

Managing the Development Process and Aid
—The role of central economic agencies for promoting shared growth—
(Draft study proposal)

1. Objectives

- The proposed study aims to examine the experiences of East Asian countries in managing the development process and aid and to draw implications for the institution building efforts by today's development countries. The study will focus on Malaysia and Thailand, which are widely considered to have successfully managed the development process with strong ownership and are emerging as new donors. It will also include the analysis of the Philippines to provide a comparative perspective. To this end, the study will examine the role and actual functions of central economic agencies in the process of development planning, budget planning and execution, planning and implementation of priority projects or programs (including aid-financed activities), as well as its coordination mechanisms with sector ministries and local governments.
- To draw lessons for the current global development debates (especially, capacity development and aid effectiveness), the study will pay due attention to the interactions between aid-funded activities and the development process. To this end, it will also: (i) examine the impacts of aid on institutional building particularly at the initial stage of development; and (ii) conduct case analyses on how respective governments, with the involvement of central economic agencies, have coordinated with the related authorities and stakeholders in the process of planning and implementation of policy, budget, projects or programs etc. toward achieving priority development objectives.

2. Background

- Building effective government institutions to manage the development process and aid is essential to initiating and promoting shared growth. But, developing countries face fundamental dilemma in this endeavor. As the initiator of change, the central government must implement policies and create the necessary institutions to promote growth and establish wealth-sharing mechanisms on a nation-wide scale; however, at the same time, the government itself is part of the problem, faced with severe capacity and resource constraints. The recent years have seen major efforts by developing countries to strengthen their institutional bases, often along with the introduction of the Poverty Reduction Strategy Papers (PRSPs). The international aid community has also shown renewed commitment to assisting partner countries in institution building and capacity development. (OECD/DAC Paris Declaration 2005)
- It is frequently cited that one of key ingredients of 'East Asian Miracle' is the creation of central economic agencies responsible for strategic planning, resource management and coordination and the existence of a cadre of economic technocrats insulated from narrow political pressures. Under strong political leadership, economic technocrats formulated and implemented growth-oriented economic policies (e.g., diversification and upgrading of economic structure or effective management of natural resource rents) while adhering to

macroeconomic stability and addressing social and equity concerns (“shared growth”). [World Bank 1993, Campos and Root 1996, Iwasaki 1996]

- Nevertheless, today’s ‘success’ countries did not necessarily possess strong institutional bases at the initial stage of development. Although historical and social factors cannot be ignored, the recent experiences with Thailand, Malaysia (East Asia), and Botswana (Sub-Saharan Africa) suggest that institution building is a dynamic process and that conscious and continuous efforts critically matter. [Muscat 1994, Suehiro and Higashi 2000, Suehiro 2003, Torii 2005, Nordas, Sekgoma and Somolekae 1998]
- What is the role and functions of central economic institutions in promoting 'shared growth'? How did these ‘success’ countries establish such institutions for policy formulation, financial management (domestic, aid and private funding), and coordination with sector ministries and key stakeholders? Why did they work? How did the governments of these countries manage to absorb, adapt and utilize aid in the development process? This study aims to examine these questions by analyzing public finance and administration of two East Asian countries—Thailand and Malaysia—from both macro and micro perspectives. Also, it will include the analysis of the Philippines to provide a comparative perspective. In doing so, the study attempts to deepen understanding of the features of core government functions to be established in the early stage of development, the sequencing of institution building under capacity and resource constraints, planning and coordination mechanisms for growth-oriented economic policies etc., toward effective management of aid and the development process.
- Moreover, to draw the implications for current aid effectiveness debates, the study will pay attention to such issues as the alignment of aid to development policies and institutions, the use of country system, effective utilization of technical assistance (TA), result-based management, handling of transaction costs of aid.

2. Country Focus

- The study will focus on Thailand and Malaysia, as the recent country cases which have managed aid and the development process under strong government ownership.
- The analysis of the Philippines will be included to provide a comparative perspective.
- A possibility of analyzing Botswana (as a ‘success’ case in Sub-Saharan Africa), primarily through the review of the existing literature, will be explored.

3. Main Issues to be Analyzed

- The study will examine how the governments in the above three countries have managed aid and the development process, with special attention to the role and functions of central economic institutions and their relationship with sector ministries and other stakeholders (e.g., local governments, private sector, as appropriate). It will also explore a possibility of conducting case analyses of selected sectors or projects (e.g., large-scale infrastructure projects as part of growth promotion policies, regional development projects to balance growth and equity, TA and human resource development) to better understand how such institutional arrangements have worked.
- Macro-level institutions and functions:
 - Design and establishment of core public finance and administration systems, their functions (e.g., alignment to national development strategy and budget, budget planning and execution, relationship between recurrent and capital expenditures,

- prioritization and screening of aid-financed projects/programs, accounting and debt management of aid-financed projects/programs, monitoring and evaluation);
- Relationship between central economic institutions and sector ministries and local governments (e.g., the degree of penetration of finance and planning functions), as well as coordination with key stakeholders (e.g., private sector);
 - Role of aid and private financing in the fiscal management and development investment;
 - Mobilization and assignment of human resources (including incentive mechanisms) to support the above institutional arrangements; and
 - Role of aid in the initial stage of development, particularly in building core government institutions in the above.
- Micro-level institutions and functions (including case analyses):
 - Criteria for appraising aid and domestically-funded projects, as well as their institutional coherency (division of labor and institutional responsibilities for formulation, appraisal, approval, and execution of public investment/aid projects, mechanisms for coordination with sector ministries, local governments and other stakeholders);
 - Degree of programmatic approach to individual (stand-alone) projects, coherency between investment projects and TA, mechanisms for assigning counterpart funding, the role of Project Management Unit (PMU);
 - Utilization of TA, internalization of expatriate advisers ('exit plan');
 - Evaluation of aid (and donors), strategic use of donor assistance based on respective comparative advantages; and
 - Degree of donor involvement in national and sector development planning, donor alignment to the government's strategic plan and the country system.

4. Schedule and Output (tentative)

- July-September, 2005: Literature review, interviews, and initial analysis of the information gathered, preparation of questionnaire for the first mission
- October, 2005: 1st fact-finding mission (Thailand, Malaysia and the Philippines)
- December 2005-January 2006: 2nd mission (including a possibility of commissioning papers)
- December 2005-February 2006: Analysis and writing
- March 2006: Compilation of discussion papers (in English)
- April-June 2006: Publications (to be tailored to targeted stakeholders) and seminars for dissemination.

5. Targeted Audience and Dissemination Strategy

- Developing countries which endeavor to build effective government institutions:
- Countries of 'emerging donors', as well as those professionals engaged in South-to-South Cooperation; and
- Overseas research institutions (e.g., ODI's interest in 'developmental states' and state-building options).

6. Relevance to Global Development Debates

- Increased interest in growth-orientation in the second generation of PRSPs, as well as

- capacity development and institution building in the relevant areas;
- Search for appropriate coordination mechanisms for growth support, as well as attention to the relevance of PBAs in private sector development (LENPA in Asia 2004, Foster et. al. 2001)
 - Emphasis on the importance of planning and coordination capabilities in infrastructure development (ADB/JBIC/WB 2005); and
 - Follow-up to “Aid Effectiveness” discussions, esp. capacity development (post-Paris OECD H/L Forum 2005)

Attachment: Draft outline of the proposed study

Managing the Development Process and Aid
—The role of central economic agencies for promoting shared growth—
(draft outline)

1. Objectives of the Study and the Issues to be Addressed
 - 1-1 The key role of central economic agencies at the early stage of economic development (core functions of development administration)
 - 1-2 Management of the entire development process, including the strategic utilization of aid (the interactions between the domestic and foreign elements)

2. Managing the Development Process and the Role of Central Economic Agencies
 - 2-1 Experiences of East Asian countries in managing the development process
 - Thailand and Malaysia as ‘success’ cases: fiscal discipline and macroeconomic stability, achievement of priority development goals (e.g., upgrading and diversifying economic structure, poverty reduction, human resource development), and graduation from aid.
 - The Philippines
 - 2-2 Comparison of Central Economic Agencies among the three East Asian countries (Thailand, Malaysia, and the Philippines)
 - The institutional design of development administration and the division of labors of core functions (development planning & policy formulation, budgeting, aid and debt management, implementation and monitoring, etc.).
 - The relationships among central economic agencies, sector ministries, and local governments (e.g., coordination mechanisms, formal and/or informal arrangements, the degree of penetration of finance and planning functions).
 - The degree of policy consistency
 - 2-3 Factors affecting the actual functions of central economic agencies
 - Decision-making authorities, and technical competency of policy-making and execution
 - Social and political structures (to be touched briefly)

3. The Role of Donors and Aid in the Development Process
 - 3-1 Positive and negative effects
 - 3-2 The importance of recipient commitment to aid receipt

4. Case Analyses — Understanding Mechanisms for Supporting the Achievements of Priority Development Goals and Strategic Utilization of Aid
 - 4-1 Framework for case analyses
 - Cases will be selected from those projects or programs that have mobilized aid (partly or entirely) in the development process to achieve priority development goals. The analysis would cover the role, actual functions, and coordination mechanisms among core economic agencies, sector ministries, local governments, and private sector in the areas of development planning, budgeting, project (program) implementation and monitoring, response to the changing domestic and external environment, and aid management.
 - Specific cases will be decided, taking account of the findings of the fact-finding (F/F) mission

planned for early October 2005. Preliminary ideas include: large-scale infrastructure projects aimed at upgrading industrial structure, regional and rural development projects with growth and equity consideration, and the use of technical assistance (TA) aimed at human resource development. The following are candidate examples by country (very preliminary):

4-2 Malaysia

- Any examples of regional development projects with infrastructure as core?
- Look East Policy, as an example of effectively using TA for human resource development

4-3 Thailand

- Eastern Seaboard Development Plan, as an example of executing multi-sector, regional industrial development which has contributed to upgrading industrial structure
- Utilization of TA ? (e.g., experts and training)

4-4 The Philippines

- Metro Cebu Regional Development (?) as an example of executing regional development with infrastructure as core
- Utilization of TA ? (e.g., experts and training)

5. Summary and Conclusions

- The study would draw implications for: (i) institution building and capacity development by today's developing countries; (ii) coordination mechanisms for growth support; (iii) effective use of TA; and (iv) the role of donors and aid in the development process

[END]