President for enactment as the General Appropriations Act.

The proposed budget goes first to the House of Representatives, where a House Committee summons the different national agencies of the government to explain and justify their respective budgets. From the House of Representatives, the budget bill then goes to the Senate and is referred to the Senate Finance Committee, who likewise asks the various agencies to explain their respective budgets as contained in the budget bill. It then proposes amendments to the House Budget Bill for approval by the Senate body. In practice, budget hearings by the House and the Senate are formally held during the same period. The differences between the two committees are reconciled by a conference committee made up of representatives of both chambers, and the budget is then submitted for final reading and approval by both Houses.

During this appropriation process, as stated previously, the Congress has the power to insert appropriations for items that have a lower priority in the view of the executive branch. Congress may also approve projects that have not been evaluated by the executive branch, and appropriate funds for projects that clearly fall within the mandate of local authorities—all of which distort allocative efficiency and weakens the overall budget process.

Once a common budget bill has been approved by a separate vote from both Houses, it is submitted to the President who can exercise line veto powers before signing it into law. This is then known as a General Appropriations Act, which mandates the DBM to implement the expenditure program as the staff arm of the President.

3-4 Ongoing Efforts for Public Expenditure Management Reform

Since the late 1980s, the government has been making a series of attempts to address the weaknesses stated above and strengthen policy and resource alignment with development priorities. These include the introduction of the following: (i) a Synchronized Planning, Programming and Budgeting System (SPPBS); (ii) forward budget ceilings through the Medium-Term Expenditure Framework (MTEF); (iii) Operational Performance Indicators Framework (OPIF), Sectoral Effectiveness and Efficiency Review (SEER), as well as linking OPIF and SEER to the annual updating of the MTPIP Matrix (see Box 4-4 for complementarities among these instruments).

The initial attempt to introduce SPPBS began in and around 1988-1989. SPPBS is a collaborative effort by DBM and NEDA that is aimed at linking development planning together with budget planning and the processes of execution and monitoring. The main features of SPPBS include the following: a synchronized calendar of activities extending over a two-year cycle, coordinated input and output from various agencies and regional or local bodies that feed into each other in an orderly sequence, stronger local government participation in the synchronized activities, and stronger policy formulation and program performance assessment functions by line departments and agencies at the national level (Alburo et al. 1993). The efforts to make SPPBS workable are still continuing.

Box 4-4 Complementarities among MTEF, OPIF and SEER

MTEF, OPIF and SEER are the government's latest attempts to institutionalize Planning-Programming-Budgeting functions and processes. These methodologies are complementary, and as such are designed to make the budget a primary tool for driving national government agencies to perform according to set standards and indicators.

- The MTEF aims to introduce the concept of multi-year budgeting in accordance with the development framework of the MTPDP and priority investments in the MTPIP. DBM is responsible for formulating the MTEF.
- The OPIF is an attempt by DBM to introduce performance accountability in the government. Expenditure and performance reviews are undertaken semi-annually to provide incentives to well-performing agencies, as well as to impose corrective measures upon agencies whose performance is below expectations. (OPIF reports provide important input to the SEER process.)
- The SEER is undertaken by NEDA as an exercise to support the requirements of the MTEF. SEER reports are utilized in the annual budget exercise to help determine which programs, activities and projects (PAPs) are to be included and protected within the budget.

Source: Based on information provided by the NEDA and DBM officials to the GRIPS mission in March 2006.

MTEF, OPIF, and SEER constitute the three pillars of the government's public expenditure management reform program. The MTEF was introduced in the FY2000 Budget Call (World Bank 2003) to serve as an indicative forward estimate by setting limits on aggregate and sectoral resource allocations.⁶² Moreover, along with the MTEF, DBM introduced OPIF in the FY2000 Budget Call to monitor agency performance. NEDA introduced SEER in the FY2001 Budget Call to make an annual assessment of ongoing programs, activities and projects (PAPs). Based on the indicative planning figures issued by DBM (and approved by the DBCC programming process), NEDA instructs agencies to formulate the three-year MTPIP rolling list, and then utilizes the SEER process to prioritize the agencies' proposed PAPs. All of these measures are intended to make a rolling list of MTPIP as consistent with the fiscal program and prioritized through the SEER criteria.

While such administrative efforts in public expenditure reform are certainly laudable, there remains a risk that these efforts might be undermined by legislative intervention. Although the legislative intervention itself should not be viewed negatively since it provides an important check- and control function, it is important that this remain in line with national development priorities. It is also vital, moreover, that these administrative efforts be supported by a broad political coalition under a vision of shared national development.

⁶² Executive Order 292 lays down that "The annual budgets of the national government shall be prepared as an integral part of a long-term budget picture."

Chapter 5 Public Investment Programming and Project Approval

This chapter will analyze the mechanism for public investment programming and project approval in Thailand, Malaysia and the Philippines. We aim to explain concretely how each country has been trying to ensure development policies/priorities and resource alignment, while maintaining a particular focus on the administrative process and coordination features for public investment project approval. We also analyze how and to what extent aid mobilization decisions and selection criteria for aid-funded projects are integrated into the development policy-making process itself.

As we have seen in previous chapters, Thailand, Malaysia and the Philippines have different mechanisms, approaches and configurations in terms of development planning and macroeconomic coordination. Correspondingly, relevant features for investment programming and project approval also vary among the three countries since each exists as an integral part of development management as a whole, and all are closely related to one another (see Figures 5-1, 5-6, 5-8).

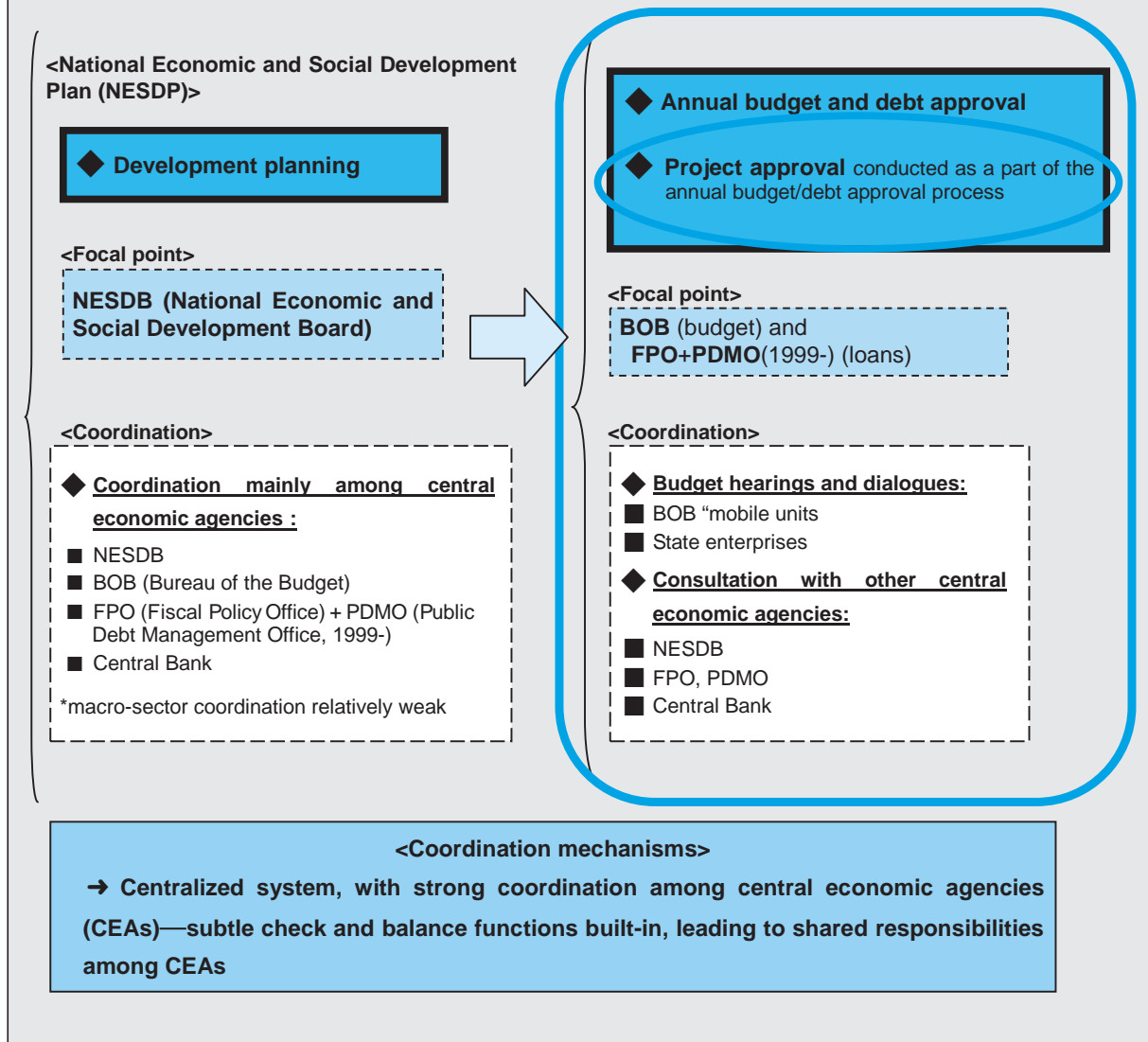
In the case of Thailand, substantial changes in public investment project approval took place after 1992, when new legislation related to public-private partnerships was enacted. Hence, the analysis will be focused on the changes that took place before and after 1992, with a brief supplementary explanation of the social and political contexts during this period. In the case of Malaysia, substantial changes in the basic features of public investment project approval are not recognized as fully as those in Thailand. Therefore, recent practices in Malaysia are taken up for concrete analysis. Recent practices in the Philippines are also scrutinized in order to understand issues related to the further enhancement of ongoing reform efforts in public expenditure management (as described in Chapter 4).

1. Thailand

1-1 Major Characteristics of Public Investment Programming and Project Approval

In Thailand, as described in Chapter 3, public investment project approval takes place after development planning as part of the annual budget and debt approval process. The Thai government has taken “two-tiered approach” in deciding the selection and resource allocation for individual public investment projects—prospective development projects outlined in the five-year National Economic and Social Development Plan (NESDP) must be later scrutinized and pruned throughout the annual budget process to secure necessary funding. In addition, the Thai government did not introduce public investment plan (PIP), except for the Third and the Fourth NESDPs, which contained PIPs. This is the very reason that Thailand’s NESDP has been considered “indicative” in nature. Figure 5-1 highlights how the process of public investment project approval is related to development planning, as well as budget and debt approval.

Figure 5-1 Overview of Development Planning, Macroeconomic Coordination, and Public Investment Programming in Thailand



1-2 The Evolving Role of Development Plans in Public Investment Selection

Since the early 1990s, there have been major changes in the roles of development plans and the National Economic and Social Development Board (NESDB) in public investment programming. This reflects the growing role of the private sector in economic activities, as well as the progress of decentralization. During the 1970s and 1980s, the Third (1972-1976) through the Sixth (1987-1991) NESDPs established quantitative and strategic guidance with respect to development expenditures as a whole, including infrastructure investment. As a result, they effectively functioned as a strategic core document for the other central economic agencies, line agencies and ministries. For example, the Bureau of the Budget (BOB) utilized the development plans for its subsequent budget allocation

process, and the line agencies and ministries were able to verify whether their prospective projects were regarded as priority.

After 1992, however, the development plans for the Seventh (1992-1996) through the Ninth (2002-2006) NESDPs have become less specific and are limited to qualitative analysis. Recent development plans have reduced their function for strategic guidance in terms of resource allocation across specific sectors, let alone project selection. As a result, each line agency and ministry has become inclined to interpret the plans in a manner suiting its own convenience, thereby undermining the effectiveness and selectivity in the subsequent budget allocation process. The Ninth NESDP played virtually no role in guiding infrastructure investment, and in fact, its content was radically different from the strategic priorities of the Thai government then.

This fact clearly explains the evolving role of the NESDB as the central economic agency, which used to exercise strong power to decide the strategic priorities of national development and approve investment projects through the appraisal process. In short, the NESDB has reduced much of its power and capacity to exert its most fundamental roles, including development planning and investment programming (Webster & Theeratham 2004).⁶³

1-3 Decision-Making Parameters and Coordination Mechanisms for Public Investment Selection

More specifically, substantial changes took place in 1992 with regard to the role of the NESDB in the public investment selection and prioritization process, with the enactment of the legislation related to public-private partnerships (namely, the Royal Act on Private Participation in State Undertakings). The 1992 Act was said to be introduced from the government's new policy to actively utilize private capital so as to restrain government's public investment under financial difficulties.⁶⁴ Notably, the year 1992 coincided with the beginning of the Seventh NESDP, which reduced its function of strategic guidance. This also suggests that in accordance with the rising power of the private sector, the functions and responsibilities of the NESDB were substantially reduced.

In fact, before 1992, all public investment projects were required in theory to go through the NESDB's scrutiny process for approval (see Figure 5-2). The NESDB formerly exercised strong powers, based on the National Economic and Social Development Board Act of 1978 that lay down its formal legal authorities such as public investment provisions (Article 12 of the 1978 NESDB Act). At this time, the NESDB verified whether proposed projects were in line with overall economic policy and development strategies at the macro level, and also scrutinized the feasibility of individual projects by undertaking a cost-benefit analysis, among other things. Thus, the NESDB was in a position to review projects in a systematic manner from macro down to micro levels. The involvement of the line agencies and ministries was limited since the NESDB exercised centralized, "top-down" power in the public

⁶³ Also based on the interview with the TDRI researchers held in October, 2005.

⁶⁴ Interview with TDRI researchers held in October, 2005.

investment approval process until the mid-1980s, and a substantial amount of information was thus concentrated within the NESDB.

As decentralization progressed following the end of the Prem Administration in 1988, the line agencies and ministries increased their involvement in the process of planning and investment programming. Ministries gradually began to make budgetary requests for their prospective projects, bypassing the NESDB in its prior project approval process. In fact, as for public investment projects costing less than one billion baht⁶⁵ that are financed fully from the government's budget, ministries in recent years are increasingly using the shortcut process as a normal procedure. In such cases, ministries submit their project proposals directly to the BOB, which then scrutinizes them as part of the annual budget process (see Figure 5-3). Specifically, the BOB scrutinizes proposed projects from a budgetary perspective for both recurrent and capital budgets as per its mandate. It looks into the unit costs of respective investment projects, financial requirements in accordance with their preparation and physical progress, budget constraints, etc. The systematic analysis and prioritization of projects from a comprehensive perspective, including the analysis of macroeconomic impacts, is absent under this shortcut approach that goes around the NESDB altogether.⁶⁶

Ministries also started using this type of shortcut process for public investment projects over one billion baht. In fact, with the exception of State Owned Enterprise (SOE) projects, ministries have frequently been bypassing the NESDB in their normal project approval process. In other words, for any public investment project over one billion baht in value, ministries must submit project proposals to the NESDB for SOE projects,⁶⁷ but may submit proposals for non-SOE projects either through the NESDB or else to the Cabinet directly—thereby bypassing the NESDB as a shortcut (Webster & Theeratham 2004) (see Figure 5-4).

As for public and private partnership joint venture projects exceeding one billion baht in value (as defined in the 1992 Act on Private Participation in State Undertaking), ministries are required to propose new projects to the NESDB. For on-going projects, however, such as expansion and new concessionaires' arrangements for existing assets, ministries are to submit project proposals directly to the Ministry of Finance (MOF) without involvement of the NESDB. The Cabinet then gives final approval to proceed with the implementation of both new and existing projects (Articles 8, 9 of the 1992 Act) (see Figure 5-5). As for any joint venture projects that cost less than one billion baht, the Cabinet may allow implementation while bypassing the NESDB's official approval process (Article 11 of the 1992 Act).

⁶⁵ As of December 1, 2006, US\$1 is equivalent to 36.019 Thai Baht (IMF data).

⁶⁶ Interviews with TDRI researchers and the PDMO officials held in October, 2005.

⁶⁷ According to the interview with the TDRI officers held in October, 2005, SOE projects that are relatively smaller in scale have not been required to go through the NESDB pre-approval process.

1-4 Preparation and Decision Making Process for Public Investment Projects (Locally-Funded Projects and ODA Projects)

The procedures for preparing, screening and selecting locally-funded and ODA projects have been more or less the same, with the exception of requirements related to environmental safeguards, public hearings and gender issues. For ODA projects, donors usually require more rigorous standards than those applied to the locally-funded ones. The Thai government complies with donor requirements in such cases, requiring additional time and transaction costs.⁶⁸ Thus, in the case of ODA projects, the Thai government has been sensitive to the degree of complexity of additional procedures when deciding from which donor to request support.⁶⁹

In terms of prospective project feasibility studies, the required content (such as coverage and depth of analysis) and criteria have been basically same between the locally-funded and ODA projects. Line agencies usually do not conduct feasibility studies on their own, but instead outsource them to qualified consultants. To enhance the quality of such feasibility studies, the Thai government introduced a system in 1987 to select only qualified consultants. More concretely, the MOF manages the list of consultants who meet specific requirements, and announces it in the Royal Gazette to ensure that the consultants who conduct the feasibility studies will be selected from that list.⁷⁰

Public investment projects involving either domestic or foreign borrowing must be compliant with the 1985 Regulations on National Borrowing (which are the revisions of the 1982 version). This requirement is also applied to the preparation of ODA loan projects. The National Debt Policy Committee (NDPC) must review public investment projects with domestic and foreign loans, and is authorized to formulate an Annual Borrowing Plan for both domestic and foreign loans. This plan specifies: (i) the name of the implementing agency, (ii) potential loan source(s), (iii) loan amount, (iv) borrowing schedule, (v) required baht counterpart fund, and (vi) other relevant details for each project. Subsequently, the Cabinet reviews and approves the Annual Borrowing Plan (see Figures 5-2, 5-4, 5-5).

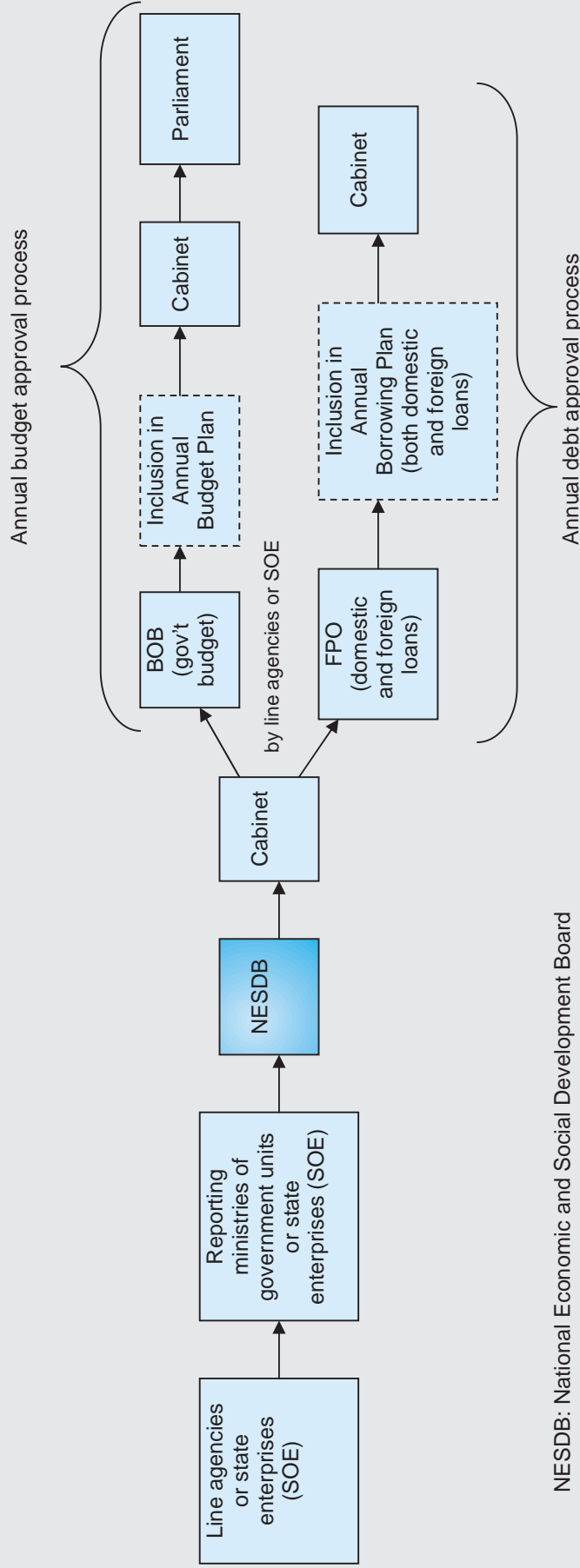
The Thai government has been conscious of strategically utilizing foreign loans (see Chapter 6 for a specific example of the Eastern Seaboard Development Plan). Since the government has always been sensitive to possible future constraints with respect to foreign debt burdens, it assesses the implication of foreign borrowing (including ODA loans) from both political and economic dimensions, and tries to select only urgent, high-priority projects.

⁶⁸ Interviews with TDRI researchers and PDMO officials held in October, 2005.

⁶⁹ Interview with the PDMO officials held in October, 2005.

⁷⁰ Interviews with TDRI researchers and PDMO officials held in October, 2005.

Figure 5-2 Project Approval Process Prior to 1992: All Public Investment Projects in a Theoretical Sense (Based on the National Economic and Social Development Board Act of 1978)



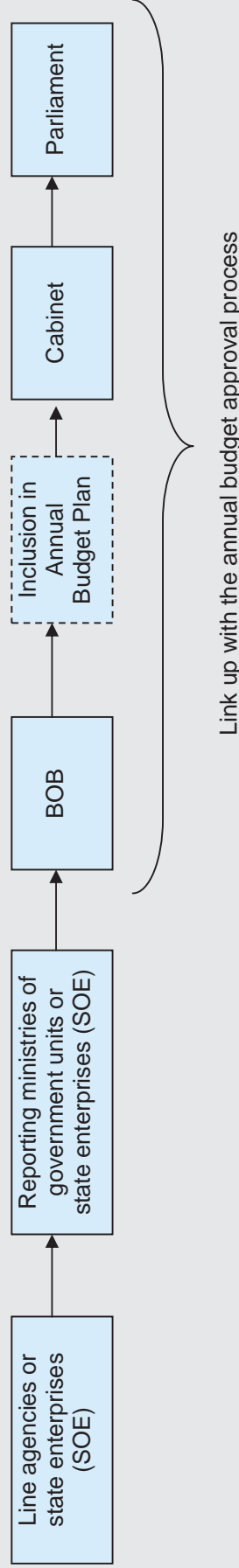
NESDB: National Economic and Social Development Board

BOB: Bureau of the Budget

FPO: Fiscal Policy Office

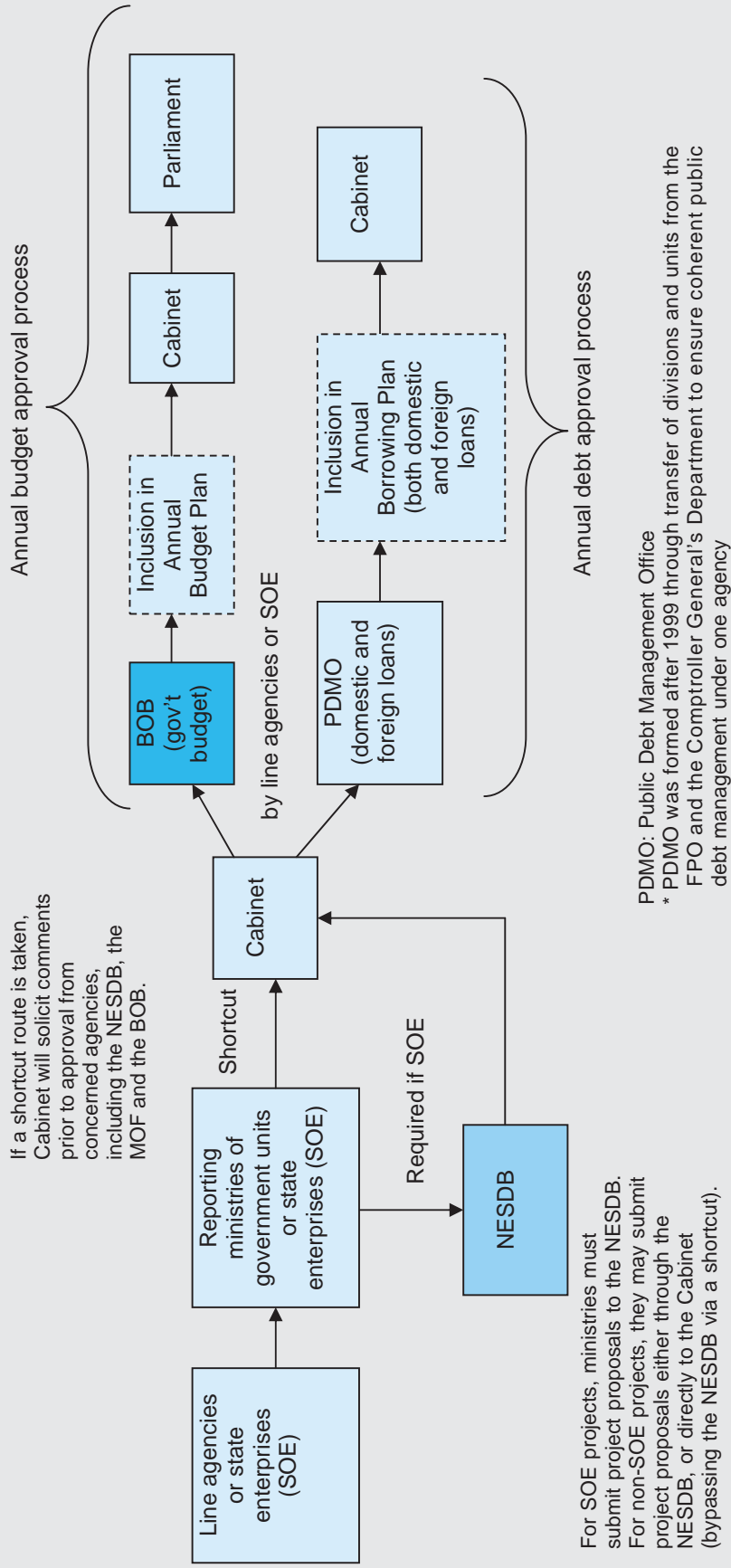
Source: Author—drawn upon provisions from the National Economic and Social Development Board Act of 1978, as well as information provided to the GRIPS team by BOB, FPO and PDMO.

**Figure 5-3 Project Approval Process (Recent Normal Procedures with Shortcut) —
Public Investment Projects Less Than One Billion Baht, Financed Fully from the Government Budget**



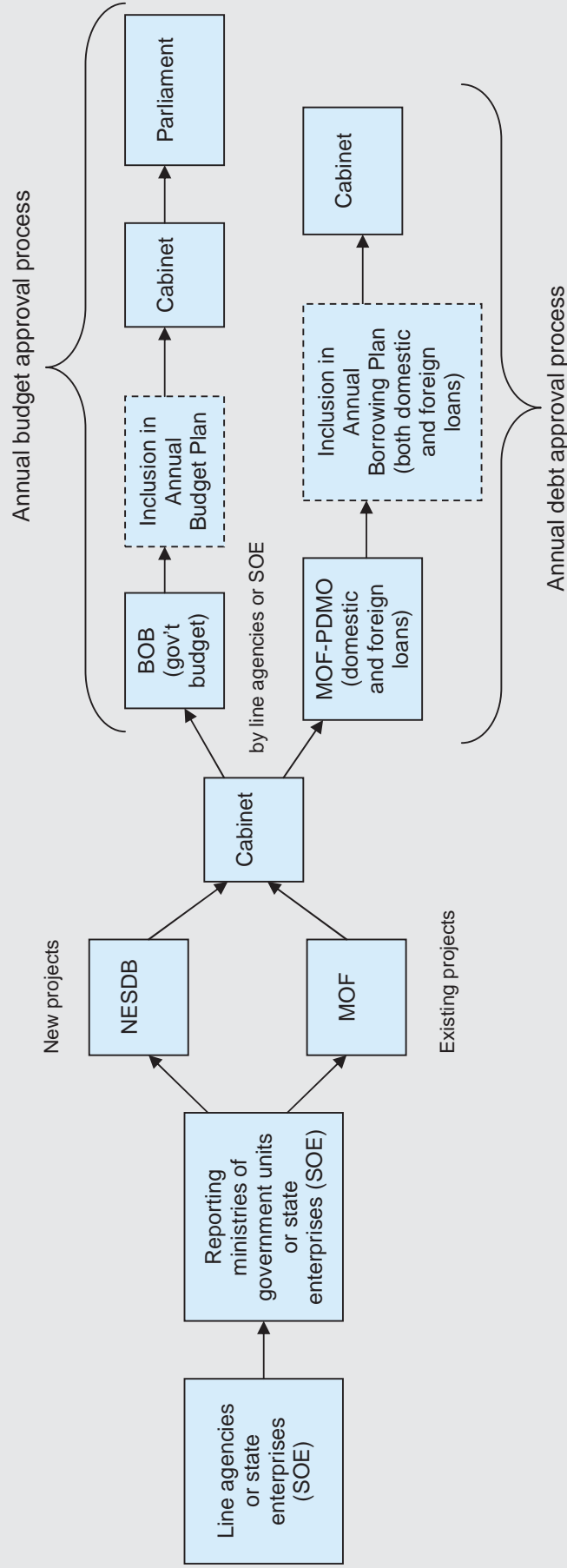
Source: Modification of the figure in “*Policy Coordination, Planning and Infrastructure Provision: A Case Study of Thailand*”, a background paper commissioned for the Asian Development Bank–Japan Bank for International Cooperation–World Bank East Asia and Pacific Infrastructure Flagship Study in 2004.

Figure 5-4 Project Approval Process (Recent Normal Procedures) — Public Investment Projects (Including SOE Projects) Over One Billion Baht



Source: Modification of the figure in "Policy Coordination, Planning and Infrastructure Provision: A Case Study of Thailand", a background paper commissioned for the Asian Development Bank-Japan Bank for International Cooperation-World Bank East Asia and Pacific Infrastructure Flagship Study in 2004.

Figure 5-5 Project Approval Process After 1992: Public and Private Partnership Projects Over One Billion Baht
(Based on the Act on Private Participation in State Undertaking in 1992)

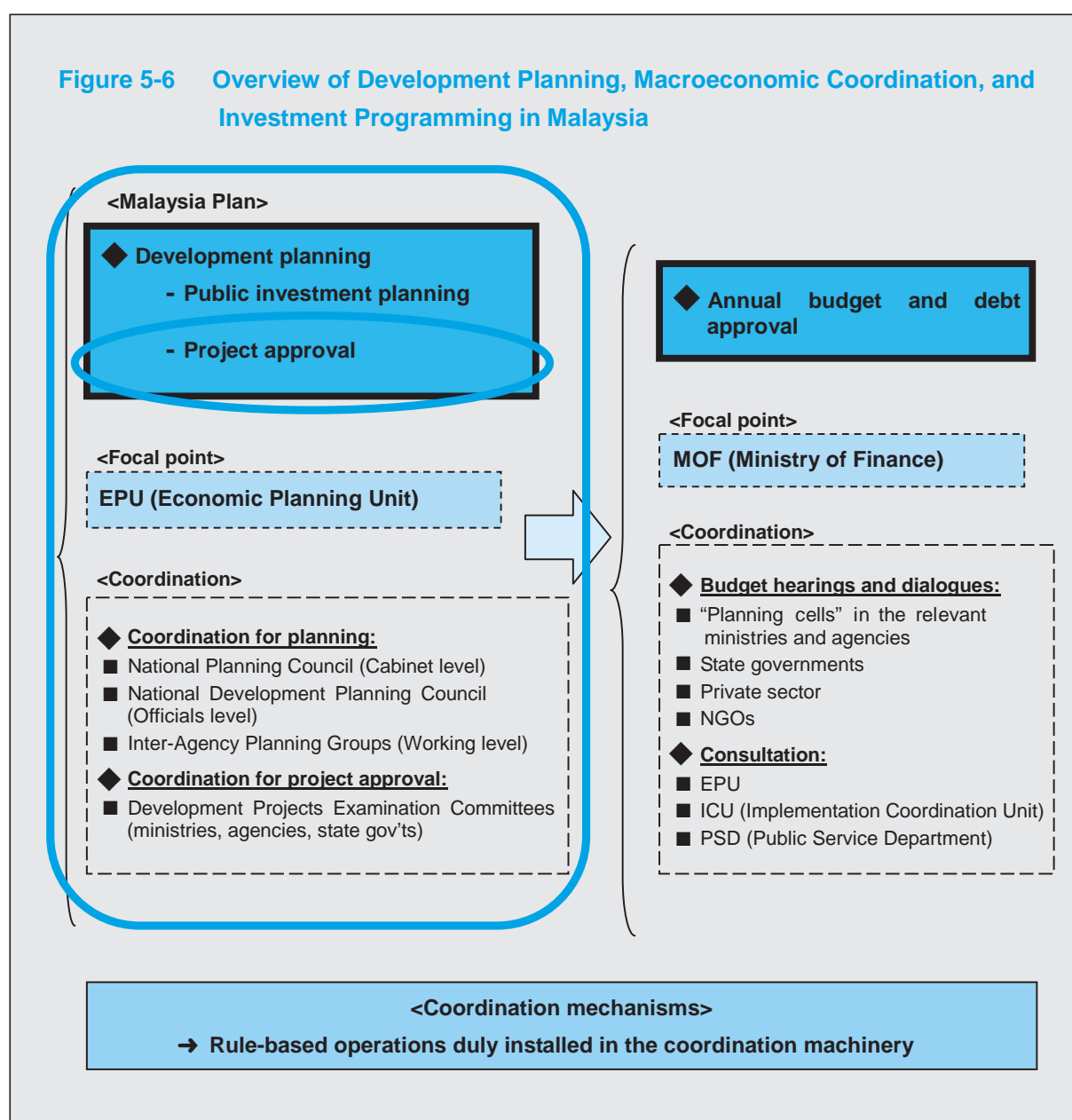


Source: Author—drawn upon provisions from the 1992 Act on Private Participation in State Undertaking, as well as information provided to the GRIPS team by BOB, FPO and PDMO.

2. Malaysia

2-1 Major Characteristics of Public Investment Programming and Project Approval

In Malaysia, as described in Chapter 3, public investment project approval is conducted as part of the development planning process. The five-year Malaysia Plan specifies the size and allocation of the public sector development program, and plays the role of a *de facto* investment plan. In other words, the Malaysia Plan clearly lays out the public investment priorities that are backed by budget implications—a feature that results in the Malaysia Plans being regarded as “directive” compared to the NES-DPs of Thailand. Figure 5-6 highlights how this process of public investment project approval is related to development planning, as well as budget and debt approval.



2-2 Decision-Making Parameters and Coordination Mechanisms for Public Investment Selection⁷¹

2-2-1 Project Approval Process

As discussed above, public investment selection and prioritization take place as part of the project approval process within the Malaysia Plans. As such, the processes of public investment programming and project selection form part of the overall formulation process of the Malaysia Plans.

More specifically, the project approval process begins with the Economic Planning Unit's (EPU's) issuance of the call circulars to ministries, departments, statutory authorities, state governments and non-financial public enterprises. The call circular has two basic objectives: (i) to inform the government machinery of the preparation of the Malaysia Plan, including future strategic objectives; and (ii) to obtain development allocation bids for the next five years in order to implement the identified strategies. The circular provides general guidelines on procedures for plan preparation, submission schedule, timing, and criteria for proposed projects and programs. The various ministries, agencies and state governments are then requested to review their strategies and development objectives. They are also asked to identify, prepare and submit proposals for candidate projects and programs, both for on-going and new projects, together with bids for the funds that are necessary in order to implement them during the period of the plan.

Upon receipt of submissions from relevant ministries, agencies and state governments, the EPU evaluates targets, concepts and proposed projects and programs, and also determines the overall objectives, scope and costs in terms of the Malaysia Plan. The Macro Economic Section in the EPU analyzes the viability of candidate projects and programs from a medium-term macroeconomic framework, and sets the overall aggregate development budget ceiling. Each sectoral division in the EPU also scrutinizes candidate projects and programs in terms of technical feasibility, financial viability and effectiveness. The Budget Section in the EPU coordinates with each sectoral division in the EPU to consider development budget allocation to ministries, agencies and state governments. The Technical Services Section in the EPU checks the project/program costs based on the specified (unit) cost standards.⁷² Here, the same cost standards are applied for both domestic- and ODA-funded projects.

In determining projects and programs for the Malaysia Plan, relevant sections in the EPU consult with the planning sections ("planning cells"), as well as with other appropriate divisions of concerned ministries, agencies and state governments (see Chapter 3, Box 3-1). In some cases, the EPU may have to consult and coordinate directly with the secretary generals or deputy secretary generals of relevant ministries, agencies and state governments as it deals with policy issues that even their planning cells may not be able to determine.⁷³

⁷¹ Information from this section was mainly drawn from "Development Planning in Malaysia" issued by the EPU in 2004.

⁷² Cost estimations based on market price are made in feasibility studies for large scale projects, as unit cost standards are not specified for such cases.

⁷³ The information in this paragraph was based on an interview with an EPU senior official held in January, 2006.

In sum, each sectoral division in the EPU examines the candidate project proposals that have been submitted by relevant ministries, agencies and state governments, and ranks them according to priority within the initial budget ceilings that have been established for each sector. These projects are then discussed in meetings held by the Development Projects Examination Committees (DPEC), which are chaired by the EPU and comprised of members from the ministries and agencies submitting the projects, as well as the Ministry of Finance (MOF) and other relevant agencies. The DPEC goes through the project list, and the concerned ministries and agencies are required to provide justification for their proposed projects. Project lists are drawn up for each sector, and then consolidated and examined by the sectoral divisions of the EPU. If necessary, the development budget is reallocated among sectors at this stage based on priorities and the quality of submitted projects. While resources are allocated by sector, the project list also includes projects proposed by states in order to give due attention to regional considerations. The consolidated project list is then submitted to the Cabinet together with the draft chapters of the Malaysia Plan (see Figure 5-7).

2-2-2 Project Prioritization

During the project approval process, the EPU prioritizes candidate projects and matches them with overall financial resources and development goals. The call circular mentioned above indicates the broad criteria applied when prioritizing projects and programs: growth promotion, project viability, social obligation and needs, poverty reduction and promotion of regional balance. The development of infrastructure projects is largely guided by master plans, helping to determine prioritization. Appropriate distribution is also carefully considered with regard to sectors as well as regions. In fact, when deciding candidate projects, ministries and agencies take regional distribution aspects into account prior to submitting proposals to the EPU. Usually, projects in lesser developed states and regions are given more weight than those in the more developed ones, and ongoing projects are given priority over new projects.

To decide regional priority, the candidate projects proposed by the state branches of Federal Ministries and the state governments must be first discussed with the State EPUs (SEPUs), which are responsible for evaluating, examining, and recommending projects in addition to determining their needs and requirements. Projects proposed by the state branches of Federal Ministries may be submitted to Federal headquarters only after they have been examined by the SEPUs, and projects proposed by state agencies need to be scrutinized by the SEPUs prior to being submitted to the EPU.

With regard to projects proposed by state corporations that have plans/potential for privatization, the EPU scrutinizes them more carefully than those proposed by ministries, departments and state governments in terms of financial viability and profitability. The Privatization Section of the EPU looks into privatization plans of relevant state corporations.⁷⁴

⁷⁴ Interview with a EPU senior official held in January, 2006.

2-3 Preparation and Decision Making Process for Public Investment Projects (Locally-Funded Projects and ODA Projects)⁷⁵

Since locally-funded and ODA projects are prepared and selected as part of the development planning process, there exists no difference between the two in terms of the process for procedures and approval. Regardless of funding source, any candidate project must be included in the project list in the Malaysia Plans in order to secure resources for implementation.

After final approval of the Malaysia Plans by Parliament, the EPU's External Assistance Section considers funding arrangements for donor assistance in consultation with other sections in the EPU, the MOF, and concerned ministries and agencies. Past experience has shown that relatively large-scale projects have been the main target for foreign assistance. Small-scale projects have been financed locally, and the content of such projects were mainly scrutinized during the annual budget process rather than the development planning process of the Malaysia Plans.

Feasibility studies are not required for all projects. For example, they are not usually prepared for small-scale projects such as the construction of school buildings and hospitals. In such cases, the project scope is determined by the ratio of students/patients as estimated by the population distribution in the region in order to come up with the estimated size of the facilities.

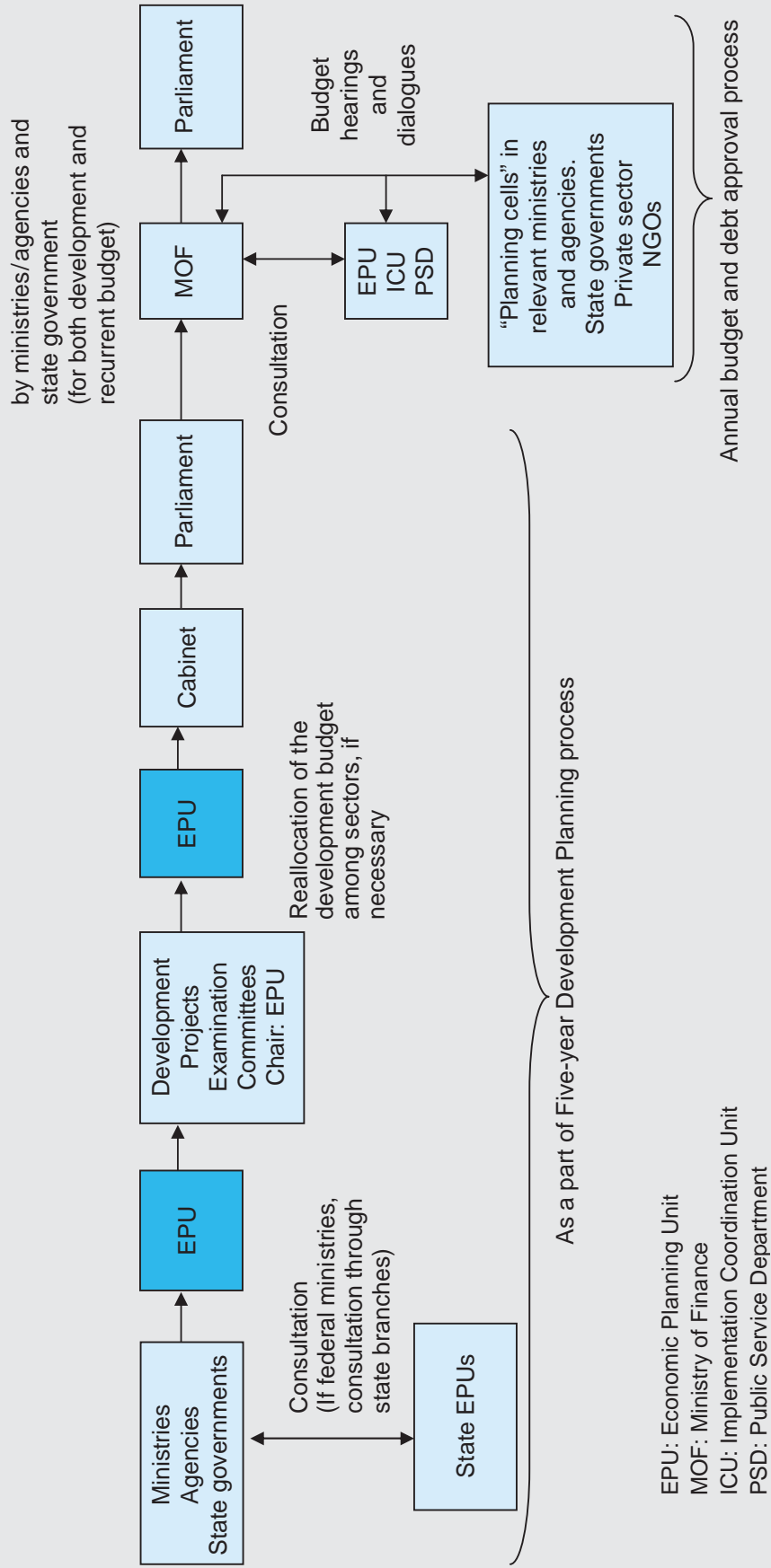
Although there are no regulations that specify the minimum project cost, feasibility studies are normally required for large-scale projects that exceed MYR200-300 million⁷⁶ (depending on the type and characteristics of the project). Feasibility studies may be prepared either directly by relevant ministries, agencies and state governments, or else they may be outsourced. Each ministry, agency and state government has its own internal guidelines that stipulate the criteria for public investment project studies, including quantitative standards such as the internal rate of return and a cost-benefit analysis. Coverage and depth of the analyses, as well as the criteria of feasibility studies, are the same for both locally-funded and ODA projects.

In some cases, donors require standards beyond those applied to locally-funded projects, such as environmental and social safeguards. In such cases, the Malaysian government complies with the donor requirements in accordance with the stipulated guidelines. While the Malaysian government observes donor requirements in terms of additional administrative procedures, however, it does not accept any conditions that would result in critical policy implications for the country, including changes in important policy decisions or foundations for administrative machineries. A typical example is the decision by the Malaysian government to firmly maintain a fixed exchange rate system by rejecting International Monetary Fund (IMF) recommendations at the time of the Asian financial crisis.

⁷⁵ Information in this section is also largely based on an interview with an EPU senior official held in January, 2006.

⁷⁶ As of December 1, 2006, US\$1 is equivalent to 3.597 Malaysian Ringgit (IMF data).

Figure 5-7 Project Approval Process for the Malaysia Plans (Five-Year Development Plans)



Source: Author—drawn from "Development Planning in Malaysia" issued by the EPU in 2004, as well as information provided by EPU to the GRIPS team.

3. The Philippines

3-1 Major Characteristics of Public Investment Programming and Project Approval

As described in Chapter 3, public investment project approval in the Philippines takes place after the public investment planning process and before the annual budget and debt approval. The six-year Medium-Term Philippine Development Plan (MTPDP) and its companion document, the Medium-Term Public Investment Program (MTPIP), are prepared prior to public investment project approval. However, they play a limited role with regard to the alignment of policy and resources with development priorities. While there are ongoing efforts to enhance the management of public expenditures (see Chapter 4), linkages among the MTPDP, the MTPIP, investment project selection and the annual budget have not always been strong, and the public investment plan tends to be viewed as a “wish list” of projects. Figure 5-8 highlights how this process of public investment project approval is related to development planning, public investment planning, and budget and debt approval.

While the National Economic and Development Authority (NEDA) is responsible for both MTPDP and MTPIP, linkages remain weak and few resource-binding functions are internalized in the planning process. In theory, the MTPIP is intended to do the following: (i) tighten planning, programming and budgeting linkages; (ii) function as the basis for public sector resource allocation and screening of publicly-funded projects and programs (including ODA) as well as for the private sector and other financing sources; and (iii) monitor the performance of public investment in terms of achieving the goals and targets established in the MTPDP.⁷⁷ In reality, however, the scope of the MTPIP is only a subset of total public expenditures or of the total budget. It includes capital-forming public investment projects and programs, both ongoing and new, and covers all departments and agencies, including locally-funded and ODA projects.

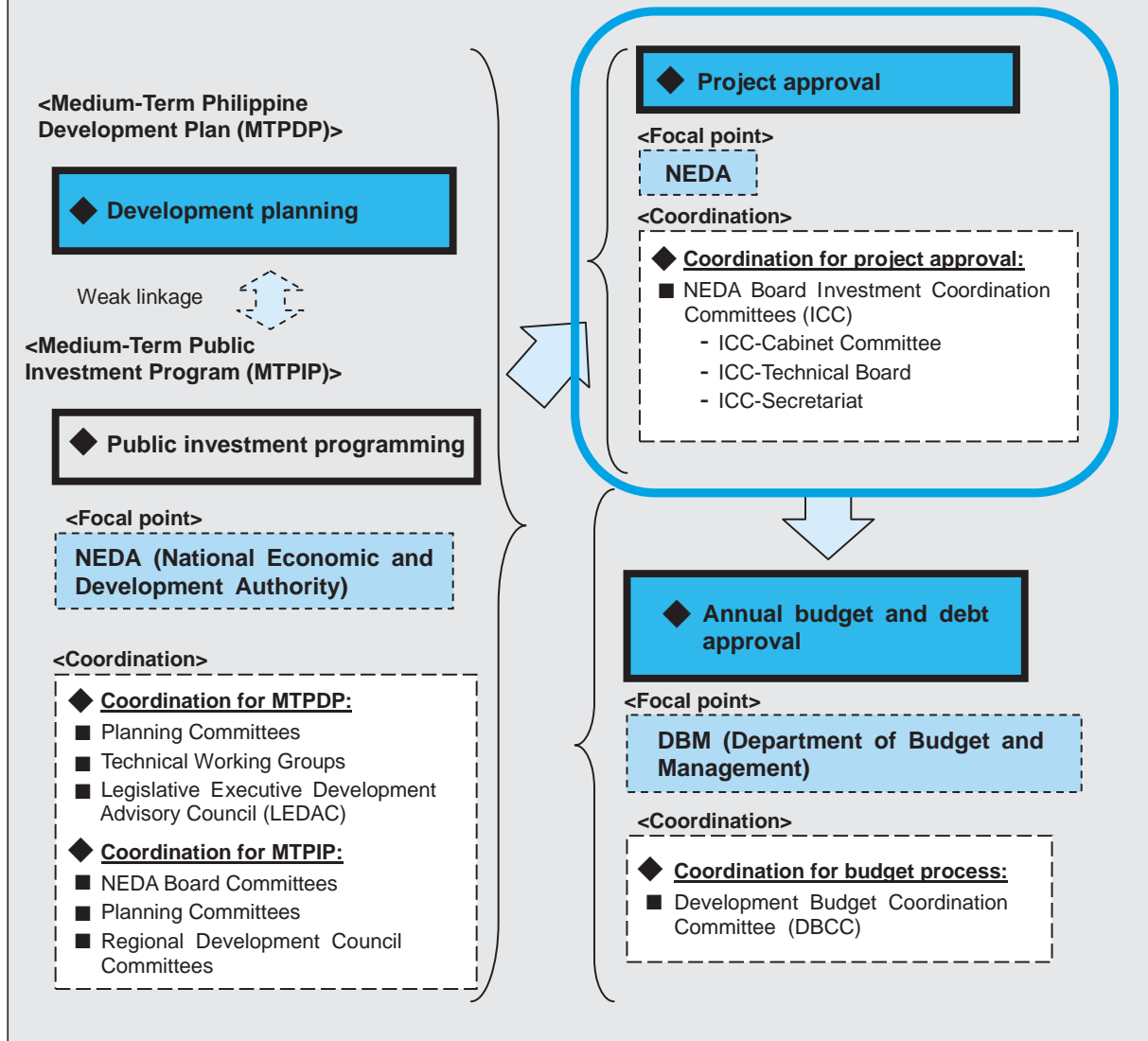
On the other hand, the MTPIP excludes administrative capital expenditures (i.e., in support of regular agency operations such as improvements in existing office buildings), debt payment, and projects and programs to be financed purely from the Local Government Unit (LGU) revenues.⁷⁸ Moreover, being a wish list of projects and programs, the MTPIP includes even low-priority projects that are incoherent in terms of efficient allocation. One main reason why the MTPIP has not served its expected role lies in the status of the MTPIP itself. As explained in Chapter 4, the MTPIP does not define budget allocation. In order to secure funding, therefore, potential projects and programs must still be evaluated and approved by the Investment Coordination Committee (ICC) even after they are included in the MTPIP. In addition, they must be scrutinized by the Department of Budget and Management (DBM) based on the department’s budgetary ceilings.

In sum, the inclusion of projects and programs in the MTPIP does not have any binding effect on their successive investment selection and budgeting process. Furthermore, since the MTPIP has been regarded as a gatekeeper for actual investment budgets, sector departments have every incentive to

⁷⁷ Based on the interview with NEDA officials and their presentation materials (in March 2006).

⁷⁸ Ibid.

Figure 5-8 Overview of Development Planning, Macroeconomic Coordination, and Investment Programming in the Philippines



have their projects and programs included in the MTPIP (World Bank 2003). In addition, the “congressional insertions” that occur during the annual budget process create distortions, leading to the selection of inappropriate programs and projects that are not fully aligned with national objectives, strategy and priority. Such legislative intervention undermines the role and credibility of the MTPDP and the MTPIP.

As a result, the government of the Philippines faces more complicated and profound challenges than Thailand and Malaysia. This is the case not only in terms of macroeconomic management, but also for development planning and investment selection.

3-2 Decision-Making Parameters and Coordination Mechanisms for Public Investment Selection

The NEDA serves as a focal point for evaluating and programming public investment projects by coordinating ODA and appraising projects and programs. The ICC, one of the six inter-agency committees of the NEDA Board, is responsible for deciding which projects are to be financed, particularly for ODA and Build Operate Transfer (BOT) projects. Potential projects are to be submitted to the ICC by the proponent departments and agencies via NEDA Technical Staff. Investment projects that have been cleared and recommended by ICC are then submitted to the NEDA Board for final funding approval (see Figure 5-9).

The chair of the ICC is the Department of Finance (DOF) Secretary, and the co-chair is the NEDA Director-General. Members include the Executive Secretary, as well as the Secretaries of Budget and Management, Trade and Industry, Agriculture and Energy, the Governor of the Central Bank (Bangko Sentral ng Pilipinas), and the BOT Center. The ICC is supported by technical working groups that conduct the technical evaluation of projects for the deliberation of the ICC. Its core members are drawn from the technical staff of the oversight agencies (i.e., the NEDA, the DBM, the DOF and the Central Bank). The ICC conducts the following in deciding which projects to be recommended to the NEDA Board for final approval (Medalla 2004):

- Reviews the fiscal, monetary and balance-of-payment implications of major capital projects, and
- Submits to the President: (i) a status of the fiscal (budgetary), credit (monetary) and balance-of-payment implications of major capital projects; and (ii) review/evaluation of specific major capital projects in light of technical, financial, economic, social, environmental, and institutional development, as well as feasibility/viability in the context of sectoral plans and geographical strategies.

Because the ICC approval process comes only after the MTPIP has been prepared, the projects and programs listed under the MTPIP usually have not gone through rigorous scrutiny as required under the ICC process. Accordingly, what tends to result is a sort of “wish list.” As explained previously, various initiatives are underway through the administrative channel (headed by the NEDA and the DBM) in order to strengthen the effectiveness of the MTPIP and enhance linkages between planning and budgeting.

Projects that require ICC clearance are as follows: (i) any public sector undertaking with a total project cost of 500 million pesos⁷⁹ and above, resulting in new capital investment irrespective of financing (i.e., whether for local funding or through loans/grants for foreign funding); (ii) public sector projects with foreign borrowing of at least US\$5 million; (iii) projects from the private sector seeking concessional ODA financing under on-lending arrangements and/or national government financing guarantees (e.g., BOT projects); and (iv) other projects and programs not defined above, as considered on a case-by-case basis. In reality, those capital investments that are subject to ICC approval are limited to

⁷⁹ As of December 4, 2006, US\$1 is equivalent to 49.695 pesos (central bank data).

ODA and BOT projects. Purely locally-funded public investment projects are smaller in scale and turn out to be outside the requirements of the ICC review. According to NEDA officials, no locally-funded public investment projects have gone through the ICC review process, since those submitted for local funding are below the cut-off point of 500 million pesos.

It is also noteworthy that projects funded by the PDAF (i.e. pork barrel funds) that are allocated to each legislator are not subject to ICC approval. In short, the administrative system allows legislative intervention that may conflict with national and sectoral development strategies, leading to distorted allocation and also undermining both transparency and efficiency in public investment selection.

3-3 Preparation and Decision Making Process for Public Investment Projects (Locally-Funded Projects and ODA Projects)

In reality, as explained above, the procedures and requirements for project preparation and selection are different for locally-funded projects and large-scale ODA initiatives. The ICC system virtually excludes locally-funded investment projects (as well as projects prepared by congresspersons mobilizing their pork barrel funds) from having to undergo intensive scrutiny, as only the large-scale ODA and BOT projects are subject to the ICC process. The absence of ICC reviews may lead to a decrease in transparency and efficiency, thereby creating loopholes in the system of development administration. This is a distinctive feature of the Philippines as compared to Thailand and Malaysia, both of which have the same basic approval procedures and requirements for both locally-funded and ODA projects.

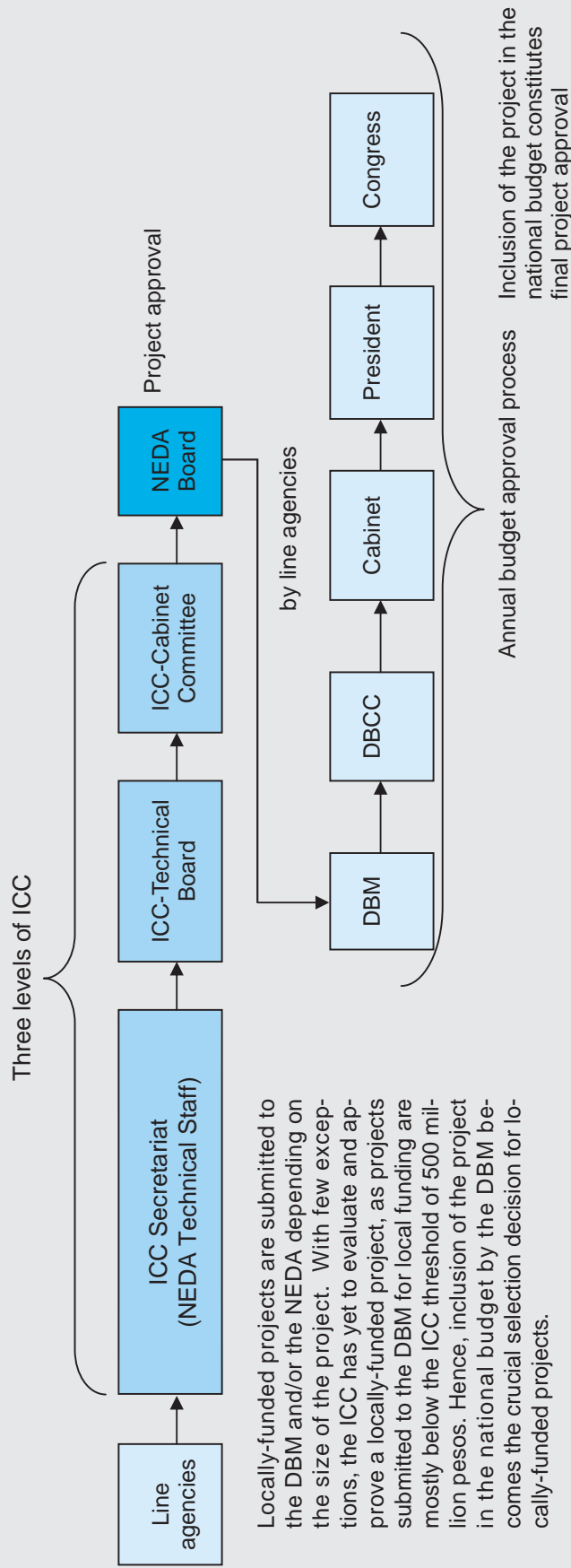
In the case of locally-funded projects, the relevant line agencies submit proposals to the DBM and/or the NEDA, depending on the size of the project. In the absence of the ICC review, the inclusion of the project in the national budget by the DBM becomes the crucial investment selection decision. Hence, when the project is included in the national budget, it may be regarded as essentially approved (see Figure 5-9).

Donor requirements for ODA projects are usually more rigorous (comparable to international standards) than the government's requirements for locally-funded projects in terms of the quality of feasibility studies, social and environmental safeguards, standards for operations and maintenance, requirements for implementation and monitoring, procedures for selection and management, etc. Because donors need to maintain accountability and transparency to taxpayers in their home country, as well as minimize fiduciary risks in the respective ODA operations, it is understandable that requirements for recipient countries tend to be increased. In other words, there is a certain rationale behind institutionalizing ICC evaluations for ODA projects.

However, setting up a dual and exceptional system for ODA would increase the gap that exists between the procedures of ODA and locally-funded projects, and might only enlarge the administrative burden borne by the government. Furthermore, setting the ICC threshold by the total project amount might induce inefficiency, as it would create perverse incentives for the proponent line agencies to fragment projects in order to evade the ICC evaluation process. The consequence of such a dual system for project screening and approval—more rigorous rules applied for ODA projects and less so for

locally-funded projects—might also create distortion and inefficiency to the economy as a whole. While ODA may function as a catalyst and serve as an entry point to facilitate the institutional and capacity-building efforts for the broader system of government, there is a potential risk that additional rules and complex procedures required by donors could raise the transaction costs of the government.

Figure 5-9 Project Approval Process—Public Investment (Namely ODA and BOT) Projects Subject to ICC Approval



Source: Author—drawn from information provided by NEDA to the GRIPS team.

Chapter 6 Case Study: Eastern Seaboard Development Plan in Thailand

This chapter will examine the specific case of one of Thailand's most notable mega-projects, the Eastern Seaboard Development Plan (ESDP). The pages to come will follow an analysis of the ESDP, so as to illustrate what major factors contributed to the advancement of its development, with a specific eye on institutional settings and coordination mechanisms, as well as the corresponding roles of the Thai government, political leadership, technocrats, and central economic agencies. To date the general presumption has been that the synergetic whole of a multiplicity of interacting factors had more or less contributed to fomenting development. However, we will break down this amorphous whole and look in detail at each factor therein, including external global factors that had positively impacted the project in their own way.

The analysis of institutional settings and coordination mechanisms will focus on the central economic agencies in order to best illuminate the good reasons behind adopting a centralized system for the implementation of this type of development. In fact, mega infrastructure investments in general require high levels of capacity for planning, complicated coordination, competency in technical issues and the mobilization of vast resources. Large-scale infrastructure development is inherently characterized by: capital intensive investment disbursed over extended periods of time, economies of scale, network effects, linkage effects on business activities, the involvement of a variety of stakeholders, and the need for advanced technical expertise, among other things. As such, the central economic agencies have been in the prime position as main players in the execution of this mega -public-investment project, the ESDP.

1. Overview of the Eastern Seaboard Development Plan (ESDP)

1-1 Main Features of the Plan, as well as its Political and Economic Background

The Eastern Seaboard is located 80-200 km southeast of the Bangkok Metropolitan area. Regional development of this land involved the creation of special integrated economic zones with diverse types of capital-intensive infrastructure projects. Two industrial complexes were built in the formerly tranquil fishing villages of Laem Chabang and Map Ta Put, respectively, where currently many manufacturing firms, such as those related to automobiles, electronic consumer goods, petrochemicals, and other industries, are operating. Also, two deep seaports, one commercial and one industrial, were constructed at the same sites. Associated infrastructure projects were commenced, such as water resource development and water supply projects, roads and railway projects, and power and communication facility development. In sum, the Eastern Seaboard has become Thailand's second largest industrial zone, next to Bangkok's metropolitan area, and has made remarkable contributions to the country's economic growth.

The ESDP is considered Thailand's first forward-looking, strategic initiative aimed to fuel a robust economic takeoff. Two major objectives of development in this area were: (i) to strengthen international competitiveness by building an industrial base suitable for accelerating industrialization, and (ii) to

systematically expand economic activities out towards regional areas while generating employment outside of Bangkok so as to mitigate concentration levels, and other strains of urbanization, in Bangkok.

The ESDP was one of the first regional development initiatives that had taken an intersectoral, programming-oriented planning approach, wherein annual budget plans for development were compiled by integrating across the board all agencies concerned, so that the overall budget for whole programs could be easily grasped. The plan involved varying sectors with more than twenty government agencies and state enterprises contained therein. Thus, development issues could not be neatly separated into specific sectors and a more broadly-encompassing perspective became necessary. Also, organic integration between numerous funding sources and development schemes became crucial for effective planning and programming.

The ESDP was regarded as being of the highest priority at the time of the Fifth (1982-1986) and the Sixth (1987-1991) National Economic and Social Development Plans (NESDPs). Its basic idea was formulated in the late 1970s and a master plan was completed in 1982.

Starting within the context of the Third NESDP (1972-1976), the Thai government endeavored to achieve a big leap in economic performance by shifting its industrial strategy from import-substitution to export-oriented industries promotion. In fact, policymakers were steadfastly determined to see to it that “catching up” in terms of industrialized nation status be Thailand’s priority goal. However, in reality, Thailand was only able to close in on this goal after the late 1980s, when the development of the Eastern Seaboard, and several external global factors, together contributed to the inflow of direct investment to the region.

As a matter of fact, the development of the Eastern Seaboard evoked a lot of controversy within the government from the start. Standoffs between proponents and opponents of the ESDP lasted throughout the development process. Technocrats debated over macroeconomic issues, such as whether, under difficult circumstances, the country should prioritize macroeconomic stability for the present or longer-term economic development for the future.⁸⁰ Also, on a more acute scale, issues of whether to postpone, downsize or shelve specific projects within the plan in order to make painful adjustments during the recession caused protracted, hot debates (see section titled “Leadership”). Hence, the fact that the Eastern Seaboard’s development had in fact started during a turbulent era for the Thai economy meant that overall development processes were complex, and even more difficult to manage.

In the early 1980s, when the ESDP was initiated, Thailand was suffering from an economic recession, primarily caused by hard-hitting changes in the global environment, such as the oil crisis, trade imbalance and debt problems. Thailand was particularly susceptible to being affected by the world economy because of its high dependence on primary commodities and external finance. Hence, the global market’s recession directly impacted the Thai economy. For example, both international trade and the cur-

⁸⁰ “*Eastern Seaboard Development Ex-Post Evaluation Report (Third Party)*”, Yasutami Shimomura, Japan Bank for International Cooperation, 2000.

rent account deficit were aggravated by the fall in export prices and the rise in import prices. The escalation of world oil prices following the 1979 crisis also further exacerbated trade deficit problems. So, no matter how much Thailand increased its exports, costs incurred by import bills could not be recovered. In fact, the Thai government borrowed from the World Bank twice, in the form of Structural Adjustment Lending in 1982 and 1983, in order to cover its slide in meeting the balance of payments. The Thai government also received Standby Credits from the International Monetary Fund (IMF). Moreover, while the government countered external forces by maintaining strict fiscal discipline and tight control over monetary policy under the World Bank's structural adjustment program, it devalued the baht in 1981 and 1984, overriding political resistance from the military.⁸¹ Thus, Thailand was unable to achieve industrialization objectives owing to its continued heavy dependence on exporting primary products, and, in response, the government had to reorganize industrial structures to overcome the nation's deteriorating situation. In fact, political leaders and technocrats were gripped by a sense of political and economic urgency stemming from a fear of foreign encroachment, and this served as motivation for deeper commitments to industrialization as a means to robust economic growth.⁸²

In addition to global factors as described above, there were also two key domestic factors that led to the initiation of the ESDP: (i) the 1973 discovery of natural gas reserves in the Gulf of Thailand, and (ii) the desire to alleviate strains caused by excessive urban concentration in the Bangkok Metropolitan area. With respect to the discovery of natural gas reserves, the government was eager to create an industrial base, especially within the petrochemical industries, to make the most of its future potential. And in regard to problems in the Bangkok metropolitan area, the government had to effectively handle social and structural issues raised by regional disparity, traffic jams, and air and water pollution, among other things, in its congested urban areas.

1-2 External Financing and the Involvement of Donors

In the realm of external financing, key investors in Thailand were Japan, the European Union (EU) and the United States (US). Of these, from 1982 Japan provided wide-ranging assistance funding 16 major infrastructure projects via 27 loan agreements, amounting to a total loan commitment of 179 billion yen.⁸³

Initially, the Thai government requested that the World Bank assist in preparing the master plan, but after completion of the plan, the government redrafted the master plan on its own while drawing upon advice from Japan. In fact, the World Bank had proposed that Thailand take a least-cost approach to development in view of the difficult fiscal situation it was in at the time. The World Bank advised that the Thai government utilize the existing naval port, Sattahip Port, rather than develop new deep sea

⁸¹ Ibid.

⁸² Drawn from the views of Toshio Watanabe: "*Shinseiki Asia no Koso (Designing Asia for the New Century)*" published by Chikuma Shinsho; Tokyo, 1995.

⁸³ The Japanese implementing agency was the Overseas Economic Cooperation Fund of Japan (OECF), presently the Japan Bank for International Cooperation (JBIC).

ports. The Thai government then went on to explore the possibility of requesting Japanese assistance, as it was aware that Japan had shown interest in supporting the plan. Japan made a counterproposal recommending the construction of new deep-sea ports at Laem Chabang and Map Ta Put, and the Thai government ultimately reflected Japan's recommendation in the final master plan.⁸⁴ Japan also proffered advice based on its own lessons and experiences from the past to the Thai government. It emphasized the importance of developing commercial seaports outside of Bangkok that could function as new gateways for other countries to come and engage in economic exchange. Japan also pointed out the significance of developing industrial bases capable of attracting foreign direct investment. Subsequently, a mission sent by the Japanese government and headed by Dr. Saburo Okita, a former Foreign Minister, came to Thailand to discuss the possibility of Japanese assistance for the ESDP.⁸⁵

In the end, the Thai government, duly under its own best judgment, made the decision to formally request assistance from Japan. It should be noted, however, that the Thai government received recommendations from donors other than Japan and the World Bank, such as the United Nations (UN), Belgium and the United Kingdom (UK).⁸⁶ The Thai government consciously sought to gain advice from as many sources as possible from the onset, rather than limit itself to just one. The Thai government initiated its own probe into changing economic conditions, and used the analysis thereof to pragmatically decide on the most suitable donor for supporting its development strategy. On the other hand, the fact that Dr. Sanoh Unakul, former Secretary General of the National Economic and Social Development Board (NESDB) and Dr. Saburo Okita came into negotiations already linked by what they saw as a personal relationship of trust is nevertheless worthy of attention, as it was likely to have greatly impacted discussions between the two parties.⁸⁷

As mentioned earlier, Thailand was in the midst of a deep recession, provoked by external global factors, during the initial stages of the ESDP. However, after the Plaza Accord in 1985, there was an economic upswing and, by the late 1980s, an economic boom of historical proportions was taking place. Hence, economic conditions during the 1980s were seen as highly volatile, ranging dramatically from the deep recession to its subsequent outstanding economic climb. On the other hand, the political situation domestically was relatively stable throughout most of the 1980s under the administration of Prime Minister Prem Tinsulanonda (1980-1988). Hence, the Eastern Seaboard Development was planned and implemented mainly during a period of domestic political stability, which stood in sharp contrast with rough waters of the global economic seas.

⁸⁴ Interview with a National Economic and Social Development Board (NESDB) official held October 2005. The same official worked in charge of the ESDP during the 1980s at the Office of the Eastern Seaboard Development Committee.

⁸⁵ Following this visit, the Japan International Cooperation Agency (JICA) prepared feasibility studies for the plan centered on Map Ta Put areas.

⁸⁶ Interview with an NESDB official held October 2005.

⁸⁷ Interview with an NESDB official held October 2005.

2. Major Driving Forces Pushing the Plan Forward

2-1 Leadership

One notable element of the ESDP is the role of Thailand's leadership in carrying out its development. Prime Minister Prem had a sound vision for how to best benefit public interest, and his deep sense of commitment and dedication to ensuring the success of this plan was recognizable to many. His actions underscored the importance of Thailand's strong ownership and initiative in regard to both development management and donor management.

Prime Minister Prem created a centralized administrative framework exclusively for managing the ESDP. A coordination mechanism for decision-making and implementation was inserted into this framework, and Prime Minister Prem himself led the process. The mechanism foremostly featured the establishment of the Eastern Seaboard Development Committee (ESDC), a cabinet-level national committee chaired by Prime Minister Prem himself, for decision-making, and the Office of the Eastern Seaboard Development Committee (OESD),⁸⁸ created within the NESDB, as the ESDC Secretariat in charge of overall coordination. This highly centralized structuring contributed to effective planning in, and implementation of, the ESDP. The workings of the overall mechanism and specific functions of major bodies therein are described in greater detail in "Institutional Settings" below.

In fact, a number of legal avenues for introducing this administrative framework, such as by law, act, royal decree, or executive order by the prime minister were considered, especially in regard to the creation of the OESD. Ultimately, the Prime Minister's Executive Order, the most simplified form of regulation, was adopted. Initially, possibilities for creating a government corporation in the form of a Regional Development Corporation were discussed; however, this would have necessitated promulgation of laws, thereby inevitably requiring considerable time for coordination and approval processes. Hence, Prem adopted the Prime Minister's Executive Order to expedite the highest-level of policy structure for decision-making. Herewith, the ESDC led by Prime Minister Prem was created and the OESD was established within the NESDB to act as secretariat for the ESDC.⁸⁹

Prime Minister Prem placed his confidence in technocrats, especially the NESDB technocrats, and delegated the authority to realize the ESDP to them. Hence, he deployed highly motivated, competent technocrats to central economic agencies, including the NESDB and the OESD, established therein and utilized them as his supporters. Dr. Sanoh Unakul, Secretary General of the NESDB for two terms, in 1973-1975 and in 1980-1989, recalled that the NESDB technocrats were seen as possessing high credibility in the eyes of Prime Minister Prem during his administration (1980-1988). Dr. Sanoh Unakul stated as follows:

⁸⁸ Initially, upon the creation of the ESDC in 1981, the Center for Integrated Plan and Operations (CIPO) was also established. Later, the CIPO was transferred to the OESD, out of a need to strengthen its role as secretariat after the ESDP had progressed to the implementation stage.

⁸⁹ Interview with an NESDB official held October 2005.

I think during the period of General Prem Tinsulanonda Administration, under the Fifth and the Sixth National Plans, the NESDB (technocrats) played a vital role in national development. I also believe that the NESDB (technocrats) obtained high credibility from General Prem during that time. This was because our views and recommendations were very logical with supporting facts and tangible actions. All policy recommendations from the NESDB were translated into action in which our collaborative efforts helped facilitate the implementation of the plan. This was indeed as a result of establishing various agencies and restructuring of existing organizations⁹⁰ related with the implementation of national economic policy.....General Prem himself attended every committee meeting which gave full credit to it.⁹¹ (Parenthesis added by author)

Prime Minister Prem placed great importance on achieving economic results by relegating political interests to the metaphorical back burner as often as possible. Hence, he insulated technocrats from political pressures, and created an environment where they were free to focus on contemporary changes in economic conditions and come up with the pragmatic decisions required of them. The devaluation of the Thai baht in 1984, mentioned earlier, stands as a case in point, signifying that technocrats were effectively kept safe from political pressure under Prime Minister Prem's wing. This case also reveals the independence of the Central Bank (the Bank of Thailand).⁹² Hence, it was mainly the technocrats, rather than politicians and the military, who engaged in debates regarding the ESDP, and their arguments on economic dimensions rather than political aspects. As explained above, in the midst of widespread fiscal and monetary instability, technocrats debated how the problems at hand could be solved while keeping the country's longer-term economic goals from slipping out of sight. Their disputes revolved around how to discover the most effective ways for making adjustments to existing plans. For example, initially in 1981, the Thai government had formulated a plan for development of the heavy chemical industry in Map Ta Put comprising four sectors: petrochemical, chemical fertilizer, soda ash and deoxidized iron. However, as a result of thorough studies on their feasibility and profitability, the projects other than those for the petrochemical sector were abandoned until the start of the ESDP's full implementation in 1998. Courage was required over the course of making each policy decision since a number of individuals had their benefits and privileges, at some point, revoked. These types of decisions were made based on regularly conducted studies on the economic performance of individual projects, as well as reviews reflecting changes in the economic situation.⁹³ In sum, while maintaining core objectives, the Thai government was able to revise specific points in the development program with relative flexibility given shifts in the economy.⁹⁴ Because discussions focused mainly on economic analysis, the overall direction of policy and countermeasures to problems related to development were for the most part reasonable and pragmatic.

⁹⁰ "...establishing various agencies and restructuring of existing organizations..." seems to be referring to various national-level committees and sub-committees, including the ESDC and smaller sub-committees created under the ESDC during the Prem administration.

⁹¹ "Five Decades of NESDB," published by the NESDB; February 2000.

⁹² "Eastern Seaboard Development Ex-Post Evaluation Report (Third Party)," Yasutami Shimomura, Japan Bank for International Cooperation, 2000.

⁹³ "Eastern Seaboard Development Plan Impact Evaluation Report," Japan Bank for International Cooperation, 2000.

⁹⁴ Interview with an NESDB official held October 2005.

Prime Minister Prem himself functioned effectively as a balancing force. He seemed to have a capacity for listening to a variety of different voices with patience, and this contributed to his well-balanced judgment and ability to produce reasonable solutions.⁹⁵ The incident involving the World Bank master plan, as mentioned above, is a fair depiction of his qualified leadership. Prem listened to the World Bank, Japan, and a wide array of domestic opinions before finally coming up with a decision to seek assistance from Japan. The case of the chemical fertilizer project in Map Ta Put, explained above, is another example. The project was originally planned for construction with the support of a Japanese loan. However, in the end, the Thai government cancelled its ODA request after cautious scrutiny of its own economic analysis bringing light to international market situations. In making such highly sensitive decisions, delicate for their potential diplomatic impact, Prime Minister Prem conscientiously listened to a number of opinions from the pertinent ministries and reviewed advice from donors. Prime Minister Prem himself worked in close coordination with Dr. Sanoh Unakul and other concerned ministers for consensus building. The relationship of mutual trust between Prem and Sanoh seems to have contributed greatly for effective policy coordination and decision-making positively beneficial for Eastern Seaboard development.⁹⁶

2-2 Technocrats

Before and during the 1980s, government officials, and especially technocrats, at the central economic agencies were highly motivated and served in their duties to bring forth economic development in Thailand with competence. The leading technocrats considered to be central players in drawing up policy for development of the Eastern Seaboard were Dr. Sanoh Unakul and Mr. Sommai Hoontrakool, formerly a Finance Deputy Minister and Finance Minister during 1974-1975 and 1980-1986.⁹⁷ They were regarded as outstanding on the job and carried with them a depth of experience and excellent sense of balance.⁹⁸

The central economic agencies, especially the NESDB, attracted many elite candidates clamoring for employment. The NESDB was a reservoir where the finest in human resources were found, owing to the fact that it drew many employees noted for their knowledge, leadership and voice from other agencies.⁹⁹ Many considered having a career as a government officer to be a prestige. As early as the 1950s, with financial assistance from the US and other countries, many promising technocrats were sent abroad to study at graduate schools. They acquired master's degrees and even PhDs. Upon their return, they were assigned to work in key government positions to serve their country. The Thai government utilized foreign aid to support their pursuit of human resource development and aggressively sought to bring knowledge from abroad back home, so as to incorporate it into the Thai system. For example, the

⁹⁵ “*Eastern Seaboard Development Ex-Post Evaluation Report (Third Party)*”, Yasutami Shimomura, Japan Bank for International Cooperation, 2000.

⁹⁶ Interview with an NESDB official held October 2005.

⁹⁷ Interview with a former NESDB Secretary General held January 2006.

⁹⁸ “*The Role of Governance in Development Revisited: A Proposal of an Alternative View*”, Yasutami Shimomura, FASID Discussion paper on Development Assistance No.5., 2005.

⁹⁹ Interview with an NESDB official held October 2005.

budget management system introduced in the 1950s was actually a combination of Thailand's own system blended with elements from that of the US. The Budget Procedures Act, introduced in 1959, was also one product of this initiative.¹⁰⁰ In short, Thailand's ability to sustain vision and strategy for the long-term in regard to developing human resources has become the foundation for its development administration.¹⁰¹

Dr. Sanoh Unakul, himself an experienced and fair technocrat who was sent abroad to study before being transferred from the Ministry of Finance to the National Economic Board (predecessor of the NESDB), recalled the high competency of technocrats who worked with him during the NESDB's pioneering era of the 1950s as follows:

...I always emphasized the fact that I was lucky to have worked with a team of quality people. At that time, a number of energetic and talented people were joining the Division including Dr. Phisit Pakkasem, Mr. Kosit Panpiemras, Mr. Kasem Sanitwong na Ayudhya, Mr. Sathaporn Kavitanon and many more. Apart from these heavyweights of first generation, there were next generations as talented including Mr. Sommai Phasi, Mr. Santi Bangor, etc. We worked like a family in a very enjoyable and productive environment...Under good guidance and directions, these talented and creative people rapidly developed their full potential. I always said that the people who worked with me would end up more capable than I. It would be very unfortunate if they would not be more capable. And it turned out that almost all of my team members were better than I in their field of duties...¹⁰²

The most competent technocrats were selectively picked out from the best of each government agency, including the NESDB, to follow the ESDP's mission. The technocrats took deep pride in being part of a force undertaking a top-priority national project. While salary itself did not change after a transfer, technocrats recognized that the fact one has been assigned to work at the OESD was sure to advance one's career. Originally, the OESD (Center for Integrated Plan and Operations, or CIPO, was its predecessor) started off with around thirty officers. However, by the mid 1980s the number had grown to include around one hundred, including supporting staffs and foreign advisors, because, over time, expansion had become necessary for covering a growing range of institutional functions necessary for bringing its plans into action.¹⁰³

In this way, technocrats applied themselves fully in utilizing their knowledge, initiative and sense of national responsibility to undertake the ESDP, while, at the same time, the significance of their role and their work was reinforced by the strong willingness of the people to follow the path towards economic development. At the root of these circumstances lay a sense of political and economic urgency existent within the Thai government. Factors such as: (i) political intent to reorganize industrial structures, (ii) conflicts of interest between the proponents of each of national security and development,

¹⁰⁰ Interview with a former Minister of Finance and NESDB Chairman held October 2005.

¹⁰¹ Interview with an NESDB official held October 2005.

¹⁰² "Five Decades of NESDB", published by the NESDB in February 2000.

¹⁰³ Interview with an NESDB official from the Spatial Development Office held January 2006.

stemming from limited resource allocation after the US's withdrawal at the end of the Vietnam War, and (iii) the international economic environment, rife with troubles relating to the oil crisis, trade imbalances and debt problems, all helped to augment the public's willingness to accept the technocrat-led bureaucratic polity to the extent that it kept order and implemented policies conducive to growth. Therefore, the structures of the system, oriented on centralism and elite leadership as it was, appeared to be legitimized by a national sense of urgency.¹⁰⁴

The fact that technocrats competent in their work, including those in the NESDB and the OESB, continued to maintain policy coherence, even in the years after the Prem administration, also greatly contributed to facilitating development in the Eastern Seaboard. Proponents of the development plan, including Dr. Savit Phothivihok, the Head of the OESD, remained posted in their official positions for quite a few years and continued to promote the ESDP following the administration's change of hands.¹⁰⁵ In view of this, it is clear that the technocrats were the dominant players and their proficiency allowed them to handle policy administration with stability in the interest of the country's longer term goals and vision.

2-3 Central Economic Agencies (and the NESDB, in Particular)

As described in Chapter 2, macroeconomic management in Thailand has utilized the ability of the central economic agencies to check and balance each other; these agencies are: the NESDB, the Bureau of the Budget (BOB), the Fiscal Policy Office (FPO), the Public Debt Management Office (PDMO)¹⁰⁶ and the Bank of Thailand (BOT). These agencies as a whole have consistently powered prudent macroeconomic management, tempered with relatively strict fiscal and monetary discipline. The distribution of specific functional tasks and their corresponding authorities relating to planning, programming, and budgeting, as well as the implementation and monitoring thereof, has been arranged among different organizations, including these agencies. Thus, in regard to the congregate of these operational fields and responsibilities, no singular organization has been assigned to oversee the structural whole. Yet, mechanisms for relatively workable coordination have been built into the system, including specific coordination mechanisms for the Eastern Seaboard Development, expressly to strengthen decision-making on important matters as needed.

The NESDB was noted for its power to effectively counteract political pressures on, and unreasonable interventions into, development affairs as well. During the 1970s, when political leadership had changed frequently, parties in power, whether of military or political origin, often intervened in the budget process with the aim of controlling sector agencies. However, the NESDB, led by Dr. Sanoh Unakul succeeded in warding off these intrusions into its administrative branches. Hence, development planning and budgeting executed by the government were maintained without substantial deviation. In

¹⁰⁴ Drawn from the views of Toshio Watanabe: "*Shinseiki Asia no Koso (Designing Asia for the New Century)*" published by Chikuma Shinsho; Tokyo, 1995

¹⁰⁵ Interview with an NESDB official from the Spatial Development Office held January 2006.

¹⁰⁶ The PDMO was established on October 1, 1999 as a unit in the Office of the Permanent Secretary for Finance.

the 1980s, Prime Minister Prem allocated and even portion of responsibility to the NESDB for its role as a counteractive force. This held especially true for large-scale investment projects involving the tremendous political and economic interests of a variety of stakeholders. In short, the power of the NESDB resided in its crosschecking function over comprehensive matters of development planning and macroeconomic management.¹⁰⁷

As mentioned earlier, the NESDB was staffed with many competent technocrats and esteemed highly by Prime Minister Prem as an agency of credibility. During the Prem administration (1980-1988), the Prime Minister assigned the NESDB to act as secretariat for a number of major national committees, such as the National Rural Development Committee and the Joint Public-Private Consultative Committee (JPPCC) (see Chapter 3). Prime Minister Prem himself attended every meeting of these major committees to supervise proceedings as chair.

The ESDP was no exception and the NESDB itself became the focal point of the whole development process. In sum, the NESDB acted as the most influential liaison in seeing that plans and policies were brought into action.

The overall role of the NESDB in respect to development was: (i) to function as the Secretariat of the ESDC, (ii) to coordinate operations with relevant government agencies and bodies so as to best plan and execute the development plan, and (iii) to oversee the whole of the development process and ensure its conformity with the plan in order to achieve its targets. The OESD was created exclusively to undertake the ESDP within the NESDB. Its specific role and the scope of its authority are described below.

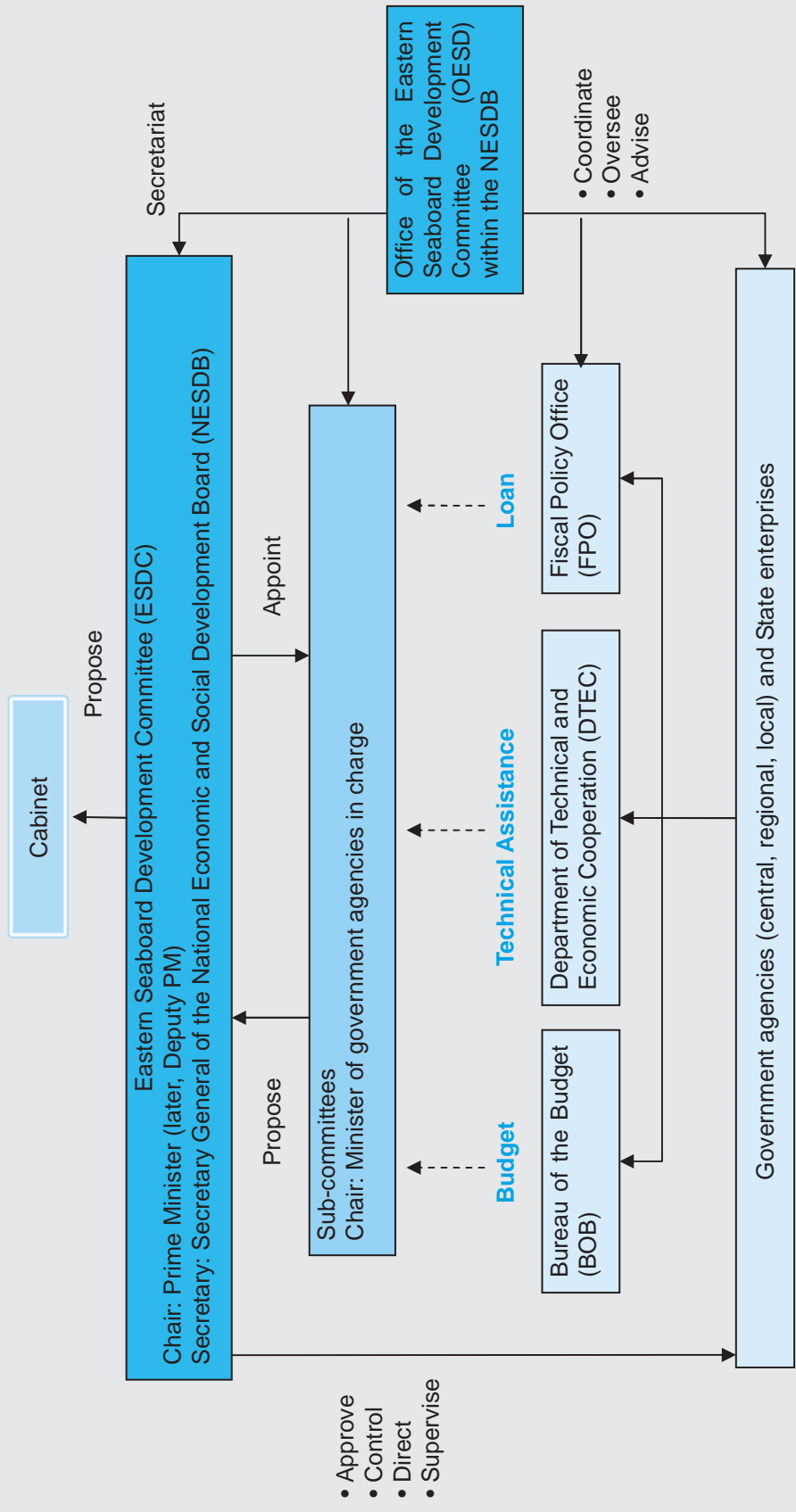
2-4 Institutional Settings

As mentioned earlier, Prime Minister Prem had introduced special mechanisms for operational coordination and decision-making exclusively for the ESDP. Its legal basis was the Prime Minister's own Executive Order, namely, the "Regulations of the Office of the Prime Minister Governing the Eastern Seaboard Development B.E. 2528 (1985)". This executive order actually replaced one previous regulation titled the "Order of the Office of the Prime Minister on Improvement of the Eastern Seaboard Development Committee B.E.2526 (1983)". The coordination and decision-making mechanisms that ensued can be summarized as follows (see Figure 6-1).

Generally in Thailand, coordination among central economic agencies and sectoral agencies is known for being weak. However, in the case of the ESDP, the pertinent agencies maintained relatively good coordination in terms of investment planning, budgeting and implementation. The ESDC and the OESD both played a significant role in enhancing the coordination mechanisms.

¹⁰⁷ Interview with TDRI researchers held October 2005.

Figure 6-1 Overview of the Coordination and Decision-Making Mechanisms



- Approve
- Control
- Direct
- Supervise

Source: Author—drawn upon provisions from the Regulations of the Office of the Prime Minister Governing the Eastern Seaboard Development (1985) and information provided by NESDB, TICA, BOB, FPO, PDMO and MOI to the GRIPS team.

As indicated at the top of Figure 6-1, the Cabinet gave the final approval. The ESDC submitted proposals to the Cabinet to have a final decision passed on any issues that could not be settled or agreed upon by relevant parties internally. The ESDC was a cabinet-level national committee chaired by Prime Minister Prem himself. Thus, the ESDC functioned to engineer interagency coordination for decision-making at the highest level, in a very real sense. The secretary general of the NESDB was appointed as the secretary to the ESDC. In fact, the ESDC was the only national committee in Thailand's history to have been given the cabinet-level authority with the Prime Minister as the chair. Currently, however, national committees with sub-cabinet-level authorities, chaired by the Deputy Prime Minister, do exist.¹⁰⁸ In this respect, institutional settings and the ESDC structure were characteristically unrivaled under the Prem administration, when the NESDB itself exercised extensive power.

Various sub-committees were created by appointment of the ESDC. Sub-committees, chaired by ministers of relevant agencies, discussed specific issues including those involving budgets, technical assistance and loans, and submitted proposals to the ESDC.

The OESD, created internally within the NESDB, was authorized by the Prime Minister to act as secretariat for the ESDC. The OESD also functioned as the focal point for coordination, oversight and advisory for other agencies. For example, the OESD played an important role in making adjustments with relevant agencies when conditions involving changing macroeconomic environments, resources mobilization, technical assistance needs, and/or delays in the physical progress of constructions required such.

Hence, the OESD operated at the nexus of planning and management—comprehensively in charge of coordinating a multitude of sectors for the whole project. In fact, as mentioned earlier, intersectoral and programming-oriented approaches to planning and budgeting had been adopted by the OESD under the authorization of the Prime Minister. More than twenty government agencies and state enterprises took part in the implementation of specific projects under the ESDP.

2-5 Coordination Features

The mechanism was highly centralized. Important policy issues were decided by and directed through a top-down approach, meaning that government agencies each only had to follow directives passed along by those from the top. On the other hand, a bottom-up approach was introduced mainly in the instance of dealing with technical issues. Specific matters related to procuring contractors, for example, were brought up in consultations by the agencies and state enterprises directly in charge of operations on the ground. Wherever necessary, these agencies would come forth with issues for discussion consciously utilizing sub-committees as a platform for ironing out internal differences of opinions. Coordination with private-sector stakeholders was also guided through seminars, sub-committees and national committees, which included the Joint Public-Private Consultative Committee (JPPCC).

¹⁰⁸ In Thailand, the fiscal year covers the period of October-September.

This mechanism facilitated *de facto* a fast-track process. Because the ESDC was a cabinet-level committee led by the Prime Minister, any decisions made at the ESDC were honored by all the agencies. In any case, inter-ministerial coordination was made possible by the OESD's streamlining. For example, in the case that any agencies faced difficulties in reaching a consensus, the OESD would exhaustively assess the issues and decide whether to submit it for discussion at a higher-level, i.e., to the sub-committees and subsequently to the ESDC. Issues involving important policy decisions were also brought up before the ESDC via the OESD. Clause 7 of the Prime Minister's Executive Order stipulates that: *"If any undertaking in respect of the Eastern Seaboard Development fails to achieve its targets or does not comply with the policy, plan, project or procedure as stipulated hereunder, the OESD shall report any issues arising therefrom to the ESDC or the Prime Minister without delay for further instructions."*

In effect, a multilayered, check and balance mechanism had been built into the system. While agencies and state enterprises forged ahead with the projects put in their charge, the OESD oversaw the comprehensive picture of the plan, the BOB scrutinized items of strategic priority for budget allocation under its own prudent macroeconomic management, the Department of Technical and Economic Cooperation (DTEC) conducted screenings of potential technical assistance by donors objectively outside the sphere of their influence, and the FPO established a ceiling on external debt and an overall framework for expenditures. Checks and balances within approval processes were also incorporated into the system, as given below.

Mechanisms applying strategic use of donor assistance were also built into the system, thus making possible pragmatic and independent judgments as illustrated by when Thailand was ensconced in the debate over whether to tailor the master plan with the advice of the World Bank or Japan.

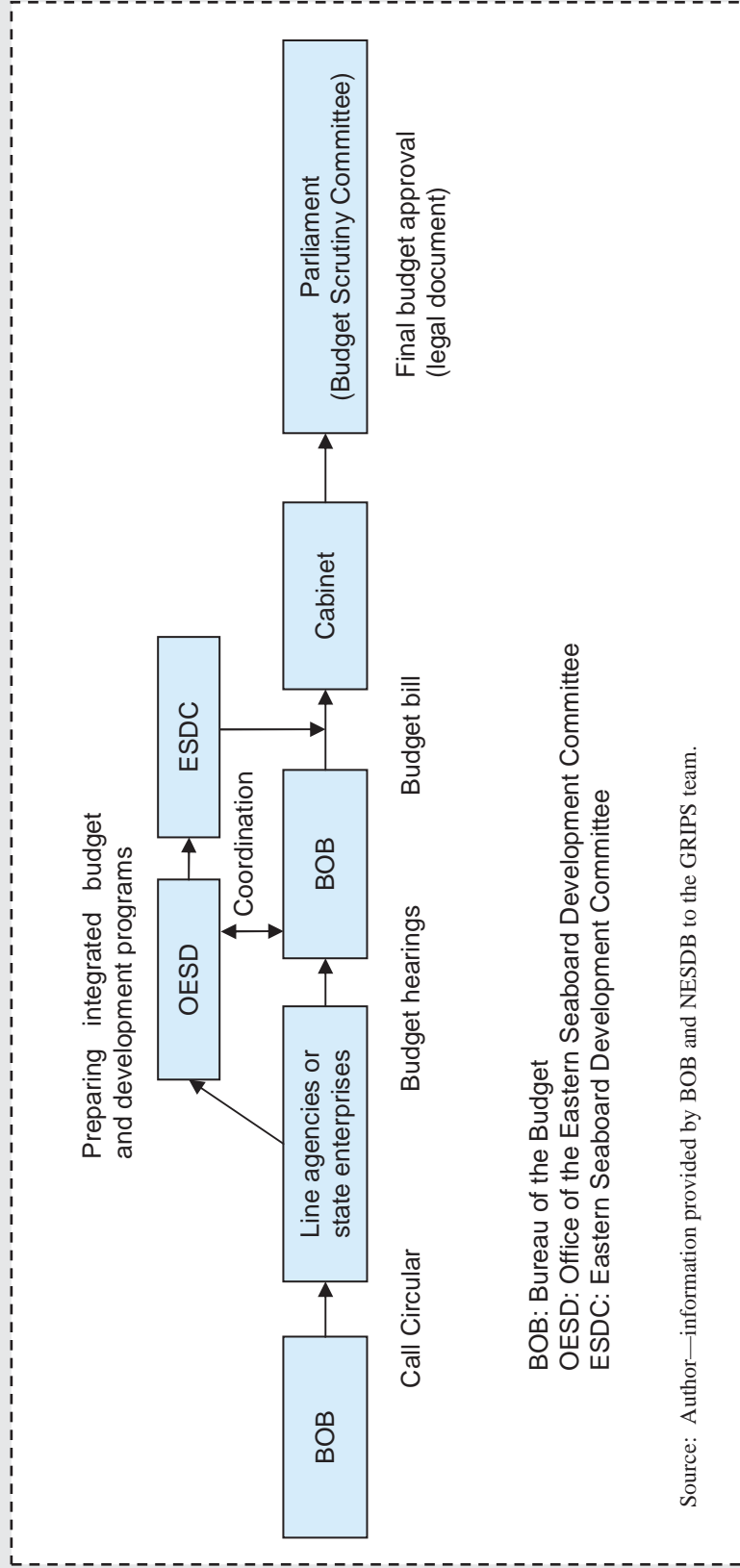
2-5-1 Coordination Relating to Annual Budget Approval Processes

As explained in Chapter 4, Thailand's budgetary process is characterized by each of: (i) the centralized role of the economic agencies, (ii) limited involvement by the legislature, and (iii) the BOB's key role in providing a vertical link between the central economic agencies and the spending agencies (UN 1993). These institutional features have contributed to overall sound fiscal performance.

In addition to the above features, intersectoral and programming-oriented approaches to planning were reflected in the ESDP's budgeting process as well, while checks and balances were also additionally incorporated. Figure 6-2 illustrates the coordination mechanisms relating to the ESDP's annual budget approval processes.

Initially, the OESD had compiled the annual budget plans concerning both investment and recurrent budget items from each of the pertinent agencies and state enterprises, and prepared, exclusively for the ESDP, one integrated budget and development program therefrom. In this way, a number of projects involving the ESDP were programmed into a single regional development plan, and, thus, the intersectoral, programming approach to budgeting were officially introduced under the mandate of the OESD. The OESD maintained close coordination with the BOB during this process, and the drafted program was then submitted to the ESDC for review.

Figure 6-2 Coordination Relating to Annual Budget Approval Processes



Source: Author—information provided by BOB and NESDB to the GRIPS team.

- ◆ Intersectoral and programming-oriented approaches also reflected in the budget process
- ◆ Checks and balances incorporated in the system

On the other hand, each agency and state enterprise went through the prescribed annual budget procedures in order to secure the necessary funding for its own activities, including those involving the ESDP (see Chapter 4 for details of the budget process). In other words, while the OESD took charge of the comprehensive budgeting regarding development, other agencies and enterprises went through the ordinary, annual budget processes as dictated within their own field of authority. Hence, other agencies and enterprises were only able to grasp a fragmented portion of the whole plan.

After thorough scrutiny of all items by the BOB, consistency between budget information submitted by each side was checked and submitted to first the Cabinet, and then the Parliament, for final budget approval. Hence, checks and balances were properly and effectively built into the system.

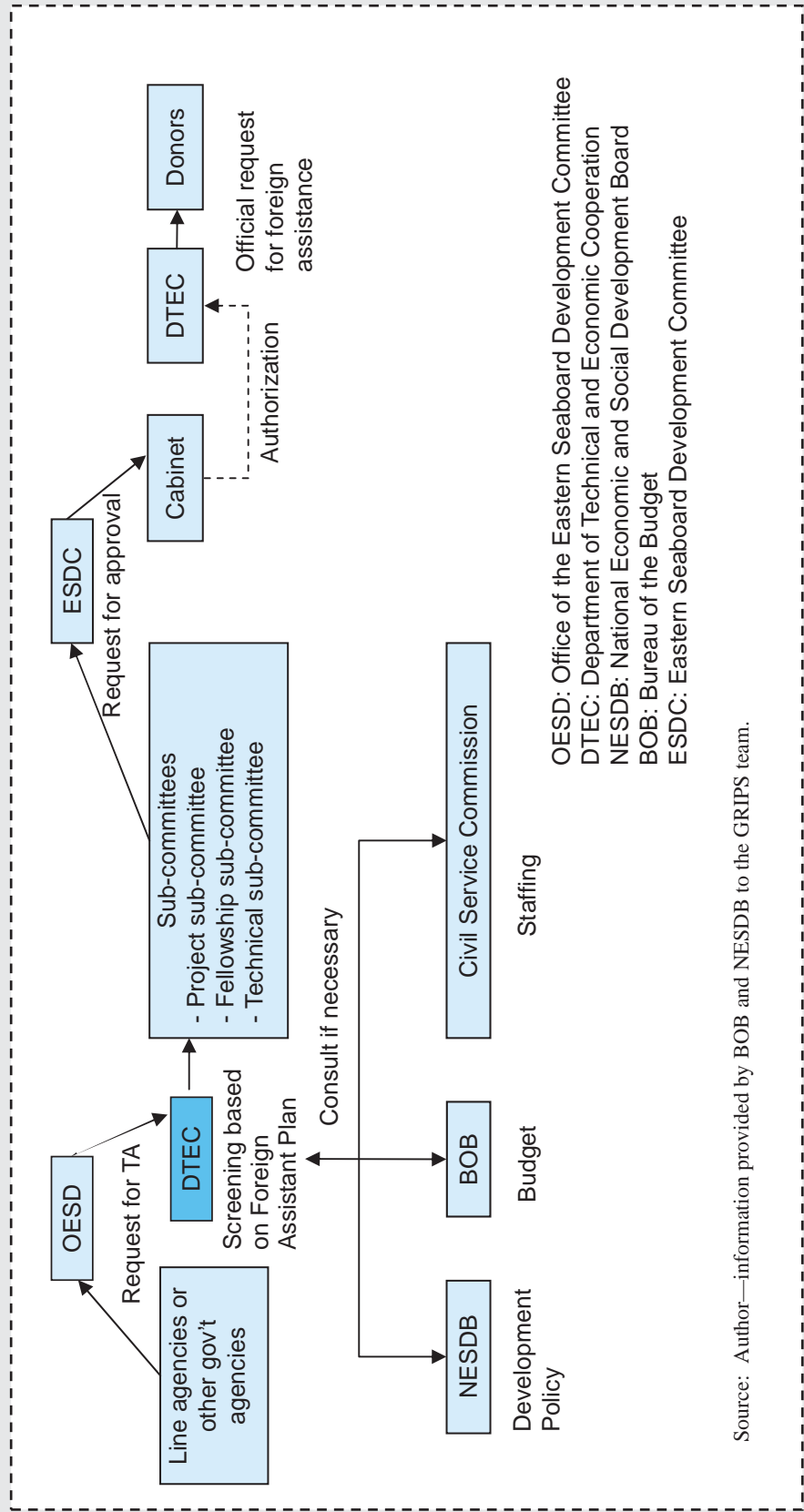
2-5-2 Coordination Relating to Technical Assistance (TA) Approval Processes

Both checks and balances and mechanisms applying strategic use of donor assistance were duly incorporated into the system for TA approval. In this case, just as with other TA approval processes, the DTEC functioned as the nexus for TA coordination. Figure 6-3 depicts the coordination mechanism relating to the ESDP's TA approval processes.

The OESD compiled all TA requests (e.g., necessary requirements and terms of reference relevant to external advisors) from the pertinent agencies, and then submitted these to the DTEC. Associated line agencies also submitted requests for TA to the OESD addressing their needs in regard to preparing master plans and/or feasibility studies for specific projects. The DTEC possessed the authority to screen TA needs and make recommendations, from a position of objectivity, non-biased by donors, on the most suitable form of TA requirements. The DTEC listened to the wishes and concerns of the OESD, line agencies and prospective donors in the process, all the while avoiding prejudicing or limiting itself to any particular donor's opinions by intentionally gathering as many different views and perspectives as possible. In fact, the DTEC was the organization responsible for coming up with recommendations for which TA requirements would be most suitable based on stipulations carried in the Foreign Assistance Plan, a document regulating Thailand's grant aid mobilization. During the screening process, the DTEC consulted, and listened to the opinions of, the NESDB, the BOB and the Civil Service Commission concerning issues of development policy, budgeting and staffing, respectively.

In sum, the DTEC's role in making strategic use of donor assistance was pivotal in the sense that it alone was entrusted with all information relating to TA needs, and could thus panoptically review all TA needs in the context of the comprehensive picture. In addition, the DTEC was positioned so that its stance when scrutinizing TA needs was neutral and objective, far from donor pressure. In short, the system expressly facilitated independent judgment of TA matters. Recommendations presented by the DTEC were further discussed first at sub-committees, then at the ESDC and ultimately at the Cabinet for final approval. The DTEC was responsible for enacting timely mobilization of important technologies and resources necessary for ESDP implementation. In fact, the DTEC was also authorized by the Cabinet to officially make TA requests to foreign donors.

Figure 6-3 Coordination Relating to Technical Assistance Approval Processes

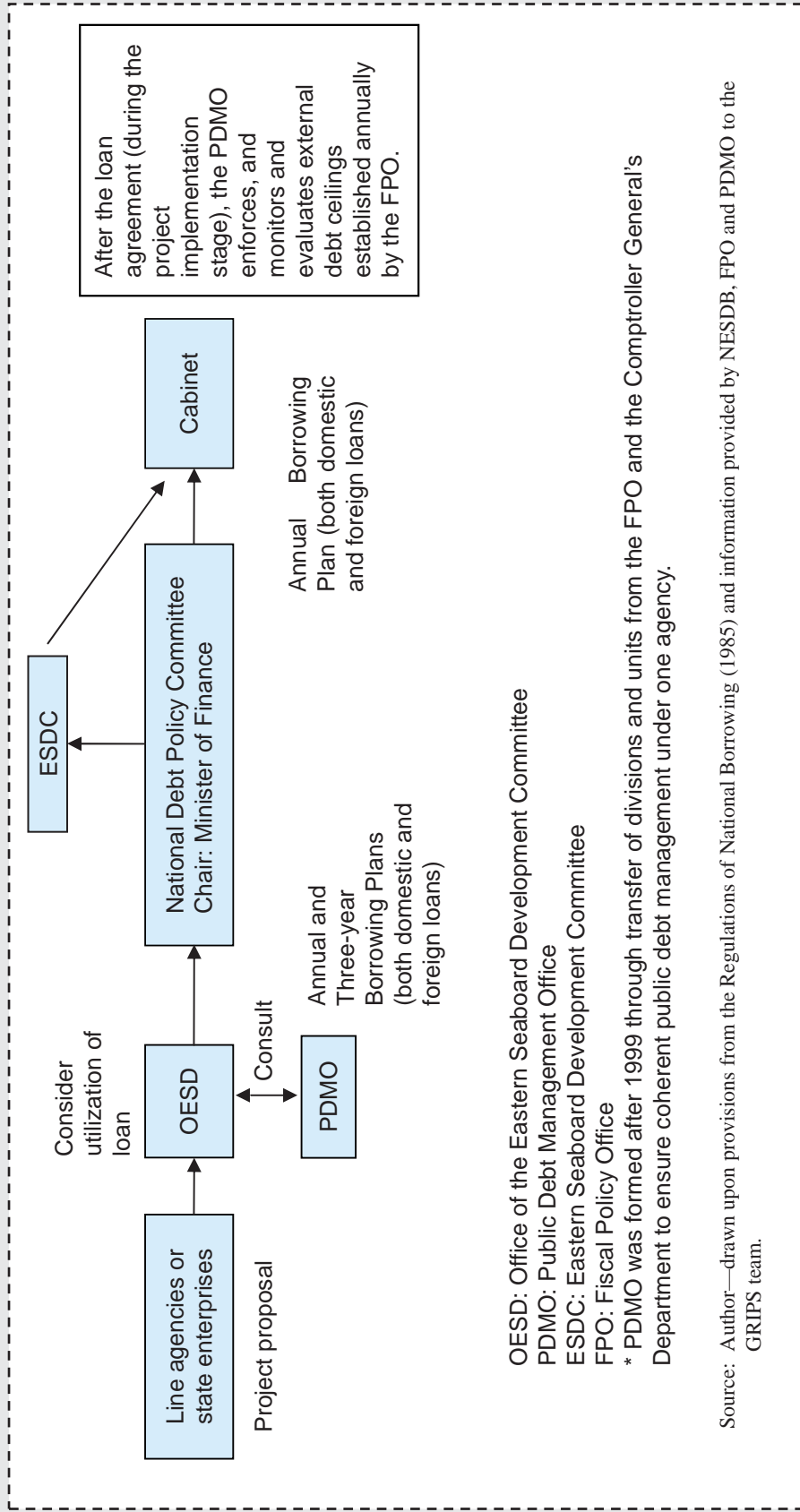


OESD: Office of the Eastern Seaboard Development Committee
 DTEC: Department of Technical and Economic Cooperation
 NESDB: National Economic and Social Development Board
 BOB: Bureau of the Budget
 ESDC: Eastern Seaboard Development Committee

Source: Author—information provided by BOB and NESDB to the GRIPS team.

◆ Checks and balances incorporated into the system
 ◆ Mechanisms applying the strategic use of donor assistance incorporated → role of DTEC as a focal point

Figure 6-4 Coordination Relating to Loan Approval Processes



OESD: Office of the Eastern Seaboard Development Committee
 PDMO: Public Debt Management Office
 ESDC: Eastern Seaboard Development Committee
 FPO: Fiscal Policy Office

* PDMO was formed after 1999 through transfer of divisions and units from the FPO and the Comptroller General's Department to ensure coherent public debt management under one agency.

Source: Author—drawn upon provisions from the Regulations of National Borrowing (1985) and information provided by NESDB, FPO and PDMO to the GRIPS team.

◆ Mechanisms applying the strategic use of donor assistance incorporated

2-5-3 Coordination Relating to the Foreign Loan Approval Processes

A mechanism for applying strategic use of donor assistance was incorporated into the system with respect to the loan approval process for external borrowing. Figure 6-4 depicts the coordination mechanism relating to the loan approval processes.

It was the responsibility of the OESD to gather all project proposals from line agencies and thereupon check whether the projects were in conformity with standards for, and proceeding harmoniously with, the overall macroeconomic policy, national development plans and master plans. The OESD also gave consideration to both the political and economic implications of each case of foreign borrowing.

The Thai government was aware that foreign loans would necessarily play a crucial role in national development, but, at the same time, it was fully aware of the fact that loans also had to be repaid and the debt burden created thereby could potentially constrain future fiscal operations. In other words, the Thai government considered some degree of “sacrifice” necessary for the country’s economic development. Therefore, only the most salient and urgent of projects were given high priority to access to foreign borrowing.

Following such selection, the OESD submitted loan proposals to the National Debt Policy Committee, which was chaired by the Ministry of Finance (MOF), for inclusion in each of the annual and three-year borrowing plans. In the process, the OESD also consulted with the PDMO, the main function of which is to enforce, as well as monitor and evaluate, ceilings on external debt. Finally, the ESDC and the Cabinet reviewed the proposals and proffered final approval.

Here again, the Thai government was highly conscious of the strategic use of donor assistance. Policy makers held a deep sense of pride in their country, and exhaustively explored the most efficient and effective policy options for more dynamically generating self-sufficiency. Their judgment was less driven by political interest, than it was by sincere and significant consideration for Thailand’s economic future.

2-6 External Factors

It would only be fair to mention that in addition to the previously discussed factors, external global factors also contributed to the facilitation of the ESDP to a large extent. In fact, extremely favorable international economic conditions after the Plaza Accord in 1985 lent a fair amount of momentum to the development plan. The Plaza Accord led to a rapid appreciation of the Japanese yen, and this prompted many Japanese investors to turn to Thailand for direct investment. As a matter of fact, significant expansion of foreign direct investment in Thailand had also contributed to the country’s rapid growth in succeeding years.

On the one hand, the Thai government’s strategy was to advance the ESDP by staying on track with its proven, coherent policy and thereby encourage foreign investors to come on board, while, on the other hand, global factors also worked synergistically to propel this policy forward. Viewed from another

standpoint, the Thai government was capable of taking full advantage of the shifting external environment by the grace of its effective leadership, and support thereof from its competent technocrats, in utilizing already existent coordination mechanisms. These mechanisms had cemented a channel for delivering timely and rational policy decisions regarding resumption and further promotion of the ESDP in light of the Thailand's own stringent economic analysis. As the economy recovered and demand on the market rapidly grew, bottlenecks caused by infrastructure shortages became serious. In response, the Thai government again had to make a number of pragmatic decisions, just as it had in regard to program adjustments during the recession. And the fact that technocrats remained in key positions in the NESDB and the OESB undoubtedly positively affected Thailand's ability to maintain coherency in long-term vision at the foundation of directive policy despite changes in political leadership.

3. Other Issues to be Considered

While perceptions of the outcome of the ESDP itself tend to generally be positive, there are also views that rather emphasize the ultimate success of the development as being primarily due to the tremendous impact of external global factors; that is to say, that without the Plaza Accord results could have been entirely different. Indeed, nobody can deny that rapid appreciation of the yen after 1985 induced substantial Japanese direct investment in Thailand, and this one element alone contributed greatly to the country's robust economic recovery.

It is difficult to emphatically argue for which factors among the leadership, technocrats, central economic agencies, institutional settings, and coordination mechanisms were actually responsible for the development, and each to what extent. However, even to take just the one case of the Plaza Accord, if the Thai government had not been capable of taking advantage of this golden opportunity, the end result could have been remarkably different.

A brief comparison of development at the Eastern Seaboard with the case of the New Bangkok International Airport (Suvarnabhumi Airport)¹⁰⁹ should hereby serve as stimulation for understanding the significance of each present factor. The question that would be raised here is—"What is at the root of the differences between the two mega projects?"

Plans for the New Bangkok International Airport project were originally conceived of more than 35 years ago in the early 1970s, though construction did not first begin until 1996 when loan assistance from Japan was secured. The project had been accorded high implementation priority, but the many twists and turns that arose during its execution required frequent changes to policy. For this reason, this project was considered to be problematic by some because sizable opportunity costs were lost in the course of policy changes. Some others did consider it in more positive ways, pointing out that although progress had been slow, the project did move ahead, and policy changes simply reflected the changing environment; the government had not necessarily adhered to the original plans, but it had

¹⁰⁹ The Airport opened in September, 2006.

flexibly incorporated the necessary changes. Hence, the general perception of the airport project tends to be, for the most part, controversial when compared with that of the ESDP.

A former NESDB official pointed out that while a national committee¹¹⁰ was established exclusively for the airport project, by that time the nature of coordination in the development process had already changed. More specifically, a central organization operating at the macro level with regards to comprehensively planning, coordinating and monitoring the development process seems to have been lacking in this case. Hence, horizontal coordination across various sectors and agencies seemed to have weakened, or, to state it bluntly, each agency only carried out the duties within its mandate, without engaging in sufficient mutual coordination. As a result, coordination at the technical-level also weakened, thereby creating significant project delays.

Then what would be the main cause for the above problems? Changes in social and political structures in the 1990s (especially after the Asian economic crisis in 1997) could conceivably be seen as one. Democracy and decentralization had triggered a phenomenon of stakeholders outside of the Thai bureaucracy playing a growing role in national development, and along with these changes, the relative importance of planning as well as the depth and quality of NESDB and technocrat involvement were diluted. Both politicians and the private sector, for example, have become more influential in policy decisions, which oft times occluded the coherence of policy since these former parties may be driven by different motivations, such as their constituencies or financial profits. In fact, political involvement in national committees, including that at the time of the airport project, has increased leading to reductions in the NESDB's power and significance, accordingly. Hence, the NESDB and its technocrats have not been able to function with full effectiveness despite the fact that they are entrusted with tending to the interests of the national public by administering development with a vision for the long-term. Therefore, talented young economists and planners naturally no longer saw the NESDB as an attractive option for employment, which has sparked a decline in its quality. General quality and the involvement of leadership have also changed significantly under the Thaksin administration.¹¹¹ Case in point, the Ninth NESDP (2002-2006) was prepared by the NESDB in collaboration with other agencies—yet, the Thai Rak Thai Party, the ruling party led at the time by its founder, former Prime Minister Thaksin, had practically no input into the plan. In fact, the NESDP under the Thaksin administration has been virtually kept on the shelf, and actual dominant policy and strategic priorities, as handled by the Thai Rak Thai Party, have been substantially different from those stipulated in the NESDP. Hence, relations between the political leadership and technocrats have changed, and therewith, the NESDB has lost much of its power. In sum, even when looking within only one country, the role of each factor contributing to facilitating development programs necessarily changes with the needs of the time; further analysis of the factors with respect to the ESDP could prove to be enlightening for future work.

¹¹⁰ Unlike the ESDC, the national committee did not have cabinet-level authority in this case. The committee has been chaired by the Prime Minister and other key actors include the MOF (secretariat to the committee), Thai Airways, the Royal Irrigation Department, the State Railway of Thailand, and the Department of Highways, among others. (“*Policy Coordination, Planning and Infrastructure Provision: A Case Study of Thailand*,” Douglas Webster and Patharaporn Theeratham, a background paper commissioned for the Asian Development Bank-Japan Bank for International Cooperation-World Bank East Asia and Pacific Infrastructure Flagship Study in 2004.)

¹¹¹ Former Prime Minister Thaksin Shinawatra was ousted in a military coup in September, 2006. General Surayud Chulanont, a retired army officer and Privy Councillor, was appointed the 24th Thai Prime Minister in October 2006.

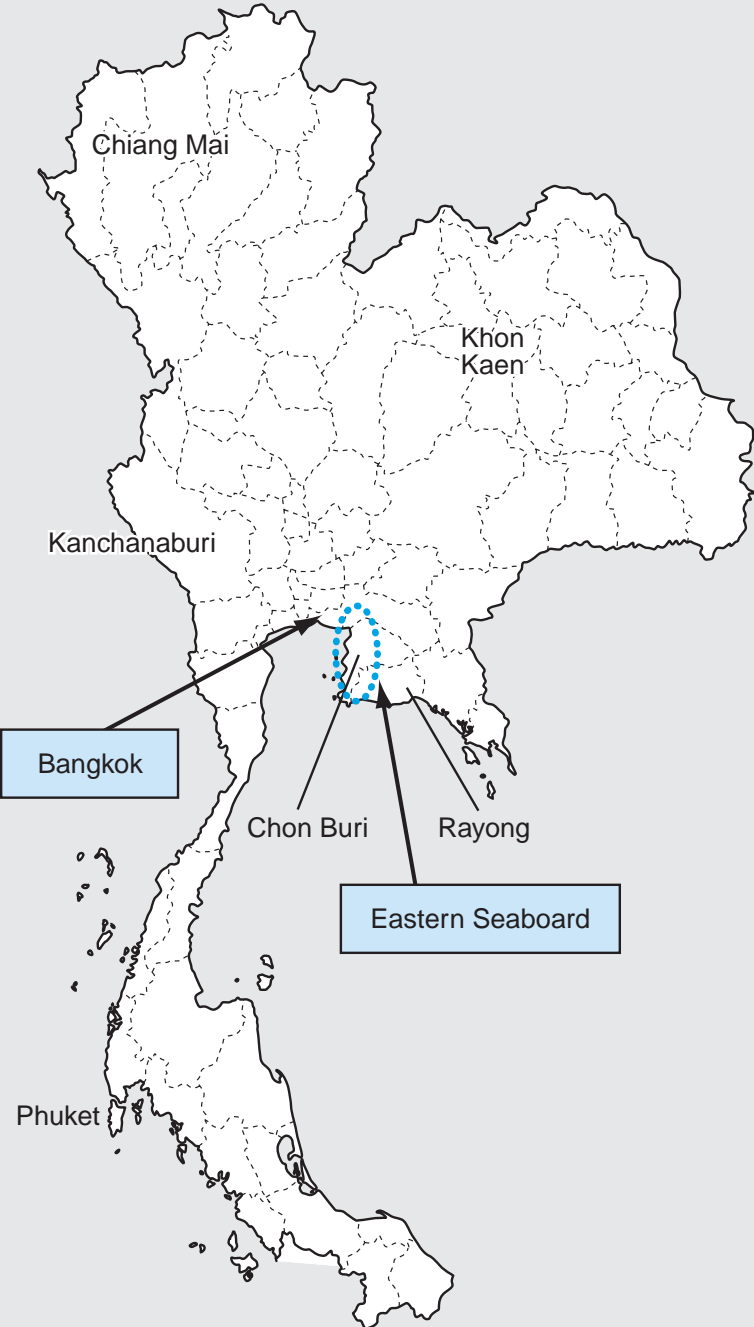
4. Conclusion

It was the cumulative synergetic effect of a number of factors that had contributed to pushing the ESDP forward. These included:

- Effective leadership to ensure the public's interest,
- Competency of technocrats,
- Powerful central economic agencies (especially the NESDB),
- Special institutional settings,
- Functioning coordination mechanisms, and
- External global factors.

The above list may not be exhaustive and there may be other critical factors to be considered. However, one important point to keep in mind is that the Thai government at the time was capable of taking hold of the changing social, political and economic environments, so as to ultimately produce rational policy options in view of how the country may better benefit the people. Thailand was fortunate enough to have excellent leaders at the time of its structural transformation. In addition to the leadership, each of the above factors contributed more or less to translating a vision for Thailand's future into concrete actions. In other words, a mechanism to make rational judgment with regard to policy coherence was built into the system. Also, the government was capable of taking full advantage of positive external factors (i.e. 1985 Plaza Accord) by utilizing existing coordination mechanisms managed by technocrats. The ESDP could not have come off well any more if any one factor had been missing.

Figure 6-5 Map of Thailand



Source: JBIC Institute (2006)

Chapter 7 Key Factors Affecting the Formulation and Enhancement of Development Administration

This chapter will examine critical factors that had affected the formulation and enhancement of development administration in three East Asian countries, namely, Thailand, Malaysia and the Philippines, by looking into the dynamics of development administration.

In previous chapters, we examined how the configuration of development administration differed in each country, thus affecting how organization in pursuit of national development goals took form. The institutional frameworks, coordination mechanisms and procedures and operations of the three countries all varied substantially as they related to development planning, budgeting, investment programming, project approval and aid management. Such variances have had different impacts on policy coherence, and the attainment of vision and objectives in development. We have also examined that key actors, including political leaders, technocrats and legislators, have played important roles in building development administration.

In the following pages, we will review specifically what major factors contributed to or undermined the formulation and enhancement of development administration within each country.

1. Key Factors Affecting the Formulation and Enhancement of Development Administration

After examining the real experiences of Thailand, Malaysia and the Philippines, our findings show that, among a number of considerable factors, the following are of particularly significant importance:

- (i) Quality of leadership
 - Whether the leadership has a long-term vision regarding development, and the political will to carry it out;
- (ii) Alliances between the leadership and technocrats
 - Whether technocrats possess sufficient clout, authority and the required capabilities to share and realize leaders' visions;
- (iii) Political interference in executive branch affairs
 - Whether a broad political coalition focused on realizing development under a common vision for the benefit of the whole nation exists;
 - Whether political circumstances inhibit the achievement of national development objectives and policy coherence or undermines executive efforts, and if it does, then to what extent;
- (iv) Fear of international and/or domestic crises
 - Whether a sense of political, social and/or economic urgency has become the driving force behind a will to overcome crises, and potentially create opportunity for reforms and institutional changes; and
- (v) Utilization of aid as an integral part of development management
 - Whether the government manages the entire development process and uses aid integrally therein.

One may safely presume that these multiple factors have synergistically worked together to more or less affect the formation of each country's overall development administration. In addition, uncontrollable external factors, both positive and negative, greatly influenced development administration as well. An important point to note is that the quality of leadership mattered, especially at the critical stages of development; Prime Ministers Sarit and Prem of Thailand, and Prime Ministers Razak and Mahathir of Malaysia were all visionary and committed leaders who acted in key positions to drive reforms and institutional changes at turning points in their nations' histories. Leaders, as a primary force of change, set the directional character for factors such as those listed above.

In the next section, a concrete review of issues pertaining to each of these five factors as concerns Thailand, Malaysia, and the Philippines, with specific attention given to the formulation and enhancement of development administration, will be detailed. At the same time, each country's utilization of aid will also be addressed so as to deepen our understanding of the role that both donors, and the foreign aid that they provide, play. Table 7-1 summarizes dynamics visible in development administration and the use of aid, as they took form in Thailand, Malaysia and the Philippines.

1-1 Thailand

1-1-1 Quality of Leadership

< Prime Minister, Field Marshall Sarit Dhanarajata (1959-1963) >

In the late 1950s and early 1960s, Prime Minister Sarit demonstrated his clear vision for development while exercising strong leadership during this initial stage of the formulation of Thailand's development administration. With the strong support of Dr. Puey Ungphakorn, a former governor of the Bank of Thailand, Prime Minister Sarit installed the basic foundations for coordination among the central economic agencies so as to more effectively administer development policy and macroeconomic management. Prime Minister Sarit also played a substantial role in the formation of a bureaucratic polity where political leaders delegated authority to elite technocrats located in the central economic agencies, a move which ultimately allowed substantive power to be exercised in a centralized manner.

In order to attain robust economic development, specifically by way of his conceptualization of 'development through growth,' Prime Minister Sarit called for institutional arrangements and administrative approaches much like those given above in line with his development vision. With emphasis squarely placed on the importance of developing infrastructure to achieve growth, terms of which were stipulated in the first national development plan—the First National Economic Development Plan (1961-1966), it was imperative that well-founded central economic agencies and elite technocrats were able to exercise power as strategic core functions. The bureaucratic polity served as a foundation for Thailand's development administration wherein technocrats were insulated to a large extent from subsequent political interference. Hence, the Thai government has been able to maintain consistent policy coherence despite frequent changes in political leadership, especially as was seen during the 1970s.

Table 7-1 Dynamics in Development Administration and the Use of Aid as Seen in Thailand, Malaysia, and the Philippines

| | Thailand | Malaysia | Philippines |
|--|---|---|--|
| Formation of Development Administration | <ul style="list-style-type: none"> Late 1950s-early 1960s: with donor advice (World Bank, US, etc.), the basic foundations for orchestrating coordination among central economic agencies established; disciplinary functions institutionalized. | <ul style="list-style-type: none"> Late 1950s-early 1960s: with donor advice (World Bank, US, UK, etc), the basic foundations for planning and coordination mechanisms established, with strong role of Prime Minister’s Department (British system adopted). | <ul style="list-style-type: none"> 1970s: one centralized development administrative body (the NEDA: National Economic and Development Authority) created, to support President Marcos’s dictatorship. After 1986: NEDA reorganized, and coordination among agencies initiated via the involvement of NEDA inter-agency committees |
| Enhancement of Development Administration | <ul style="list-style-type: none"> 1980s: national-level committees and sub-committees established to facilitate the coordination of priority policy agenda (e.g., rural development, regional development, private sector participation). Public-private coordination system strengthened. | <ul style="list-style-type: none"> 1970s: new functions (especially the ICU: Implementation Coordination Unit) added to the existing administrative machinery to better enforce the New Economic Policy. 1980s: greater efficiency of public administration pursued, and public-private coordination system strengthened. | <ul style="list-style-type: none"> 1990s: the NEDA Board inter-agency committee functions further institutionalized, and ODA management strengthened. Congressional intervention undermined above efforts by the executive branch. |

< Prime Minister, General Prem Tinsulanonda (1980-1988) >

Prime Minister Prem implemented a consensus-oriented style of leadership, thereby acting effectively as a balancing force. In the early 1980s, when Prime Minister Prem took his post, Thailand was already suffering an economic recession caused primarily by dramatic changes in the economic environment internationally. The Thai government was struggling to structurally transform itself via national development, macroeconomic management and industrial strategy so as to overcome the dire situation. Prime Minister Prem took the initiative and created committees and sub-committees designed to deliberate and coordinate priority policy issues such as rural development, regional development and private sector participation at the national level. These committees and the related administrative framework were set up, primarily under the initiative of the Prime Minister in a highly centralized manner, as specific means to pursue policy objectives. Prime Minister Prem himself had in fact

served as chair of the committees and was known to attend every meeting. As elaborated in Chapter 6, the Eastern Seaboard Development Committee (ESDC) was one national committee created during the Prem administration to manage the Eastern Seaboard Development Plan (ESDP), one of Thailand's more notable mega infrastructure projects. Just as he had done for other major national committees, Prime Minister Prem delegated authority to the National Economic and Social Development Board (NESDB) as the Secretariat for the ESDC, while the NESDB acted as a focal point in coordinating and implementing the work thereof. In other words, he deployed and utilized highly competent technocrats as support to ensure the pursuit of priority policy objectives. Wherever complex circumstances or hot debate arose, Prime Minister Prem functioned to effectively balance conflicting forces throughout the ESDP's development process. He worked in close coordination with technocrats so as to build consensus and create an environment for the promotion of pragmatic and reasonable decision-making, and this was facilitated by insulating technocrats from political pressures as often as possible.

1-1-2 Alliances Between the Leadership and Technocrats

From the late 1950s to the early 1960s, when Prime Minister Sarit began formulating the structure of Thailand's development administration, Dr. Puey Ungphakorn, a British-trained economist and former governor of the Bank of Thailand (1959-1972), made a critical contribution. In line with Prime Minister Sarit's development vision, Dr. Ungphakorn created the basis for engineering coordination among central economic agencies, thus providing a foundation for the bureaucratic polity. He sent his technocrat aides and allies to take up key positions within each of the agencies and then used them to facilitate interagency coordination. Dr. Ungphakorn also set a basic tone for the country's macroeconomic management by installing a regime of financial conservatism and strict fiscal discipline within a mechanism enabling the central economic agencies to check and balance each other.

In the 1980s, the Prime Minister delegated authority to technocrats within the central economic agencies, including the NESDB, to carry out development policies and macroeconomic management, as described above. Strong trust-based alliances were built between the political leadership and competent technocrats sharing the same vision for national development. The technocrats took deep pride in playing a significant role in the country's development and fully applied their knowledge to their work with a strong sense of responsibility for the nation.

1-1-3 Political Interference in Executive Branch Affairs

Within the bureaucratic polity, the government kept technocrats concentrated inside of the central economic agencies, where they would handle development and investment planning as well as macroeconomic management, while simultaneously insulating them to a large extent from political matters taking place outside. Hence, technocrats were able to exercise substantive power away from political pressure, and better foster rational policy decisions. They managed the macroeconomic sphere prudently in light of the country's economic circumstances. As discussed in Chapter 6, Prime Minister Prem created an environment for technocrats to make pragmatic decisions based on objective economic analyses during the course of the ESDP.

1-1-4 Fear of International and/or Domestic Crises

A sense of urgency regarding international and domestic crises prompted the Thai government to execute reforms and institutional changes. As explained in Chapter 3, from the late 1970s to the 1980s, Thailand was going through a macroeconomic crisis and deep recession, and nothing less than structural transformation could possibly lead the nation to overcome the difficult situation. Thailand was blessed with a well-balanced and dedicated leader, Prime Minister Prem, at this critical juncture. The three principal pressing issues of the time were:

- (i) Intensifying tensions between proponents for national security and those for economic development.
 - After the Vietnam War, funds that had flowed into Thailand from the United States (US) for long-standing economic and military programs decreased, and conflicts between the military and the government intensified over how necessary resource allocations could be met for national security objectives without neglecting economic development, or vice versa. The government had to meet funding requirements set for its priority issues in order to realize both objectives with only limited resources. In the end, the Cabinet decided to lift the ceiling on national borrowing from 9 percent of total public expenditure to 11 percent,¹¹² as a solution (in 1984).
- (ii) Industrial strategy necessitated a shift from an import substitution oriented approach to industrialization to one more export-oriented.
 - In the early 1980s, when Thailand was suffering from a deep recession, the Thai economy was susceptible to damages incurred from changes in the global economy because of its high dependence on primary products and external finance. By transforming its industrial structure, the government strove to achieve robust economic development and accomplish a great leap forward in economic growth.
- (iii) Stringent macroeconomic management was indispensable in light of the country's economic situation.
 - The Thai government borrowed funds from the World Bank twice, once in 1982 and once in 1983, in the form of Structural Adjustment Lending, and additionally received Standby Credits from the International Monetary Fund (IMF) in order to overcome its tough financial predicament.

1-1-5 Utilization of Aid as an Integral Part of Development Management

Aid was used as an integral part of the Thai government's management over the entire development process. That is, the Thai government considered foreign aid to be both supplementary and temporary as a resource for filling in financial gaps in the domestic budget, as well as in administrative gaps affecting overall institutional and human capacity. Thailand wished to become a self-sufficient country, non-reliant on donor assistance as per its 'exit strategy.' The government carefully looked to sectors and activities fit for the receipt of foreign assistance, rather than mobilize funding and resource from

¹¹² "Five Decades of NESDB", published by the NESDB; February 2000.

domestic sources. In doing so, it considered the comparative advantages found for each donor and tried to match them with the country's developmental needs and requirements. At the same time, the Thai government was sensitive to the concessionality of loans. With each developmental stage, it consciously tried to shift donor composition and forms of aid strategically. It utilized forms of aid with lesser degrees of concessions as development progressed (see Chapter 1). Also, while it was utilizing foreign aid, the government endeavored to generate its own resources through both the private sector and direct investment from foreign sources. In this respect, the Thai government strategically and selectively utilized foreign aid in line with its graduation strategy.

During the initial stages of formulating development administration in the 1950s, the Thai government actively sought technical assistance from the World Bank in setting up institutional structures for administering development policy and drafting national development plans (see Chapter 3). In fact, the National Economic Development Board (NEDB), predecessor to the NESDB, was created in 1959, based on the World Bank recommendations, to establish a permanent economic planning agency. The World Bank also played a significant role in supporting the government's national development planning process from the First (1961-1966) to the Third (1972-1976) plans. As a matter of fact, the government harbored an underlying motive for following the World Bank advice as it anticipated receiving successive financial assistance for capital investments in addition to already delivered World Bank technical assistance. The Thai government also received grant assistance from the US for academic, economic and national defense objectives.

As early as the 1950s, with funding from the US's Fulbright program as well as financial assistance from other countries, the Thai government sent many promising young technocrats abroad to study at graduate schools. They acquired master's degrees and even PhDs relevant to serving for the country's development. After their return to Thailand, they were assigned to key government posts thereby bringing their knowledge and technological skill back to the Thai system. Hence, the government had been utilizing foreign aid in an attempt to galvanize human resource development and, in turn, required returning graduates to play a critical part in formulating the administrative system by aggressively localizing their foreign knowledge and skills. For example, the budget management system introduced in the 1950s was actually a combination of Thailand's own system blended with that of the US (see Chapter 6).

< **The Importance of the Department of Technical and Economic Cooperation (DTEC), an Agency Specializing in Administering Technical Cooperation** >¹¹³

The Thai government intended to manage its donors by maintaining a hold on bargaining powers that could be used against them. The way in which the Department of Technical and Economic Cooperation (DTEC) managed foreign aid would serve as a specifically useful illustration of this. The DTEC

¹¹³ The DTEC was transferred from the Prime Minister's Office to the Ministry of Foreign Affairs in October 2002, when the major reorganization of government ministries and agencies was enforced under the Thaksin administration. In 2004, the DTEC was formally transformed into the Thailand International Cooperation Agency (TICA) as an agency responsible for providing technical cooperation. (The DTEC had started to provide technical cooperation to the neighboring countries even before the TICA was established.)

acted as a single agency appointed to exclusively manage the country's technical assistance (TA) in a centralized manner.¹¹⁴

As described in Chapter 6, the DTEC possessed the authority to screen for TA needs and make objective recommendations while coordinating with prospective executive agencies, unbiased by donors, on the most suitable form of TA requirements. The DTEC conducted screening over TA in conformity with the Foreign Assistance Plan (FAP), which stipulates national policy for receiving grant assistance including forms of TA, sector development policy, monitoring and evaluation. Hence, the DTEC was in a unique position allowing it to scrutinize, prioritize and select TA with a comprehensive eye. The DTEC listened to the wishes and concerns of line ministries and agencies as well as those of prospective donors. As such, the DTEC deliberately refrained from prejudicing itself by listening to only a limited set of donors and, instead, collected a broad range of views and advice necessary to tailor its own decisions, in line with the FAP, most appropriate for pursuit of the country's development objectives.

Even after TA was approved, the Thai government tried to maintain greater leverage against donors by bearing the cost of the necessary counterpart funds. This was common practice since the 1950s, when Thailand had been receiving assistance from the US. The DTEC also played a focal role in domestically securing and administering counterpart funds as well as monitoring the overall implementation of TA programs, as the Cabinet had delegated such authority to them. The DTEC set up Project Steering Committees and technical working groups, which consisted of the DTEC, pertinent executive agencies, and related donors for monitoring implementation. With regard to the counterpart funds, the DTEC, at center, gathered necessary funding requests from all executing agencies and checked them against existing standardized cost regulations on housing, transportation and other items. The DTEC would then submit requests for counterpart funds to the Bureau of the Budget (BOB) on behalf of each executing agency, and later provide the necessary funding to these agencies once secured. In fact, the DTEC managed both counterpart funds as well as funds from donors kept in internal DTEC accounts.¹¹⁵ Regardless of donor or funding source, the DTEC had set standardized salaries and costs for foreign experts, and urged each donor to utilize Thailand's own system.¹¹⁶ In this manner, the DTEC dared to visibly and openly levy bargaining power over donors by seeing to the application of uniform procedures and standards pertaining to TA.

¹¹⁴ Also we would like to note that in Malaysia and in the Philippines, no such agency exclusively mandated to administer foreign aid exists. In Malaysia, the External Assistance Section of the Economic Planning Unit (EPU) manages foreign aid for both loans and technical assistance. Meanwhile, in the Philippines, the Public Investment Staff of the National Economic and Development Authority (NEDA) is responsible for providing technical staff support for coordination and review of foreign assistance. Both the EPU and the NEDA are the central economic agencies responsible for development planning and coordination.

¹¹⁵ This had been common practice except for a few donors that provided TA in the form of in-kind assistance.

¹¹⁶ Information regarding the DTEC was taken from an interview with Thailand International Cooperation Agency (TICA) officials held in October 2005.

1-2 Malaysia

1-2-1 Quality of Leadership

< Prime Minister, Tunku Abdul Rahman Putra (1957-1970) >

Prime Minister Rahman, the first prime minister installed immediately after Malaysia won its independence in 1957, was a leader committed to carrying out rural development. He is often referred to as the “Father of Independence” and the “Father of Malaysia.”¹¹⁷ Prime Minister Rahman emphasized socioeconomic development’s place at the top of national priorities. He was determined to raise the socioeconomic well-being of Malaysians, especially for those living in rural areas. Hence, he initiated a variety of rural development programs aimed at modernizing the lives of rural Malaysians. In fact, Malaysia’s abundant jungles were transformed to create farmlands for the sake of many of the nation’s people. Prime Minister Rahman attached great importance to securing solid political stability and he proved to be the driving force behind the country’s economic development.

< Prime Minister, Tun Abdul Razak bin Dato Hussein (1970-1976) >

Prime Minister Razak, who served as the Minister of National and Rural Development and, later, as the Deputy Prime Minister during the Rahman administration (1957-1970) also exercised great leadership in regard to rural development. During his time as Deputy Prime Minister, he introduced the ‘Red Book’ and ‘Operations Rooms’—two structural tools utilized under the British system for facilitating the systematic preparation, implementation and monitoring of development plans, especially in rural development.

When Razak succeeded Rahman in 1970 to become the nation’s second prime minister, he played a crucial role in responding to the most critical of domestic predicaments—the aftermath of the 1969 ethnic riot. He was determined to reunite the country by presenting a national vision shared by all citizens, and adopted the National Economic Policy (NEP) as part of this, to address matters at the root cause of the riot. In order to ensure enforcement of the NEP, he initiated enhancements on existing development machinery so as to facilitate implementation. Accordingly, the Implementing Coordination Unit (ICU) was created in the Prime Minister’s Department to monitor the overall implementation of programs and projects meant to make the NEP vision a reality. In fact, the ICU was a modified version of the earlier ‘Operations Rooms,’ created by reinforcing the ability of agencies at each level to implement and coordinate monitoring tasks.

< Prime Minister, Dr. Mahathir Mohamad (1981-2003) >

Prime Minister Mahathir exercised strong leadership as evidenced by his ability to institutionalize coordination between the public and private sectors in order to realize NEP objectives. In fact, he further enhanced the basic foundation of the administrative machinery for development, as established in the 1970s, to achieve greater efficiency. Prime Minister Mahathir is regarded as a visionary leader, responsible for Malaysia’s turn in a new direction regarding development owing to his propensity for

¹¹⁷ Abdullah Firdaus Haji, 1994. “The Prime Ministers of Malaysia” (Chapter 13), “Malaysian Development Experience, Changes and Challenges,” the National Institute of Public Administration, Kuala Lumpur.

taking into account pertinent political, economic and social matters of the time. His aim was to create jobs and wealth within a broader effort to solve racial imbalances by redistributing incomes and access to opportunity. Prime Minister Mahathir believed that economic growth must come before all else because, as long as the whole economic pie continued to grow, all Malaysians would be ultimately satisfied. Therefore, he emphasized making the public sector responsible for providing an environment conducive to greater private sector participation. In this way, his administration strengthened the workings of formal and informal coordination between the public and private sectors. A number of initiatives including the 'Look East Policy' and the 'Malaysia Incorporated' were introduced under Prime Minister Mahathir's astute guidance to enhance both efficiency and public-private coordination.

1-2-2 Alliances Between the Leadership and Technocrats

Technocrats in Malaysia fully assumed responsibility for making national development aims a reality as set forth and shared in the greater political vision. The technocrats engaged in the work required of them at multiple levels and were consistent in taking steps towards establishing and upgrading development machinery for national planning and implementation. They shared a strong sense of urgency inspiring them to work towards creating one united nation—a country of peoples ethnically integrated and living in harmony and partnership—and this became the strongest driving force for the execution of successive reforms and institutional changes. Furthermore, the general public came to understand and accept the role technocrats necessarily played in translating this overriding policy objective to the real world.

1-2-3 Fear of International and/or Domestic Crises

Malaysia, a multiethnic country with visible socio-economic disparities along racial and regional lines, envisioned a clear mission for itself—to achieve the specific objectives of promoting national unity through poverty eradication and restructuring society, paramount above all else. People harbored a strong and urgent desire to never again go down the path that was taken in the racial riot of 1969, and this very fear of crisis prompted reforms and institutional changes.

Since 1971, when the NEP was introduced to remedy issues at the principal root cause of the ethnic riot, the strategy of 'growth with equity' has served as both the basic principle and overall framework for the country's development. In fact, the Malaysian government utilized and enhanced its own development machinery as a tool to realize the NEP objectives. Policy coherence was maintained steadfastly by each of Malaysia's successive leaders. The country was blessed with political leaders who possessed a strong sense of commitment and dedication to overcoming all odds in times of crisis.

1-2-4 Utilization of Aid as an Integral Part of Development Management

The Malaysian government, much like the Thai government, strategically and selectively utilized aid to become a country self-sufficient and non-reliant on donor assistance as per its 'graduation strategy.'

The Malaysian government, much like the Thai government, strategically and selectively utilized aid. Malaysia was not an aid-dependent country and the volume of aid mobilization itself was the lowest among the three countries in the late 1980s (see Chapter 1). On the other hand, the government was very strategic in the way it utilized aid in the sense that it clearly identified the particular sectors and areas that would be mobilized after comprehensive consideration of all points. The government had prioritized the whole nation's development objectives and then carefully and determinately considered how aid resources would be mobilized (i.e., in which selective sectors and areas) as well as where they appeared to be subject to the most suitable use.

Early on in the formulation of the development administration in the late 1950s and 1960s, the Malaysian government actively sought technical assistance from the World Bank and the United Kingdom (UK) to be used for institution building, human resource development, and capacity building for national development planning. In fact, at the time of Malaysia's independence in 1957, the UK was providing economic and military assistance. The development administration that the Malaysian government adopted was basically identical to that of the British system (see Chapter 3). The Malaysian government, after consulting with the World Bank, restructured and strengthened the Prime Minister's Department so that it could play a key role in development administration. It established a small Economic Secretariat headed by an expatriate adviser. In 1961, the department was upgraded and relocated to the Economic Planning Unit (EPU) within the Prime Minister's Department, and became the central agency for economic and social development planning, as well as public investment programming and selection. Despite their insufficient professional skills, local officials were put in key positions in the EPU, thus gradually replacing expatriates. The first two national development plans were drafted with the assistance of the UK and the World Bank.

Just as in the case of Thailand, the Malaysian government sent highly competent young technocrats abroad to study and expected them to come back with the knowledge and skills necessary for serving the country. Especially during the initial stages of administrative formation, elite technocrats played a critical role. Upon returning to Malaysia after acquiring their master's degrees and PhDs, these young graduates were assigned to work in key government positions, replacing foreign experts. They contributed greatly to the installment of core functions built into development administration machinery.¹¹⁸ In fact, the Malaysian government had envisaged its long-term human resource development strategies with a focus on graduation strategy since the 1970s, and this initiative for providing the elite with higher education abroad would be regarded as one vital part to achieving success.

< The Important Role the National Institute of Public Administration (INTAN) Played in Human Resource Development for Civil Servants >

The Malaysian government created the National Institute of Public Administration (INTAN) in 1972 under the Public Service Department (PSD) to provide necessary training to government officials. As mentioned, the Malaysian government had envisaged a graduation strategy for its long-term human

¹¹⁸ Interview with Tan Sri Thong Yaw Hong in January 2006. He was the first Malaysian head of the EPU and contributed tremendously to the formulation of Malaysia's development administration, including in regard to matters of human resource development for government officials at the time.

resource development program and the INTAN played a pivotal role in this. In the 1970s, the government aggressively utilized aid, requesting foreign experts to provide training to Malaysian government officials at INTAN. By the 1980s, a sufficient level of capable ability within local staff had been built, which enabled the government to manage training on its own. In fact, ever since 1981, the Malaysian government has been providing technical assistance to developing countries, the number of which totaled 135 countries as of 2005. The External Assistance Section of the EPU manages this initiative as part of ‘South-South Cooperation’ operated through the Malaysian Technical Cooperation Program (MTCP).¹¹⁹ The Malaysian government has always regarded human resource development as being a top priority policy that serves to build the very foundation of the country’s operative system. Each of Malaysia’s successive national development plans, in fact, feature chapters stipulating education and human resource development.

As in the case of Thailand, the Malaysian government placed a high degree of importance on managing its donors and having an exit plan. The government was particularly sensitive to donors interfering in domestic policy. In this regard, the Malaysian government did not necessarily listen to everything that donors suggested. For example, when Malaysia launched the NEP, every international agency critically asserted that it was an attempt at “socio-economic engineering” and anticipated its failure. Despite such criticisms, however, the Malaysian government firmly continued forth with its policy and successfully overcame the crisis.¹²⁰

When it comes to prioritization of external assistance, the Malaysian government was mindful of the characteristics of and comparative advantages presented by each donor. The External Assistance Section of the EPU scrutinized specific sectors and activities where aid would be suitable for filling domestic gaps in financing or resource capacity. It appears that the government prioritized certain sectors so as to encourage foreign direct investment—for example, power generation was brought to the fore in peninsular Malaysia—yet, at the same time, foreign aid was not sought for funding all required aspects of the private sector. Such astute prioritization contributed to attracting more private sector actors and furthered development.¹²¹

¹¹⁹ In fact, since the Seventh Malaysian Plan (1996-2000), one chapter has been added, which extensively discusses Malaysia’s international cooperation policy—bilateral, regional, and multilateral cooperation, as well as the MTCP. The new chapter provides the Malaysia’s perspectives as an emerging donor and a responsible member of the global community. Previously, this topic was included in the chapter of public sector program and its financing.

¹²⁰ Taken from a remark made by a former Deputy Director General of the MIDA (Malaysian Industrial Development Authorities), at a seminar organized by GRIPS and held in November 2006.

¹²¹ Taken from a remark made by a JBIC (Japan Bank for International Cooperation) official, at a seminar organized by GRIPS and held in November 2006.

1-3 The Philippines

1-3-1 Quality of Leadership

< President, Ferdinand Marcos (1965-1986) >

The National Economic and Development Authority (NEDA), a centralized administrative body for planning, was created during the Marcos administration. Although development planning in the Philippines began as early as 1935, tasks therein were dispersed across different bodies and organizations, preventing practical visualization of the comprehensive scope of objectives and visions pertaining to national development. This centralized system for development planning, however, was utilized only as a means to maintain President Marcos's dictatorship. As a result, power was limited to, and amassed by the technocrats and cronies who faithfully obeyed his word. Hence, unlike as seen in the cases of Thailand and Malaysia where the centralized bureaucracy shared and supported political leaders' development visions so as to best serve public interest, the centralized administrative framework in the Philippines was of unsound motives.

< President, Corazon Aquino (1986-1992) >

President Corazon Aquino put an end to Marcos's dictatorship and initiated a democratization process following the turning point of 1986. She undertook a government-wide structural reorganization, wherein the NEDA was also revamped. As embodied in the President's 1987 Executive Order 230 and the 1987 Philippine Constitution, the NEDA was authorized with the distinctive advantage of being an independent planning agency (see Chapter 2).

Hence, the NEDA became the focal point for interagency coordination, and six cabinet-level interagency committees headed by the President were created. In addition, the divisions in charge of foreign assistance were streamlined within the NEDA. Aquino's successor, President Ramos (1992-1998), took over this administrative system, and strengthened the NEDA so that its functions included more control over coordination of the NEDA Board interagency committees and ODA management.

1-3-2 Alliances Between the Leadership and Technocrats

After the democracy was restored and bureaucracy was reorganized in the Philippines, technocrats worked to enhance and strengthen development planning and administration. In fact, the central economic agencies, including the NEDA and the Department of Budget and Management (DBM), had been working to facilitate institutional reform and strengthen the administration. They endeavored to augment policy coherence by enhancing development planning, investment programming, implementation, and monitoring and evaluation. In fact, since the late 1980s, the government had been implementing a series of reforms to reinforce policy and resource alignment in accordance with development priorities (see Chapter 4). However, due to insufficient coordination, decision-making structures have become dualistic and fragmented among the differing government agencies. In addition, development policies are less predictable in the Philippines owing to numerous changes in the political leadership and policy, which have undermined efforts made by technocrats to otherwise strengthen consis-

tency in executing policy.¹²²

1-3-3 Political Interference in Executive Branch Affairs

Despite the continuous efforts of the executive branch to temper the administration of development, interference in the legislative sphere ultimately came into play, whereby development planning and investment programming were obviously beginning to run dual tracks, most evident during the budgeting process where allocative distortions were generated (Oft cited as ‘dual track development administration’). Legislators tried to include superfluous projects and programs, geared to benefit their own constituency, without going through the proper administrative channels and oversight procedures. This has created an underhanded route for local interests to be reflected in the national budget through special projects prepared by politically motivated congresspersons. Hence, it is not uncommon that such discretionary projects and programs displace priority ones that had been rightfully identified and prioritized through administrative channels.

Generally speaking, interference by the legislative arena should not itself be viewed in a negative context because legislature is expected to check and balance policy decisions. Therefore, what is important is whether the whole nation, including politicians, shares common vision of development designed in the people’s best interest. In the case of the Philippines, despite the government’s efforts to formulate and realize the nation’s priorities in regard to development from a holistic and comprehensive view, politicians showed more concern for their own personal agenda, separate from national development priorities.

The Priority Development Assistance Fund (PDAF), which is often considered equivalent to pork barrel funds, allows individual congresspersons and senators to allocate public funds to personally selected expenditures. Thus it may be the source of the power behind their interventions. Owing to its social and political histories, such legislative intrusion into the administrative channel is often regarded as a “necessary evil” and one of the “costs of running democracy” in the Philippines. In order to both effectively expunge from the system such arbitrary intervention, while improving transparency and efficiency in investment selection, technocrats have proactively adopted an array of initiatives designed to strengthen the mechanisms found in development administration (see Chapter 4).

¹²² With respect to personnel changes within the bureaucracy caused by changes in the political leadership, in the Philippines, the government officials occupying the positions of assistant director, director, assistant secretary, undersecretary and secretary at any agency are political appointees. But this is only in the sense that their appointment papers are signed by the President of the Philippines. When a change in leadership or the administration occurs, usually political practice shows that Secretaries (i.e. Cabinet members) tender their respective resignations. The new president will decide whether to re-appoint incumbent secretaries or appoint new ones. Assistant directors, directors and assistant secretaries are normally retained since they tend to be officers who have managed to ascend the management ladder. Undersecretaries (and, at times, assistant secretaries) lie somewhere in between—they are either replaced or retained. (Information provided by a government official in the Philippines.)

1-3-4 Utilization of Aid as an Integral Part of Development Management

The Philippine government has utilized foreign aid actively, but has had mixed experiences in aid management. Although the NEDA was created in the 1970s to centrally administer to development under the Marcos administration, there was little coordination among the different ‘Staffs’ of the NEDA resulting in policy decisions and approvals that took fragmented and incoherent courses, even within the NEDA. Furthermore, the NEDA was unable to functionally coordinate between agencies (see Chapter 2). Since the late 1980s, technocrats had worked towards augmenting NEDA functions such as in the preparation, prioritization and selection of public investment projects so as to improve efficiency. However, two separate systems, the local system and the ODA, operated differently with the ODA being more rigorous in its requirements and standards. In fact, procedures for the selection and management of locally funded projects are less intensive and well-defined than those applied to ODA projects; as such, consideration required by each for quality of feasibility studies, social and environmental safeguards, standards for operations and maintenance, requirements for implementation and monitoring, and other fields are dualistic. Thus, decision-making structures built between the governing institutions have been fragmented and operate with inconsistency that fluctuates according to the differing sources of funds. Locally funded projects (as well as projects prepared by congresspersons mobilizing their pork barrel funds) have been all but immune to scrutiny from the NEDA Board Investment Coordination Committee (ICC), which has created loopholes in the development administration system. The absence of ICC reviews may lead to a decrease in transparency and efficiency. In fact, only the ODA and Build-Operate-Transfer (BOT) projects have been subject, in any practical sense, to the ICC review process (see Chapter 5).

On the one hand, ODA may function as catalyst for broader institutional reform, but on the other hand, potential risks suggest that additional ODA rules and complex procedures might lead to inefficiency and an increase in transaction costs to the government. This is a distinctive feature to the Philippines among the three countries, particularly when considering the fact that approval procedures and requirements designated by each of locally funded projects and ODA projects are basically identical within the systems operating in Thailand and Malaysia.

2. Summary

Each of the following tables offers a summary of the formulation and enhancement of development administration in Thailand, Malaysia and the Philippines (Tables 7-2, 7-3, 7-4, respectively). The factors chosen may not be exhaustive, and additional critical issues may yet need to be considered, but our findings confirm that the cumulative synergetic effect of the factors given below contributed to the creation of extensive institutional frameworks, coordination mechanisms and approval procedures. Such diversity in the formulation of development administration impacted, in a multitude of ways, policy coherence, and the degree to which development vision and objectives were attained. Therefore, donors need to be mindful of the local context within a country when providing assistance—key factors may be manifested in a diverse range of forms across any number of countries, and such differences need to be carefully and considerably taken into account.

Table 7-2

Thailand: Key Factors Affecting Development Administration

| | |
|--|--|
| Quality of leadership | <ul style="list-style-type: none"> ● Prime Minister Sarit (late 1950s-early 1960s) showed keen development vision and exercised strong leadership. He adopted the concept of ‘development through growth’ and introduced a top-down approach to planning. ● Prime Minister Prem (1980s) functioned as a balancing force and played a leading role in national development and especially priority policy agenda. He created national committees, to be led by the Prime Minister, for formulating priority policy agenda and gave competent technocrats the authority to administer policy. |
| Alliances between the leadership and technocrats | <ul style="list-style-type: none"> ● Competent technocrats acted in a supporting role for the administration of policy. <ul style="list-style-type: none"> ➢ Dr. Puey Ungphakorn, the longest serving Governor of the Central Bank (1959-1972), created the foundation for coordination among the central economic agencies, in support of Prime Minister Sarit’s vision. ➢ Technocrats at the central economic agencies (especially at the National Economic and Social Development Board (NESDB)) played a significant role in coordinating for the Prime Minister-led national committees orchestrated under the Prem administration. The NESDB acted as secretariat for major national committees. |
| Political interference in executive branch affairs | <ul style="list-style-type: none"> ● Technocrats were effectively insulated from political pressures to a great extent. <ul style="list-style-type: none"> ➢ As a general rule, technocrats managed the economy and secured policy coherence prudently and pragmatically. (e.g., Eastern Seaboard Development Plan) |
| Fear of external and domestic crises | <ul style="list-style-type: none"> ● The Thai government strove to accomplish structural transformation (late 1970s-1980s). <ul style="list-style-type: none"> ➢ External security vs. economic development ➢ Structural transformation in industrial strategies ➢ Structural transformation in macroeconomic management |
| Utilization of aid as an integral part of development management | <ul style="list-style-type: none"> ● The Thai government strategically and selectively utilized donor assistance possessing graduation strategy. <ul style="list-style-type: none"> ➢ The Thai government requested assistance from the World Bank in formulating development administration (late 1950s), with the expectation of successive World Bank assistance for the development of infrastructure. ➢ The Thai government utilized foreign assistance in order to send promising technocrats abroad to study and ultimately bring knowledge and technology back home so that the innovations may be incorporated into the Thai system. (e.g., introduction of the budget management system in the 1950s) ➢ The Thai government saw that it held bargaining power over donors by: <ul style="list-style-type: none"> - objectively scrutinizing technical assistance (TA) needs and making independent judgments for most suitable TA requirements (thus the crucial role of the Department of Technical and Economic Cooperation (DTEC) therein); - bearing the cost of counterpart funds for grants and TA; and - collecting as many different perspectives as possible by listening to the opinions of various donors. |

Table 7-3

Malaysia: Key Factors Affecting Development Administration

| | |
|--|--|
| Quality of leadership | <ul style="list-style-type: none"> ● Prime Minister Rahman (Late 1950s-1970s) emphasized the importance of socioeconomic development, especially in rural areas, and exercised the leadership strong enough to carry it out. ● Prime Minister Razak (1970s) showed acute determination and political will to reunite the country following a national crisis and took part in sharing the national vision by adopting the New Economic Policy (NEP). He also played a leading role in augmenting administrative machinery for implementation of the NEP. ● Prime Minister Mahathir (1980s) exercised strong leadership in strengthening public-private partnerships through creating formal and informal coordination mechanisms between the two sectors. |
| Alliances between the leadership and technocrats | <ul style="list-style-type: none"> ● Technocrats worked to enhance administrative capacity and human resource development in order to realize the Prime Minister's vision and policy objectives. |
| Fear of domestic crises | <ul style="list-style-type: none"> ● The Malaysian government utilized existing development machinery as a tool to realize the country's overriding objective: to promote national unity by eradicating poverty and restructuring society. |
| Utilization of aid as an integral part of development management | <ul style="list-style-type: none"> ● The Malaysian government strategically and selectively utilized donor assistance possessing its graduation policy. <ul style="list-style-type: none"> ➢ The Malaysian government utilized the World Bank and the UK assistance within the formulation of development administration (1950s-1960s). The government institutionalized foreign knowledge tailored to the local context. ➢ The Malaysian government utilized assistance from the US, the UK and the World Bank for sending highly competent young technocrats abroad to study as part of a long-term human resource development plan. ➢ The Malaysian government created the National Institute of Public Administration (INTAN) in 1972 to train government officers for human resource development as an integral part of its graduation strategy. <ul style="list-style-type: none"> - 1970s: utilized aid and procured foreign experts as instructors - 1980s: utilized domestic experts as instructors <p>(cf. Since 1981, INTAN has been providing TA to other development countries for human resource development through the Malaysian Technical Cooperation Program (MTCP))</p> |

Table 7-4

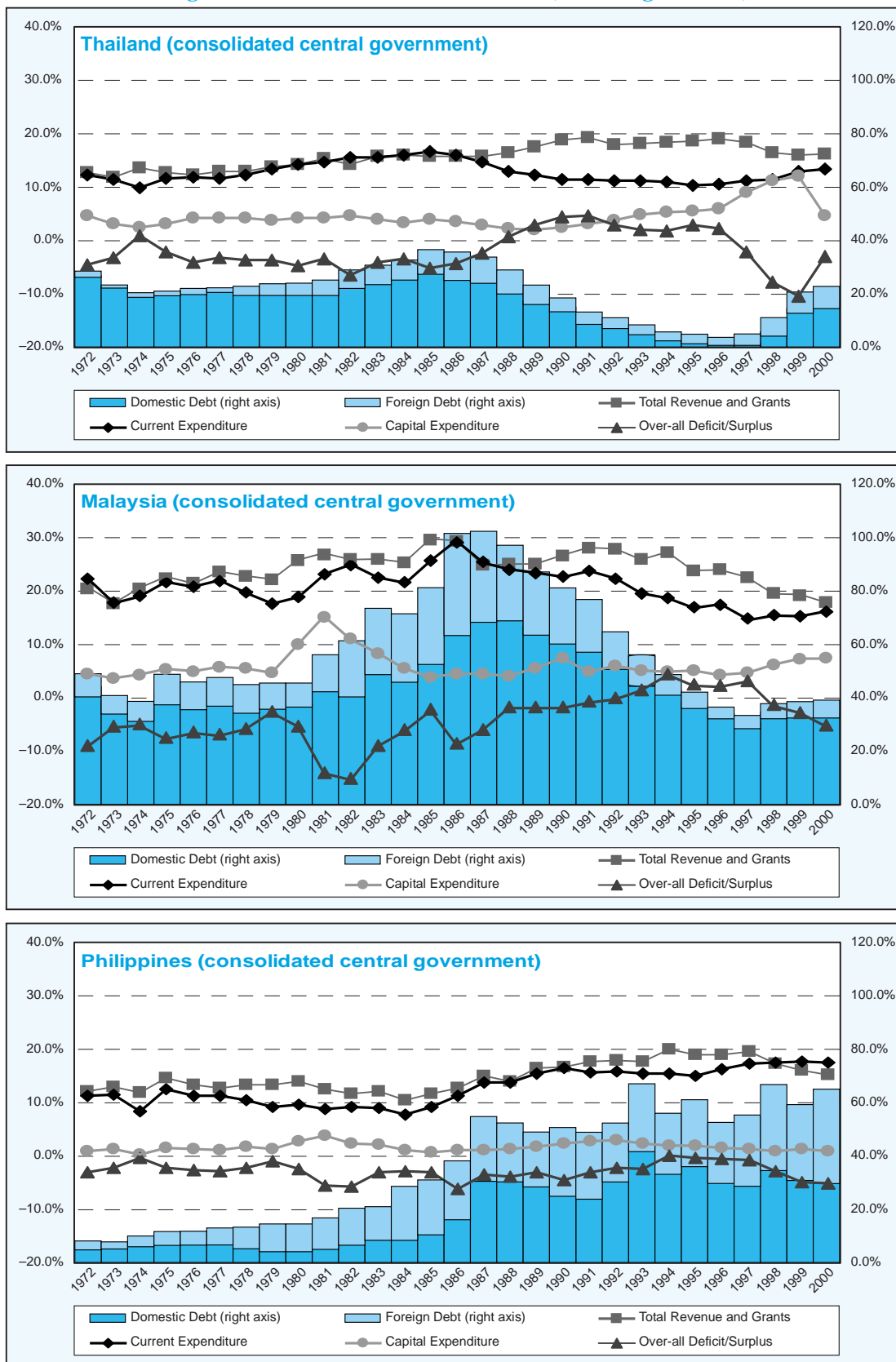
The Philippines: Key Factors Affecting Development Administration

| | |
|--|---|
| Quality of leadership | <ul style="list-style-type: none"> • President Marcos (prior to 1986) created the central development administration system manifested in a centralized planning body, the National Economic Development Authority (NEDA), to maintain his dictatorship. • President Aquino (after 1986) reorganized the development administration system, including the NEDA, after democracy was resumed following the turning point of 1986. The NEDA became an independent planning agency while Aquino promoted interagency coordination through the NEDA committees. • President Ramos (1990s) strengthened and institutionalized the development administration system (the NEDA functions) and ODA management. |
| Alliances between the leadership and technocrats | <ul style="list-style-type: none"> • After the turning point in 1986, technocrats working under the Aquino administration strove to streamline administrative structures and the functions carried out therein in order to efficiently execute development policy. They worked to secure policy coherence and facilitate coordination through capacity development programs for planning and public expenditure management. |
| Political interference in executive branch affairs | <ul style="list-style-type: none"> • Interference in executive branch affairs took place by the legislative branch, especially during the budgeting process, which undermined technocrats and their efforts (oft-cited as ‘dual track development administration’), and thus creating allocative distortions. |
| Utilization of aid as an integral part of development management | <ul style="list-style-type: none"> • The Philippine government utilizes foreign assistance actively but has had mixed experiences in aid management. <ul style="list-style-type: none"> ➤ Two different systems exist between locally funded projects and ODA projects, with ODA standards being more rigorous. As a result, the additional system for ODA would increase the administrative burden placed on the government and may ultimately lead to economic inefficiency as a whole. |

Appendices

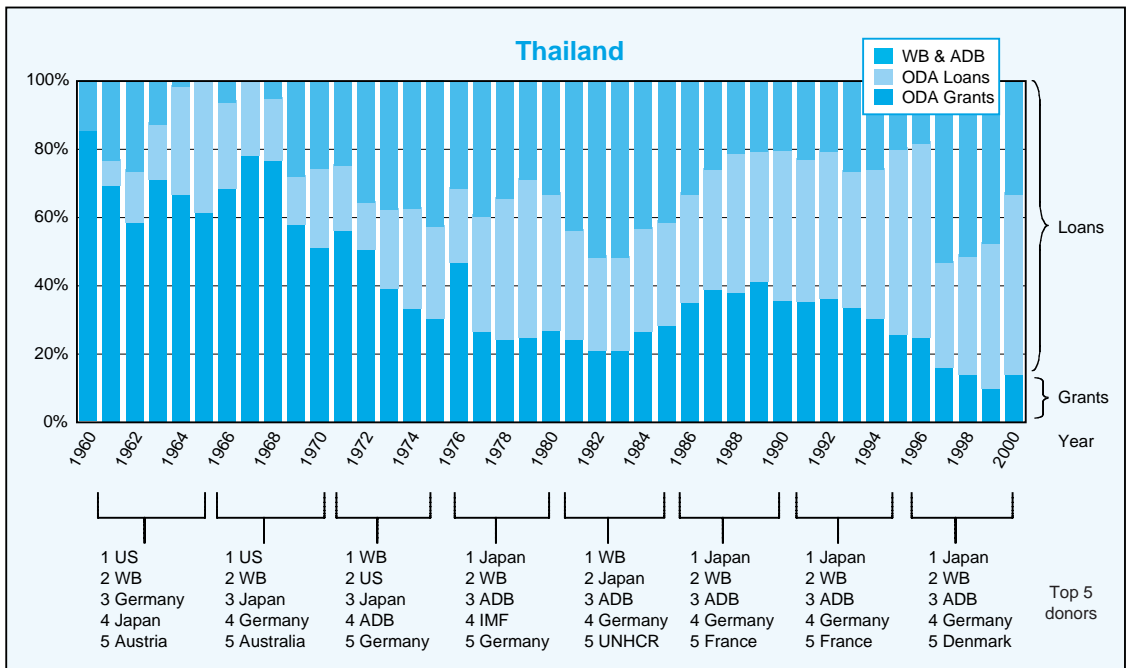
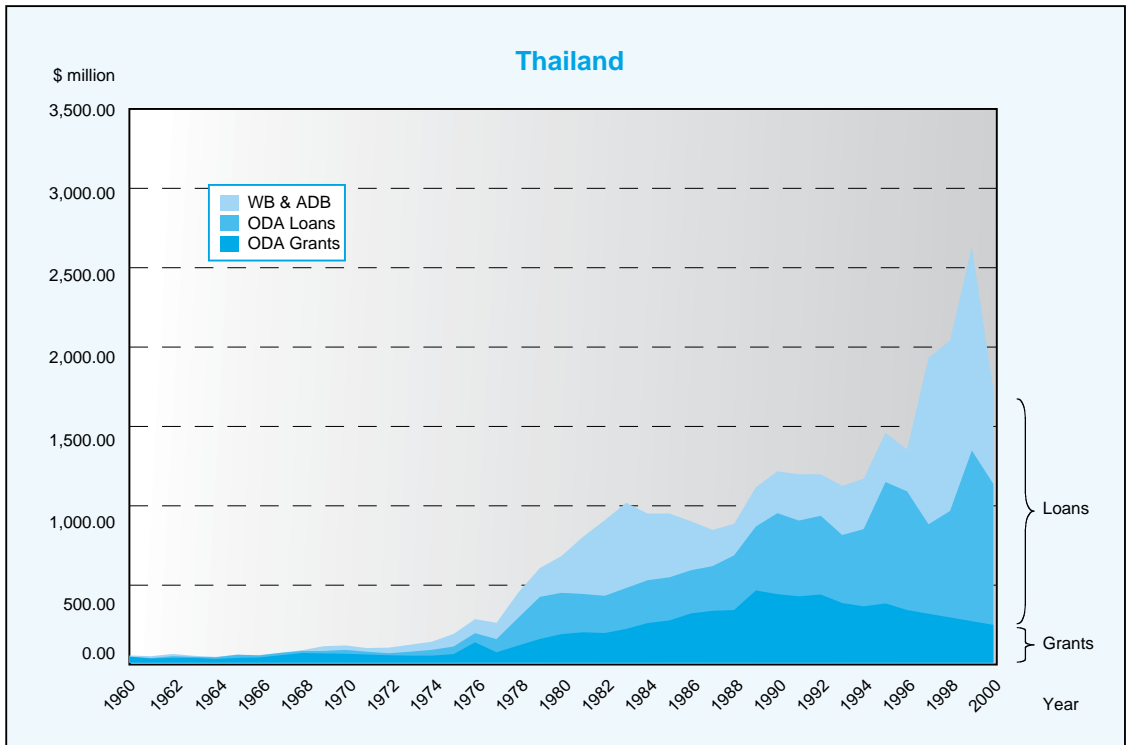
- **Figure A-1** Selected Fiscal Indicators (Percentage of GDP)
- **Figure A-2** Mobilization of Official Development Finance
- **Figure A-3** Budget Cycle in Thailand
- **Figure A-4** Budget Cycle in Malaysia
- **Figure A-5** Budget Cycle in the Philippines
- **Table A-1** Estimates of per Capita GDP and Ratios of Public to Private Sector Salaries in Selected Developing Countries

Figure A-1 Selected Fiscal Indicators (Percentage of GDP)



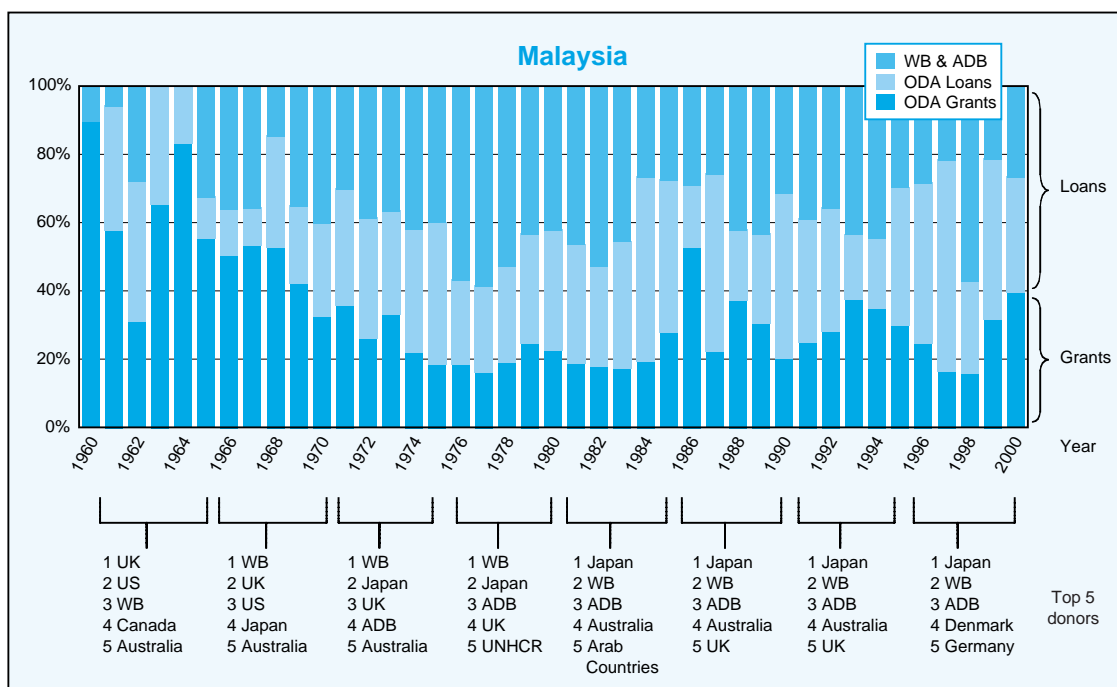
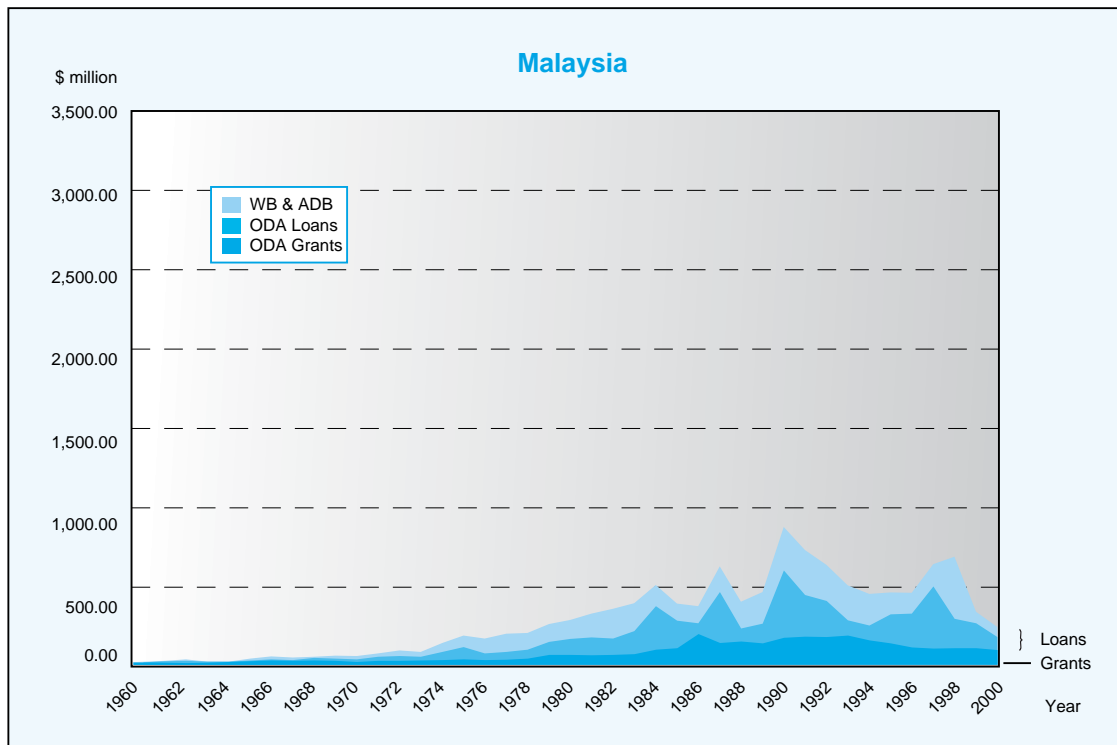
Source: IMF, *Government Finance Statistics Yearbook* (various years), *International Financial Statistics* (various years) and ADB, *Key Indicators of Developing Asian and Pacific Countries* (various years).

Figure A-2 Mobilization of Official Development Finance

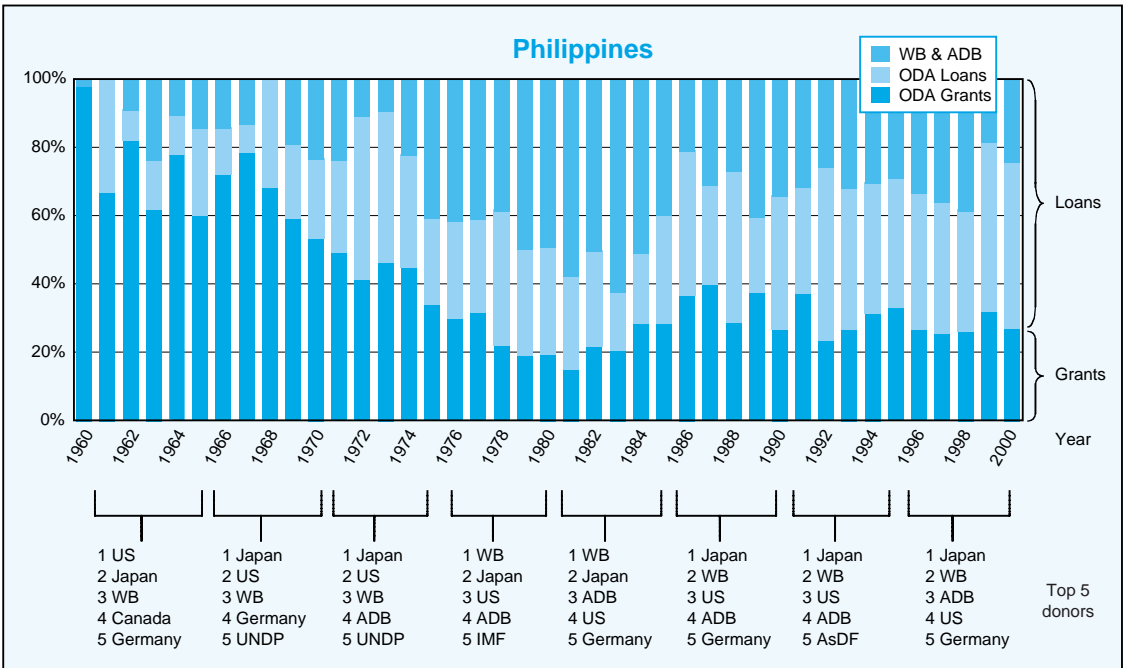
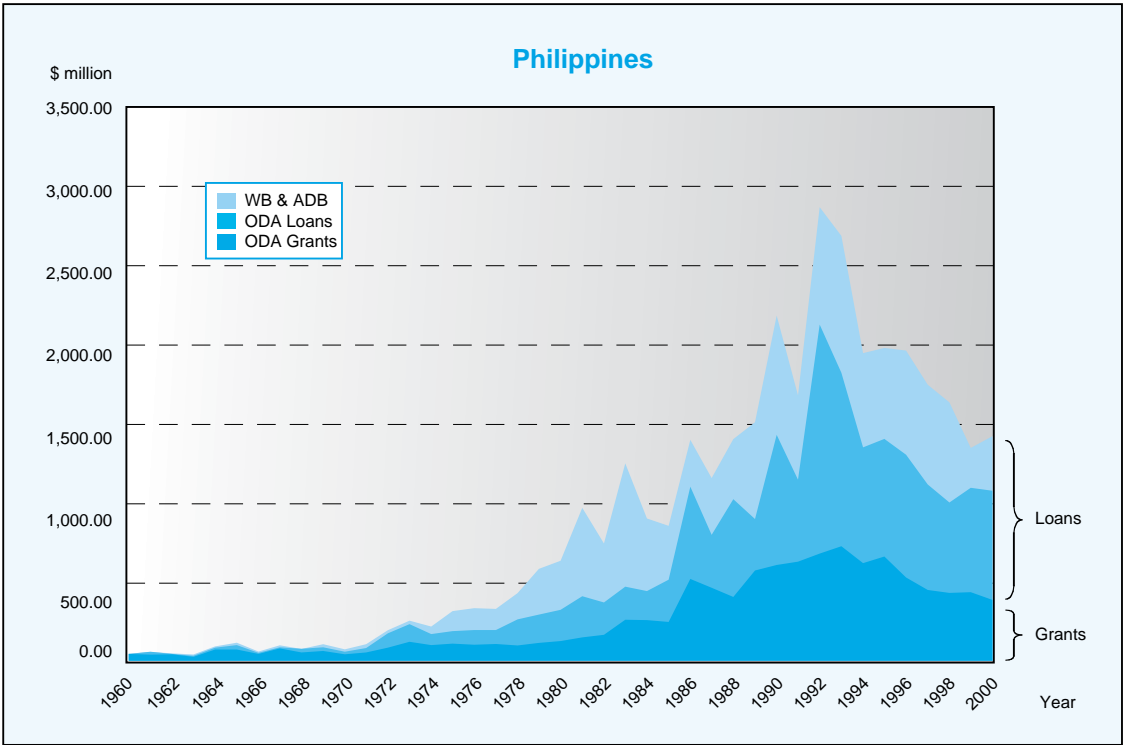


Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.

Source: OECD/DAC, *Geographical Distribution of Financial Flows to Aid Recipients 2000/2004*.



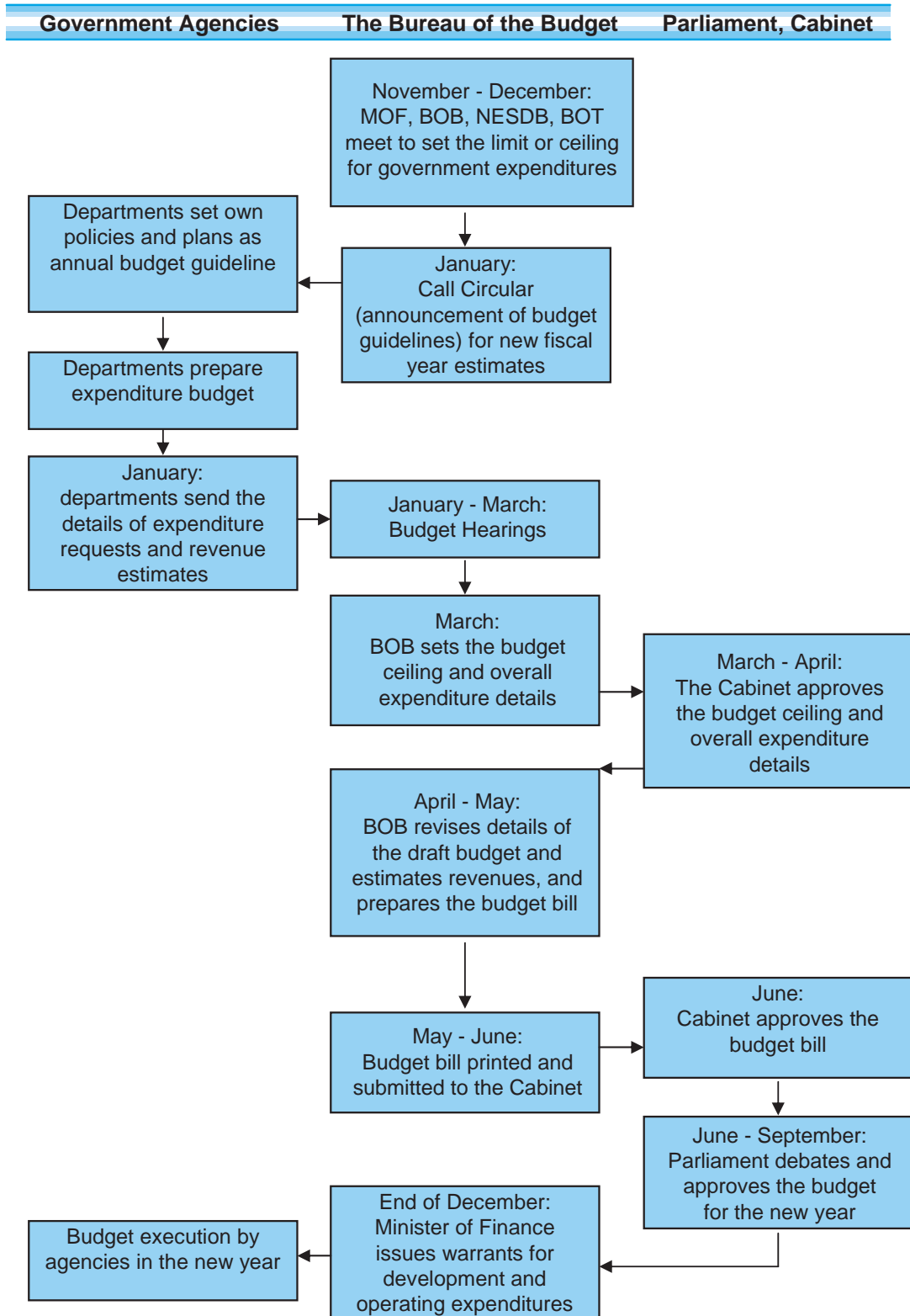
Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.
 Source: OECD/DAC, *Geographical Distribution of Financial Flows to Aid Recipients 2000/2004*.



Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.

Source: OECD/DAC, Geographical Distribution of Financial Flows to Aid Recipients 2000/2004.

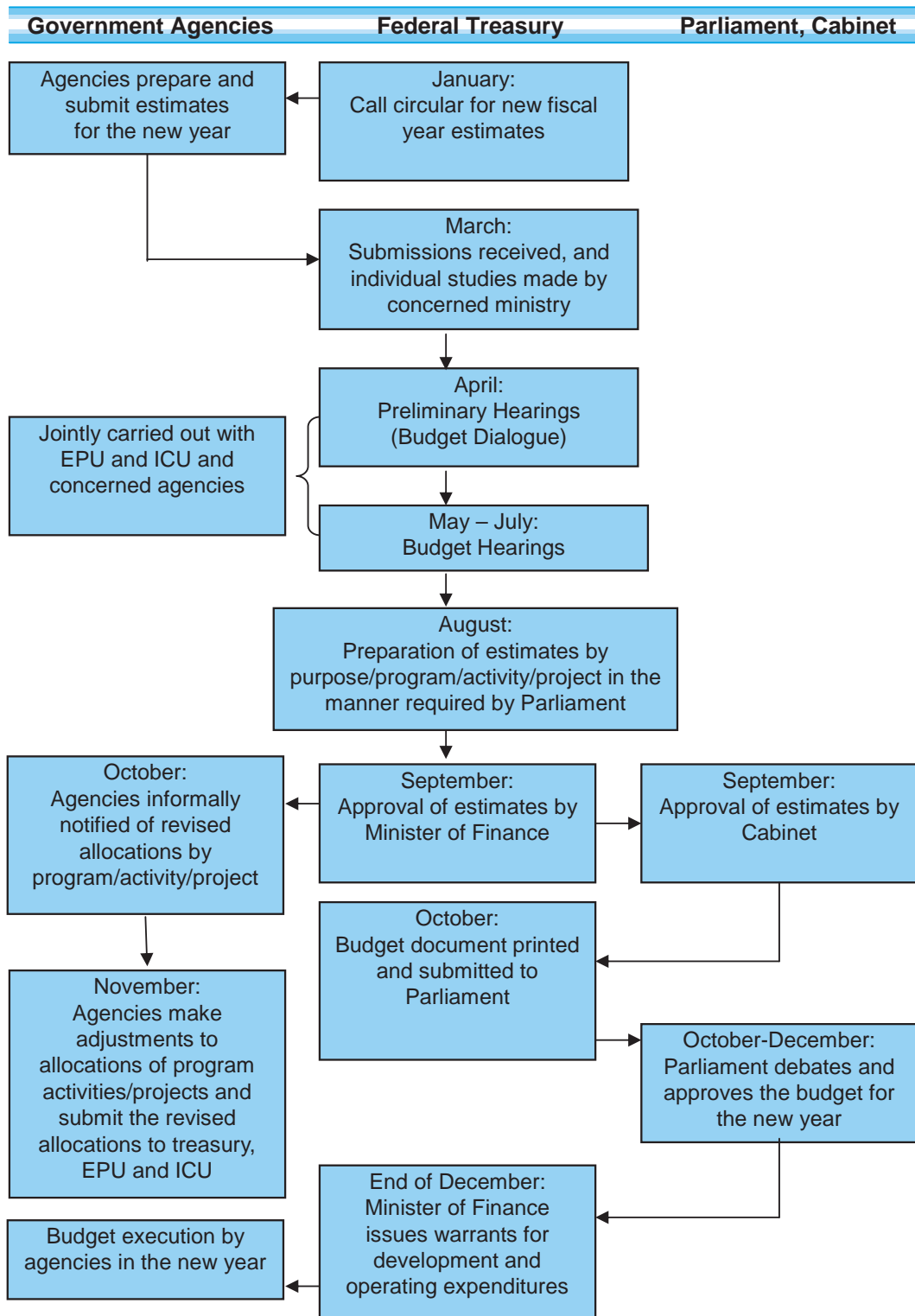
Figure A-3 Budget Cycle in Thailand ¹²³



Source: Based on the information provided by the Bureau of the Budget to the GRIPS team during the January 2006 mission).

¹²³ In Thailand, the fiscal year covers the period of October-September.

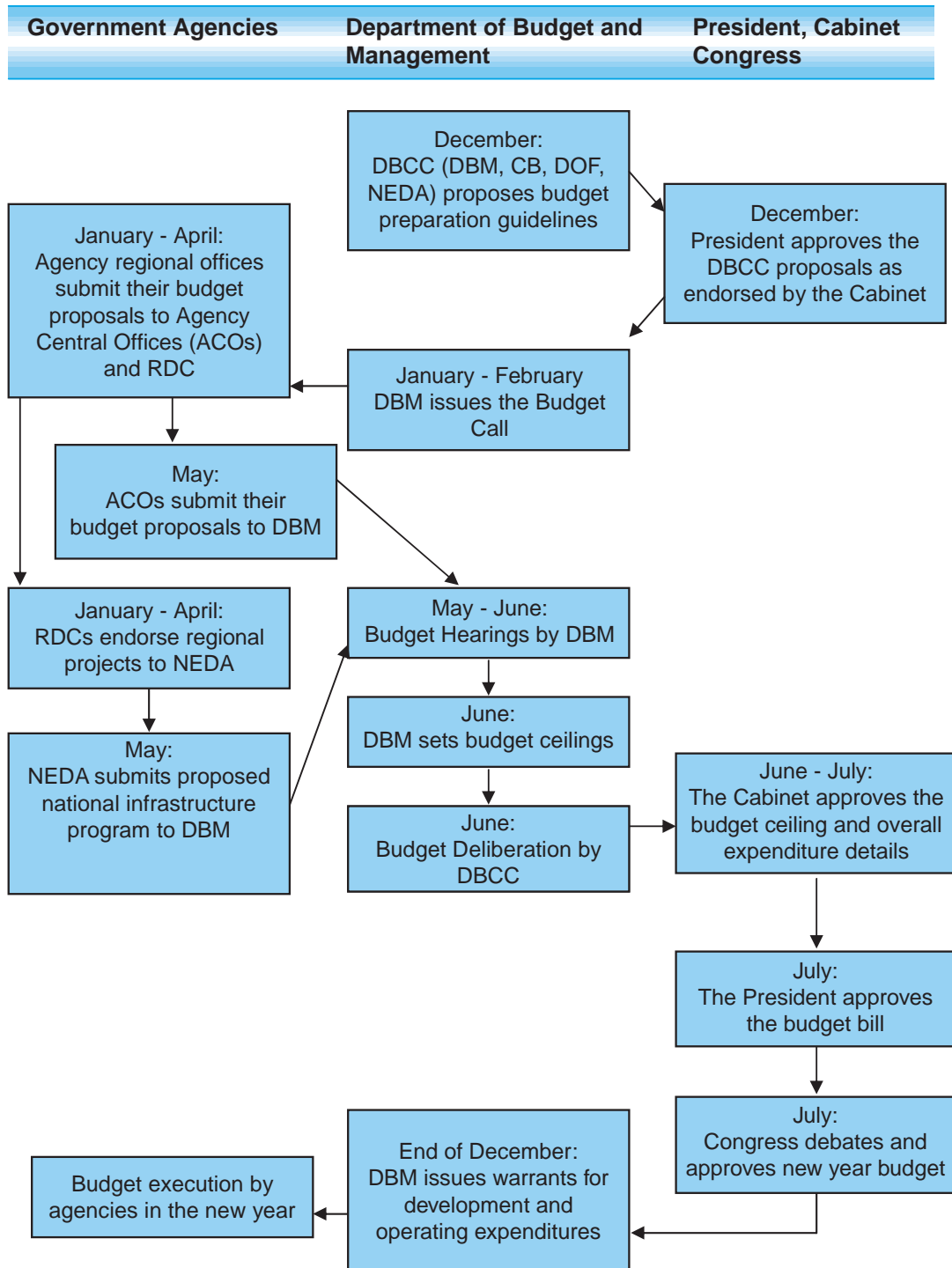
Figure A-4 Budget Cycle in Malaysia¹²⁴



Source: “The control and management of government expenditure: Issues and Experience in Asian Countries”, United Nations Development Papers No.13, 1993.

¹²⁴ In Malaysia, the fiscal year runs from January-December. The process of preliminary hearings, called the “Budget Dialogue”, includes consultation with the private sector.

Figure A-5 Budget Cycle in the Philippines¹²⁵



Source: Based on the information provided by DBM to the GRIPS team during the March 2006 mission and information on the DBM website.

¹²⁵ In the Philippines, the fiscal year covers the period from January-December.

Table A-1 **Estimates of per Capita GDP and Ratios of Public to Private Sector Salaries in Selected Developing Countries**

| Country | Per capita GDP ^a | Senior level (%) | | Mid-level ^b (%) | | Entry-level (%) |
|--|-----------------------------|--------------------|-------|----------------------------|-------|-----------------|
| | | A | B | A | B | |
| <i>High-performing Asian economies (HPAEs)</i> | | | | | | |
| Singapore | 14,929 | 114 ^b | 114 | 115[3] | 115 | 107 |
| South Korea ^c | 7,190 | 69.3 | 69.3 | 57.1 | 57.7 | 58.7 |
| Taiwan, China | 7,954 | 65.2 | 60.3 | 63.5 | 65.8 | 60 |
| Malaysia | 5,900 | 40 | 33.3 | 34.3 | 50 | n.a. |
| Thailand | 4,610 | 47.1 | 46 | 37.2 | 34.9 | 78.9 |
| <i>Other Asia</i> | | | | | | |
| Philippines | 2,320 | 27.7 | 24.3 | 25 | 32.5 | 62.5 |
| <i>Latin America</i> | | | | | | |
| Chile | 6,190 | 70.36 | 63.2 | n.a. | n.a. | n.a. |
| Trinidad and Tobago | 8,510 | 63.53 ^b | 63.53 | 76.88 | 77.92 | n.a. |
| Venezuela | 6,740 | 29.54 | 42.38 | 53.4 ^b | 53.4 | n.a. |
| Uruguay | 6,000 | n.a. | n.a. | 37.1 ^b | 37.1 | n.a. |
| Argentina | 4,680 | 24.11 ^b | 24.11 | 28.57 ^b | 28.57 | n.a. |

Note: This table is from *The Key to the Asian Miracle: Making Shared Growth Credible*, by Jose Edgardo Campos and Hilton L. Root, 1996, p. 144 (Table 6-1).

Sources: World Bank, World Development Report (1992); Taiwan, Statistical Yearbook (1992)
Salaries for the HPAEs and the Philippines were provided by local consultants and are based on latest available information. Salary data on Latin American countries were extracted from Reid (1992).

n.a. Not available.

a. In 1992 international dollars, according to United Nations International Program.

b. Average is used for both sublevels A and B.

c. Estimates of private sector salaries include allowances and bonuses so that the ratios are actually higher. Data are from a survey of companies with 500 or more employees.

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