

CHAPTER I

INTRODUCTION



1.1. Background to the PRSP Query

After re-examining its approach to development lending more than five years ago, the World Bank (WB) announced a new policy framework for the least developed countries, known as Poverty Reduction Strategy Papers (PRSP). In tune with the Millennium Development Goals (MDGs), launched by the UN system, and with the concept of poverty reduction at the core of development paradigm, further supported by the principle of participatory development planning, the new approach appeared as a fundamental change in the WB philosophy. As it intended to attribute aid-recipient governments the lead role in defining policies funded by the WB and expand the development and poverty understanding with views from the civil society and the poor, the initiative promised a less invasive, less dogmatic World Bank, along with more comprehensive, results-oriented and most of all, country-driven-and-owned, development policies and programs. However, as Poverty Reduction Strategy (PRS) documents have been finalized and already under application in many PRSP countries with unclear policy status, with no apparent accountability mechanisms, and with few indications of poverty reduction achieved precisely from the employment of PRSP, civil society groups renewed their reluctance towards what has been thought to be a policy shift in the PRSP initiative.

Indisputably, the PRSP brought a change in certain guiding principles of the World Bank and it introduced unprecedented opportunities for non-state development stakeholders. The way in which policies are formulated and sectors sought to develop, as well as the manner of negotiations around loan packages, markedly reveal several fundamental shifts. First, the PRSP initiative mainstreamed the concept of poverty reduction in development policies and eliminated the much controversial structural adjustment stipulation. Second, the initiative yields full discretion to national governments to

develop their own policies and responsibility to implement them. Third, it adopted a participatory process in the design, implementation and monitoring systems of country poverty reduction and development strategies. Fourth, the financial and technical assistance from multilateral and bilateral donors became more coordinated through the application of PRSP thus extinguishing overlapping projects and saving the resources otherwise spent on producing the multitude of documents to foreign benefactors. Yet, numerous Bretton Woods Institutions (BWIs) watchdogs and nongovernmental organizations that, as a matter of fact, acquired increased leverage specifically through the PRSP initiative, argue that despite opening new space for dialogue and participation, the application of PRSP has been disappointing both in process and content. Powerful civil society groups make the case that despite its claimed reformed policies, the WB remains resistant to changing its fundamental principles embedded in deep political and ideological roots, and that PRSP is just another policy product to adjust the WB image to poverty debates. The pronouncements of these critics are that although governments of developing countries are regarded as counterparts in the new partnership-oriented relationship with creditors, the neo-liberal orthodoxy is still at the core of WB development policies, and strategies designed for poverty reduction maintain the conventional economic growth approach stemmed from the Washington Consensus dogma, even if they are designed by governments themselves.

1.2. Argument

This paper argues that the PRSP initiative is a sign that the WB is changing. It maintains that, with the adoption of PRSP, governments seized their legitimate authority to build their own development policy framework and determine conditions for policy support, while non-state development stakeholders acquired an outstanding opportunity to influence development outcomes. While the thesis acknowledges that governments and civil society groups in the majority of most impoverished countries do not have the bargaining power to decide the terms of loan negotiations, they do have ample capacity to elaborate policies, influence outcomes and, as a result, increase their political leverage in bilateral and international aid agreements. Tensions arising from the debate about who

really determines policies in developing countries are generally based on the belief that countries heavily reliant on Bretton Woods Institutions (BWI) do not have adequate capacity to decide the development course for themselves, and therefore, seek foreign financial assistance and technical support in the detriment of their own resources and capacity. The paper argues that the PRSP initiative is an opportunity to change the way in which foreign technical assistance is provided to developing countries, and that it can extinguish practices that used to obliterate domestic resources in favor of applying standardized prescriptions. The main argument of the paper is that, while the PRSP initiative is not a substitute of liberal development concepts, it is nevertheless a fundamental change in the process of supporting the development action in poor countries. The PRSP is a framework that strengthens the possibility that economic growth can be streamlined in ways other than Western, and that a diversity of institutional configurations, other than those imposed by multilateral giants, are capable to moderately and efficiently apply reforms contributing to sustainable development and poverty reduction.

1.3. Research Questions and Objectives

The World Bank has experienced several restructuring periods in its history, and even though it was often criticized for narrowing its mission from rebuilding the post-war Europe to money lending, it proved that it can adjust to reality changes. None of the changes though were considered as radical as the ones initiated with the adoption of PRSP, as the WB strived to refocus its objectives towards a more efficient development supporter. To test the validity of this statement, the paper established a central question: whether the PRSP initiative represents a fundamental policy shift in the WB beliefs and practices.

In order to answer this central question, the paper identified several objectives, which in summary were to determine:

- to what extent and under what circumstances the PRSP principles are put into action

- to what extent the PRSP principles are enhancing country ownership, national capacity and civil society participation
- what the prerequisites for a successful PRSP implementation are, and
- to what extent the WB supports conditions leading to meeting these prerequisites.

1.4. Scope of Study

Some believe it is too early to shape accurate inferences on whether the PRSP scheme has delivered its promises in view of achieving poverty reduction and economic sustainability, yet others are confident that the five years period has been long enough to achieve some progress, especially with regard to the application of new features and principles entailed by the PRSP approach. What these principles are, why they are regarded as innovative, and how they are related to WB changes are the queries this study explored with the purpose of answering whether the PRSP initiative represents a policy shift in the World Bank practices and beliefs.

To bring together country perceptions of PRSP concepts and their local, distinct application, Vietnam has been selected as a case-study. Why Vietnam was chosen out of all PRSP countries in Asia was a matter of quite effortless deliberation. Vietnam is notorious for its self-governing and valiant posture towards donors. With a socialist pro-market reform discipline underway since 1986, an assertive program against poverty that, to the amazement of many, cut poverty by half in the last thirteen years, and above all, with an obedient population stemming from a Confucian culture and party-led governance, Vietnam has secured its driver's seat in the PRSP process.

By developing its own policy configuration with emphasis on a complex reform program long before the introduction of PRSP, the Government of Vietnam has managed to guarantee its strong leadership in the formulation of poverty eradication programs, thus playing a dominant role both in the Vietnamese society as well as in the relationship with donors. But is strong government leadership an indication of country ownership? And if country ownership is ensured, does it facilitate the fulfillment of other PRSP

commitments? Is it enough to be in control over the donor partnership process to secure the implementation of PRSP objectives and be accountable to the poor? As will be detailed below, the Government of Vietnam, donors and civil society groups successfully achieved the application of a number of principles inherent to the PRSP initiative, and the pursuit to understand the core reasons of why and how these principles were fulfilled was the strongest argument behind choosing Vietnam as a case-study for the research.

1.5. Research Methods

Since the World Bank reforms are subject to complex reflections and contradicting opinions, the research for this paper aimed at capturing the different prospects under a post-positivist methodology, with the idea that explanations are imperfect and probabilistic. Qualitative research methods were the primary and the only methods used for this paper, and preserving neutrality throughout the entire inquiry was one of the main goals of the project, although a quite challenging one.

The research began with a literature review and analysis, which was first categorized in papers critical towards the WB and papers in favor of the institution. WB and IMF reports and joint evaluations on PRSP progress were analyzed and the PRSP Sourcebook represented an important source for determining subjects of later research. The distinction between “critical” and “favorable” faded away though, as soon as it became unambiguous that both categories presented valid points. Several PRSP documents, Interim and final, of countries part of the initiative were studied in order to make a correlation of principles enunciated by the Sourcebook and government commitments towards their application. The Vietnamese CPRGS was certainly the primary source, along with the texts of core development policies of the country. Numerous research papers and reports compiled by UN agencies, especially UN Industrial Development Organization (UNIDO) and UN Conference on Trade and Development (UNCTAD) were valuable sources of analysis. Assessment documents of PRSP implementation, prepared by private consulting groups were as well an important foundation. Naturally, a great deal of studied literature came from the numerous NGOs and research institutes, but

the big question was what to believe and what not to believe. While the WB and IMF have established an indisputable authority in knowledge production, and the researcher can only accept or reject their expertise, countless NGOs have yet to prove their data is reliable. Therefore, a number of selected NGOs' discussion papers was at the basis of the literature review, and among such groups were Oxfam, ActionAid, Save the Children, Eurodad, BIC, ChristianAid and Focus on Global South. Amid the variety of monographs and articles published in the press, two authors were of special great inspiration: Robert Wade, Professor of Economics at London School of Economics and Sebastian Mallaby, the author of "The World's Banker".

The second phase of research was dedicated to primary collection of data. Since the Vietnamese CPRGS was chosen as a case-study, little less than two months were spent in Hanoi, Vietnam, to meet with CPRGS stakeholders and discuss issues related to CPRGS processes. A number of in-depth interviews were carried out with government officials, especially with those from the Ministry of Planning and Investment (MPI) and Ministry of Home Affairs (MoHA), WB development specialists, NGOs' international and local experts, UNDP governance specialists and private consultants.

In parallel, a questionnaire with 22 questions was designed to determine to what extent PRSP principles were put into action and how successfully they have contributed to country ownership and civil society participation. The questionnaire was posted on a website and the URL link was sent out to representatives of several Governments, Parliaments, WB and IMF, NGOs, development practitioners and researchers.

1.6. Organization of Paper

The rest of the paper is organized in three main parts, each with several sections. The next chapter provides a background presentation of what PRSP is and why it was necessary for the WB to come up with the adoption of this initiative. Its sections present an overview of the latest literature, introducing the arguments of the WB and its proponents who assert the PRSP approach is a way to respond to reality changes, and the

arguments of civil society groups who claim the introduction of PRSP is the result of civil society criticisms. This chapter also refers to the number of novelties that the PRSP approach brought about to the development course, as well as challenges impeding the application of these novelties. Account is given to how integration of new principles, such as poverty mainstreaming in development policies, and consideration for pro-poor policies, participatory policy making, and accountability have changed the development action of donors and aid-recipient governments.

Chapter three refers to the application of PRSP principles with a thorough analysis of the Vietnamese PRSP, known as Comprehensive Poverty Reduction and Growth Strategy, or CPRGS. Sections in this chapter explain what role CPRGS plays in the socio-economic development planning of the country, and what policy instruments and mechanisms of accountability have been set in relation to the implementation. An examination is presented on how consultation and participation processes in the formulation stage were carried out among executive and legislative branches of power, local and regional authorities and other state agencies that took part in PRSP consultations. These sections determine the degree of civil society engagement and explain the dynamics of local and international NGOs in the process of PRSP formulation. The chapter also evaluates the degree of government capacity building, transparency and accountability around formulating both macroeconomic policies and social, pro-poor strategies, as a result of multi-stakeholder participation.

Chapter four explains why Vietnam achieved such a high degree of ownership over the CPRGS process, and what preceded its capability to be in charge of the donor partnership.

The last part presents concluding remarks on political implications and consequences of the PRSP process in Vietnam, and in developing countries in general. It provides a concluding summary of arguments supporting the idea that the PRSP initiative constitutes a policy shift in the WB visions and strategies.

1.7. Basic Concepts

Country ownership – acknowledgment by development stakeholders of full control and responsibility of aid-recipient countries for the design, implementation and consequences of development programs.

Comprehensiveness – emphasis on social issues and consideration of non-monetary concepts in measuring poverty and shaping poverty reduction policies.

Participation – participation of non-state actors in defining poverty, conducting poverty assessments, formulating and monitoring of policies with the goal of strengthening the democratic debate and enhancing legitimacy and efficiency of policies.

Aid harmonization – alignment of donors' operational policies and procedures to aid-recipient countries' systems under a distinct framework of cooperation to reduce administrative burden and enhance effectiveness of development aid delivery.