

CHAPTER V

CONCLUSION

A DIFFERENT KIND OF WORLD BANK

Can we draw conclusions from the Vietnam case that would apply to other PRSP countries, and if so, can we attribute the successful, although incomplete, application of PRSP principles to the WB policy shift? Judged by the Vietnamese implementation of CPRGS, the answer to both questions is yes and no. The most important lesson from Vietnam is that the government was in charge with the CPRGS process from the beginning, and that policies concerning the reduction of poverty and economic development were not imposed from the outside. Governments fighting with poverty in other regions – the least they can do – is to reach consensus both within political fractions as well as within the society at large with regard to policies they adopt, show political will to work at the benefit of their country, strengthen the legal system to prevent corruption and abusive private interests over public commitments, make institutions stronger and more capable of management and extract the most benefits from donors' financial and technical expertise. Adhering to these commitments however is obstructed by numerous factors, many of which Vietnam opportunely did not encounter. Therefore, Vietnam's lesson of ownership cannot find a replica somewhere where there is no institutional capacity to establish this type of control over development policies. In a sense, the acquiescence of capacity also depends on the ownership and many developing countries dependent on the international aid might find inescapable the vicious trap of "no ownership – no capacity, no capacity – no ownership".

The previous chapter established that Vietnam developed a strong ownership of donor-led strategies regardless of policy shifts in the international financial institutions, which

might prompt some to question whether the positive portrayal of the Vietnamese CPRGS implementation has to do with the WB changes. The paper argues that Vietnam's strong ownership over the CPRGS process is not a result of the WB's PRSP initiative, but an outcome, a value and an advantage of a strong, authoritative government. Then, the natural question is how the successful implementation of CPRGS in Vietnam makes the WB different, if Vietnam is acknowledged to be successful on its own, without the help of donors. While the response is that the PRSP initiative is not a replacement of the conventional pro-market development strategy, but a fundamental change in the process of supporting the development action, the linkage between Vietnam as a successful case study and the WB changes is that with strong country ownership, the WB tends neither to control the nature of development policies in aid-recipient countries, nor does it determine policy conditions for loans. The Vietnamese case shows that, in a strong, interventionist state, which drives and owns the development course, the WB tends only to support existing institutions and programs, rather than transform or replace them, as was the case of structural adjustment lending.

But the greatest change of the WB with the introduction of PRSP lies in the great capacity building exercise that it intrinsically entails. It allowed the Vietnamese government to expand its measurements and perceptions of poverty, of the poor, of who the poor are, and what makes the poverty of different groups differ among each other. Poverty research exercises organized through PRSP extended the poverty dimensions to non-monetary perceptions of poverty and helped the Vietnamese government to establish an important link with the poor. PRSP also aided the government to establish a cooperation mechanism with multilateral and bilateral donors and the civil society.

If detaching from the Vietnamese case, the inclusion of poverty reduction into the mainstream development paradigm, and the re-consideration of poverty measurements are the most dramatic changes in how the WB regards its mission in developing countries. Compared to the structural adjustment lending period, focus has shifted from the benefits of rich countries' investors to poor countries' populations. In a way, the WB went back to its initial post-war purpose, which was to support the re-building of Europe

after WWII, but in a different geographic area and with different development problems. In the 1980s, under the auspices of structural adjustment lending that pushed for neo-liberal reform to relax restrictions for international capital flows, the WB created emerging markets as attractive, high-return investment opportunities for transnational corporations (TNC) and foreign investors. With the Asian crises though, and under heavy criticism by the civil society, this position faded away and the focus is on poverty reduction with sustainable results.

Measuring up to the years when poverty was quantified by household income and other monetary indicators, differences in ways in which research and analysis have been conducted after the adoption of PRSP are striking. Definitions of poverty and well-being have been transformed in that they include social dimensions and characteristics. From merely determining the income or consumption level, analysts integrate and pay special attention to non-monetary indicators. As the PRSP Sourcebook states, “poverty is associated not only with insufficient income or consumption but also with insufficient outcomes with respect to health, nutrition, and literacy, and with deficient social relations, insecurity, and low self-esteem and powerlessness”. To attain a more detailed profile of poverty and more understanding for policy interventions, analysts began breaking down their findings by more specific categories like gender and minorities, rather than merely dividing them by geographic areas or other types of household groups, which constitutes a breakthrough as gender- or minority-based research provide qualitatively new data to better understand what factors contribute to poverty. In addition, the analysis of poverty became more complete because it has been based on cyclic collection of data, and poverty comparisons between groups and comparisons over time.

The method of Participatory Poverty Assessments (PPA) is a novel component in assessing and measuring poverty, not because governments of poor countries did not know how to perform it before, but because they never had the type of research capacity and the necessary financial resources to conduct such assessments. What the WB and major international NGOs brought to the poverty measurement was the ample financial capacity and expertise in conducting such research.

The idea to fight poverty by means of empowerment, broad-based participation and comprehensiveness, in Western understanding and application, was neither acknowledged in Vietnam, nor accredited by the WB before the unraveling from structural adjustment period. The Bank's conceptual framework vanquished the rigor of adjusting countries' institutions and policies and moved towards confronting poverty, forgiving debts and fighting corruption, and to achieve these goals, the only tangible approach proved to be country ownership.

As was acknowledged by many observers, conditionalities proved to be inefficient and even harmful not because policies imposed as conditions to loans were unreasonable but because institutions in existing governments had a poor management performance, and development programs, loans provided for their support as well as the available human and institutional capacity were thus deficiently administered. Therefore, if the policy shift in the WB were to be measured, more scores would be found on the institutional front. First, with the introduction of CDF and PRSP, the WB decided to increase aid to countries where good institutional and policy environment already existed and this approach was believed to encourage governments to strengthen their institutions before seeking aid. Second, aid provided was not cast-iron in a project-based approach anymore, but was determined to be managed by country systems, which involved local institutions. Even before the embracing of PRSP, the 1998 "Assessing Aid" report recognized that institutions rather than donor conditions determine the policies of countries.

But the deficient and fragmented application of these principles in places other than Vietnam, and even in many fields of the Vietnamese CPRGS, had strongly disputed the claim that the WB is capable of changing, and only continue to breed the skeptical view that any real change has occurred with the introduction of the PRSP approach. There is consensus that changes have occurred in terms of processes of policy formulation rather than in the content of policies. Particular weaknesses which observers have noted in the content of the PRSP are: the lack of a long-term growth strategy; the weak integration of sector plans into the PRSP; and a tendency to focus on improved and pro-poor public

expenditure management rather than private sector investment and employment generation.¹¹³ The Vietnamese CPRGS sends the same imprint: it is a document of great commitments in terms of achieving sustainable growth, reducing the number of households living under the poverty line, creating economic opportunities and multiplying the number of jobs, improving the education quality and many more goals with social dimensions, but it is not an action plan describing concrete mechanisms and does not relate to budgetary framework to show how these commitments will be accomplished. So, the major missing point in CPRGS as in many PRS documents in PRSP countries is the part on how sectoral and structural measures in programs will produce the targeted growth rates. At a meeting of HIPC Finance Ministers and PRSP coordinators, participants emphasized that nor have programs examined sufficiently how macro, sectoral and structural measures will translate into changes in the distribution of the benefits of growth. Savings, investment, domestic resources mobilization and employment remain underanalyzed and therefore specific actions of how to achieve them are greatly missing.¹¹⁴

Termed as comprehensiveness, the PRSP ambition, and equally the CDF's, to include just about everything related to development, was strongly criticized by many audiences. One of Wolfensohn's managing directors, Jessica Einhorn, who expressed her voice against the new Bank's all-inclusiveness, made it all into a case against the "lack of priorities". Her argument was that in an attempt to embrace too many development fashions in order to ensure an all-encompassing framework, the Bank had lost its way. "Its mission has become so complex that it strains credulity to portray the Bank as a manageable organization."¹¹⁵ In their defense, Bank's participatory and comprehensiveness proponents, maintain that development concerns became multi-sectoral because specialized international agencies were merely neither capable to manage projects in their areas, nor powerful enough to raise the needed funds to support their objectives, therefore, the WB engaged in what it does best: provide managerial

¹¹³ European Commission, 2001b: 8; ODI, 2001, cited in *Escaping the Poverty Trap, The Least Developed Countries Report 2002*, UNCTAD publication

¹¹⁴ HIPC Finance Ministers and PRSP Coordinators, 2002, cited in *UNCTAD Report 2002*

¹¹⁵ Mallaby, 2004

expertise in whichever areas needed it most. Indeed, if there is a reason why northern organizations are effective and productive, it is their management devoutness, and it is a misfortune for the developing countries not to learn how to manage their scarce and tremendously priceless resources and manpower, when the Bank offers this expertise. That is not to say that management capacity does not exist in parts other than Northern or Western. The incredible rise of Japan and newly industrialized countries in Asia set off the conviction that capitalism can be applied by different means. It was a serious admonition to capitalist countries to realize that East Asia may well have developed so successfully because of the fact that it mostly resisted and never fully adopted the IFI's structural adjustment policy reforms to the same degree as Latin American and African nations.¹¹⁶ But to developing nations heavily dependent on foreign aid, pathways set by the IMF and WB were unchallengeable as they were perceived as coming from the most powerful knowledge resource.

Comprehensiveness was also greatly attacked by those who believe that setting selected priorities is the most important drive to success, and that it is not logical to try to achieve too many objectives at once. This assertion is the more valid as there are great achievements in poor countries already, and all-inclusiveness with emphasis on social issues might not necessarily be appropriate for countries with great social records. To mention only the former Soviet Union that acquired great academic capacity from the Soviet compulsory education system and therefore, needs to concentrate less on the aspect of increasing the literacy rate, and more on transforming institutions of centrally planned economy into decentralized mechanisms that would effectively support reforms at all levels. These countries greatly struggle with maximizing public finance management, budget prioritization, mid-term expenditure framework, public service delivery and public administration reform, property legal system, and other instruments that are crucial to ensure a smooth transition to a market economy where institutions already exist.

¹¹⁶ Chang, Ha-Joon, 2004, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, cited in Rowden, Rick and Irama, Jane Ocaya, 2004, *Rethinking Participation, Questions for Civil Society about the Limits of Participation in PRSPs*, ActionAid USA/ActionAid Uganda Discussion Paper

In other nations, in Africa in particular, the main argument behind underdevelopment, in the first years after the launch of PRSP, was increasingly connected with low rates of literacy, so education projects were greatly supported by the WB in that period, but the tendency was also to ignore the development of infrastructure, especially with the rise of non-governmental campaigns instigated by the negative impact of infrastructure projects on indigenous communities, corrupted officials accruing the benefits and wasteful use of resources. Yet, forcing parents to send their children to schools in regions with scarce food and clean water, and no roads to reach those schools, is also an incredible dilemma. Along with education projects, the governments and the Bank needed to ensure that complex development interventions are carried out simultaneously, with the most urgent needs prioritized first, be it dam building, malaria fighting or civil service reform. Therefore, priorities should be set accordingly and no institution other than the government knows better what a country has already achieved, which again, makes many to think that comprehensiveness might not be the best approach to deal with poverty, but that country ownership is precisely in favor of prioritization. As Mallaby superbly put it, “because of the law of diminishing returns, it makes sense for countries to ask themselves what their development priorities are, even if global generalizations on this subject are nonsense. Yet poor countries with scarce manpower constantly fail to absorb this point: they do not set priorities. Instead, they launch into banking reform or some other difficult venture because a donor has offered to fund it, and the result is that they dissipate the energy that should have been directed at a first-order challenge.”¹¹⁷

The policy shift in the WB can be measured in terms of policy processes, country-level analyses revealing much more progress and changes in processes rather than content. Broad-based participation within governments between different sectors and levels of authority, and within society at large, created unprecedented opportunities for non-state and non-Bank actors, including the poor, to be part of the policy framework. With the adoption of PRSP, the WB set a very clear premise: that participation is necessary to ensure legitimacy and long-term support of policies, and that participation can work to

¹¹⁷ Ibid.

the advantage of understanding the complex nature of poverty and formulating better strategies for development. As shown in the case of Vietnam, Participatory Poverty Assessments were a tremendously useful exercise in engaging various development stakeholders in measuring poverty and its dimensions. The poor might not know too much about macroeconomics but their input is definitely helpful in understanding what goes wrong at the grassroots level and how central policies can be translated into local application. What is most important, the PPA exercise served as an impetus to people's need to know more about their rights and entitlements and what to expect from their governments. Therefore participation served as a drive to raise accountability standards as well.

Yet, isolated consultation workshops and survey assignments, although carried out by well instructed and well versed consultants and researchers, were not a guaranteed success of participation. It is one thing when you deal with national unity in language, culture and understanding, and it is a different matter when your task is to reach villages with hundreds of nationalities, languages, dialects and mindsets. Vietnam is home to more than 50 minorities and communicating the message of poverty reduction and expecting a reliable input from such a diversity of communities was a great challenge to surveyors. Nevertheless, participation exercises were conducted actively and various stakeholders largely agree that different views were considered when the policy was formulated.

What is less attributable to the WB policy shift is participation in the macroeconomic decision-making. NGOs consistently report that there are two parallel processes in the consultation exercises, one for social issues discussed in the context of PRSP – with some public participation – and another for macroeconomic and other structural adjustment policy issues discussed in the context of PRGF – with no participation.¹¹⁸ As Rowden and Irama suggest, in understanding why structural adjustment policies have not been discussed in PRSP consultations, one important factor is the lack of economic literacy on the part of governments and civil society. Many governments have limited technical

¹¹⁸ Rowden and Irama, 2004

capacity relative to the substantial complexities inherent in establishing macroeconomic policies and targets. There are also challenges in establishing a participatory process and the complexities of economic issues may in the short term limit the extent to which civil society can challenge the IMF's favored neo-liberal macroeconomic policies or other structural adjustment policies. This can be especially politically difficult in countries that lack democratic or representative traditions and thus have few existing means for getting citizen or civil society organizations' input or for electing representatives to such public discussions.¹¹⁹

Many civil society groups acknowledge their weaknesses in macroeconomic assessments on their own, emphasizing that their strengths lay rather in social issues, such as education and health. On the other hand, it is hard to believe that if NGOs would have had greater macroeconomic capacity to provide substantial input into the policy formulation, the consultation would have been more broad and inclusive. The assertion here is that the majority of NGOs and multilaterals adhere to the same economic paradigm and that although differences might exist in the manner in which development is realized, fundamental paradigm differences do not exist yet and therefore do not fundamentally separate the WB from the mainstream civil society groups, which leads us to the last argument in this paper: that the neo-liberal ideology, principles promoting conventional economic growth and the belief that economic growth will benefit everyone and will reduce poverty, are still dominant in the WB policies because feasible alternatives were not yet found. Both the WB and IMF continue to think that "there wasn't much wrong with the economics of neo-liberal structural-adjustment conditions, the realization consists in the awful politics accompanying these conditions: African governments were too weak to implement the tough policies that the conditions demanded."¹²⁰ The Vietnam case is an example of the same type of policies being implemented with better structured and controlled institutional politics.

¹¹⁹ Ibid.

¹²⁰ Mallaby, Sebastian, 2004

Both the WB and IMF indicate that the PRSP initiative is only an experiment, an exercise to test what approaches work best for development and poverty reduction, and as such, there is flexibility in terms of what these institutions expect from countries participating in the PRSP framework. If governments are sufficiently endowed with the understanding that countries themselves are responsible for creating the right environment for development, they will use this flexibility to turn it into their own advantage.