Managing the Development Process and Aid
Study Concept and Diverse Models of Macroeconomic Coordination in East Asia

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Outline of Presentation

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
GRIPS Study: Focus of the Analysis

<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

- 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**

*<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

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**GRIPS Study: Basic Premise**

- *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

Donors
- Identification of aid needs
- Formulation of aid strategy

Donor (aid) Management
Aid relationship as part of the entire development process

Recipient Countries
- Development vision
- Development strategy & plan
- Implementation (public investment, service delivery)
- Aid money, internal budget
- Development effectiveness & sustainability
- Achievement of strategic goals

Development Management
Source: Adapted from I. Ohno and Niiya (2004)
## 2. Country Contexts

### <Socio-Economic Indicators>

<table>
<thead>
<tr>
<th></th>
<th>GNP per capita ($)</th>
<th>Annual growth rate (%) per capita</th>
<th>Poverty ratio (%) 1980-90 avr.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1976</td>
<td>1990</td>
<td>GNP avr. 1965-90</td>
</tr>
<tr>
<td>South Korea</td>
<td>670</td>
<td>5400</td>
<td>7.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>860</td>
<td>2300</td>
<td>4.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>380</td>
<td>1420</td>
<td>4.4</td>
</tr>
<tr>
<td>The Philippines</td>
<td>410</td>
<td>730</td>
<td>1.3</td>
</tr>
</tbody>
</table>


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

<table>
<thead>
<tr>
<th>Country</th>
<th>Problems of allocative efficiency; heavy debt burden constraining development expenditures; Fiscal activism to support large development expenditures; overall balanced economic management; Selective use of aid; changes in aid mix and graduation; Active use of aid continuing; selectivity?</th>
</tr>
</thead>
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<td>Thailand</td>
<td>Strong fiscal discipline; prudent debt management; Active, but selective use of aid; changes in aid mix and graduation; Fiscal activism to support large development expenditures; overall balanced economic management; Selective use of aid; changes in aid mix and graduation; Active use of aid continuing; selectivity?</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Fiscal activism to support large development expenditures; overall balanced economic management; Selective use of aid; changes in aid mix and graduation; Active use of aid continuing; selectivity?</td>
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<td>The Philippines</td>
<td>Problems of allocative efficiency; heavy debt burden constraining development expenditures; Fiscal activism to support large development expenditures; overall balanced economic management; Selective use of aid; changes in aid mix and graduation; Active use of aid continuing; selectivity?</td>
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</table>
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

<table>
<thead>
<tr>
<th>Role of CEAs in development mgt.</th>
<th>Thailand (esp.70s-80s)</th>
<th>Malaysia (esp.70s-80s)</th>
<th>The Philippines (late 80s-now)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Features of macroeconomic coordination</td>
<td></td>
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<tr>
<td>Role of DPs</td>
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<tr>
<td>Enforcement of macro-guidelines</td>
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</tr>
</tbody>
</table>

- Strategic core centers
- Centralized, but responsibility shared among four CEAs
- Subtle check & balance
- Guiding policy alignment with development priorities, under annual fiscal scrutiny
- Comprehensive (incl. ODA, SOEs)

- Centralized, under super-ministry (EPU)
- Multi-layered, rule-based coordination
- Guiding policy & resource alignment with development priorities
- DPs as action plan to achieve LT vision
- Comprehensive (incl. ODA, SOEs)

- Insufficient, inter-agency coordination
- Dual track (the executive vs. the legislature)
- Limited policy & resource alignment with DPs
- 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: macroeconomic coordination mechanism

- Prudent macroeconomic management as a whole
- Delegate authority to plan and administer policy
Thailand: Role of DP in Policy and Resource Alignment

- 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

- 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

- Balanced macroeconomic management
  - Budgeting (investment & recurrent)
  - Fiscal policy
  - Public debt management (including foreign loans)
  - Monetary policy

- MOF
  - Budgeting
  - Fiscal policy
  - Public debt management
  - Monetary policy

- EPU
  - Planning
  - Public investment
  - Development budget
  - Development assistance
  - Project monitoring

- Central Bank
  - Monetary policy

- Prime Minister
  - Technical support arm to realize PM's vision

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 international 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: macroeconomic coordination mechanism
The Philippines: Role of DP and Macroeconomic Coordination Features

- 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

- 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

- The Philippines:
  - Building informal 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

<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

- 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