

# Managing the Development Process and Aid

## Study Concept and Diverse Models of Macroeconomic Coordination in East Asia



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## Outline of Presentation

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1. About the GRIPS study  
--Focus of the analysis, basic premise
2. Country contexts: Thailand, Malaysia and the Philippines
3. Overview of macroeconomic coordination of central economic agencies (CEAs) in three East Asian countries
4. Synthesis

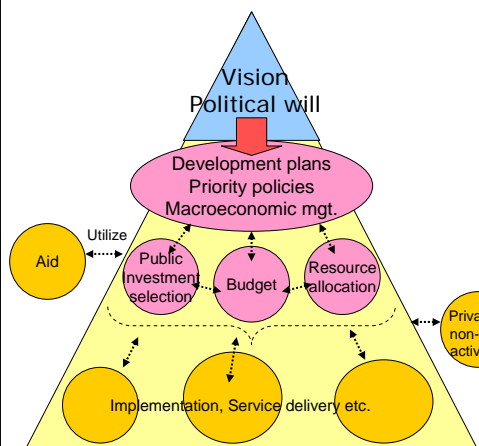
# 1. GRIPS Study: Focus of the Analysis

## <Issues>

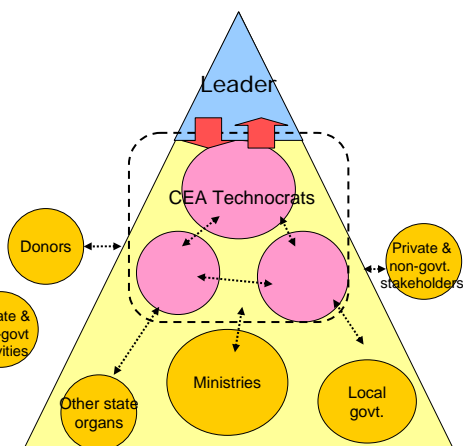
- Coordination mechanisms of central economic agencies (CEAs)
  - Role of Development Plan (DP) in policy and resource planning, alignment functions;
  - Budget and public investment planning;
  - Aid management
- Key factors affecting CEA effectiveness: the role of leadership, technocrats, etc.

## Coordination Mechanisms of CEA

### Policy & resource planning, alignment functions



### Key actors affecting CEA functions



## GRIPS Study: Focus of the Analysis

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### <Countries>

- Thailand and Malaysia (late 50s-80s)
  - Building institutional basis for “developmental” CEAs
  - Mobilizing resources and organizing for development; achieving structural transformation (esp. 70s-80s)
  - New emerging donors
- The Philippines (esp. late 80s-)
  - Mixed experiences under the Marcos era;
  - Now, renewed effort for CEA building after democracy restoration in 1986 (“turning point”)

## GRIPS Study: Basic Premise

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- Emphasis on country perspectives
  - “Real” experiences, rather than “ideal” prescriptions
  - No standardized, donor-driven approach to institution building
- Critical role of CEAs in managing the development process
- East Asian views of “ownership”

## GRIPS Study: Basic Premise

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### <Critical Role of CEAs>

- Economic cases for central administration (Bardhan 1997)
  - Policy coordination in the presence of scale economies
  - Inter-jurisdictional externalities, with spillover effects across localities
  - Support to local administration
- Complementary to decentralized administration
- Providing the enabling environment for private sector development

## GRIPS Study: Basic Premise

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- “*Developmental*” role of CEAs (Johnson, Haggard, Evans, Wade, etc.)
  - Agent of managing the transformative, development process (Leftwich 1995)
  - *Strategic core centers*:
    - Aligning policy planning and resource mobilization with attaining strategic priorities
    - Coordinating different interests of various stakeholders (domestically and externally; vertically and horizontally)

# GRIPS Study: Basic Premise

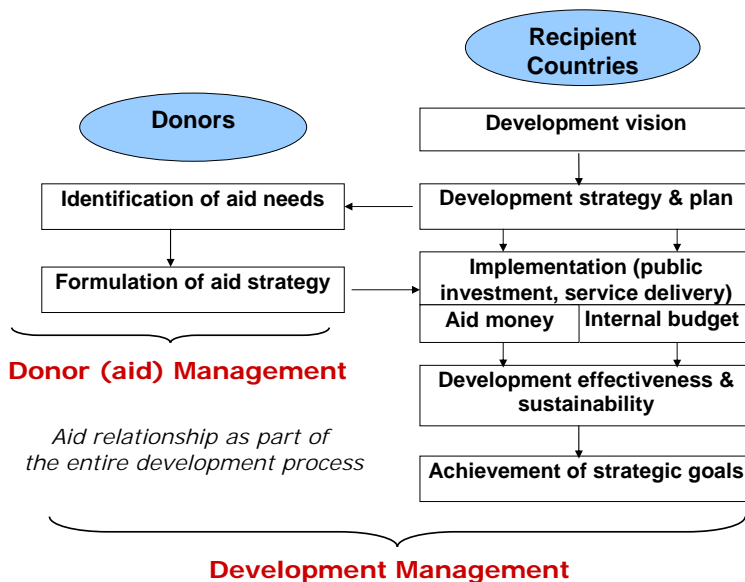
## <East Asian Views of “Ownership”>

- Managing donors and aid, as integral part of the development process
- Willingness to graduate from aid, supported by an “exit plan”
- Managing policy ideas, with selectively adopting foreign knowledge

(Shimomura and I. Ohno 2005)

- Thailand and Malaysia (esp. 70s-80s): demonstrating East Asian “ownership”.
- The Philippines (esp. late 80s-) : currently making effort to establish it.

## Development Management and Aid



Source: Adapted from I. Ohno and Niiya (2004)

## 2. Country Contexts

### <Socio-Economic Indicators>

|                 | GNP per capita (\$) |             | Annual growth rate (%) per capita GNP avr. 1965-90 | Poverty ratio (%) 1980-90 avr. |
|-----------------|---------------------|-------------|--|--------------------------------|
|                 | <u>1976</u>         | <u>1990</u> |  |                                |
| South Korea     | 670                 | 5400        | 7.1  | 16                             |
| Malaysia        | 860                 | 2300        | 4.0  | 27                             |
| Thailand        | 380                 | 1420        | 4.4  | 30                             |
| The Philippines | 410                 | 730         | 1.3  | 58                             |

Sources: World Development Report (1976, 92, 93) and Human Development Report (1992)

## Country Contexts: Macroeconomic and Aid Management (→ see Handouts)

|                 |  |
|-----------------|--|
| Thailand        | <ul style="list-style-type: none"> <li>■ Strong fiscal discipline; prudent debt management</li> <li>■ Active, but selective use of aid; changes in aid mix and “graduation”</li> </ul>                                   |
| Malaysia        | <ul style="list-style-type: none"> <li>■ Fiscal activism to support large development expenditures; overall balanced economic management</li> <li>■ Selective use of aid; changes in aid mix and “graduation”</li> </ul> |
| The Philippines | <ul style="list-style-type: none"> <li>■ Problems of allocative efficiency; heavy debt burden constraining development expenditures</li> <li>■ Active use of aid continuing; selectivity?</li> </ul>                     |

### 3. Overview of CEA Macroeconomic Coordination Mechanisms

#### <Points>

- What are the role and functions of CEAs in three East Asian countries?
- How have macroeconomic coordination mechanisms worked?, What are key actors?
- What is the role of development plans (DPs) in policy and resource alignment (i.e., budget, public investment selection, aid)?
- What are implications for building effective CEAs?

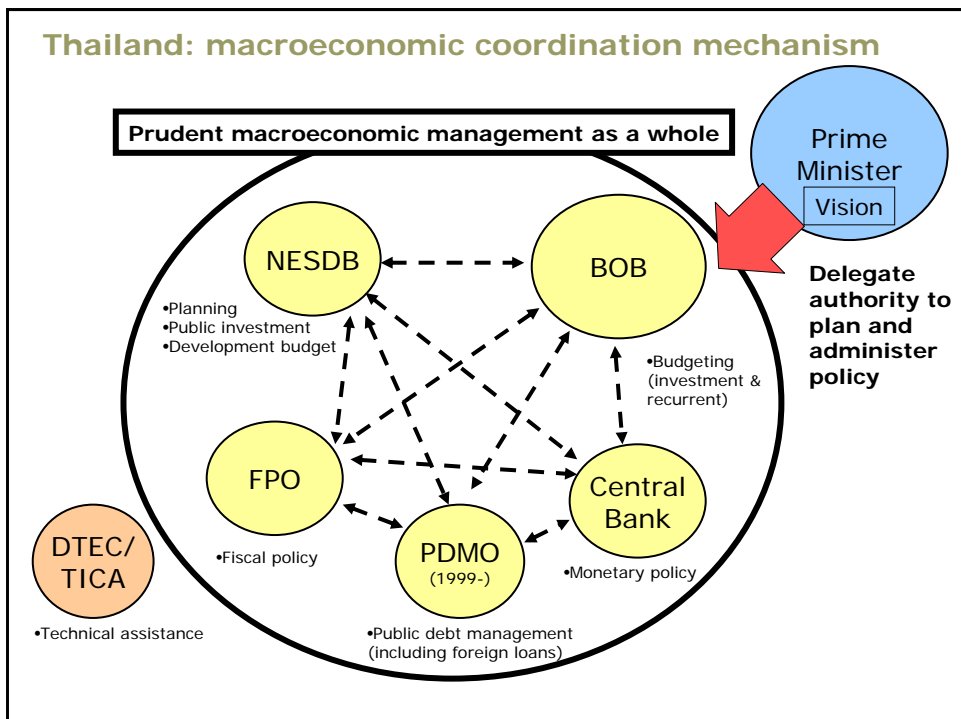
### Overview of Macroeconomic Coordination Mechanisms

|  | Thailand<br>(esp. 70s-80s)   | Malaysia<br>(esp. 70s-80s)   | The Philippines<br>(late 80s-now)   |
|--|--|--|---|
| Role of CEAs in development mgt.       | ■ Strategic core centers   | ■ Strategic core centers   | ■ Strategic core centers?   |
| Features of macroeconomic coordination | ■ Centralized, but responsibility shared among four CEAs<br>■ Subtle check & balance | ■ Centralized, under super-ministry (EPU)<br>■ Multi-layered, rule-based coordination                          | ■ "Dual track" (the executive vs. the legislature)<br>■ Insufficient, inter-agency coordination |
| Role of DPs                            | ■ Guiding policy alignment with development priorities, under annual fiscal scrutiny | ■ Guiding policy & resource alignment with development priorities<br>■ DPs as action plan to achieve LT vision | ■ Limited policy & resource alignment with DPs  |
| Enforcement of macro-guidelines        | ■ Comprehensive (incl. ODA, SOEs)  | ■ Comprehensive (incl. ODA, SOEs)  | ■ Limited, with exemptions  |

## 3-1. Thailand: CEA Functions and Key Actors

- Centralized power in the four economic agencies (“gang of four”)
  - NESDB (National Economic & Social Development Board): PM’s Office
  - BOB (Bureau of the Budget): PM’s Office
  - FPO (Fiscal Policy Office) + PDMO (1999-): MOF
  - Bank of Thailand: central bank
- Leadership: empowering technocrats to plan and administer economic policies
  - Technocratic insulation from political interventions
- Role of CEA technocrats
  - Strong inter-agency coordination; shared responsibility
  - Enforcing legal limits for fiscal deficits and external borrowing

(But, sector-level coordination not necessarily strong)





## Thailand: Role of DP in Policy and Resource Alignment

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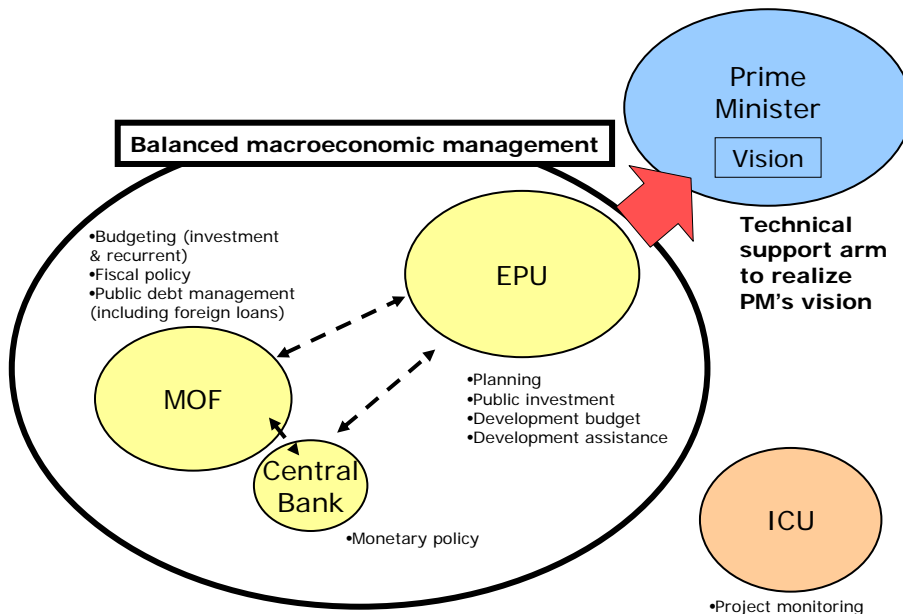
- Indicative DPs, without budget implications
- Development priorities clearly indicated in DPs
  - ODA utilization strategy included (esp. 60-70s).
- Flexibility in medium-term planning, while scrutinizing all projects in the annual budget & debt approval decisions
  - BOB “mobile units” providing vertical link to line agencies, through the annual budget process.
  - National Debt Policy Committee; National Committee on State Enterprises.
- Consultation with the private sector (from the 70s, strengthened in the 80s)

## 3-2. Malaysia: CEA Functions and Key Actors

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- Centralized power in Prime Minister’s Dept. (EPU as super-ministry)
  - EPU (Economic Planning Unit): PM’s Dept.
  - ICU (Implementation Coordination Unit): PM’s Dept.
  - MOF (Ministry of Finance) and Central Bank
- Strong political leadership, providing long-term visions and direction for changes
- Role of CEA technocrats
  - Technical arms to realize PM’s visions (esp. New Economic Policy or *Bumiputra* policy in the 70-80s)
  - DPs and budgets as rolling plans to achieve long-term visions

## Malaysia: macroeconomic coordination mechanism

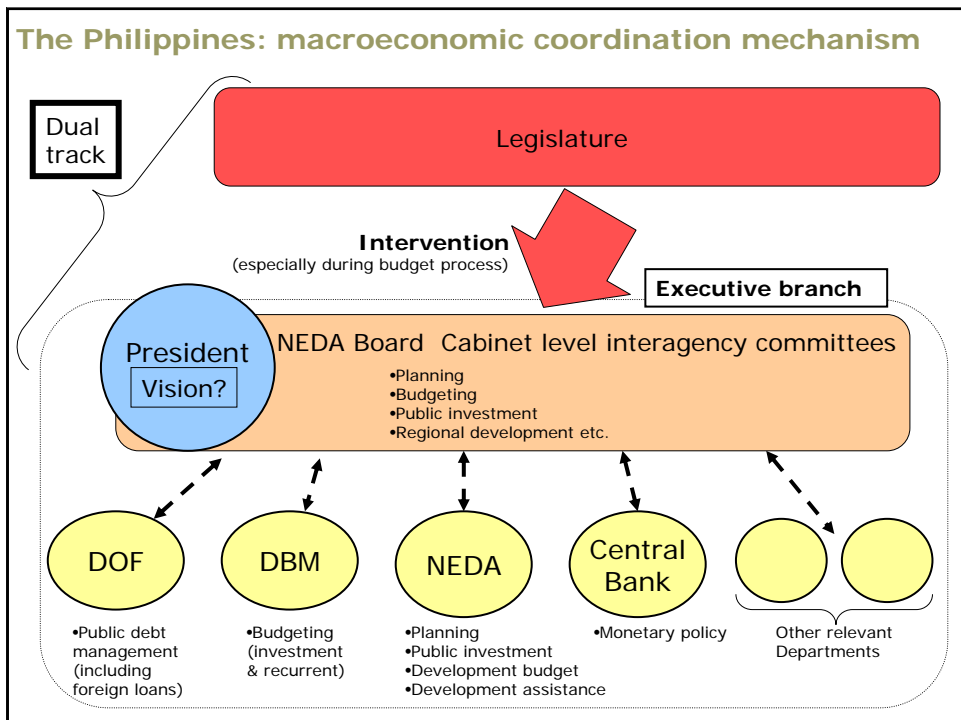


## Malaysia: Role of DP in Policy and Resource Alignment

- Directive DPs, with budget implications
- Development priorities and resource allocation clearly indicated in DPs
  - Enforcing budget and sector ceilings for the plan period, while adjusting at mid-term review
  - ODA utilization strategy included in DPs (from the 60s and later expanded as int'l cooperation strategy)
- Multi-layered, inter-agency coordination for planning and implementation to ensure coherency
  - National Planning Committee, National Action Committee (as apexes); "top-down" and "bottom up" coordination
  - Role of the "planning cells" technocrats -- macro-sector links
- Consultation with the private sector: e.g., annual budget dialogue (from the 80s)

## 3-3. The Philippines: CEA Functions and Key Actors

- “Dual track” system: executive channel vs. congressional interventions
- President-led NEDA Board (leadership?)
  - NEDA (National Economic & Development Authority)
  - DBM (Dept. of Budget Management)
  - DOF (Dept. of Finance)
  - Central bank
- Cabinet-level, inter-agency coordination bodies (incl. Development Budget Coordination Committee)
  - Effort to synchronize DP, Public Investment Plan (PIP), and annual budget; MTEF introduced in 2003.
  - Effort to strengthen supervision of GOCCs (Govt. Owned and Controlled Corporation), esp. on budget and debt approval.



# The Philippines: Role of DP and Macroeconomic Coordination Features

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- Limited role of DPs in policy planning and resource alignment
  - No budget ceilings for DP and PIP
  - Strategy for ODA utilization and private sector collaboration unclear (until recent DP)
- Weak enforcement of macroeconomic guidelines
  - Large GOCCs exempted from ceiling of Foreign Borrowing Act
  - Vigorous appraisal and monitoring procedures, applied only for ODA and BOT projects
  - Congressionally initiated projects (“pork barrel” funds) outside the regular budget process
- Congressional interventions in the annual budget process, undermining the Executive efforts of DPs-PIP-budget synchronization

## 4. Synthesis

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- Importance of strengthening CEAs as strategic core centers of development management
- Diverse models of macroeconomic coordination in three East Asian countries
  - Institutional variation for CEA design and coordination mechanisms
  - Need to take account of the local context when building effective CEAs

→ *Donors should be mindful of promoting alignment of their assistance, especially in the countries with weak strategic core functions.*

## Synthesis

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- The Philippines:
  - Building “formal” institutions is not sufficient to ensure their effective operations.
  - Importance of the political environment – its interplay with leadership, technocrats, and CEA operations.
  - Role of aid? – enclave, or an entry point for the broader institutional reforms?
- Thailand and Malaysia:
  - Despite differences, they share common “functional” principles to ensure CEA effectiveness.

## Synthesis: Thailand and Malaysia

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### <Differences>

- Leadership style and operating principles of CEAs
- Degree of DPs binding medium-term resource allocation and project selection

### <Similarities – “functional” principles>

- The content of DPs is strategic enough to serve as the core document for policy alignment
- Comprehensive enforcement of macro-economic guidelines

## Synthesis: Thailand and Malaysia

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- Good inter-agency coordination to ensure policy and resource alignment with development priorities -- within CEAs, plus between CEAs and line agencies
- Commitment and capacity to use ODA, as integral part of the development planning, budget and investment planning processes
- Strong alliance between political leadership and CEA technocrats around shared visions

*The END*