

Managing the Development Process and Aid

East Asian experiences in building central economic agencies (interim findings)



GRIPS Development Forum

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Outline of Presentation

1. About the GRIPS study
 - Focus of the analysis, basic premise
2. Country context: Thailand, Malaysia, and the Philippines
3. Overview of macroeconomic coordination of central economic agencies (CEA) in three East Asian countries
 - CEA role and functions, key actors, role of Development Plans, factors affecting CEA effectiveness etc.
4. Synthesis

1. GRIPS Study: Focus of the Analysis

<Issues>

- Coordination mechanisms of central economic agencies (CEA)
 - 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.

(*This presentation is a broad overview, with focus on macroeconomic coordination and the role of DP.)

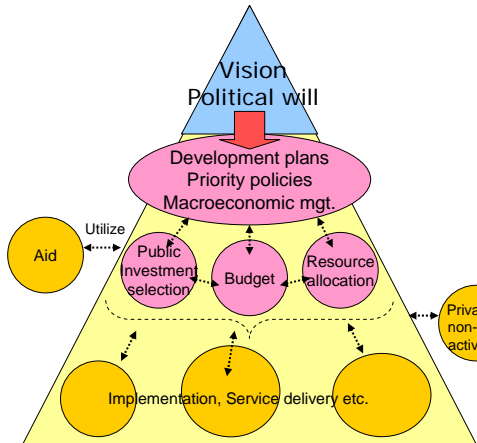
GRIPS Study: Focus of the Analysis

<Countries>

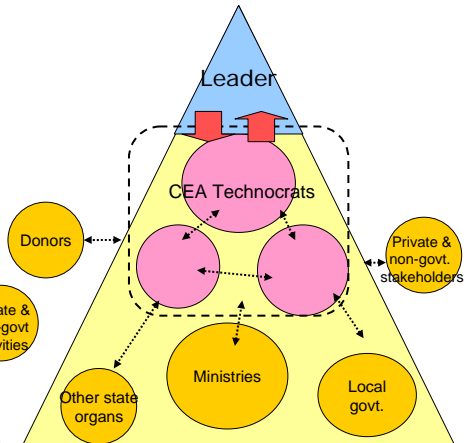
- Thailand and Malaysia (esp. 1970s-80s): structural transformation, now emerging donors
- The Philippines (late 80s-): ongoing effort for CEA building

Coordination Mechanisms of CEA

Policy & resource planning, alignment functions



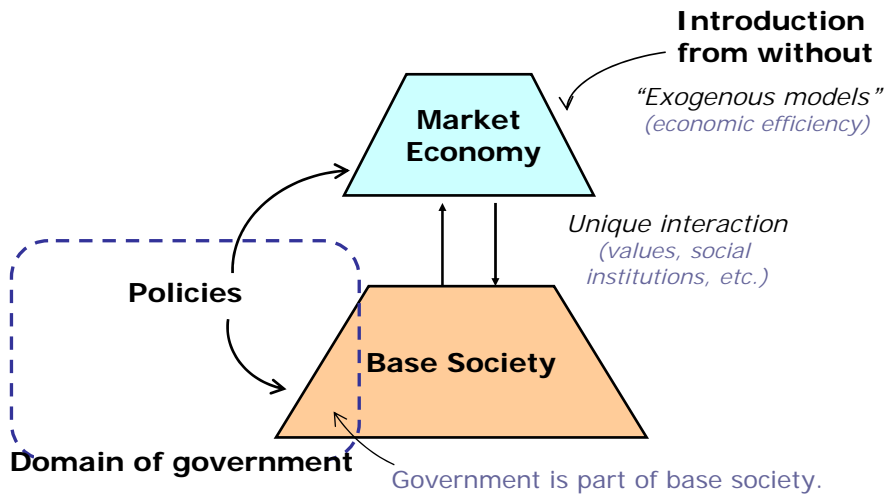
Key actors affecting CEA functions



GRIPS Study: Basic Premise

- Critical role of CEA in managing the development process
- Emphasis on country perspectives
 - No donor-driven approach to institution building; no standardized prescription
- East Asian views of “ownership”

Development Process: Systemic Interaction



Source: Adapted from K. Ohno (1998)

GRIPS Study

<The Case for Central Administration>

- Policy coordination in the presence of scale economies (e.g., macroeconomic policies)
 - Inter-jurisdictional externalities, with spillover effects across localities (e.g., investment in large-scale infrastructure)
 - Support to local administration (e.g., financial, technical aspects)
- Complementary to decentralized administration (e.g., local common resources, supply of local public goods)

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<Developmental Role of CEA>

- Strategic core centers
 - Policy planning, resource mobilization and alignment toward attaining strategic priorities
 - budget, public investment, aid, non-governmental resources, etc.
 - Coordinating different interests of various stakeholders
 - domestic and external (incl. donors)
 - vertically and horizontally
- *Development requires institutions that promote radical accumulation, change and transformation (Leftwich 2005)*

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<East Asian Views of “Ownership”>

- Donor relationship only part of the entire development management
- Integrating aid into the development process
- Selectively adopting foreign knowledge, tailored to the local context
- Strategically using aid – for “graduation”

2. Country Context

- Thailand and Malaysia:
 - Building institutional basis for “developmental” CEA (1950-60s)
 - Mobilizing resources and organizing for development; achieving structural transformation (1970-80s)
- The Philippines:
 - Mixed experiences under the Marcos era (1965-86)
 - Renewed effort for CEA building, after democracy restoration in 1986 (“turning point”)

[Handout 1]

Macroeconomic Management by CEA

- Thailand:
 - Strong fiscal discipline; prudent debt management
- Malaysia:
 - Fiscal activism to support large development expenditures; overall balanced management
- The Philippines:
 - Problems of allocative efficiency; heavy debt burden constraining development expenditures

[Handout 2]

Aid Management by CEA

- Thailand
 - Active, but selective use of aid; changes in aid mix (donor composition, grant-loan ratio); and “graduation”
- Malaysia
 - Selective use of aid; changes in aid mix; and “graduation”
- The Philippines
 - Active use of aid continuing; selectivity?

[Handout 3]

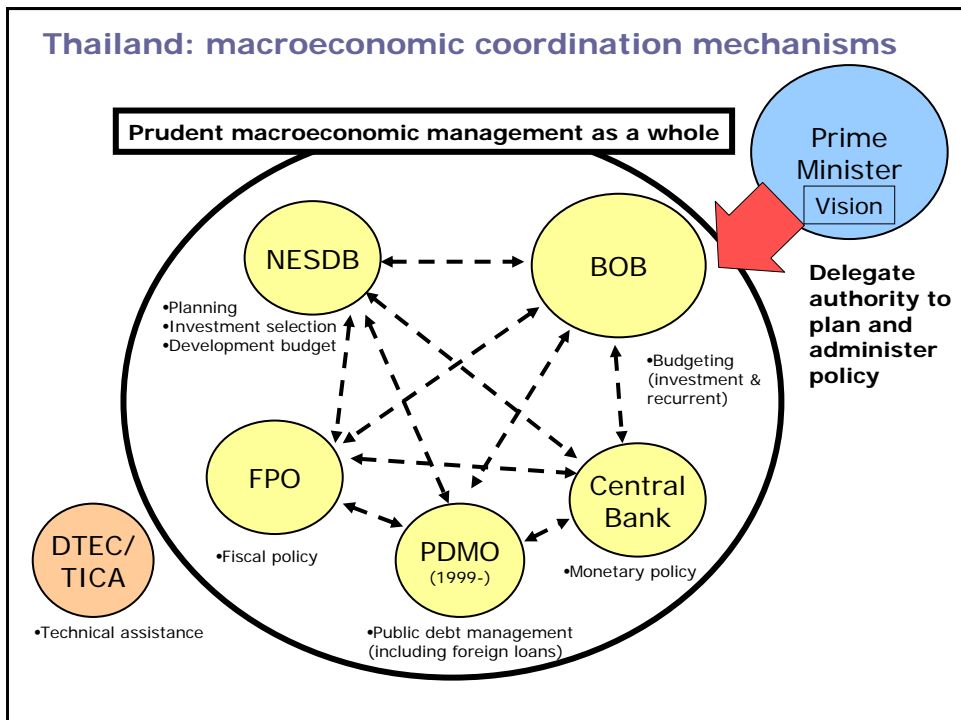
3. Overview of CEA Macroeconomic Coordination Mechanisms

<Points>

- What are the role and functions of CEA in three East Asian countries?
- How have coordination mechanisms worked?, What are key actors?
- What is the role of DPs in policy and resource alignment (i.e., budget, public investment selection, aid)?
- How has aid been integrated into the development process?
- What are key factors for making CEA effective?

3-1. Thailand: CEA Functions and Key Actors

- Centralized power in the four economic agencies (“gang of four”)
 - NESDB: 5-year DPs, development budget, public investment selection
 - BOB: annual budget
 - FPO: fiscal policy & debt mgt. (+ PDMO 1999-)
 - Central bank: monetary policy
- Leadership: delegating authority to CEA to plan and administer policy
- Key role of elite technocrats in economic policy making
 - Strong inter-agency coordination; shared responsibility; politically insulated
 - Macroeconomic discipline
(But, macro-sector coordination not necessarily strong)



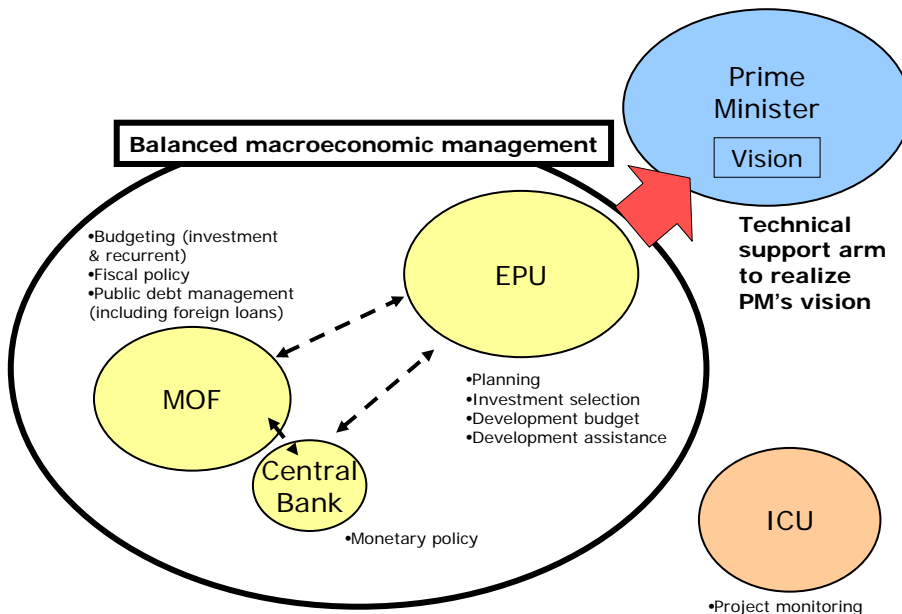
Thailand: Role of DP in Policy and Resource Alignment

- Indicative DP, without budget implications
- Public investment selected separately from the DP formulation process, while DP serving as the core document for priority check
- Securing flexibility in medium-term planning, while exercising scrutiny in the annual budget process (e.g., BOB “mobile units”)
 - Also, enforcing legal limits for fiscal deficits and external borrowing, via four-agency coordination
- ODA and domestic projects: same criteria and procedures applied

3-2. Malaysia: CEA Functions and Key Actors

- Centralized power in Prime Minister’s Dept. and Ministry of Finance
 - EPU: long-term visions & 5-year DPs, development budget, public investment selection (incl. PIP), aid
 - ICU: PIP implementation & coordination
 - MOF: annual budget, fiscal & debt policies
- Strong political leadership, providing long-term visions and direction for changes
- Role of elite technocrats in realizing PM’s visions
 - DPs and budgets as instruments to achieve LT visions
 - Role of “planning cells” (macro-sector links)

Malaysia: macroeconomic coordination mechanisms

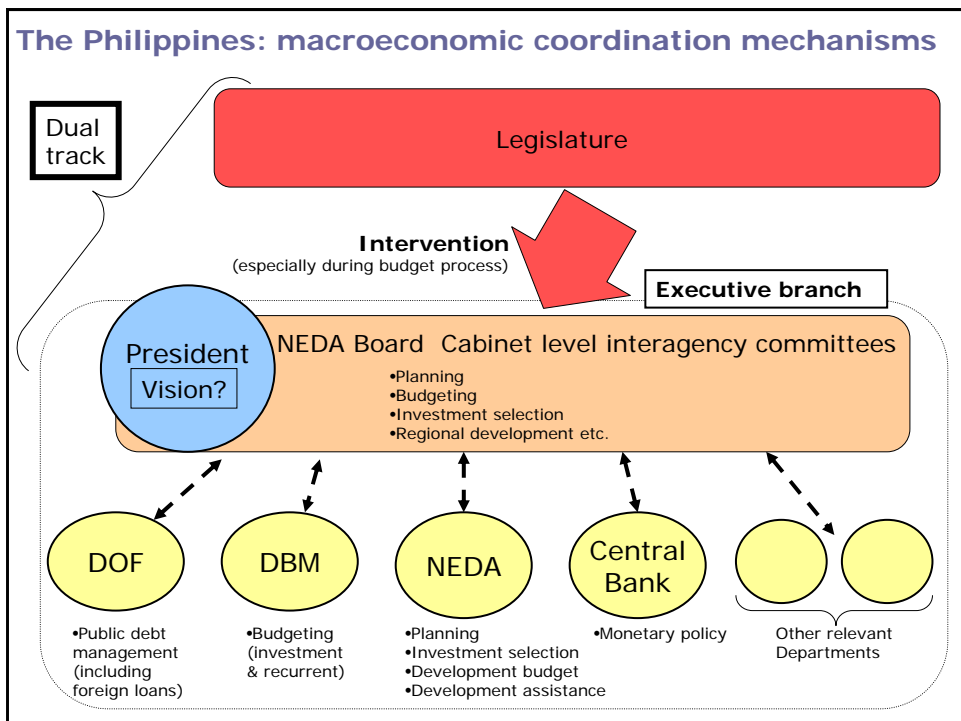


Malaysia: Role of DP in Policy and Resource Alignment

- Directive DP, with budget implications
- PIP included in DP; public investment selected at the time of DP formulation
- Enforcing budget and sector ceilings for the plan period, while making adjustments at mid-term review
- ODA and domestic projects: same criteria and procedures applied
- Systemic implementation and monitoring of public investment projects

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

- Cabinet-level, inter-agency coordination bodies
 - NEDA: 6-year DPs, development budget, public investment selection (incl. PIP), aid
 - DBM: annual budget, medium-term expenditure framework
 - DOF: fiscal & debt policies
 - Central bank: monetary policy
- President-led NEDA Board (leadership?)
 - Weak synchronization among DP, PIP, budget
- “Dual track” policymaking process
 - Executive channel vs. Congressional interventions



The Philippines: Role of DP in Policy and Resource Alignment

- Limited role of DP in policy planning and resource alignment
- No budget ceilings for DP and PIP; PIP as “wish list” of projects, with weak scrutiny
- Vigorous appraisal and monitoring procedures, applied only for ODA and BOT projects
- Divergence between expected and actual functions of CEA (within the Executive)
- Congressional interventions in the annual budget process, undermining the Executive efforts of DPs-PIP-budget synchronization

3-4. Key Factors Affecting CEA Effectiveness: Thailand and Malaysia

- Diverse models of macroeconomic coordination in three East Asian countries
- The Philippines:
Building “formal” institutions are not sufficient to ensure their effective functioning.
- Thailand and Malaysia:
Despite differences, they share common factors for making CEA effective.

Key Factors Affecting CEA Effectiveness: Thailand and Malaysia

<Differences>

- Leadership style:
 - Thailand: delegation to CEA technocrats
 - Malaysia: top-down policy making, monitoring
- Degree of DPs binding medium-term resource allocation and project selection
- Operating principles of CEA:
 - Thailand: subtle check & balance, built-in flexibility (based on indigenous institutions)
 - Malaysia: rule-based operations (British tradition)

Key Factors Affecting CEA Effectiveness: Thailand and Malaysia

<Similarities>

- The Executive-led policymaking process
- DPs serving as core documents for policy alignment (incl. PIP & aid)
- Application of same criteria for both domestic and ODA projects
- Alliance between leadership and elite technocrats
 - Concretizing visions into DPs and priority policies
 - Building effective CEA, taking account of the local context

4. Synthesis

- ❑ Critical role of CEA in resource and policy alignment to DP; use of aid as integral part of development
- ❑ Diversity of CEA design; need for greater attention to the local context in building CEA
- ❑ Leadership matters
- ❑ Importance of alliance between leadership and elite technocrats around shared visions (Thailand, Malaysia)
- ❑ Importance of political aspects (the case of the Philippines)

The END