True Ownership and Policy Autonomy: Managing Donors and Owning Policies

Edited by Izumi Ohno

with contributions from:
Yasutami Shimomura,
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Foreword

This book is a collection of essays on ownership, based on case analyses of three East Asian countries. By illustrating the different nature and levels of ownership demonstrated in Thailand, Vietnam, and Cambodia, it attempts to cast light on critical elements of ownership that are desirable for and should be ultimately aspired by today's developing countries.

For Japan, ownership is not entirely a new concept. Despite the recently intensified global attention to country ownership, Japan has embraced such concept for long, phrasing it as "self-help effort." Moreover, I believe that the concept of "self-help effort" is somewhat broader than the conventional interpretation of ownership—with the emphasis on eventual graduation from aid and selective adaptation of external advice to the country-specific context—reflecting Japan's own development and aid experiences in East Asia. I hope that this book will contribute to deepening the understanding of ownership by adding Asian perspectives to the ongoing debates.

I sincerely appreciate the valuable contributions by the authors, who have participated in this research. We are also grateful for all who have kindly supported our research by giving their time for interviews and providing comments. These include the discussions at two international workshops, "Forging partnership?: A comparative study of institutional responses to Nordic and Japanese Aid in Asia," held in Hanoi on March 19-21, 2004 and Stockholm on June 17-19, 2005 (funded by SIDA, FINNIDA, NORAD, DANIDA, JBIC and JICA, with the participation of Nordic and Asian researchers). However, we bear sole responsibility for the views expressed in the book and any errors.

Tokyo, August 2005
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(In the order of chapters)

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Introduction and Overview

Yasutami Shimomura and Izumi Ohno

1. Objective

The objective of this research is to share the experiences of aid and development management of three East Asian countries and to contribute to a mutual understanding of the critical elements of ownership that are desirable for today's developing countries. Such elements include the capacity of developing countries for managing donors and owning policies. There is a shared consensus on the importance of ownership in the development process, and virtually all recent literature argues that aid should better promote national ownership. Certainly, aid facilitates recipient countries' access to finance, goods, and knowledge and technology, which are essential inputs to their socio-economic development processes. However, it is also true that there is a tension between ownership and aid because excessive dependence on aid may constrain recipient countries from exercising policy autonomy.

What is true ownership? What are the critical elements of ownership that developing countries should establish in order to sustain poverty reduction and growth? How have some countries succeeded in dealing with donors and exercising policy autonomy? How can donors foster (or hamper) true ownership of developing countries? These are the central questions to be examined in this research. In doing this, we go beyond donor rhetoric on ownership and pay attention to recipient perspectives.

This research attempts to analyze the experiences of Thailand, Vietnam, and Cambodia in managing aid relationships and development processes. The nature and levels of ownership demonstrated by the three countries differ significantly, owing to their stages of political and socio-economic development, as well as to historical factors. By providing concrete country analyses, this research tries to deepen our understanding of the nature of true ownership.

While ownership is a multi-dimensional concept, we concentrate on national-level development strategies and policies, charged by the central government. This is because economic development is a process that must be undertaken at the level of the nation-state as the implementing unit, and in its early stages the central government must act as the initiator of change by establishing a development vision, translating it into practical measures within hard budget constraints, and interacting with external and domestic partners for resource mobilization, coordination and implementation.

2. Three Dimensions of Ownership

Three dimensions are especially important when we examine the concept of true ownership from the perspective of recipient governments.

The first is *the goal of aid*. Ownership should be based on the strong will and commitment of national leaders to build a self-reliant economy. National development strategies and policies (or poverty reduction strategies, which have been widely introduced in low-income developing countries during the past five years) should assume eventual "graduation" (or an "exit plan") from aid and be supported by a concrete vision and realistic measures for growth promotion and domestic resource mobilization. Although most national development strategies embrace equitable and sustainable growth as their stated objective, this should not be simply a slogan.

This issue is closely related to Japan's aid philosophy, which stems from its own experience in catching up with the West since the Meiji era, reconstructing the nation after World War II, and supporting East Asia's successful economic take-off. In fact, ownership is not an entirely new concept for Japan. Such a concept has long been embraced in the guise of "self-help effort," which includes aspirations for growth with eventual graduation from aid (Ohno 2003). Therefore, while sharing much with what is advocated by today's international development community, the Japanese concept encompasses a slightly broader spectrum of action (Sunaga 2004).

The second is *the scope of ownership*. Most literature defines ownership in terms of recipient commitment to and capacity for design and implementation of policy reform (Leandro, Schafer and Frontini 1999; Morrissey 1999).[1] But this definition fails to differentiate management of the aid relationship from development itself. We consider it important to distinguish two types of capacities: (i) donor management; and (ii) policy autonomy and content (referring to the substance of national development strategies and policies).

Donor management refers to the capacity to own the relationship with the donor community and requires leadership in policy dialogue, coor-

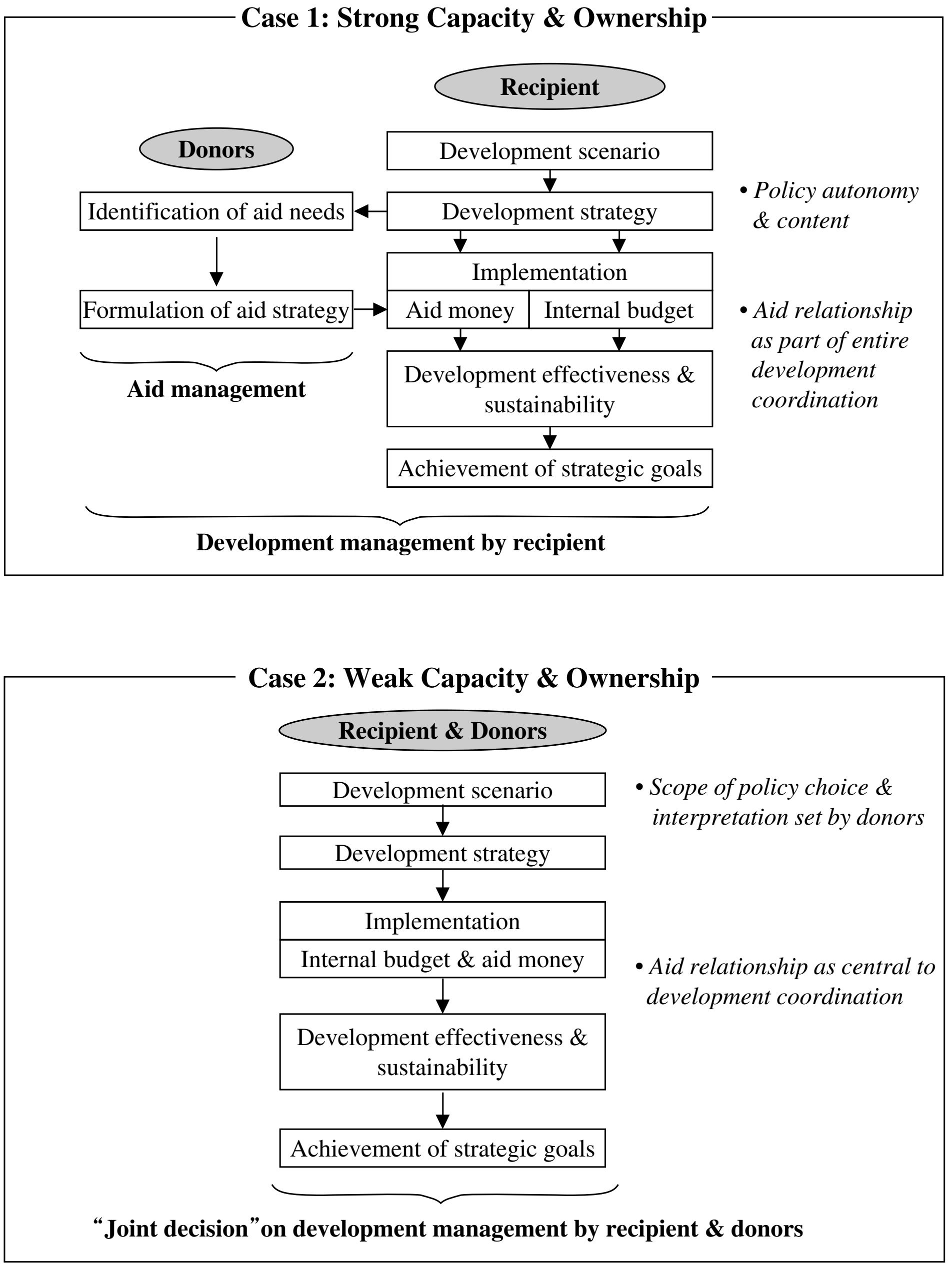
[1] Morrissey (1999) deconstructs government ownership into: preference, political capacity, political commitment, administrative capacity and institutional capacity. He states that a government truly owns a policy reform if it has the capacity to analyze options and to choose and implement the preferred policy. Earlier, Johnson and Wasty (1993) measured "borrower ownership" of adjustment programs using four independent variables: locus of initiative; level of intellectual conviction among key policy makers; expression of political will by top leadership; and efforts toward consensus-building among various constituencies. These variables were refined by Killick (1998) by adding "institutionalization of the measures within the policy system."

dinating of diverse requests, selectively adopting donor advice, handling friction with diplomatic grace, and so on. Such capacity is required and exercised by a relatively small segment of the government, mainly the administrative body in charge of aid receipt. By contrast, policy autonomy and content are concerned with owning development policies. This requires the capacity to identify national development goals, set coherent and realistic action plans and timetables, execute them without delay, respond to unforeseen situations, and so on. As such, it is a much broader task than donor management. It calls for the execution of development itself, of which aid is only a part. Intra-governmental coordination is required for owning policy autonomy and content. In heavily aid-dependent countries, it is not easy in practice to draw a line between the management of aid resources and that of the country's own development. Nevertheless, the two are conceptually different (see Chapter 2).

Figure 1 illustrates two extreme types of development management. In Case 1, the government is capable of managing the entire development process and hence coordinates aid as part of its own coherent development effort. The government initiates and formulates a national development strategy, identifies specific needs to be financed by aid, presents its aid requests and negotiates with donors, matches aid programs and projects with its own internal resources, implements various developmental activities, and monitors and evaluates results.

By contrast, in Case 2, government and donors assume "joint responsibility" for managing the development process. Due to capacity constraints, the government faces the fragmentation of aid, as well as difficulty in formulating and presenting policy content. In this case, government and donors jointly decide the content of development policy and the allocation of the budget, including aid money, and jointly monitor development activities. Development management increasingly becomes a process of donor coordination, rather than government coordination of aid resources.

Figure 1 : Typologies of Development Management



Source: modified the Figure 3-5, Ohno and Niiya (2004), p.28.

In our view, the East Asian "miracle" economies pursued and accomplished Case 1-type development management. Although the "miracle" governments may have lacked sufficient institutional basis at the initial stage of development, they made strenuous efforts to establish core government institutions for strategic planning, resource management, and coordination and to build cadres of economic technocrats insulated from narrow political pressures (World Bank 1993; Campos and Root 1996). Under strong political leadership, these economic technocrats formulated and implemented growth-oriented economic policies—for example, diversifying and upgrading industrial structure—while addressing social and equity concerns. For these governments, the aid relationship was just one component of development management, a means to achieve a national goal of promoting growth and establishing wealth-sharing mechanisms on a nation-wide scale ("shared growth").

In reality, most developing countries fall between Case 1 and Case 2. The governments of heavily aid-dependent countries, in which aid accounts for a substantial part of development financing and donors possess greater financial power, are especially constrained from exercising genuine autonomy. Nevertheless, to establish true ownership, the government must be at the center of the development process; it is vitally important to develop a vision for promoting shared growth, to build country systems for mobilizing financial and human resources, and to nurture local expertise in managerial and technical skills in order to realize the level of Case 1.[2] This research shows Thailand to be an example of Case 1-type development management. Vietnam and Cambodia, to different degrees, are yet to achieve Case 1-type development management.

The experience of Botswana shows that high levels of aid dependency

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[2] In this regard, we are concerned that recent donor discussions of ownership tend to focus on aid relationship. Such discussions assume that donors dominate development policy agenda and that the development process in recipient countries is virtually identical with the aid relationship.

do not always undermine the development of good leadership and effective public administration. Being heavily dependent on UK aid at independence, the government made it a national goal to build an economically viable sovereign state and eventually attain freedom from reliance on recurrent budgetary grants-in-aid (Stevens 1981). Botswana successfully combined good leadership and policies that boost self-reliance to ensure that high levels of aid are effectively used to promote a national development strategy (Brautigam and Botchwey 1999). National development planning and its integration with the annual budgetary process has been the foundation of Botswana's development management machinery and its basis for managing mineral rent and foreign aid. Moreover, the Botswana government took control of the aid process right after independence and made sure that aid was integrated into its own national budgeting and planning procedures. Botswana refused donor proposals that did not fit well with its own priorities and insisted on tailoring donor activities to the government's way of doing things (Rakner 1996; Nordas et al. 1998).[3]

The third dimension of ownership is *the creativity of ideas*. This issue—closely linked to the second—is related to the capacity to reinterpret relevant elements of exogenous model(s) of the development strategy ("translative adaptation"[4]) and adapt them to the prevailing conditions in a particular developing country. Here, a critical test is where the locus of a strategy or program idea resides; is it a mere copy of a foreign model or has it been adjusted and blended with the requirements of the country in question (Evans 2003)? Should the scope of policy choice and interpretation be set by donors? As Helleiner (2002: 255) has put it, "some donors seem to believe that ownership exists when recipients do what we want them to do but they do so voluntarily." A key question is whether the government is free to choose and own only

[3] Botswana has received substantial amounts of aid. At independence, Botswana had no financial reserves and depended entirely on grants from Britain to cover its recurrent budget. Aid utilization as a percentage of public sector development spending fell from total dependency (100%) in 1967-1970 to between 40 and 60% in the late 1970s to less than 15% in 1992 (Rakner 1996).

[4] The concept of "translative adaptation" is based on Maegawa (1994).

the set of policies that the donors have already decided upon (Van de Walle 2005).

Prevailing views tend to disregard the creativity of policy ideas and to concentrate on levels of "commitment" by political leaders and technocrats within governments to implement policy reform. Drawing on the experience of heavily aid-dependent sub-Saharan Africa, these views claim that it is both unrealistic and unnecessary to expect to find the locus of reform initiative in recipient countries and that it suffices for them to take policy prescriptions "off the shelf" from a donor or an international agency (Morrissey 2001; Booth 2003). The underlining assumption is that policy ownership should be limited to the recipient's "preferential right of interpretation" of existing prescriptions (SIDA 2003).

We argue that this is not the case. True ownership should mean the capacity of a developing country to choose from alternative policy prescriptions—even if they are not granted by the international aid community—this is precisely the point that distinguishes true ownership from "nominal ownership"(Shimomura 2004; also see Chapter 1). When a country decides to rely on external advice or foreign models, policymakers and technocrats must conduct a thorough assessment of alternatives and carefully adapt the policy content and sequencing to the country-specific context at both the design and implementation stages.

Ishikawa (2003) holds similar views and pays special attention to the "trial and error" processes by which developing countries arrive at the point of identifying an effective reform scenario. The government is expected to study exogenous model(s) and analyze their relevance to country-specific conditions. The interaction between exogenous model(s) and country-specific conditions would be repeated until a final direction has been set for an effective scenario for reform.[5] The implementation of this scenario may further produce a new series of economic issues, which can in turn be dealt with as second-generation issues.

With recent global aid debates urging a shift from conditionality to policy dialogue (Koeberle 2004; Morrissey 2004), the difference between our views and those set out above appear to have become a matter of nuance. But we attach great importance to the process of internalization, adaptation, and trial and error when recipient governments import external models—rather than having donors set the scope for policy choice and interpretation. This may sound idealistic, but we consider such a process vital to avoid the risk of financial dependency degenerating into intellectual aid dependency. Even recipient government facing immediate capacity constraints should be encouraged to aspire to establish Case 1-type development management.[6]

3. Summary of Each Chapter

The next three chapters examine the type of ownership found in three East Asian countries—Thailand, Vietnam, and Cambodia—in light of the three dimensions mentioned above. In particular, we pay attention to how each has managed donors and the development process, covering both achievements and the challenges they have faced.

Chapter 1, by Yasutami Shimomura, analyzes policy ownership by the Thai government, which has demonstrated a strong capacity for managing donors and steering the development process to achieve its

[5] According to Ishikawa (2003), Chinese leaders went through "trial and error" processes during the 1970s and 1980s. There was no exogenous model that fitted China's initial conditions well. Although Chinese leaders sought and listened to intellectual advice from donors (such as the World Bank), they made their own decisions on the reform scenario and the design of policy content for the market transition. The prescription adopted by the Chinese leadership was gradual transition to a market economy, which is quite different from the "big-bang" approach adopted by Russia and East European countries with the enthusiastic support of the World Bank and the IMF.

[6] Our discussions here do not cover extreme cases (e.g., authoritarian regimes like North Korea), where it is not possible to establish aid relationships through government channels.

national goal of export capacity building in the 1980s.

By the early 1980s, Thai leaders had recognized, with urgency, the importance of transforming the country's export structure, which had been heavily dependent on primary goods, and they envisaged export capacity building as a way to build a self-reliant economy. What is impressive about Thailand is its capacity for designing concrete plans and implementing them. In doing so, they addressed both hard and soft aspects of development policies and measures, i.e., physical infrastructure development (hard institution) and export promotion strategies (soft institution). Thai leaders also demonstrated pragmatism in adjusting their policies and measures in response to a fiscal crisis.

It is notable that Thailand did not necessarily rely on a set of policy measures and "best practices" which had been strongly recommended by the international aid community. Thai authorities took the initiative and assumed responsibility for steering this process by revising the Eastern Seaboard Development Plan and by formulating proposals for the restructuring of Japanese-Thai economic relations through the so-called White Paper. Overcoming rivalry among opinion leaders, the Thai leadership reached a set of workable solutions of their own and successfully negotiated with two dominant donors, the World Bank and Japan. The fact that Thailand pursued its own way in spite of uneasy relations with these influential donors, draws our attention. These Thai cases in the 1980s give important clues to understanding the crucial aspects of ownership.

Chapter 2, by Izumi and Kenichi Ohno, analyzes the type of ownership demonstrated by the Vietnamese government. Vietnam is often cited as a model country with strong ownership. It is shown here that the Vietnamese government excels in the capacity of donor management, while there is much to be desired in owning policy and content. The Vietnamese government has demonstrated high capacity for aid management—as shown in the case studies of: (i) formulation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS, the

Vietnamese version of the Poverty Reduction Strategy Paper (PRSP)); and (ii) management of the aid harmonization process. These achievements are laudable for a low-income country.

Nevertheless, Vietnam has not yet developed an effective economic policy-making structure like the ones established by more advanced East Asian economies (including Thailand) during the period of economic take-off. This is evident from: (i) the lack of realistic industrial vision; and (ii) the challenges of internal harmonization and public administration reform (involving ODA regulations). Vietnam's seemingly strong capacity for dealing with donors should not be confused with a capacity for policy and institutional response to improve performance in the global economy.

Donors should recognize Vietnam's real challenges and provide support to enhance the quality of the government's policy making and execution. It is important to understand the nature of Vietnam's ownership and to identify entry points for and the manner of the most effective assistance. Donor support that is carefully targeted and well integrated into the government's own agenda will have better chances of bringing results.

Chapter 3, by Masashi Nagasu, reviews Cambodia's struggle for acquiring ownership from donors as the country moves from the reconstruction period to the development process. Cambodia is a country heavily dependent on external assistance. The country is dependent not only on financial assistance but also on foreign technical assistance in designing development policy, programs, and development projects. Development policies and programs are essentially conceived, prepared, and proposed by donors in Cambodia because many foreign advisers and consultants supplement and even substitute for the work of government officials. This is mainly due to the country's disadvantages of inadequate development institutions and human resources caused by unstable political history.

The ownership situation in Cambodia is well-illustrated in an episode played by major development actors in the process of preparing two planning documents—the Second Five-Year Socio-Economic Development Plan 2001-2005 (SEDP II) and the National Poverty Reduction Strategy (NPRS, the Cambodian version of PRSP). This process was characterized by two competing and conflicting initiatives by two Banks, i.e., the Asian Development Bank (ADB) and the World Bank. As a major donor in Cambodia (Japan is the biggest donor, followed by ADB and the World Bank) and in light of its support for the previous SEDP, ADB considered it essential to lead the overall development framework of the country. At the same time, the government launched the PRSP process, initiated by the World Bank and the IMF in 1999, because Cambodia needed to qualify for financial assistance from these two organizations. While coordination efforts were made between ADB and the World Bank, they failed to respect the government's wish to have a single process of poverty reduction strategy. The two processes continued to coexist, and the two donors had strong influence on managing the process despite their assertion that ownership should be in the hands of the client country in formulating the national plan and strategy.

As declared in the current NPRS, the government and its development partners finally agreed that "the next SEDP and the corresponding NPRS will be merged." It is hoped that the government will take advantage of such an arrangement to exert genuine ownership in the next round of policy planning.

The comparative analysis of Thailand, Vietnam, and Cambodia illustrates how these countries differ in the nature and levels of ownership (see Table 1). The ownership demonstrated by the Thai government during the 1980s scores high in all three dimensions, namely the goal of aid, donor management, and creativity of policy ideas. While both Thailand and Cambodia faced rivalry between two influential donors, the Thai government successfully avoided fragmentation of development planning processes and skillfully managed donors to retain its policy autonomy. Moreover, the locus of policy content resided with the Thai side. The Thai government was capable of designing and implementing concrete plans for industrial structure transformation and export capacity building measures and fully integrated aid into government policies in such processes. This is the very aspect that is desired for today's Vietnam. Cambodia is severely handicapped due to its adverse political history.

Table 1: Three Dimensions of Ownership : Thailand, Vietnam, and Cambodia

	Thailand	Vietnam	Cambodia
Goal of aid	• Aid graduation, with "export capacity building" established as priority goal (Fifth Five-Year Plan)	• Aid graduation, with "modernization and industrialization" by 2020 (Ten-Year Strategy, Seventh Five-Year Plan and CPRGS)	• No explicit discussions on aid graduation • NPRS focuses on a subset of policies and programs most critical for poverty reduction within the SEDP II framework that embraces inclusive broad-based economic growth
Scope of ownership	• Skillful donor management • Strong policy content and autonomy	• Skillful donor management • Weak policy content and autonomy	• Reliance on donors, by leaving decisions to donor consultation
Creativity of ideas	• Strong	• Certain level of creativity, esp. related to donor management	• Weak, relying on donors

Thai ownership is much deeper and stronger than that exhibited by Vietnam and Cambodia, and we believe that this is the kind of ownership that needs to be established by today's developing countries. The Thai case shows that if and when the government coordinates the aid effort as part of its own coherent development effort, the problem of lack of local ownership of aid largely disappears.[7] The fact that Thailand is now graduating from aid and emerging as a donor should not be surprising.

We fully recognize that the three countries vary significantly in terms of their initial conditions—not only economic but also historical and political ones. Especially, Cambodia had suffered seriously from the total destruction of institutions and human resources by Khmer Rouge and had to start its reconstruction with unusually handicapped situations. Here, our intention is not rank these countries, as if they had been at the same starting point. Our intention is to illustrate variations in ownership through concrete examples and suggest the nature and levels of ownership that should be aspired and ultimately established by developing countries.

We would also like to stress that the concept of ownership should be viewed from a dynamic, not static, perspective.[8] Although we have illustrated Cambodia's challenges, it is true that the government has started genuine efforts to acquire ownership and lead the aid partnership process. Cambodia has been nominated as one of 13 pilot countries for aid harmonization and alignment, and the government has become increasingly vocal in international fora. It is hoped that the government would insist on its position more clearly to donors as its voice and capacity increases.

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[7] Van de Walle (2004) stresses that this is the more ambitious form of coordination because it puts the government at the center of the development process.

[8] In fact, the existing literature reveals that in the early stage of aid receipts (the 1950s), Thailand was severely lacking in trained personnel and organizational capability over the whole range of government departments. Those early years saw aid-related activity scattered through the bureaucracy, while development policy, planning, and coordinating capabilities at the head of the bureaucracy remained woefully weak (Muscat 1994).

4. Implications for the Role of Donors

Our analyses raise a set of issues about how donors should improve their behavior and aid approaches in order to foster true ownership in developing countries.

First, the undeniable fact is that it is very difficult to practice true donor coordination (or partnership) in the field. As the case of Cambodia shows, fierce donor rivalry continues to exist in reality, and ownership is yet to go beyond donor rhetoric. Such donor rivalry presents serious problems, especially for those countries heavily dependent on aid.

Second, donors should better understand the different scopes and levels of ownership held by respective countries and tailor their assistance to country-specific conditions. They should be sensitive about country differences including those of government capacity and identify appropriate entry points for policy dialogue. As the experience with CPRGS shows, Vietnam does have the existing national policy configuration and is capable of managing donors. Under these circumstances, there is a risk that donors might end up building dual accountability systems if they impose a donor-driven agenda and institutional framework that is not well integrated with the existing process. This could also lead to high transaction costs for both the government and donors because: (i) donors would have little chance of working through country systems; and (ii) the government may lose opportunities to internalize relevant donor advice.

Third, related to the above, donors should be humble about the extent of their country knowledge. As the story of Thailand's Eastern Seaboard Development Plan shows, developing countries often have a better knowledge of their own social realities than donors, and therefore a better idea of solutions. This suggests that donors should listen more to the voices of developing countries and learn carefully from their wisdom.

Ultimately, donors need to fully recognize that there is limit to their influence on and knowledge of recipient countries. Donors should make greater efforts to support the process of local capacity building in the true sense. It is important to increase the quantity and quality of policy debates and to stimulate domestic policy research and training. These activities require a long-term investment in human resources, but they should produce output in the form of second-generation policy makers and officials.

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Chapter 1

Export Capacity Building in Thailand: Managing Donors and the Development Process toward a Self-Reliant Economy

Yasutami Shimomura

1. Introduction

Objective

This chapter analyzes Thailand's attempts to build export capacity in the 1980s, at the dawn of its accelerated export-led growth. The purpose is to examine how Thai leaders (politicians, technocrats, businessmen, and academics) tackled the crucial policy agenda of transforming the export structure from primary goods (rice, maize, tapioca, sugar, rubber, etc.) to labor-intensive light industrial products (textiles and apparel, accessories, sport shoes, traveling kits, musical instruments, etc.) and further to technology-intensive manufacturing goods such as electrical and electronic goods, automobiles and so on.

Export capacity has two aspects. One is hard institution or physical infrastructure of electricity, transportation, communication, etc. to streamline production and distribution. The other is soft institution, in particular a set of skills and know-how in international marketing and sales promotion. Thailand was very active in both areas in this period.

To illustrate Thailand's attempts, this chapter deals with two specific cases of export capacity building. The first is the construction of gigantic export-oriented industrial complexes with two deep-sea ports: the Eastern Seaboard Industrial Development Plan. This deals with hard institution. The other is Thailand's trade negotiations with Japan, its largest trade partner and donor at the time. For the purpose of modernizing its export structure, Thailand proposed the First White Paper on the Restructuring of Japanese-Thai Economic Relations. This is regarding soft institution.

These two cases share one notable feature. Thailand did not necessarily rely on a set of policy measures and "best practices" that had been strongly recommended by the international aid community. Instead Thai leaders explored their own way. Thailand's approach caused fierce disputes with two very important partners, the World Bank and Japan.

The fact that Thailand pursued its own way in spite of uneasy relations with these influential donors draws our attention. These Thai cases of the 1980s are expected to give hints for understanding crucial aspects of ownership.

Export capacity building: an enigma

Many developing countries recognize the crucial role of export as an engine of growth and try hard to develop their export capacity. To support developing countries' endeavors, the international aid community has urged them to adopt outward-looking economic policies. Experts have also stressed that foreign direct investment paves the way to export-led growth. Based on the experience of East Asia in this regard, Radelet and Sachs (1997) highlighted the critical role of "export processing zones."

In the meantime, it is to be admitted that many developing countries, particularly in Sub-Saharan Africa and Central Asia, have suffered from disappointing outcomes, even after vigorously implementing the above-mentioned conventional wisdom. Apparently, an outward orientation and attractive facilities for foreign investors, such as export processing zones and generous incentives, do not guarantee results. The bitter lesson of past experience is that export capacity building is a highly complicated and formidable task and we still do not understand its essential features. Our proposal to cope with this situation is to accumulate in-depth case studies of the attempts of many developing countries in order to cast light on the essential aspects of export capacity building.

As there is no proven path to sufficient export capacity, policy makers of developing countries explore the routes in their own ways. As the initial conditions appear to be different from one country to another, they need to design programs taking into account the features of their own socio-economy, instead of mechanically applying the conventional wisdom or textbook theory. However, this attitude may divert from the established prescription of the international aid community. The history of donor-recipient relationships shows many cases of uneasy relations between the international aid community and developing countries when the latter do not follow the standard prescription. This implies that exploring export capacity building is also an endeavor of developing ownership.

From this viewpoint, the experiences of Thailand in the 1980s provide valuable hints for policy makers of developing countries. As shown in the following sections, Thailand's decision was occasionally quite different from its major donors' ideas, but Thai leaders skillfully avoided serious friction.

Understanding "true" ownership

The international aid community has repeatedly emphasized the importance of "ownership." In his proposal for a Comprehensive Development Framework, former World Bank President James Wolfensohn claimed that "ownership is essential," and that "countries must be in the driver's seat" (Wolfensohn 1999). Donors are supposed to suggest suitable policies or best practices through policy dialogue and technical assistance, but they must not seize the wheel.

While developing countries are urged to establish ownership, it is not easy for them to maintain "true ownership," particularly in the post-cold war era. How can we distinguish true ownership from "nominal ownership"? A practical test is rather simple. It is to check whether a developing country can choose an alternative that is not granted by the international aid community. If this is possible, the wheel is in the hands of the developing country, and true ownership is there. Otherwise, ownership is only in name.

As a matter of fact, an attempt to choose an alternative that is not in conformity with the prescription or guideline of the international aid community tends to face the risk of penalty. Malaysia's saga during the East Asian financial crisis illustrates such a risk.

Thailand in the 1980s, however, pursued its own way of export capacity building, without notable penalty, in spite of fierce disputes with influential donors. Thai leaders avoided confrontation with donors without significant compromise. This case of securing true ownership without significant cost holds valuable policy implications for other developing countries as they suffer between (i) maintaining amicable donor-recipient relations; and (ii) maintaining ownership. This is the reason why this chapter focuses its attention on what occurred in Thailand in the 1980s.

Export structure transformation in Thailand

Thailand's export structure has undergone persistent change since the 1970s. Traditional export commodities such as rice, rubber, maize, tapioca, sugar, and tin were gradually replaced by manufacturing goods, such as textile goods, jewelry and precious stone accessories, integrated circuits (IC), and canned seafood (Table 2). Since the late 1980s, various technology-intensive industrial products, including electrical and electronics products, became major export goods.

The transformation of the export structure from primary to manufacturing goods became an urgent and central policy goal in the early 1980s as stagflation in the advanced economies and a depressed international commodities market, due to the second oil crisis, hit Thailand. The Thai economy suffered from deterioration in the terms of trade, as shown in Table 3.

Under these macroeconomic conditions, strengthening export capacity became an urgent task.

Table 2: Thailand's Top 10 Export Commodities: 1973-1986

	1973	1978	1980	1984	1986
1	Rubber	Tapioca	Rice	Rice	Textile goods
2	Rice	Rice	Tapioca	Textile goods	Rice
3	Maize	Rubber	Rubber	Tapioca	Tapioca
4	Tapioca	Tin	Tin	Rubber	Rubber
5	Tin	Textile goods	Textile goods	Maize	IC
6	Textile goods	Maize	Maize	Jewelry and precious stone accessories	Jewelry and precious stone accessories
7	Sugar	Sugar	IC	IC	Canned seafood
8	Shrimp	IC	Jewelry and precious stone accessories	Tin	Apparel
9	Jewelry and precious stone accessories	Jewelry and precious stone accessories		Sugar	Maize
10	Teak	Shrimp seafood	Canned	Sugar	

Source: JETRO Daily, various issues.

Table 3: Thailand's Terms of Trade: 1975-1985

1975	1980	1981	1982	1983	1984	1985
116.0	100.0	87.0	79.0	85.0	83.0	80.0

Source: Warr and Nidhiprabha (1996).

2. Developing Hard Institution: The Case of the Eastern Seaboard Development Plan

Evolution of the plan

To compete in the international market, export industries should be supported by efficient and workable infrastructures. In the 1970s, a group of Thai technocrats recognized that their country's competitiveness had suffered from the overcrowded and inefficient operation of Klong Toey, Bangkok's river port, and from serious traffic congestion in the metropolitan area.

To attempt to overcome these constraints, the technocrats drafted a blue print for the Eastern Seaboard Development Plan (ESDP). This was a gigantic regional development plan sited in Bangkok's southeast, composed of two industrial complexes (Laem Chabang and Map Ta Put) with deep seaports and a wide variety of utilities, such as residential areas and water pipelines. Feasibility studies of the plan were supported by the Japanese government through technical assistance from the Japan International Cooperation Agency (JICA).

Setbacks

The ESDP was adopted as a flagship project of the Fifth Five-Year Plan (1982-86). However, on November 13, 1985, the Thai government unexpectedly announced it was freezing the plan to conduct a full examination. According to a Bangkok-based newspaper, this action was initiated by a group of fiscal hardliners who were concerned about the heavy fiscal burden the plan's implementation would impose and who advocated a belt tightening policy (*The Nation*, 22 November 1985). It was also revealed that the World Bank was behind them; the Regional Mission Chief of the Bank sent a letter to Dr. Snoh Unakl, Secretary General of Thailand's National Economic and Social Development Board (NESDB), urging the elimination of two deep seaport projects (*The Nation*, 28 November and 2 December 1985).

The Thai economy at the time suffered from the macroeconomic imbalances shown in Table 4. These were caused by oil shocks, global stagflation, and a slump in the prices of primary goods. The fiscal deficit problem was particularly serious.

Table 4: Thailand's Macroeconomic Imbalance in the Early 1980s

(%)

	1981	1982	1983	1984	1985
Current account deficit/GDP	7.1	2.7	7.3	5.1	4.1
Fiscal deficit/GDP	7.1	7.6	5.7	7.3	8.6

Source: Warr and Nidgiprabha (1996).

At a crossroads

Thai leaders were faced with a dilemma. On the one hand, constructing a modern infrastructure was an urgent task needed to strengthen export capacity. On the other hand, decisive measures were needed to cope with the twin deficits. Attaining these two goals simultaneously would be highly difficult. The essential features they faced are illustrated in Table 5.

Table 5: Choices Faced by the Thai Government in 1985

	Economic stagnation (Probability: unknown)	Recovery of growth (Probability: unknown)
Execute ESDP as planned (Alternative 1)	• Increase in fiscal burden and external borrowings (the second Philippines)	• Realization of internationally competitive industrial area • Increase in FDI • Modernization of economic structure
Postpone the implementation of ESDP (Alternative 2)	• Reduction in fiscal burden and external borrowing	• Increasing infrastructure bottlenecks • Deterioration of living and environmental conditions in Bangkok • Deterioration of investment environment

Source: Shimomura (2003).

Two of Thailand's important donors had different views on this issue. While the Japanese government recommended the execution of the plan according to the schedule, the World Bank strongly suggested that the Thai government postpone implementation. There were also two camps among Thai leaders; a group of macroeconomists urged postponement, while technocratic engineers preferred early construction.

In the meantime, both the World Bank and the Japanese government supported the construction of a natural gas-based fertilizer project by the National Fertilizer Corporation (NFC), while many Thai experts were skeptical about the project's financial feasibility.

Choices made by the Thai government

The cabinet decision was made on 24 December 1985 to freeze the whole plan. The construction of Laem Chabang industrial complex, however, which was designed to promote export-oriented labor-intensive industries, was resumed in October 1986. By that time, it had became apparent that the infrastructure bottlenecks were serious constraints on the absorption of foreign direct investment, and the Thai authorities were receiving many complaints from foreign investors about the long queue at the port of Klong Toey, the lack of available land for plant construction, and road congestion around Bangkok.

In contrast, the construction of Map Ta Put industrial complex, which was designed for heavy industries, was frozen until early 1988, when new factories construction began to spill over from Laem Chabang into this neighborhood. The government finally cancelled the controversial NFC fertilizer plant, despite the support for the project by the World Bank group and the Japanese government. Our simulation shows that if the project had been implemented, the result would have been a negative return on investment due to foreign exchange rate depreciation and volatile fertilizer prices.

Table 6: Simulation on the NFC Profitability (US$ million)

	Revenue	Profit before tax	New investment	Investment after depreciation
1987			15.8	
1988			202.3	
1990			410.0	
1991	170.6	-33.2	154.8	787.9
1992	183.6	-33.4	42.5	750.4
1993	162.7	-676.6		712.9
1994	263.6	36.0		675.4
1995	316.3	91.4		637.9
1996	265.9	43.6		600.4
1997	149.0	-70.6		675.4

Profit before tax (average): -4.8
Investment after depreciation (average): 675.4
POI = (-4.8/675.4) x 100 = -0.71%
Notes: Start of construction: 1987
Start of commercial production: 1991
Based on the assumption of F/S except exchange rate and fertilizer price

Table 7: Foreign Exchange Rate and International Fertilizer Price Trends (US dollar)

	Yen per US dollar (average)	International price of urea fertilizer(*)
1987	144.6	100
1988	128.2	132
1989	138.0	88
1990	144.8	158
1991	134.7	152
1992	126.7	145
1993	111.2	115
1994	102.2	187
1995	94.1	225
1996	108.8	189
1997	121.1	106

Source: Economic Planning Agency of Japan, ERTECON.
(*) End of year, bulk, per ton

In short, Thai leaders bought time in order to improve fiscal balance by delaying the construction of two industrial complexes for one to three years. After recognizing strong demand for the industrial complexes, they resumed implementation. The NFC fertilizer project was canceled due to infeasibility.

It should be stressed that the decision taken by the Thai government was not in conformity with the wishes of its two leading donors: the World Bank and the Japanese government. Overcoming the rivalry between opinion leaders, Thai leaders reached a workable solution on their own. Further, their choices turned out to be basically appropriate, particularly in the case of the NFC fertilizer plant. This is an impressive example of true ownership.

3. Developing Soft Institution: The Case of the First White Paper on Thai-Japanese Economic Relations

Mission of the First White Paper

In June 1985, the Thai government submitted the *White Paper on the Restructuring of Japanese-Thai Economic Relations* to the Japanese government. The purpose of the White Paper was to list ways of making Thai products more competitive in the international market so as to reduce the trade imbalance between the two countries.

In the frustrating economic conditions of the early 1980s (refer to Tables 3 and 4), Thai leaders were irritated by their growing trade deficit with Japan, in particular the stagnant growth in exports to Japan (Table 8). From the viewpoint of the Thai leaders, tackling this issue was crucial for improving macroeconomic performance. In this regard, it is to be stressed that the White Paper was drafted by a committee with active participation by private sector representatives. In other words, it was a concerted action among public and private leaders of Thailand.

The White Paper offered its own diagnosis of the problem and prescription for improvement. The White Paper was prominent among

Table 8: Trade Balance between Thailand and Japan in the Early 1980s (in million US dollars)

	Imports from Japan	Exports to Japan	Trade deficit
1980	1917	1119	798
1981	2251	1061	1190
1982	1907	1041	866
1983	2506	1019	1487
1984	2425	1040	1385
1985	2030	1027	1003

Source: Shimomura (2004).

ASEAN member countries' joint actions toward the opening of the Japanese market, as it was the most critical and well-organized expression of frustration and included a set of practical proposals.

The White Paper's diagnosis

As Table 8 shows, the level of exports from Thailand to Japan was very disappointing. The stagnation could partly be explained by the J-curve effects caused by currency depreciation in 1981 and 1984. However, the White Paper found the export structure to be the fundamental element causing the stagnation; around 80% of Thai exports to Japan were primary goods. In addition, Thai leaders felt strong displeasure at Japan's discrimination against Thailand in its program of market opening. Custom duty reduction in the case of boneless chicken was repeatedly referred to, as the rate of reduction for US products was more favorable than that for Thai products.

Regarding the dominant export structure, the White Paper claimed that the crucial reason was the pattern of direct investment from Japan, Thailand's largest investor. According to the White Paper, more than 80% of Japanese direct investment was for import substitution, rather than export promotion. In other words, most Japanese investors looked toward the domestic market in Thailand. The White Paper regarded this as the most fundamental point to be tackled to improve the frustrating situation.

The White Paper also dealt with Japan's aid. According to the White Paper, the cream of the contracts under Japan's Yen Credit (aid loan) program was awarded to Japanese companies, while the procurement condition was already completely untied. The White Paper claimed that Japanese consultants significantly manipulated the decision making. The White Paper was also concerned about the tied procurement condition under Japan's grant aid.

The White Paper's prescription

Based on the above analysis, the White Paper made various proposals, some of which were unique. In essence, the White Paper urged the Japanese side to introduce better coordination among trade, investment, and aid in order to assist Thailand to improve export performance.

In order to increase exports to Japan, the White Paper proposed targets in four specific areas: (i) the growth rate of exports to Japan; (ii) the growth rate of exports of manufacturing products; (iii) the market share of Thai products in the Japanese market; and (iv) the amount of exports of "Japanese trading companies (*sogo shosha*)" to Japan. The last target was a unique idea of "utilizing the capacity of Japan's private sector," in the White Paper's terminology. All the leading Japanese trading companies registered their Bangkok branches as Thai companies. As Thai companies, the White Paper argued, they were responsible for promoting Thai exports to Japan, and specific export targets for these companies were introduced.

In the attempt to develop export promotion-oriented direct investment from Japan, the White Paper also specified priority areas, such as small- and medium-sized industries, agro-industries, metal industries, and electronics. The purpose was to urge the Japanese government to give appropriate guidance to the private sector.

Japan was requested to give aid that prioritized strengthening the competitiveness of Thai industries.

Japan's response

In response to the joint request from the ASEAN member countries, in August 1985 the Japanese government launched a set of action plans to open its market further, including the reduction of custom duty on Thai boneless chicken.

One notable feature of these action plans was the emphasis on "encouraging the private sector," reflecting the basic idea of the White Paper. Based on the Thai proposal, the Japanese public and private sectors worked toward "making Thai products marketable," sometimes jointly and sometimes separately. Various public and private actors were in charge of the transfer of technology, knowledge, and know-how to Thai counterparts. While Japan External Trade Organization (JETRO) played an important role in coordination, private companies, large and small alike, made valuable contributions by sending experts and craftsmen, receiving Thai missions, and organizing seminars and exhibitions. A representative case was the dispatch of a group of experts in the skill of "setting" (attaching a precious stone precisely to a ring). The accumulation of these activities assisted Thai export industries in improving their international competitiveness (Shimomura 2004).

When we review Japanese newspapers in 1985, we find that the Japanese side regarded negotiations with Thailand as very tough and explored solutions by accepting various proposals of the White Paper. The Japanese side was serious, particularly because of widely spreading anti-Japanese sentiment among Thai people. Thai students launched boycott of Japanese goods in 1984, and farmers had a wave of big demonstrations against the Japanese government's decision on the custom duty on Thai boneless chicken; on one occasion, farmers left a lot of chicken in the yard of the Japanese embassy, causing panic among the diplomats.

Under these circumstances, the Japanese side placed priority on reversing growing friction and started the technical transfer of soft institution in the field of export promotion.

4. Conclusion and Policy Implications

As the analysis of the two cases suggests, the Thai government in the 1980s demonstrated a strong capacity for managing donors and steering its development process to achieve the national goal of export capacity building. The Thai experience provides valuable insights into the crucial elements of the ownership to be possessed by today's developing countries.

By the early 1980s, Thai leaders had recognized the urgency of building export capacity as a way to build a self-reliant economy. A notable feature of Thailand is its capacity for designing concrete plans for industrial structure transformation and implementing them. In doing so, it addressed both the hard and soft aspects of development policies and measures, i.e., physical infrastructure development (hard) and export promotion strategies (soft). Thai leaders also demonstrated pragmatism in adjusting their policies and measures in response to fiscal crisis.

Thai authorities took the initiative and assumed responsibility for steering this process by revising the ESDP and formulating proposals for the restructuring of Japanese-Thai economic relations. While Thailand's decision was sometimes not in accordance with the intentions of influential donors, Thai leaders were able to present a set of workable solutions of their own and successfully negotiate with the two dominant donors, the World Bank and the Japanese government. It was the Thai government which requested the Japanese government to better coordinate trade, investment, and aid to assist in improving Thailand's export performance. In this sense, aid was fully integrated into Thailand's policies and its export capacity building measures.

Current global debates tend to focus on such issues as the harmonization of aid procedures and aid modalities as measures to enhance recipient ownership. But the nature of ownership demonstrated by Thailand in the 1980s goes beyond the scope of current debates. It is much deeper in policy content and stronger in policy autonomy. The Thai experience offers valuable insight into what "true ownership" is.

The Thai experience also shows that the people of developing countries often have better knowledge of the realities in their societies than donors do, and they therefore may have better solutions. This suggests that donors should listen to and learn from the wisdom of developing societies more carefully, together with making greater efforts to support the endeavor of local capacity building.

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Chapter 2

Fostering True Ownership in Vietnam: From Donor Management to Policy Autonomy and Content

Izumi Ohno and Kenichi Ohno

1. Introduction

This chapter analyzes the type of ownership demonstrated by the Vietnamese government. Although ownership is a multi-dimensional concept, we focus on just two of its aspects: (i) donor management; and (ii) policy autonomy and content. It is shown that the Vietnamese government excels in the first aspect while there is much to be desired in the second aspect. Vietnam still lacks effective internal mechanisms to design and implement developing policies. To establish "true ownership" and realize sustainable growth and poverty reduction, Vietnam needs to go beyond skillful management of donors and strengthen the second aspect of the ownership.

Donor management refers to the capability of owning the relationship with the donor community. This requires the leadership in policy dialogue, coordination of diverse requests, selective adoption of donor advice, handling friction with diplomatic grace, and maintaining national pride. This capability is required and exercised mainly by a relatively small segment of the government, namely the administrative body in charge of aid receipt (the Ministry of Planning and Investment (MPI) in the case of Vietnam).

By contrast, *policy autonomy and content* are concerned with owning development policies. This requires the capacity for identifying national development goals, rallying human and nonhuman resources toward these goals, setting coherent and realistic action plans and timetables, executing them without delay, responding to unforeseen situations, coping with income gaps and other problems generated by growth, management of globalization and associated risks, and so on. As such, it is a much broader task than donor management. It calls for the execution of development itself, of which the mobilization of ODA is only a part. It must be supported by the concerted actions of all administrative bodies both horizontally and vertically. In fact, intra-governmental coordination is the prerequisite for owning policy autonomy and content.

In the following, we will first explain the context of Vietnam's aid and development in the recent years, and then analyze the type of its ownership in light of the two aspects mentioned above. In doing so, we will pay attention to four cases: (i) the formulation of growth-oriented Poverty Reduction Strategy Paper (PRSP); (ii) the management of aid harmonization process; (iii) the need to concretize the content of growth strategies; and (iv) challenges of internal harmonization and public administration reform. We will conclude by suggesting implications for future challenges and the role of donors in Vietnam.

2. The Context of Vietnam's Aid and Development

Growth, globalization and poverty reduction

In 1986, Vietnam launched a domestic economic reform called *Doi Moi*. Around 1992, it initiated a vigorous process of international integration vis-à-vis the Western countries and international organizations. The country restored diplomatic relation with the US and joined ASEAN in 1995, joined APEC in 1998 and signed a US bilateral trade agreement in 2001. Negotiations for WTO accession are continuing. Within a relatively short period of ten years, the Vietnamese economy has come to be deeply integrated into the global economy through trade, investment and aid. The synergy of domestic liberalization and external opening provided the engine for high economic growth, which has averaged at 7 to 8 % per year. The growth is broad-based, and Vietnam has made remarkable achievements in poverty reduction over the past decade. Between 1993 and 2002, the proportion of the population living below poverty line declined from 58 % to 29 %.

Nevertheless, Vietnam still faces many challenges. The latest Vietnam Household Living Standard Survey (VHLSS 2003) shows that the rate of poverty reduction has slowed and that disparities between rural and urban tend to increase. While the rates of its economic growth are fairly good, they are not commensurate with the growth of investment or with the country's potential and requirement. The investment, production and business environments are still facing many difficulties and bottlenecks which lead to high investment and production costs.

Aid partnership

Throughout the 1990s, the nature of Vietnam's aid relationships has significantly transformed. While the UN agencies and Sweden have a long history of assisting Vietnam, other donors including Japan, the World Bank, the ADB, Germany, France, Denmark, Australia and UK resumed full aid programs to Vietnam by the mid-1990s. The overall level of aid jumped rapidly from 1993 to 1994.

As a low-income country with per capita income of US$480 (World Bank data on 2003), Vietnam cannot isolate itself from the influence of global aid debates if it wishes to attract sufficient aid flows. For this reason, particularly since 1999, the Vietnamese government has been actively engaged in aid partnership activities, following the principles of the Comprehensive Development Framework (CDF) introduced by the World Bank. These include the formulation of the Vietnamese version of the Poverty Reduction Strategy Paper (PRSP)—i.e., "*Comprehensive Poverty Reduction and Strategy Paper*" (CPRGS)—and the participation in aid harmonization discussions. Vietnam became the first CDF pilot country in East Asia in 1999. This led to the establishment of more than twenty partnership groups. Vietnam completed a Full-PRSP ahead of other East Asian countries in May 2002.

Currently, there are 25 bilateral donors (including 21 making aid pledges on an annual basis) and 16 multilateral agencies. With good track records of growth and poverty reduction, Vietnam enjoys high aid flows. Since 1995, donor pledges at the Consultative Group (CG) have exceeded US$2 billion (annual figures), reaching a record-high of US$3.4 billion in 2004. Vietnam is now the largest IDA-only borrower from the World Bank. During FY2001-2003, Vietnam ranked top four among the recipients of Japan's ODA (net disbursement base), together with such countries as Indonesia, China, the Philippines, and India.

Low aid dependency

Although Vietnam receives high levels of aid for a country of its size, it is not heavily aid dependent—if measured by the macroeconomic effects of aid and compared to the average of low-income countries in Sub-Saharan Africa or Latin America. In 2001, aid accounted for around 4.6 % of GDP and one tenth of imports. Aid's share in the government budget is relatively small, at 18 % of government revenues and at about 15 % of investment. Aid is just one of several sources of foreign exchanges (IMF and OECD/DAC data). In financial terms the role of aid has been modest, while export revenues are the most important source. Also, FDI, private remittances, and tourism receipt are as important as aid receipt.

It is notable that such favorable situation has emerged only recently. Until the 1980s Vietnam was a typical aid dependent economy, with aid paying for over half of imports, nearly three-quarters of investment

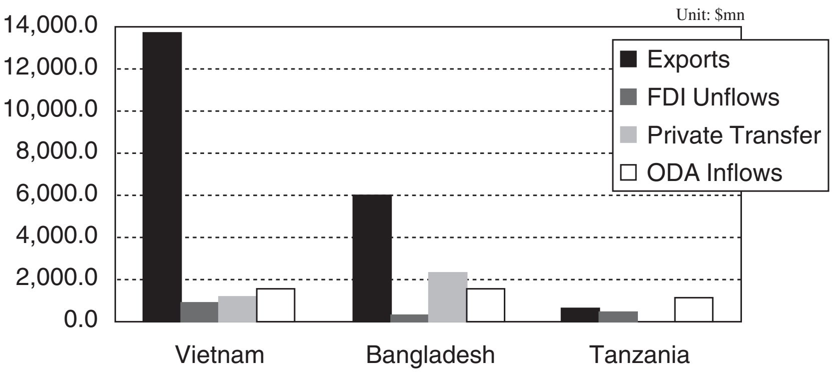
Table 9: Aid as a percent of Macroeconomic Aggregates (2001)

Unit: (%)

	GDP	Imports	Forex. Revenue	Investment	Gov't Exp.
Vietnam	4.6	9.4	7.0	14.8	17.9
Bangladesh	3.3	18.2	14.1	13.1	22.8
Tanzania	14.3	89.2	41.8	83.8	75.0

Source: IMF Statistical Appendix (2003); IFS (2003); OECD (2003).
Note: The aid data (gross disbursement) are based on donor report to OECD/DAC, which may not coincide with those reported by the government.

Figure 2 : Selected Sources of Foreign Exchange Inflows (average of 1999-2001)



Source: IMF Statistical Appendix (2003); OECD(2003).

and over two-thirds of government expenditure.[1] It was the growth turnaround and stabilization, resulting from Doi Moi that had brought about remarkable changes on the fiscal side and reduced Vietnam's aid dependency. Major changes included: (i) a large increase in revenue

[1] After unification (in 1975) until the late 1980s, Vietnam heavily depended on aid from the ex-Soviet Union. During the period prior to unification (1955-1975), the US provided massive aid to South Vietnam, the largest of any other aid provided by the US to a single country or territory during 30 years after the World War II. South Vietnam alone accounted for one-sixth of the total US aid (both economic and military aid) to foreign countries during this period (economic and military) (Dinh 2000).

and the corresponding rise in public expenditure; (ii) a switch from non-tax to tax revenue; (iii) substantially reduced net transfers to state-owned enterprises (SOEs); and (iv) a large increase in the expenditure share of the social sectors. The order of magnitude of all these changes is such as to accord a relatively small role to aid (Donge et al. 1999).

3. Donor Management—Selectivity and Diversity in Dealing with Donors

Vietnam is often praised by donors as one of the model countries with strong ownership (Donge et al. 1999; Jerve et al. 2003; Pincus and Thang 2004). So far, the government has skillfully managed its relationship with donors. It has kept a restrained relationship with donors and made clear its wish to retain selectivity and diversity in obtaining donor advices. Although partnership groups are active, their role has been primarily to facilitate information sharing and coordination of assistance among donors. This is quite different from the practices in many low-income countries, where more open, extensive relationship prevails or is implicitly assumed. Particularly in highly aid-dependent countries in Sub-Saharan Africa, partnership groups discuss intensively the policy framework and conditionality (overall and sectoral), budgetary allocation, and performance monitoring—because aid finances substantial parts of the government's core functions. And donors are united behind this process.

Despite such a restrained attitude toward donors, Vietnam has maintained its status as a popular aid recipient. Not so many low-income countries have successfully managed their relationship with donors and attracted considerable amount of aid—like Vietnam does.

Factors affecting Vietnam's donor management

At least three factors have contributed to shaping Vietnam's unique style of donor management. First, as noted before, Vietnam's growth and poverty reduction record over the past decade, combined with the country's manageable external debt and healthy export growth, afforded the government an unusual degree of bargaining power vis-à-vis donors (Pincus and Thang 2004).

Second, historically, national sovereignty has been a cornerstone in Vietnam's external relationships. A strict separation between external advice and domestic decision-making process exemplifies Vietnam's nationalistic bent to donor-government relations. The World Bank-funded CDF case study for Vietnam confirms that the government regards ownership as the most important of the four CDF principles (Jerve et al. 2003). The government is sensitive to any form of aid conditionality and shows a strong resistance when donors push on policy reform.[2] The existing literature frequently cites tensions between for instance, the government and the IMF on the audit of the State Bank of Vietnam under the Poverty Reduction Growth Facility (PRGF) conditionality, and the World Bank on health sector policy and state-enterprise reform (Pincus and Thang 2004; Donge et al. 1999; Jerve et al. 2003).

Third, Vietnam has unified institutional setting for aid management. The Ministry of Planning and Investment (MPI) is a powerful ministry, which holds centralized functions for development planning, FDI absorption and aid coordination. MPI is responsible for policy formulation ("*Strategy for Socio-Economic Development in the Period 2001-2010*" or the so-called Ten-Year Strategy, the "*Seventh Five-Year Plan for Socio-Economic Development 2001-2005*" or the so-called Five-Year Plan, CPRGS, and so on), prioritizing and channeling of internal and external resources for socio-economic development (capital expenditures based on the Public Investment Program), as well as foreign investment promotion. Within MPI, the Foreign Economic Relations Department coordinates all types of aid (grants and loans) with multi-

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[2] Until recently, foreign advisers assigned to MPI are not allowed to have offices within the ministry. They are normally located in donor agencies' local offices and visit MPI when necessary. The first acceptance was granted in August 2004 to a Japanese adviser, who is in charge of coordinating a JICA-supported capacity development project in MPI.

lateral and bilateral donors, and serves as the link to line ministries and agencies and provincial governments.[3] The Ministry of Finance (MOF) is another important organ charged with the allocation of recurrent budget and the negotiations with legal agreements with donors; but its role is largely confined to the treasury.

The following two cases illustrate how Vietnam has dealt with donors while maintaining autonomy, through: (i) the formulation of the growth-oriented PRSP (CPRGS); and (ii) the management of aid harmonization process. Both are very popular and highly debated agenda in global aid partnership. Generally global debates tend to dominate these undertakings, but the two cases show how Vietnam has successfully incorporated country-specific factors into the PRSP and harmonization process. Moreover, through these cases, Vietnam has effectively appealed to donors for the importance of adapting to diversity.

Case 1: CPRGS Formulation and Expansion

There are two aspects that make Vietnam's PRSP very unique, compared to early PRSPs: its strong growth-orientation including comprehensive reference to the role of large-scale infrastructure in pro-poor growth; and its status as supplementary to the existing strategic documents such as the Five-Year Plan and Ten-Year Strategy.

Making PRSP growth-oriented

The Vietnamese government formulated a growth-oriented PRSP in May 2002, called CPRGS. This was the first PRSP in Asia which sharply differed from early PRSPs, typically those in Sub-Sahara African countries, that had focused on social policies and direct-poverty targeting programs. MPI, in coordination with other ministries, played a central role in the preparation of CPRGS. CPRGS was pro-

[3] MPI is a lead agency in preparing a national list of priority project/program and mobilizing donor resources. Vietnam's low aid dependency implies that aid is primarily for capital expenditure (handled by MPI) rather than recurrent expenditure (handled by MOF). In addition, MPI is a focal point of high-level donor coordination, such as the Consultative Group meetings (biannual) and international forums of ODA.

duced on the government's own schedule, written by Vietnamese in the Vietnamese language, and only later translated into English for donor input. Moreover, the Vietnamese government renamed PRSP to CPRGS, adding the terms "comprehensive" and "growth."

More recently, the government has expanded CPRGS by adding a new chapter on the role of large-scale infrastructure in growth and poverty reduction. CPRGS expansion was proposed by the Japanese government at the 2002 CG meeting, and agreed by the Vietnamese government and other donors. The revised CPRGS, including the new chapter on large-scale infrastructure, was approved by the Prime Minister in November 2003 and presented at the 2003 CG meeting.[4] The new chapter recognizes the interaction between growth and poverty reduction, especially the important role of large-scale infrastructure in achieving pro-poor growth—directly and indirectly—through economic activities such as labor movement between regions, sectors, etc. and also contributing to enhanced social equity through income redistribution by tax, finance and investment policies to help the poor.[5] With explicit reference to large-scale infrastructure as one of the growth promotion measures, CPRGS has become further comprehensive and consistent with the government's Public Investment Program (PIP).

PRSP as supplementary document

CPRGS also differs from early PRSPs in its relationship with the existing planning framework. Vietnam has the existing policy configuration, where all sector plans, public investment plans, and annual budget allocation are guided by the two core documents—i.e., the Ten-Year Strategy and the Five-Year Plan. These were reviewed by the Communist Party and concerned ministries and approved by the Party Con-

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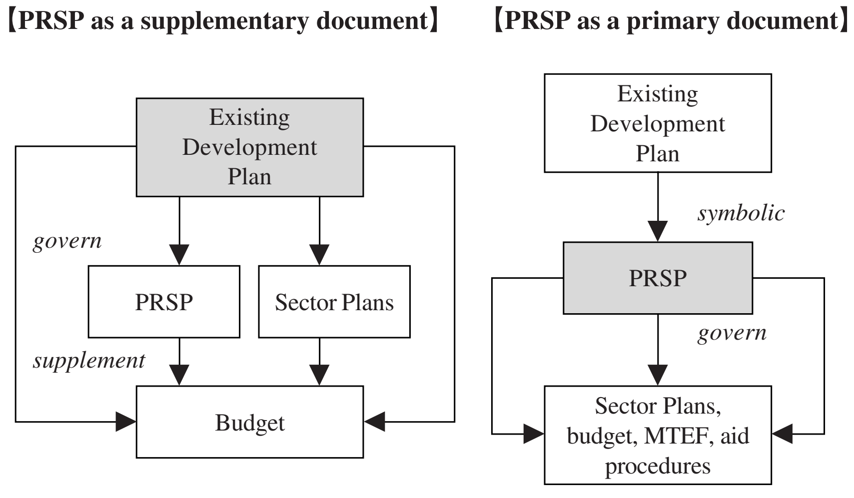
[4] GRIPS Development Forum assisted the Vietnamese government in this process, by providing an analytical framework for the role of large-scale infrastructure in growth and poverty reduction. See GRIPS Development Forum (2003).

[5] *The Comprehensive Poverty Reduction and Growth Strategy* (CPRGS), revised, November 2003. The Socialist Republic of Vietnam.

gress. They tower above numerous other official documents in terms of legitimacy and accountability. Here, CPRGS is a *supplementary document* to the two planning documents and is never intended to dictate overall budget allocation (Figure 3).[6] Certainly, PRSP can reinforce the existing development plans with special attention to poverty reduction in a cross-cutting manner and the participatory process. However, it is not expected to become an overarching document by replacing the existing core documents. This is different from the case in which PRSP serves as a *primary document*, and the operational procedures of the budget, sector plans and receiving aid are all governed by PRSP (Ohno 2002).

Figure 3: Two Prototypes of PRSP



[6] This view coincides with the findings of DFID-funded study on Vietnam's PRSP. The study states that reflecting its status as an action plan of the Five-Year Plan rather than a new policy statement, the CPRGS itself was not submitted to the assembly for approval but instead was signed by the prime minister. It also points out that one of the major motivations for drafting the CPRGS was the government's desire to access concessional financing from the World Bank and IMF (Pincus and Thang 2004).

For example, in Tanzania (as a front runner of PRSP in Sub-Saharan Africa), the newly-introduced PRSP exerts a stronger influence than the existing plans over the budgetary and legal framework.

The Vietnamese government regards CPRGS as an action plan that translates the Ten-Year Strategy, the Five-Year Plan and sector policies into concrete measures. The economic goals and budget allocation are simply copied from the Ten-Year Strategy and the Five-Year Plan. However, to complement these plan and strategy with a strong accent on growth, CPRGS emphasizes the "quality" of growth and proposes ways to minimize income and regional disparities, cut poverty and achieve social equity in the process of rapid growth.

In fact, the recent studies suggest that CPRGS is not a well-known document within government circles (Norlund et al. 2003; Pincus and Thang 2004; Conway 2004). Responsibility for its production was assigned to one department within MPI. Even within central government agencies knowledge of CPRGS is not widely-spread. Within the line ministries, awareness of the document is limited to those individuals directly involved in the process. Unlike the Ten-Year Strategy, it was not disseminated widely or publicized through the mass media. Familiarity with the document is even more limited at the provincial level. Also, there exists confusion at the central and provincial levels regarding the relationship between the Ten-Year Strategy and CPRGS, and the steps that must be taken to implement the latter (Pincus and Thang 2004).

In sum, the growth-orientation of CPRGS is built on the existing development visions (such as the Ten-Year Strategy and the Five-Year Plan) which clearly spell out East Asia's aspiration for economic catch up.

Case 2: Aid Harmonization

Harmonization is an important means to help achieve greater aid effectiveness, by reducing the transaction costs of aid delivery. In recent years, various initiatives have been launched to simplify and harmonize donor practices, with substantial involvement of recipient countries. Vietnam has succeeded in adding diversity to harmonization and modality debates and managing procedural harmonization—by donor group.

Adding diversity to harmonization and modality debates

Vietnam is one of the 13 pilot countries selected for OECD/DAC Harmonization Task Force and has been actively participating in the Task Force discussions such as the Rome High-Level Forum on Harmonization (February 2003) and the Pairs High-Level Forum on Aid Effectiveness (March 2005), and the hosting of the Asian regional workshops on aid effectiveness (January and October 2003). Through these occasions, Vietnam has emerged as a model distinct from those widely practiced in Sub-Saharan Africa.

In Sub-Saharan Africa, the harmonization issue is linked to a shift to new aid modalities, such as budget support and pooling funds under the Sector-wide Approach (SWAp).[7] The underlying assumption is that donors unify aid procedures (and modality in an extreme case) and provide support through the government's systems. This is understandable because harmonization and modality discussions have emerged, primarily to respond to the problems associated with stand-alone projects—e.g., high transaction costs of aid delivery, donor-driven projects leading to inefficient public spending, and parallel off-budget systems and proliferation of Project Management Units (PMUs) undermining the effectiveness of government systems and accountability. Donor-imposed, policy conditionality under the Structural Adjustment Program has also proven its limitations. Under such circumstances, a high

[7] The defining characteristics of a SWAp are that all significant public funding for the sector supports a single sector policy and expenditure program, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all public expenditure, however, funded (Brown et al. 2001).

priority is placed to build the core functions of the government and provide essential social services. Budget support is expected to help building the government's systems, through enhanced ownership. Donors are encouraged to act jointly to support these efforts, by adopting new aid modalities and harmonizing their procedures consistent with the government's systems.

By contrast, harmonization and modality issues are more loosely linked in Vietnam. Project aid continues to be dominant in Vietnam. Major donors—Japan, the World Bank, and the ADB—provide project aid in various sectors. The government strongly argues for the diversity of aid modalities and treats the issue on new aid modalities part of the broad harmonization agenda. Of course, Vietnam is not free from problems with the transaction costs of aid delivery and those faced by Sub-Sahara African countries.[8] But, with the government's core functions being in place (although not perfect) and with low aid dependency, the nature of Vietnam's development priority is different from that of Sub-Saharan Africa (Ohno and Niiya 2005).

Moreover, the government is cautious about the full-scale introduction of budget support because it is normally accompanied by policy conditionality. The government's plan is to first build awareness of new aid modalities, and then pilot these on a small, manageable scale in terms of sector or geographical areas before replication (MPI 2003). Currently, "general budget support" is provided through the World Bank's Poverty Reduction Support Credit (PRSC)-III, with the cofinancing of bilateral donors[9]; but its scale is limited relative to the total aid receipt. In April 2005, DFID formalized its "targeted budget support" to the government's existing national poverty reduction program (Program #135) and rural transport on a pilot basis (in two provinces). Discus-

[8] For example, see OECD (2002) and JICA/CIEM (2003).
[9] PRSCs-I & II were co-financed by UK, Denmark, Netherlands, and Sweden through the trust funds established in the World Bank. From PRSC-III, Japan (JBIC loan) has joined cofinancing. So, the form of participation of these bilateral donors is not strictly "general budget support" as practiced in Sub-Saharan Africa.

sions are underway to extend "targeted budget support" in primary education. There is a SWAp pilot in the forestry sector, supported by a World Bank project and the trust fund of four donors. The government interprets SWAp as a sector policy framework, under which projects and non-projects coexist in an integral manner.

Managing aid harmonization by donor group

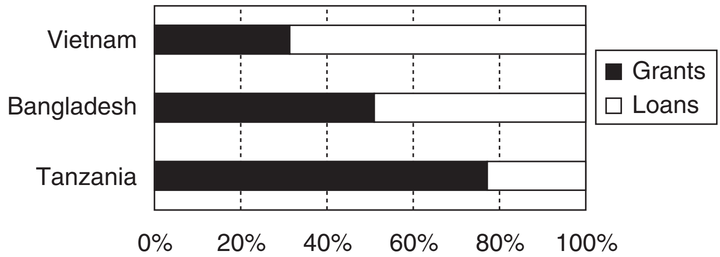
In Vietnam, Decree 17-CP, promulgated in May 2001, lays the foundation for all the harmonization efforts. The decree established the common framework for ODA-related procedures and regulations by: (i) regulating the management and utilization of all types of ODA resources including both grants and loans and covering balance of payments support, program aid, project aid, technical assistance; (ii) establishing the procedures and regulations governing all stages from project identification to monitoring and evaluation; and (iii) clarifying the responsibilities of various Vietnamese agencies involved in the ODA process. More recently, the government elaborated an *Action Plan on Simplification and Harmonization of ODA Procedures*, and presented it at the December 2003 CG Meeting, together with a proposal for comprehensive capacity building program for ODA management. This action plan is guided by the principles of: (i) country-owned; (ii) country-led; and (iii) diverse modes of ODA delivery within a common framework.

Based on the above principles, the Vietnamese government is encouraging the donor community, by donor group, to simplify and harmonize respective procedures. Its approach is to treat donors separately group by group, rather than jointly, under a common framework established by the government, and to create room for diverse voices.

More specifically, four different donor groups are working to simplify and harmonize respective procedures, especially in terms of timing and documentation formats used in the different stages of the project cycle. The groups include: (i) 5 Development Banks (the World Bank, ADB, JBIC, KfW, and AFD); (ii) Like-minded Donor Group (LMDG consisting of Canada, Denmark, Finland, Germany, Netherlands, Norway, Sweden, Switzerland and UK); (iii) UN system (UNDP, UNICEF, and UNFPA); and (iv) EU (Member States and the European Commission) (Box 1). Since loan aid accounts for nearly 80% of aid commitment in Vietnam (two-thirds on a disbursement basis)[10], procedural harmonization among 5 Banks should significantly improve the efficiency of aid delivery (Figure 4). LMDG and EU pay special attention to the introduction of SWAp and budget support (such as PRSC) because they consider such aid tools an effective way to reduce transaction costs in aid delivery and collectively support the implementation of key elements of CPRGS.

In addition, bilateral effort is underway between the Japanese government and MPI, focusing on Japan's grant aid and technical assistance, to address the selected issues identified by the JICA-commissioned study on transaction costs of aid delivery.[11]

Figure 4 : Foreign Aid: Grants versus Loans (average of 1999-2001)



Source: OECD (2003).
Note: Gross disbursement base.

[10] Cumulative figure during 1993-end of 3rd quarter of 2003. MPI data presented at the 2003 CG Meeting.
[11] The JICA/CIEM study collected the voices of recipients on 80 projects (i.e., rural development, health, education and training, and transport). The study finds that the burdens of transaction costs differ, at each stage of projects, with most transaction costs being felt at the stages of project design, appraisal and implementation.

Box 1 : Aid Harmonization by Donor Group

Currently, four groups of donors (with similar aid schemes) and some individual donors are working to simplify and harmonize respective procedures, guided by a common and coordinated framework established by the Vietnamese government. The progress as of June 2004 includes:

- 5 Banks: In May 2002, the World Bank, the ADB, and JBIC (Japan) agreed a joint statement to harmonize the areas of procurement, financial management, environmental and resettlement issues. This was joined by KfW (Germany) and AFD (France) in 2003. The coverage of harmonization efforts by the 5 Bank Group centers around the five agreed priorities: (i) project preparation practices and procedures; (ii) procurement process; (iii) financial management; (iv) environmental and social safeguard policies and practices; and (v) portfolio management.
- LMDG: In 2001, the LMDG undertook a study to compare six donor practices and examined options for harmonization.* On the basis of this study, the group is working on the standardization of documents and procedures, also applicable to the government. Their work includes the initial analysis of project reporting formats and current public procurement institutional framework, as well as stock-taking of project management training. The LMDG also promotes capacity-building support, common development vocabulary, and wider use of multi-donor financing mechanisms.
- EU: The Hanoi-based representatives of the twelve Member States involved in cooperation with Vietnam and the EC Delegation agreed on an Action Plan for Harmonization and Coordination in May 2003. The plan is based on the preceding efforts (e.g., the EU local cost norms) and takes a practical approach, focusing on the coordination of efforts at different phases of the project cycle in certain sectors (i.e., health, education, trade, private sector development, and governance) and one geographical area (i.e., the Central Highlands).
- UN Group: As part of the UN global initiative for simplification and harmonization among the member of the UN Development Group

(UNDG), the UN Country Team in Vietnam is preparing its Common Country Assessment and UN Development Framework for 2006-2010 in consultation with the Vietnamese government (to be ready by end-2004). Subsequently, UNDP, UNICEF, and UNFPA will develop the Country Program Documents (high-level agreement between agencies and government) and Country Program Action Plans (more detailed programming documents) under common formats.

- Japan's grant aid and technical assistance: As a follow-up to the JICA/CIEM study (March 2003), bilateral effort is underway between the Japanese government and MPI to address the selected issues identified by this study ("Sit down and Talk" initiative). Through a series of discussions, a Joint Action Plan has been finalized by June 2004, which focuses on: (i) strengthening of dialogue; (ii) information sharing on procedures; (iii) improving transparency; and (iv) participation and capacity building.

* Grant Thorton (2001).
Source: elaborated by the author, based on MPI (2003) and MPI (2004).

4. Policy Design and Implementation—Need for Greater Coherency in Policy and Institutions

The above achievements are laudable for a low-income country. Nevertheless, this does not mean that Vietnam satisfies the requirements for the other level of ownership—i.e., the capacity for effective policy design and implementation. The strength of Vietnam's ownership, especially its skillful donor management, is largely confined to the overall aid coordination and negotiation by MPI and exercised by relatively a small segment of the government.

Now that Vietnam counts on diverse sources of funding for development—such as budget, export earnings and FDI—in addition to aid, there are many actors involved in the process of development-related activities. Vietnam needs to improve the content of development policies, not limited to donor management, and to strengthen the capacity for coordinating policies and procedures among different levels of the government, private firms, and civil society.

Features of Vietnam's internal administration

Vietnam's public administrative system is highly fragmented, and decision making requires consultations among many fractious constituencies.[12] The existing literature cites such problems as lack of overall strategic vision, lengthy consultation, and conflicting outcomes (Donge et al.1999; McCarty 2001; Pincus and Thang 2004; Conway 2004). Vietnam's decision making takes place in a complicated web of vertical and horizontal authorities. Responsibility is diffused and the process is not transparent. Policies lack clarity and consistency, and response is slow when speed is needed. Thus, there exist dual systems of accountability—one for dealing with donors, and the other for country's internal affairs. Seemingly a strong state of Vietnam may not necessarily hold domestically.

The following two cases illustrate how Vietnam's internal system of accountability constraints the government in exercising effective policy and institutional responses. We focus on the challenges of: (i) concretizing the content of growth strategies; and (ii) integrating ODA management in the internal administrative system. The former can be contrasted with Vietnam's strong growth orientation in the CPRGS (Case 1 above), while the latter can be compared with aid harmonization (Case 2 above).

Case 3: The Content of Growth Strategies

To become an industrial country by 2020 is the national goal for Vietnam. As shown in Case 1, the official documents—typically the Ten-Year Strategy, the Five-Year Plan, and the CPRGS—give numerical growth targets up to 2010. Beyond these, however, details are not

[12] McCarty (2001) calls such Vietnamese style of decision-making "consensus governance." Consensus governance involves a conscious choice not to delineate lines of authority and responsibility. Power is to be shared as widely as possible. Extensive consultations are required, involving protracted delays to accommodate the various concerns of stakeholders.

spelled out. After eighteen years since the *Doi Moi* reform, and after roughly a decade of serious international integration, Vietnam is still not prepared to take full advantage of trade and investment liberalization for economic development. The fact that international integration comes with both challenges and opportunities is generally well understood, but concrete action to raise international competitiveness is slow to emerge.

Lack of realistic industrial vision

The reform process in Vietnam sharply differs from the experience of the East Asian tigers. It was not a matter of an all-powerful leader at the top enacting the recommendations of insulated technocrats (Fforde and de Vylder 1996; Riedel and Turley 1999; Wattez 2001).[13] There was no articulate overall and long-term strategic framework or roadmap to guide the *Doi Moi* reform process. The decision making on reform has been characterized by a gradual, step-by-step, and trial and error approach.

Such decision-making style did work in the 1980s—when Vietnam needed to manage the transition to a market economy and external opening while maintaining political stability. However, it is an open question whether or not Vietnam's policymakers and institutions have the qualities needed to execute effective development policies in the age of globalization (Riedel and Turley 1999; Ohno 2004).

Current economic decision making is too decentralized, and various elements of industrial policy are not united. The challenge now is no longer to maintain the delicate social balance under international isolation, but to raise productivity, encourage investment, and compete with formidable regional rivals under increasingly free trade. It is essential that the government provide a clear industrial vision—in terms of both the direction of overall industrialization and specific strategies for

[13] The World Bank's *East Asian Miracle* report also stresses the vital role of economic technocrats in formulating and implementing rational economic policies in high-performing East Asian economies (World Bank 1993).

individual key industries—as well as a stable policy environment in which domestic and foreign businesses can operate.

At present, industrial strategy (Ministry of Industry: MOI), FDI and ODA (MPI), trade negotiations (Ministry of Trade: MOT), tariff structure (MOF) and technical standards (Ministry of Science and Technology and Environment: MOSTE) are dealt with by different ministries with little coordination in substance. Various measures such as industrial promotion, enterprise reform, FDI absorption, and trade and investment policy are not integrated. The lack of transparency and certainty in policy environment remains the most serious obstacle for both domestic and foreign firms. Under these circumstances, it is very difficult to introduce policies for individual industries in an economically meaningful manner.[14]

While aid donors praise Vietnam, the foreign business community bitterly criticizes Vietnam's economic policy as one of the worst in East Asia. The poor business environment, especially the lack of predictability, is cited as the main reason why Vietnam loses so many investment projects that might have come had the policy been more conducive.[15] Policy inconsistencies are routinely reported in the newspapers. For example, domestic garment exporters complain that the allocation of export quotas to EU is nontransparent, inefficient and unfair. The admission of as many as fourteen foreign automobile manufacturers in Vietnam's tiny market, coupled with unstable tax policy, is driving these producers to despair. In 2002, local and foreign assemblers of TV sets were alarmed that the announced tariffs for 2003 and beyond had a reverse structure which favored importing finished products to local production. This inadvertent distortion was corrected in the tariff revision of July 2003, but a similar problem remains for home appliances.

[14] For the more detailed explanation of the problems in industrial policy, see Kenichi Ohno (2004).
[15] The recent research by Vietnam Chamber of Commerce and Industry (VCCI) shows that nearly one third of enterprises are not satisfied with the public reform progress and most of them agree that business license procedures are still complicated, costly and time consuming (World Bank 2004).

In September 2002, the Vietnamese government suddenly announced new quotas for importing motorbike parts, which were immediately allocated to individual motorbike assemblers based on their business plans submitted to MPI years ago at the time of investment approval. Such a regulation is unheard of anywhere in the world. A few Japanese factories were forced to stop operation as they had already used up the number of parts allocated to them for 2002. Among Japanese investors, this incident became the symbol of Vietnam's irrational industrial policy. It was reported widely in the Japanese press. This and other problems prompted the Japanese government to launch the Japan-Vietnam Joint Initiative[16] and revise its aid policy in 2003, making the general quantitative direction of Japanese ODA to Vietnam conditional on the policy efforts of the Vietnamese government, including the speed of improvement in the business condition.

Case 4: Challenges of Internal Harmonization

At the central level, MPI has skillfully handled the discussions on aid harmonization, by treating donors group by group. But, this does not necessarily mean that Vietnam's ODA management capability is satisfactory. Donors constantly complain about the problems with slow ODA disbursements and implementation at the line ministries and provincial levels.[17] Complex arrangements for decision making related to ODA, a lack of donor understanding of the Vietnamese system, and a lack of government capacity and understanding of donor requirements resulted in major delays in project approvals and implementation.

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[16] The official title is "Japan-Vietnam Joint Initiative to Improve Business Environment with a View to Strengthen Vietnam's Competitiveness." This initiative was first proposed by the Japanese Ambassador Mr. Norio Hattori at the December 2002 CG meeting and was launched in April 2003 when Prime Minister Phan Van Khai visited Tokyo and agreed with Prime Minister Junichiro Koizumi. A Joint Committee was formed of representatives of the Vietnamese and Japanese governments and Japanese business community.

[17] The World Bank's Country Portfolio Performance Review (CPPR), completed in October 2003, shows that between FY2000 and FY2003, disbursements on investment credits almost doubled (from $160 million to $298 million), with the disbursement rate increasing from 12.1 % to 14.3 %. But, it also notes that the number of projects facing implementation issues has increased over the past few years (World Bank 2004).

Incompatibility between ODA management and internal administrative systems

As Case 2 shows, Decree 17-CP in 2001 provides a common framework for the management of donor harmonization; but its application has met with a number of problems. The decree has been interpreted inconsistently at different levels of administration. Also, much work remains to better integrate ODA in regular development administration and harmonize national procedures with international standards. In this regard, the government is currently revising Decree 17-CP, to make it compatible with the related internal regulations (such as construction law, land management law, procurement ordinance), clarify the responsibility of respective agencies in the ODA-related procedures, and incorporate the latest aid practices into the legal framework. (The revised decree is to be finalized in 2005.)

Harmonization in the Vietnamese context is more difficult than the management of harmonization of donor practices. First, there are many inconsistencies of policies and regulations within the Vietnamese administrative system. There is ambiguity over responsibilities in implementing regulations. Specific problems include: (i) inconsistencies between policies/guidelines made at the central level and practices at the provincial level; (ii) multiple-doors accountability system, where technical departments at provincial level have to report to both higher level in the ministry and to the provincial People Committee; and (iii) poor coordination among related ministries/agencies and between central-provincial levels, and so on.[18] There is a need to advance harmonization internally among Vietnamese agencies involved in projects/programs funded by the donors (Luan and Loi 2004).

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[18] This is not peculiar to ODA management. Le Thuc Duc et al. (2003) gives an example of the implementation of the Foreign Investment Law (revised in 2000), as follows: "Provinces and respective ministries have to issue the detailed guidelines for implementation of the Law. However, this process has been delayed and the Law had been interpreted inconsistently at different levels of administration. Problems have arisen as contradicted directives encounter each other in practice. The middle rank authorities often do not know how to solve these problems and wait for guidelines from the relevant ministries, branches or other competent bodies."

The JICA/CIEM study (2003) reveals that not negligible transaction costs are attributable to the Vietnamese system. It cites a concrete example of complicated internal procedures for project appraisal and approval as follows:

> ...a number of problems occurred in getting approval from the Vietnamese side which created a number of burdens for the recipient agency and its sectoral ministry. Although the government has developed clear procedures and timetables for issuing ODA project approval, these procedures were not strictly followed. Submission of the project documents to MPI and other line ministries was asked for twice after a series of delays and problems with the sectoral ministry in charge. As a result it took 20 months to get approval for the operation of the project. In addition, a range of unclear rules also added to the costs that the project had to bear, such as the importation of a car for the project…[section continues] (JICA/CIEM 2003: 23).

Second, there are many incompatible procedures and requirements concerning budget allocation and use between the donors' side and the Vietnamese side. This is because Vietnam's political and administrative systems significantly differ from respective systems in donor countries. Harmonization, then, would require Vietnamese government to speed up Public Administration Reform (PAR), taking into account the requirement of the relationships with donors. The government's *Action Plan on Simplification and Harmonization* also recognizes the need to further streamline and simplify the internal ODA management procedures in parallel with the PAR process (MPI 2003).

Since 1986, there have been a series of efforts to implement administrative reforms across the state sector in order to match the role and functions of the state more closely with the changes being wrought in the economic system. One of the major initiatives was the adoption of the Resolution on Public Administration Reform at the eighth Plenum of the seventh Party Congress in January 1995. PAR is recognized as critical for further economic reform and the transition process. Also, there has been a growing involvement of donor agencies in the reform program, with UNDP playing a lead role in providing and coordinating the technical assistance.

Yet, it is widely viewed that progress of the PAR program is slow in comparison with the requirements of the transition (Painter 2003). A general framework for PAR (*Comprehensive Administration Reform Program 2001-2010*) was developed, and four key areas for reform have been identified, i.e., institutional, administration, human resources, and public finance. But, as the former representative of UNDP/Vietnam emphasizes, the lack of a strategy to guide the process, well anchored in the higher economic and social goals of the country has contributed to slowing down PAR. This is partly because the PAR process is closely tied to reforms in legislative and judicial branches, as well as renovation of the political system (Wattez 2001).

In sum, true harmonization in the Vietnamese context can be achieved—only if refined procedures and mechanisms are integrated into regular administrative system of the Vietnamese government.

5. Future Challenges and Implications for the Role of Donors in Vietnam

As our analysis suggests, the Vietnamese government has demonstrated high capacity for donor management—namely, through the CPRGS formulation and aid harmonization processes. Nevertheless, Vietnam has not yet developed the effective economic policy decision structure like the ones advanced East Asian economies had established during the period of economic take-off. Vietnam's seemingly strong capacity for dealing with donors should not be confused with the capacity for policy and institutional response for improved global performance. Further efforts are required to concretize growth strategies and reform the domestic administrative system and procedures, in order to sustain poverty-reducing growth and catch up with the East Asian tigers. This should be the way to foster "true ownership" in Vietnam and help the Vietnamese to help themselves.

Then, how can donors support fostering "true ownership" in Vietnam? The four cases above suggest that this may require a rethinking of "doing aid" in Vietnam. Donors should be more sensitive to the nature of Vietnam's ownership and recognize that there are limits to the extent of donor influence. The government welcomes better coordination of aid at an operational level, but not at the expense of diversity in bilateral relations (Jerve et al. 2003). The government listens to donor advice, but never accepts it blindly. It picks up new ideas and selectively adopts them.

In sum, emerging lessons for "doing aid" in Vietnam are to: (i) work with the existing institutions, based on an incremental approach (instead of imposing another, new institutional framework); (ii) make donor assistance relevant to and integrated into the national agenda; and (iii) identify entry points carefully and sharpen targeting of their assistance (to be realistic and practical). To this end, donors must accumulate deep knowledge of Vietnam (Wattez 2001; McCarty 2001). Donors may also wish to increase the quantity and quality of policy debates and stimulate domestic policy research and training. These activities require long-term investments, but should produce outputs in the form of the second generation of policy makers and officials (McCarty 2001).

In this regard, the government's recent decision, announced at the December 2004 CG meeting, to integrate the next CPRGS into the Eighth Five-Year Plan (2006-2010) signals that aid partnership in Vietnam has reached a new stage. The government declared its intention to formulate the next Five-Year Plan, by taking CPRGS approach, such as outcome-oriented planning and the broad-based participatory approach.[19]

By now, donors have well understood that: (i) CPRGS will never attain the political salience of the Five-Year Plan and the Ten-Year Strategy; (ii) the CPRGS roll-out (at the provincial level) has met limited success; and (iii) continued reference to CPRGS may prove counterproductive in this context, with a risk that CPRGS is seen as either a "donor's document" or document imposed on local government and line agencies by central planners such as MPI (Pincus and Thang 2004). The Vietnamese government also appears to have learned the high transaction costs of maintaining dual policy processes and the need to strengthen its existing policies and institutions to meet with the international standards.

The next planning cycle offers a promising opportunity for both the government and donors to further strengthen Vietnam's current ownership. By working with the existing policy and institutional framework, there will be greater chances for donors to engage the Vietnamese policymakers in the substance of policy debates and required institutional reforms, such as the content of growth strategy and specific aspects of public administration reform. Donor support, if well integrated in the government's own agenda and carefully targeted, has better chances of bringing results.

[19] Based on the Prime Minister's Directive 33, issued in September 2004. At the mid-year CG meeting in 2004 (held in Vinh), the MPI authorities hinted their preferences that the CPRGS would be integrated into the next Five-Year Plan
(see Press Release http://www.worldbank.org.vn/news/press52_01.htm).

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Chapter 3

Challenge of Managing Donors in Cambodia: Review of the Process of Preparing the National Poverty Reduction Strategy

Masashi Nagasu

This chapter reviews Cambodia's strive for acquiring ownership from donors, as the country moves on to the development process after the reconstruction period. It focuses on the process of the preparation of the National Poverty Reduction Strategy, NPRS (the Cambodian version of PRSP)—which was characterized as two competing and conflicting initiatives by two Banks—and the government's coping strategy for donor management. Building capacity for donor management is the first challenge faced by Cambodia.

1. A Donor-driven Country?

Cambodia is a country heavily dependent on external assistance. An official of an international institution once described as a "donor-driven country."[1] This somewhat impolite expression refers to the country's

[1] A UNDP study (2002) also notes that the situation in Cambodia would normally be described as a classic case of donor-driven, and to a certain extent, inefficient, and overlapping use of resources (UNDP 2002). Also, see Godfrey et al. (2000).

dependence not only on external assistance funds but also on foreign technical assistance in designing development policy, programs, and development projects.

Cambodia has received a large amount of external assistance from a number of donors. These include international organizations such as the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB), and the United Nations Development Program (UNDP), as well as bilateral donors such as Japan, France, US and Australia. In 2001, the total amount of external assistance approximated US$243 million, corresponding to 38% of the government's annual budget (the data by the Ministry of Economy and Finance). Japan, the World Bank, and the ADB are the three largest donors in Cambodia. The external assistance covers both capital and technical assistance, as in the case of other recipient countries. Technical assistance usually refers to technical advice to the government officials. But, here in Cambodia, the assistance is largely comprised of the provision of services substituting for those of government officials: the preparation of laws and regulations, government documents and negotiation with donors. That is, in Cambodia, the most of foreign advisors and consultants substitute or supplement the work of governmental officials. As a result, many of development policies and programs are conceived, prepared and proposed essentially by foreign donors in Cambodia. This is what the above "donor-driven country" refers to.

2. Why a Donor-driven Country?

Cambodia's heavy dependence on external assistance—not only in terms of funds but also development policy and programs—comes mainly from its historical and political background. Three issues are worth noting.

First, since its independence from France in 1953, Cambodia experienced frequent, unusually dramatic changes in its political and economic regimes: market economy under the Kingdom of Cambodia led by Prince Sihanouk from 1953 to 1970; market and war economy under the Khmer Republic led by Lon Nol from 1970 to 1975; agrarian centrally planned economy under Democratic Kampuchea controlled by Khmer Rouge from 1975 to 1979; Soviet-style centrally planned economy under the People's Republic of Kampuchea controlled by Cambodian People's Party (CPP) from 1979 to 1989; liberalized centrally planned economy under the State of Cambodia controlled by CPP from 1989 to 1993; and transition to a market economy under the Kingdom of Cambodia led by coalition of CPP and United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia (FUNCINPEC) from 1993 to present (Kato et al. 2000; see also Table 10).

It is not surprising that the government under each regime was unable to develop the necessary institutions and human resources, due to frequent change in the political and economic systems. In particular, the total destruction of institutions and human resources by Khmer Rouge left devastative impact over the country. The regime not only abolished market mechanism, but also killed many citizens. They executed large numbers of educated civil servants and professionals. This even now leaves large scarves in the society and vacuum of human resources. You find in the present government only limited number of qualified officials of the generation who were at high education then. In addition, the international embargo and enforced isolation of the country from the international society stunted its development and ability to recover from the mass destruction wrought by the Khmer Rouge regime (Kato et al. 2000).

Second, aid infusion during the post-war, reconstruction period has made the government extremely reliant on donors. Between 1992 and 1993, the United Nations Transition Authority (UNTAC) served as the temporary government and held election. Such UN operation to create a new government led to massive assistance by the UN agencies and bilateral donors to sustain this newly-born government. From

1992 to 1995, Cambodia received US$1.72 billion in UNTAC funds and US$1.3 billion in emergency relief and development assistance. These are huge aid flows into a single country in a four-year period (McAndrew 1996). It is natural that a government has tried to learn the manner of its existence from those who provide basis of existence.

Table 10: Change in Political and Economic Systems in Cambodia

Era (Name of State)	Legal System	Political System	Political Power	Economic System
Pre 1953	French based Civil Code and judiciary	Under the French Protectorate	Held by French	Colonial type
1953 – 1970 (The Kingdom of Cambodia)	French based Civil Code and judiciary	Constitutional Monarchy	Held by Prince Sihanouk as Prime Minister	Market and then nationalization
1970 – 1975 (The Khmer Republic)	French based Civil Code and judiciary	Republic	Held by Lon Nol	Market, war economy
1975 – 1979 (Democratic Kampuchea)	Legal system destroyed	All previous systems abolished, extreme Maoist agro-communism	Khmer Rouge	Agrarian, centrally planned
1979 – 1989 (The People's Republic of Kampuchea)	Vietnamese-oriented model	Communist party, central committee, and local committees	Cambodian People's Party	Soviet-style central planning
1989 – 1993 (The State of Cambodia)	Greater economic rights	Communist party, central committee, and local committees	Cambodian People's Party	Liberalized central planning
1993 – present (The Kingdom of Cambodia)	French based Civil Code combined with common law in certain sectors	Constitutional Monarchy	Shared between FUNCINPEC and CPP	Transition to a market economy

Source: Kato et al. (2000), p.6.

Box 2: History of Aid Infusion without Control

- When Cambodia started economic liberalization in late 1980s, multi- and bilateral donors used NGOs as substitutes for Cambodian institutions to channel increasing humanitarian assistance to Cambodia. One long-term expert of Cambodia's development noted that "this served to shift control of reconstruction process and agenda out of Cambodian hands to the donors and aid agencies, and virtually excluded many Cambodians from participation in the process" (Mysliwiec 2003).
- The new government established under the 1993 Constitution operated in a fragile political environment where former conflicting parties formed a coalition government while the civil war against Khmer Rouge continued along the Thai border. As a result, the government was not fully prepared to take leadership of development cooperation at a time when donors were sending hundreds of missions to Cambodia to develop their projects. Real commitment to coordination among donors did not take root, and many donors have missed opportunities to tap in local knowledge, experiences and institutions that Cambodians in fact had had in the pre-UNTAC period (Mysliwiec 2003).

Quoted from the Council for the Development of Cambodia (2004), pp.1-2.

Third, the fragile political basis of the government compelled its employees to act opportunistically not making decision by themselves and leaving the matters in the hand of fund providers. The new government was that of coalition of CPP and FUNCINPEC, the two larger parties, and for the first 5 years the top of the two parties shared the power as co-prime ministers. Each ministry has had representatives from both of them as co-minister or state secretaries. Therefore, it is safer for government officials not to make decision by themselves and to leave matters in the hands of donors.

3. Strategy for Donor Management — "Leave the Matter to the Donors"

As explained above, the government had not been equipped with adequate institutions and human resources when massive aid started to flow into the country. But, the government had to deal with a number of donors to earn funds for rehabilitation and reconstruction of the country. The donors were willing to provide lots of funds for the projects of this poor country which had survived massive massacre by leftist extremists and long-period of civil war; however, the funds would be delivered only when the government follows the practices the donors consider appropriate. Unfortunately the government officials were not familiar with such practices. Furthermore, an official's mistake in handling foreign-assisted projects could be fatal for him (or her) to survive in the ministry in the fragile political environment. Under such circumstances, the best approach is to leave the matter to the donors, those who determine which are appropriate practices.

Thus, in Cambodia, foreign donors have conceived the ideas of most projects (of course based on the needs formulated through consultation with Cambodian officials), proposed them to the government, prepared them, and financed them. Only the involvement of the government has been consultation made by donors from time to time and approval for the project before the final decision of finance. Therefore, in Cambodia the discretion of donors is much greater, and that of government much smaller, than in other neighboring countries. Consequently, it is not that the government decides which donor should finance certain projects, but that the donor(s) decide which projects should be financed, and design them. The government respects the interest and initiative of donors, and let the donor process the project. Under this approach, certainly the government's discretion is smaller, but the government can receive much more funds because donors are willing to finance projects prepared under their initiative. As a result, reliance on donors in selecting and designing projects becomes the government's strategy. In a sense, this might be rational behavior by the government for "aid maximization."

4. Management of Two Competing Donors — Processing PRSP and SEDP II

As mentioned above, reliance on donors in designing projects has been a compelled strategy of the Cambodian government. The government adopted the same strategy for the preparation of a national development framework such as Five-Year Development Plans. Donors, in particular international institutions, are strongly interested in sponsoring and taking initiative for formulating such development framework. This is because the sponsoring institutions can exercise significant influence over the direction and contents of the strategic plans, and consequently the projects to be prioritized under the plans (including ones to be financed by other donors). In this regard, the process of the preparation of two planning documents—the Second Five-Year Socio-Economic Development Plan 2001–2005 (SEDP II) and the National Poverty Reduction Strategy (NPRS, the Cambodian version of PRSP)—are important examples. In the preparation of these two documents, the government followed, as usual, the donor-reliance approach, by respecting the donor initiative and not taking its own initiative in order to maximize the receipt of external assistance. We will see below how the Cambodian government has handled the formulation of SEDP II and PRSP.

Institutional setting and a variety of programs and plans

We will start by explaining the current institutional setting related to national development planning.

The Ministry of Planning (MOP) is in charge of national development planning. In addition to the preparation of SEDP, the important task of this ministry is the preparation of Public Investment Program (PIP), which is a list of candidate investment projects submitted by each line ministry. PIP constitutes a part of the government's documents submitted for the Consultative Group Meetings, on which basis donors examine and align their assistance. PIP is attached to the national budget. The ADB has supported the MOP and provided technical assistance to reinforce the capacity, including the elaboration of PIP.

The Ministry of Economy and Finance (MEF) is in charge of the national budget. The MEF organizes and implements the national budget with the oversight of Council of Ministers and the Parliament. MEF is a powerful ministry because government funds, domestic or external origin, become available for each investment project only when the ministry approves the use of the fund for that project. The inclusion of an investment project in PIP does not mean that the national budget (both domestic and foreign assisted) can be used for the project. In the light of the power and importance of MEF, international institutions provided technical assistance to this ministry, such as Technical Cooperation Action Plan (TCAP), Mid-term Expenditure Framework Program (MTEF) and Priority Action Plan. Since MEF handles loan aid, the IMF, the World Bank, and the ADB have been particularly interested in supporting the ministry. But, IMF is the most influential in terms of the number of technical advisors and lending operations directly related to the national budgeting.

The Cambodian Rehabilitation and Development Board (CRDB) within the Council for the Development of Cambodia (CDC) is responsible for requesting foreign assistance, in particular technical assistance and grants, and handling the relationship with donors. Designated as partnership focal point within the government, the CDC/CRDB manages annual Consultative Group Meetings and makes arrangements of the meetings and prepares documents necessary to this end. More recently, the CDC/CRDB is involved in the issues on harmonization of aid procedures. UNDP has assisted CDC as the center of aid coordination and receipt in the government.

The above three organs of the government play important roles in national development planning, implementation of development projects, and receipt of foreign assistance. Under such fragmented institutional setting, coordination and cooperation among the three has not been good. Different organs deal with loans and grants. More fundamentally, they have three different foreign donor guardians—the ADB (for the MOP), the IMF and the World Bank (for the MEF), and the UNDP (for CDC/CRDB). Also they have three different programs or instruments that dictate national planning.

SEDP II vs. PRSP

The Socio-Economic Development Plan (SEDP) is a comprehensive national development plan over medium-term, aiming at socio-economic development. The SEDP needs to be deliberated and approved by the National Assembly. In 1996, Cambodia issued its first SEDP (SEDP I) covering five years from 1996 to 2000. MOP has responsibility for preparing SEDP with oversight from the Council of Ministers. Since MOP had limited capacity at that time, substantial support was provided by ADB and UNDP in preparing SEDP I. The ADB expatriate consultants did much of the writing, and the drafting was done in English (World Bank 2004a). SEDP II is the second version following SEDP I. ADB has continued to assist MOP to prepare SEDP II by providing technical assistance. SEDP II focuses on poverty reduction, reflecting the recent discussions among development partners. It also emphasizes the participation as a principle of preparation (Royal Government of Cambodia 2002).

The PRSP is a document that describes a strategy aiming at poverty reduction in a country. In 1999, the IMF and the World Bank (the Breton Woods Institutions: the BWIs) proposed this new document. It was originally introduced to serve as a condition for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. PRSP was intended to guide the allocation of those resources freed by debt relief into poverty-reducing activities. Then, it became requirements for providing the BWIs' concessional loans. Furthermore, "PRSPs are now envisaged as the centerpiece for policy dialogue and negotiations in all countries that receive concessional financing from the BWIs" (Chavez Malaluan and Guttal 2002: 2). Therefore, Cambodia had to go through the PRSP process (i.e., the formulation of a new planning document, the NPRS) in order to receive concessional loans from the BWIs and to maintain the relationship with the two institutions.

According to the World Bank's guidelines for PRSP preparation, a PRSP is a document that describes strategies which should be: (i) country-driven involving broad-based participation; (ii) results-oriented focusing on benefiting the poor; (iii) comprehensive in recognizing the multidimensional nature of poverty; (iv) partnership-oriented involving participation of development partners; and (v) based on a long-term perspective for poverty reduction. Recognizing the not-preparedness of many recipient countries to elaborate such a complete PRSP, the World Bank and IMF allow those countries to prepare an Interim PRSP (I-PRSP) outlining the country's existing poverty reduction strategy and providing road-map for the development of the full PRSP (World Bank 2004b).

Two competing and conflicting initiatives

In late 1999, the ADB had already started assisting MOP in the preparation of SEDP II. Being the leading donor for Cambodia and in the light of their support to the previous SEDP, ADB naturally considered it essential to sponsor and influence the coming overall development framework for the country. On the other hand, since Cambodia is one of the poorest countries and qualified for concessional loans of the BWIs, the two institutions identified Cambodia as qualified for a PRSP initiative (World Bank 2004a). In early May 2000, the government launched the PRSP process. At that time SEDP II preparation had been already underway (see Table 11).

PRSP and SEDP II have similar characters in many respects. Both provide overall framework for development, aim at poverty reduction, and

Table 11: Timeline of SEDP II and PRSP Preparation

Event	Date	Key Actors
Joint letter of World Bank and IMF proposes I-PRSP schedule.	March 2000	World Bank, IMF
National Workshop was held to launch preparation of SEDP II.	May 2000	MOP, ADB
Plan to introduce PRSP was announced at informal meeting prior to Paris CG Meeting.	May 2000	World Bank
The government declared its wish for just one process at Paris CG Meeting.	24 May 2000	The government
1st drafts of the I-PRSP were completed and circulated among some embassies and donor institutions.	July 2000	MEF
6th draft of the I-PRSP is circulated among donors and NGOs in English.	August 2000	MEF
8th draft of the I-PRSP was translated into Khmer and past by the Council of Ministers.	27 October 2000	Council of Ministers
World Bank and IMF boards accepted the I-PRSP.	January 2001	World Bank and IMF
The I-PRSP was released in Khmer for the first time.	January 2001	MEF
1st draft of SEDP II was released to donors and NGOs in English.	5 March 2001	ADB,MOP
The SEDP II was presented at a workshop for government, donors and NGOs.	22 March 2001	ADB,MOP
2nd draft of the SEDP II was completed. Translation of the document into Khmer began.	31 March 2001	ADB,MOP
Workshop to launch the full PRSP was held. ADB suggested that the deadline for the SEDP II be extended to October. World Bank and IMF announced flexibility on the timing and content of the full PRSP.	25 April 2001	World Bank, MOP
Tokyo CG Meeting urged the government to ensure consistency between PRSP and SEDP II.	July 2001	Consultative Group
MOP distributed to donors and NGOs the 2nd draft of the SEDP II in English and Khmer, and requested comments.	23 July 2001	MOP
SEDP II was approved by Council of Ministers.	December 2001	Council of Ministers
Consultations for the full PRSP began.	April 2002	World Bank, MOP
1st draft of the full PRSP was released at the third National PRSP Workshop.	August 2002	World Bank, MOP
2nd draft of the full PRSP was discussed at the final National PRSP Workshop.	November 2002	World Bank, MOP
The full PRSP was submitted to Bank and IMF boards.	January2003	The government
World Bank and IMF boards accepted the full PRSP.	February 2003	World Bank, IMF

Source: World Bank (2004a), combining Table 2 “Timeline of key steps in the SEDP/PRSP processes and WB/IMF Operations” (p. 9) and Annex 2 “Timeline of SEDP and PRSP preparations” (p. 35) with some modification of expression.

emphasize participatory process in their preparation. Because of this duplication of the two initiatives, during Consultative Group Meeting in Paris in May 2000, the government expressed preference for only single strategic plan (NGO Forum on Cambodia 2002).

Apparently, coordination efforts were made between the World Bank and ADB, but they failed. Since SEDP is mandated by the national constitution, SEDP cannot be replaced by PRSP. ADB insisted that SEDP II should be considered to be the Cambodia's PRSP. On the other hand, for the BWIs, a PRSP, which has to be approved by the Board of the BWIs and will be the basis of their lending operations, cannot be prepared under the control of any other institution than the BWIs themselves[2] ; it is extraordinary that ADB sponsors the preparation of a PRSP. It appears that the World Bank and ADB wished that Cambodian government make decision (in favor of the World Bank or ADB, respectively) (NGO Forum 2001). However, it was impossible for the government, which relies heavily on donors' initiatives, to make such a decision. The World Bank and ADB are the two leading donors in Cambodia after Japan, therefore, the government could not be on the either side. No coordination or compromise was made.

Two processes continued to parallel. With the ADB's assistance, MOP and consultants team continued preparing SEDP II and completed its English draft in March 2001. MEF started preparing I-PRSP and completed it in October 2000. The World Bank held a PRSP workshop in April 2001, and this was considered to be the formal start of preparation of full PRSP. Apparently the World Bank and ADB had continued their efforts to coordinate the two strategy and plan. But the workshop discussions revealed the failure of this attempt because the ADB representative expressed in public strong dissatisfaction with the launch of

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[2] The recent World Bank's OED review suggests that the decision was made to launch the PRSP process in parallel with the preparation of SEDP II. The BWIs felt that the ongoing SEDP II did not provide a credible alternative to the PRS process and could not be retrofitted within the required timeframe to comply fully within a minimum set of requirements, including broad government ownership and NGO participation (World Bank 2004a).

full PRSP process without ADB's consent. The Finance Minister was embarrassed and asked for coordination between the World Bank and ADB.

After this workshop, no news on coordination was reported for some time, but coordination and negotiation among the World Bank, ADB and the government appeared to continue; by late July 2001 it was reported that agreement was reached that: (i) SEDP II should be completed by October 2001; and (ii) the full PRSP should be prepared using SEDP II as the key building block (Royal Government of Cambodia 2002) and be completed sometime in 2002 (NGO Forum 2001).

Actual work was behind this schedule. The Khmer version of SEDP II was completed in July 2001, and SEDP II draft was approved by the Council of Ministers in December 2001, and by the National Assembly in June 2002 (Royal Government of Cambodia 2002). As for full PRSP (now renamed as the National Poverty Reduction Strategy, NPRS), the Council for Social Development (CSD), an inter-ministerial body chaired by the Minister of Planning, was appointed as the body responsible for NPRS, to be assisted by a General Secretariat (GSCSD), which was established in August 2001. The first draft of the NPRS was released in August 2002, and the second in November 2002. NPRS was presented and approved by the Board of the World Bank in February 2003.[3]

Contents of SEDP II and NPRS

This essay does not intend to analyze and compare the contents of SEDP II and NPRS in detail, but a quick review of the two documents

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[3] I-PRSP was coordinated by MEF, while SEDP II was prepared under the supervision of MOP. Later, responsibility for the full PRSP was transferred to CSD, an inter-ministerial body chaired by MOP (NPRS 2002). But, it should be also noted that the SEDP process is managed by a different Under-Secretary in MOP with a different support group. Another group has been responsible for the monitoring aspects of the PRSP—the Poverty Monitoring and Analysis Technical Unit (PMATU), assisted by UNDP (World Bank 2004a).

suggest that there is not much essential difference in their contents, although the documents vary in their style and structure.

SEDP II has simple structure: consisting of main volume and annexes. The main volume is relatively brief (50 pages) and contains abstract discussions and arguments. It consists of four parts: Vision, Objective, Strategies and Policies. After describing a development vision of Cambodia is “a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease” SEDP II defines national development objectives to be: (i) economic growth; (ii) social and cultural development; and (iii) sustainable use of natural resources. Then, after emphasizing the importance of economic growth for poverty reduction and macroeconomic stability, it enumerates priority areas to realize the development objectives such as decentralization, and agricultural and rural development. Detailed discussions and data are contained in annex volume (approximate 240 pages), which consists of important background papers and sectoral analyses.

The NPRS has a different structure of discussions and arguments. It has seven chapters and relatively short annexes: As SEDP II does, NPRS starts with describing a vision for poverty reduction, which is the same as SEDP II; then, reviews the process of participation. The document analyzes the poverty situations in Cambodia, presents priority actions for poverty reduction, and discusses financial requirements for the actions and finally monitoring and evaluation. Compared with the structure of SEDP II, NPRS places poverty reduction as the core objective and stresses the process of participation and monitoring and evaluation.

However, in terms of contents, there are no significant differences. Both documents refer to the same vision and strategies, deal with most sectors with stressing poverty reduction, and enumerate almost the same list of priority actions. That is to say, using the same materials, NPRS simply changes the order of the items of discussions and arguments and stresses different points.

Box 3: Two Banks, Two Processes, Two Documents

The recent World Bank's OED review contains the critical assessment of the Bank's role in Cambodia's PRSP process as follows:

What is less obvious, however, is the relevance of the preparation of a PRSP document for Cambodia in 2001 and 2002. The PRSP was awkwardly timed in the Cambodian context. Work on the SEDP II (*supported by ADB, added*) had already started and by law had to be presented to Parliament within a specified time-frame. Once it appeared that the time-frames would overlap, the PRSP became in effect a rival strategy processes competing for the time and attention of the limited group of senior policy-makers in Cambodia. Instead of working to ensure that the PRSP principles were applied effectively over time, the main priority in Cambodia was preparation of a PRSP document. An alternative approach would have allowed a significant start in all the key areas of the PRSP framework and putting in place the building blocks for a properly owned PRSP document as part of the SEDP III cycle. However, the perception of Bank staff was that given the demands of the PRGF this was not an option (World Bank 2004a: 11).

Source: World Bank (2004a).
Note: The title is taken from "Rapid Assessment of the PRSP Process in Cambodia: Two Banks, Two Processes, Two Documents," September 2001.

5. Consideration

In spite of advocating ownership in processing the national plan and strategy, it is clear that ADB and the World Bank have controlled the process. From the beginning, the World Bank and ADB failed to respect the government's wish to have a single process of poverty reduction strategy. It is well known that a consultant team financed by ADB prepared the draft of SEDP II. With regard to PRSP (with the exception for I-PRSP which was prepared by a talented MEF official), after reading the second draft presented for their comments, NGOs and other donors suspected that there must have been major inputs from the World Bank or its experts/consultants into the second draft of NPRS.[4] This is because the second draft was totally different from the first one, in terms of the structure of the document and the quality of English language. The simpler evidence of donor neglect of Cambodia's ownership is that the original text of both SEDP II and NPRS was written in English, not in Khmer.[5]

Also it was unfortunate that two similar initiatives went in parallel because of the rivalry of the large donors. Indeed, this caused extra time and human resources of the government. Ideally, the World Bank and ADB should have cooperated to produce a single national strategy. However, in the real world each institution has objectives, principles, agenda and practices of its own. It was impossible to have different institutions to act jointly disregarding the different objectives, etc.

The problem is that ownership principle was advocated by these initiatives, in particular for PRSP. PRSP is the initiative of the BWIs. It was

[4] Even OED Review suggests that NPRS was drafted at least partially by consultants financed by the World Bank, and influenced by advice from the World Bank staff (World Bank 2004a).

[5] Language is an important issue in Cambodia. But, both the I-PRSP and the SEDP II were drafted in English. The I-PRSP was drafted in English and a Khmer copy was not released to the public before the document was passed by the Council of Ministers in October 2000. SEDP II was also drafted in English and a Khmer translation was not released until July 2001 (NGO Forum 2001).

proposed as a part of reform of the BWIs when they were criticized and called for reform. To the recipients of assistance from these institutions, PRSP is not a genuine initiative proposed by the recipients, but is rather the conditions imposed by the BWIs to access to their assistance (debt relief and new financial support). Therefore, by nature, it is almost impossible to advocate ownership for such initiative. In particular, demanding ownership of such capacity-weak recipients as Cambodia is very counterproductive. Any practitioners involved in development of Cambodia know that the government is still young and has weak capacity to exert ownership for such initiatives. Campaigning ownership for such government with weak capacity tends to lead to pretense ownership and concealment of inability of the government to exert ownership. This eventually results in ambiguity of responsibility for the result of initiative and neglect of need for improvement of capacity.

Under these difficult conditions, Cambodian government has acted at best they can. With its two largest donors competing and conflicting each other, the government cannot be on either side. What it can do is to respond to the requirements imposed by the two donors within the scope it can afford, and to make efforts to mobilize as much funds as possible from them. The government has implemented this maneuver, and has achieved the goal. In prospect, however, the government should insist on its position more clearly to the donors as its voice and capacity increase. As declared in the current NPRS, “the next Socio-Economic Development Plan and the corresponding NPRS will be merged,” and the government should take advantage of such arrangement to exert genuine ownership over poverty reduction and economic development policy and strategy (Council for Social Development 2002: 165).[6]

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[6] In this regard, the recent study by the Government-Donor Partnership Working Group (CDC 2004) finds encouraging signs in a paradigm shift in the thinking and practices of development cooperation in Cambodia, from a decade-long, dominant *Donorship* to a new *National Ownership*. These are particularly evident in the education and health sectors.

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