

Asian Approach to PRSP

Diversity for Strategic Alternatives, Institutions and Aid Modalities

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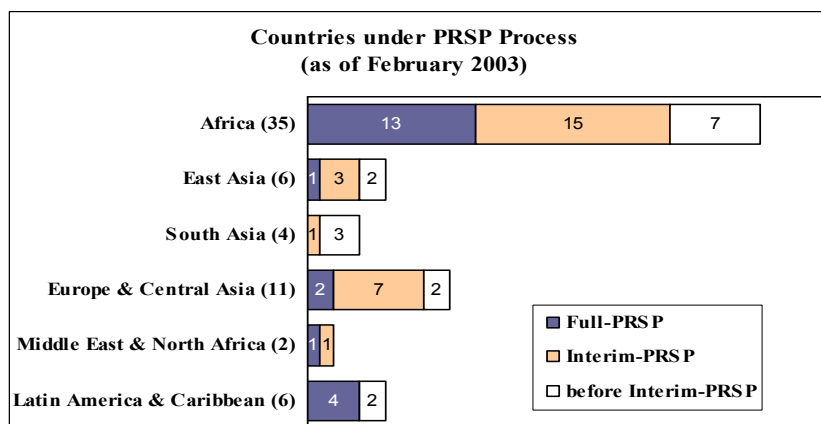
Poverty Reduction Strategy Paper (PRSP)

- PRSP: Introduced by WB/IMF in late 1999.
- Centerpiece of global poverty reduction partnership
 - Country-owned development strategy (with participatory approach, result-orientation).
 - Regarded as tool for achieving MDGs.
 - Conditional on eligibility to IMF/IDA concessional finance.
 - Aid coordination tool for donors.

PRSP Status

- Early experiences: concentrated in Africa and Latin America.
- Asia: Vietnam is the first country with Full-PRSP under implementation (completed May 2002).
- Recently, Cambodia (Full-PRSP completed January 2003), and Indonesia, Laos, Mongolia, Nepal, Pakistan, and Central Asian countries are following.
- China and India, PRSP not applied.

PRSP Status



Source: IMF/World Bank [2002], *Poverty Reduction Strategy Papers (PRSP)-Progress in Implementation*, DC2002-0016.
 World Bank[2003], "Completed PRSPs and I-PRSPs,"
<http://www.worldbank.org/poverty/strategies/boardlist.pdf>.

Lessons from Early Experiences

Views of Japanese development professionals

- Strategic contents: narrow focus on direct pro-poor measures--in favor of social sectors.
- Institutional aspects: limited consideration to the relationship with the existing planning system
- Choice of aid modality: uniform aid harmonization--in favor of non-project aid (e.g., SWAp, common basket fund, budget support), in parallel with PRSP.

Question

Can and should we apply “universally” the above *early practices* to all developing countries (i.e., IDA-eligible countries)?

⇒ In Africa: ? (we need to discuss...)

⇒ In Asia: definitely no!

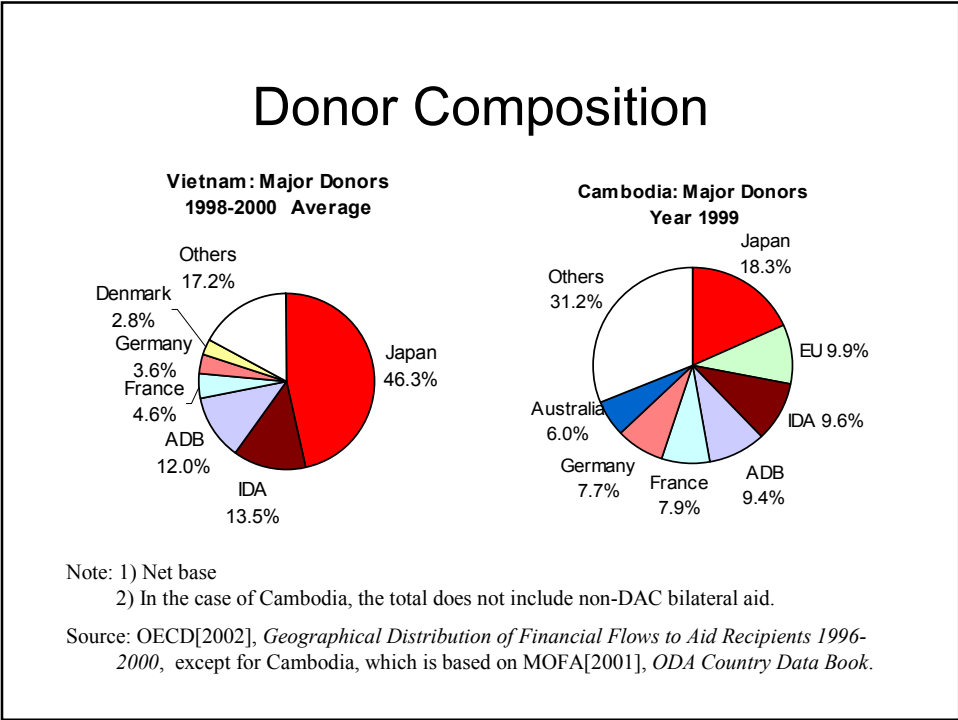
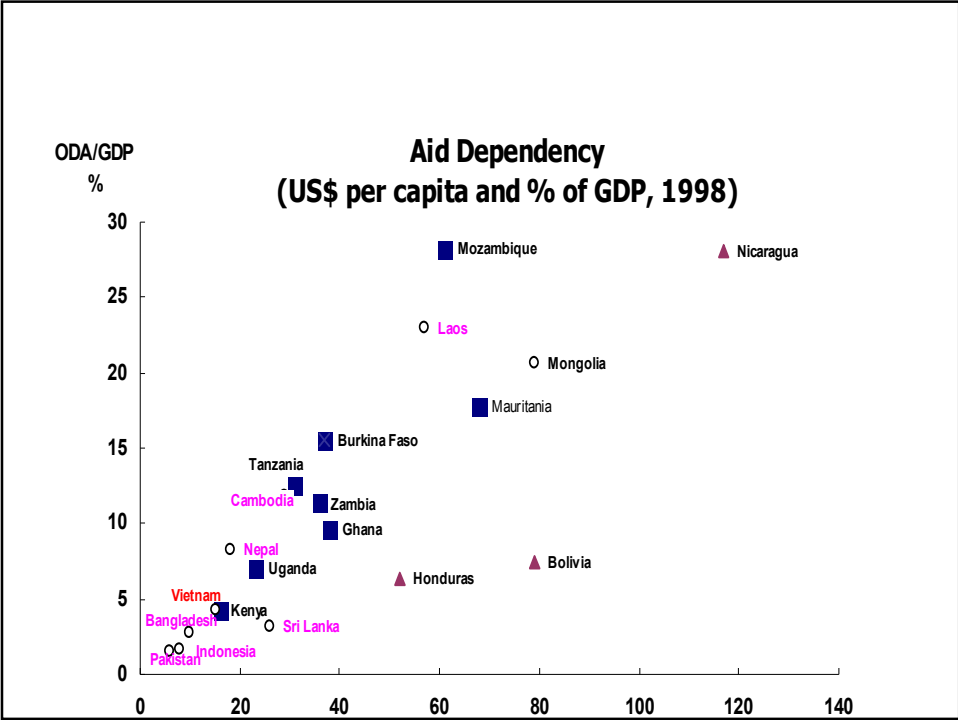
Today's Outline

1. Diversity in Asia
2. PRSP: Key Issues
 - (1) Strategic Alternatives**
 - (2) Institutional Application**
 - (3) Aid Harmonization**
3. Vietnam's PRSP Experience (example)
4. "Best Mix" Approach

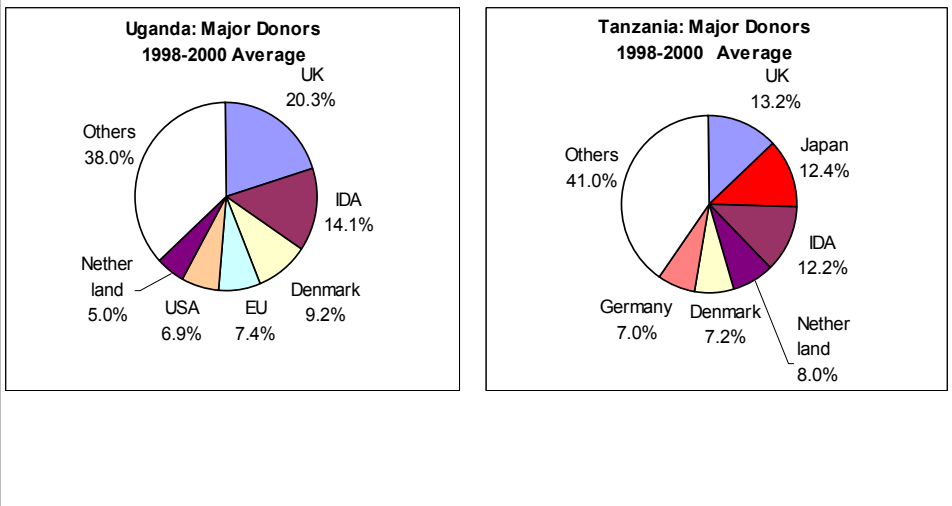
1. Diversity in Asia

- HIPC Status
- Aid dependency
- Donor composition
- Grants vs. loans
- Causes of poverty
- Relationship with the existing national development plans
- Institutional capacity, etc.

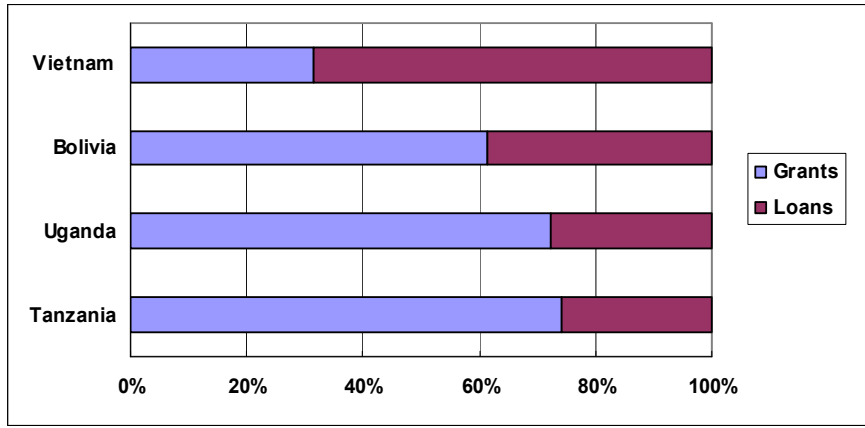
Asian Approach to PRSP: Diversity for Strategic Alternatives, Institutions and Aid Modalities (Feb2003)



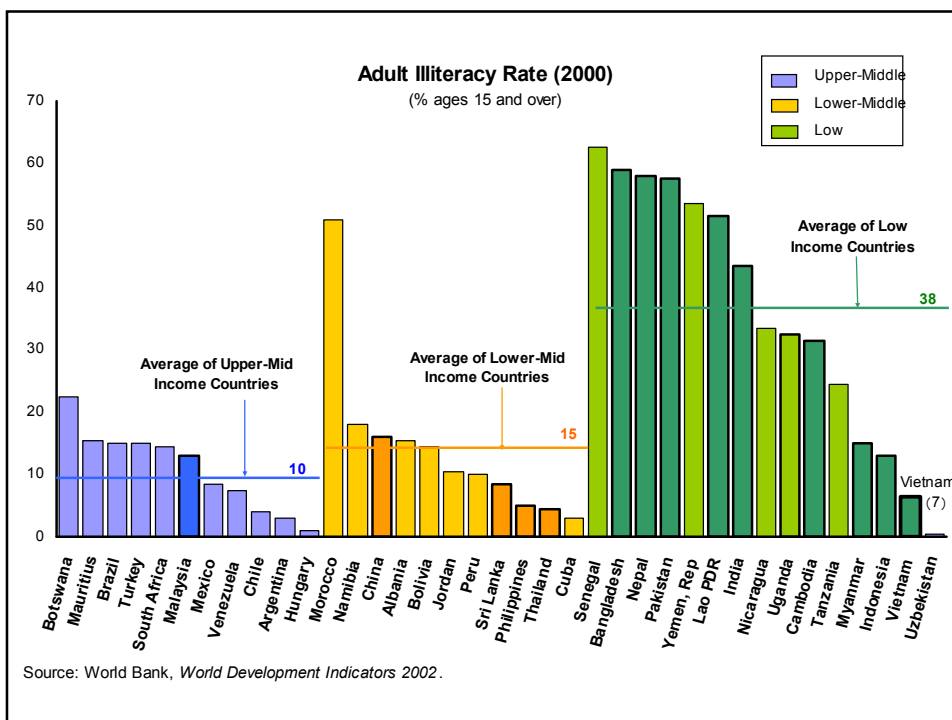
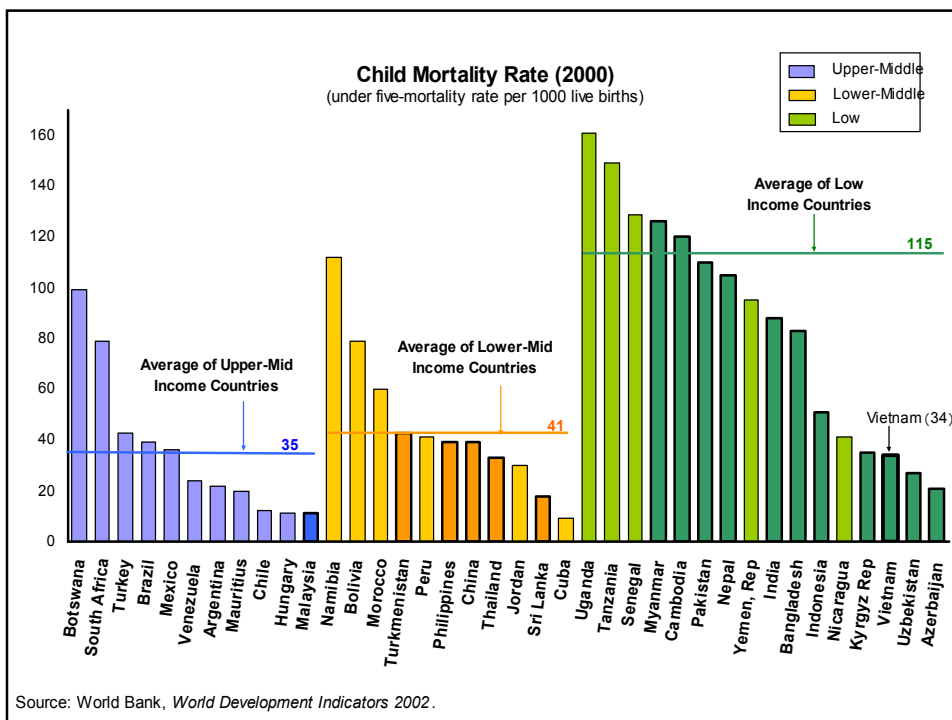
Donor Composition



ODA Composition: Grants vs. Loans



Asian Approach to PRSP: Diversity for Strategic Alternatives, Institutions and Aid Modalities (Feb2003)



2-(1) PRSP: Strategic Contents

- Causes of poverty matter--for strategic alternatives and priority actions.
- Need for correct matching between diagnosis and prescription in each country
 - How poverty is created?
 - How can growth reduce poverty?

[Ishikawa 2002]

Causes of Poverty

- Case 1: a poor country equipped with policies & programs to promote social equity and social service delivery system
 - A good growth strategy is needed to improve the purchasing power of the general population.
 - Example: Vietnam

Causes of Poverty (contd.)

- Case 2: a poor country constrained with uneven opportunities due to social discrimination (e.g., gender, racial and ethnic discrimination)
 - Formulation and implementation of efficient & effective pro-poor targeting measures are needed—in addition to a growth strategy.

More Recently, Emerging Recognition

- **Growth** is needed for sustained poverty reduction.
 - Now, attention turns to:
 - Ensuring “**pro-poor growth**”
 - **Sources of growth**
 - **Contents of growth strategy**
- ⇒ e.g., IDA • IMF Joint Review (at Annual Meetings, Sept. 2002)

IDA/IMF Joint Review

Early PRSPs often contained overly optimistic macroeconomic assumptions that were not supported by analysis of the likely **sources of growth** and the policies required to achieve such growth.

Moreover, much remains to be done to improve understanding of **the policies that support pro-poor growth**.

-- From IDA/IMF, *PRSP Papers: Progress in Implementation* (Sept.11, 2002), p.17.

Pro-Poor Growth

- Definition?, Desirability?
 - The poor benefit disproportionately from economic growth (Klasen, 2002).
- Channels and linkages
 - Many ways to cut poverty, directly and indirect. Strategy should be geared to each country.

Pro-Poor Growth: Alternative Views

Two-tier approach

1. **Primary: create source of growth**
2. **Supplementary but very important: deal with problems caused by growth**—income gap, regional imbalance, environment, congestion, drug, crime, social change, etc.

Prof. S. Ishikawa (2000):

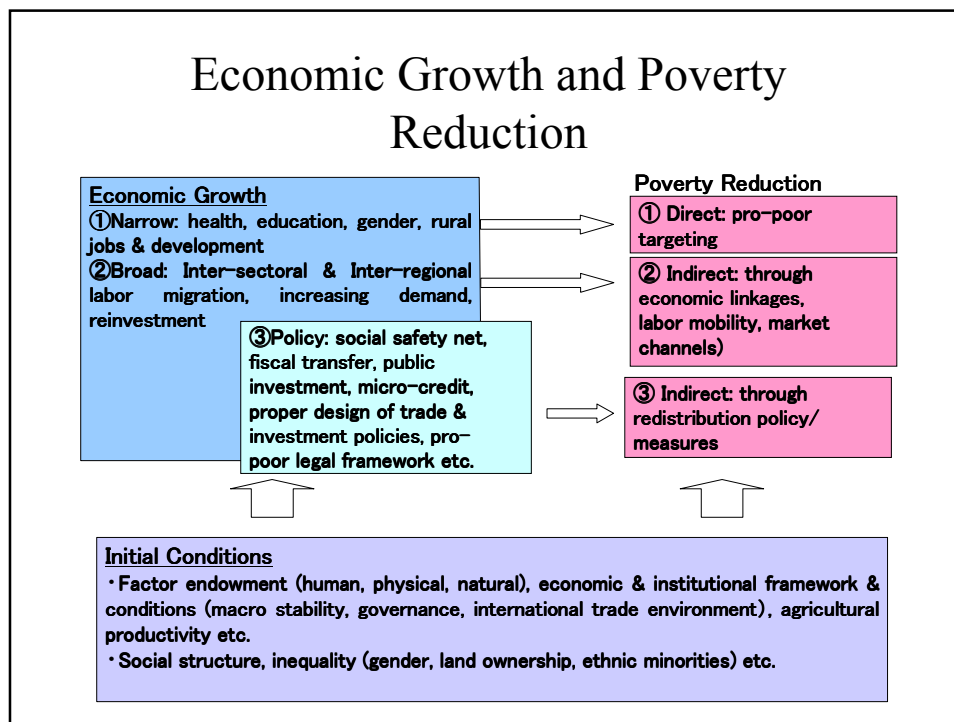
“Pro-poor targeting” vs. “broad-based growth”
promotion measures

Pro-Poor Growth: Three Channels

- (1) **Direct channel** (impacting the poor directly)
- (2) **Market channel** (growth helps the poor via economic linkages)
- (3) **Policy channel** (supplementing the market channel)

⇒ So far, disproportionate attention on the direct channel

- The question of sustainability and the risk of permanent aid dependency.
- The need to broaden the scope!!



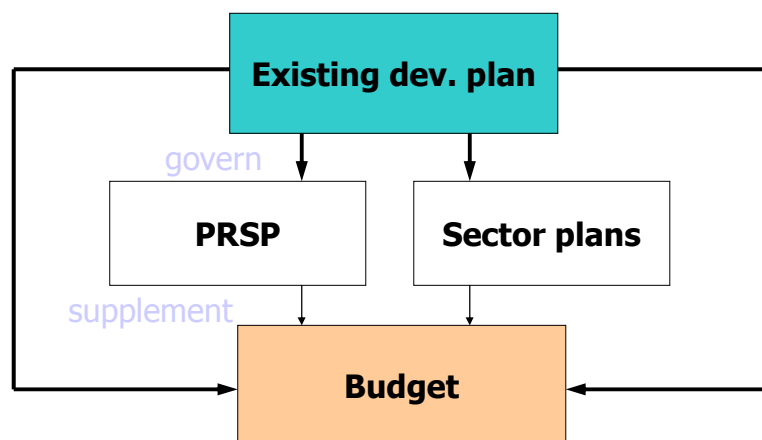
2-(2) PRSP: Institutional Application

- Relationship with the existing national development plans
- How is PRSP—imported from without—treated domestically?
- 2 prototypes:
 - PRSP as a **supplementary** document
 - PRSP as a **primary** document

PRSP as a Supplementary Document

- Existing national development plans **guide** budget, sector plans and PRSP.
- PRSP **supplement**, with special attention to poverty reduction
 - Cross-cutting perspective
 - Participatory process
 - Result-orientation, etc.
- Example: Vietnam

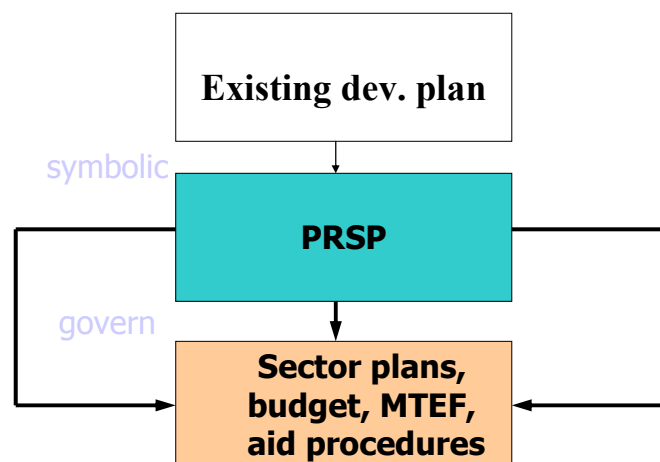
PRSP as a Supplementary Document



PRSP as a Primary Document

- PRSP co-exists with the national development plans
- Newly introduced PRSP exerts a stronger influence over budget and sector plans.
- Examples: Tanzania, Uganda

PRSP as a Primary Document



Institutional Options based on the Existing System

- PRSP-supplementary: donors should respect and support the existing policy framework (rather than replacing it with PRSP).
 - PRSP-primary: donors can utilize PRSP & related systems and support local capacity building around PRSP.
- ⇒ In Asia, historically, many countries have medium-and long-term development plans.

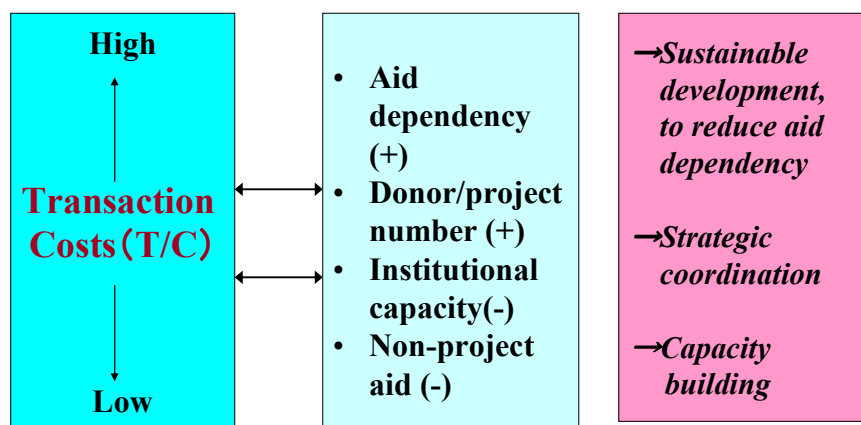
2-(3) PRSP: Aid Harmonization

- Background
 - Increased concern about value for money, & capacity building for recipient countries.
- Argument: To improve development effectiveness,
 - Donors should reduce “transaction costs” (T/C), arising from proliferation of different aid practices.
 - Donors should harmonize their aid practices.

Aid Harmonization (contd.)

- **Pros:**
 - Coordinated activities under common strategic framework (⇒policy consistency)
 - On-budgeting of aid money (⇒transparency)
 - Simplification of donor practices (e.g., reporting formats, joint missions)
- **Cons:**
 - Uniform application of a particular aid modality (i.e., non-project aid) ?
 - Different comparative advantages among aid modalities—in light of aid effectiveness?

Burden of Transaction Costs



But, non-project aid works--only where recipient countries have certain level of institutional capacity (WB 98, Harrold 95)

Issues (#1): Dilemma

So, how should (and can) we do for the countries with high aid dependency, donor proliferation, and weak institutional capacity?

- ⇒ Realistic approach: Greater focus on development effectiveness
- ⇒ **Basics: Sustainable development to reduce aid dependency!**
- ⇒ Strategic coordination and capacity building.

Issues (#2): Emerging Consensus (Recent Regional Workshops)

- Harmonization is not an end in itself--a means to achieve greater aid effectiveness.
 - Not synonymous with “unification”.
 - T/C reduction is only one factor affecting effectiveness.
 - Other key factors: sound policies & institutions (WB 98)
- **The local context is important.**
 - Sector conditions, type of interventions (which depends on strategic priority), aid menu by donors (loan-giving, grant-giving, size etc.)

Comparative Advantages (?)

	Non-project aid	Project aid	TA
Sector conditions	Recurrent-exp. intensive	Investment-exp. intensive	N.A.
Type of actions	Policy reform	Physical infrastructure Pilot innovation	Skill transfer

The above classification should be interpreted in relative terms.
 The cited items are not mutually exclusive.

3. Vietnam's PRSP Experience

- Strong country ownership
- Strategic contents
 - PRSP renamed by GoV to “*Comprehensive Poverty Reduction & Growth* (CPRGS) Strategy,” embracing, growth-oriented national vision.
 - More recently, agreed to expand CPRGS to include large-scale *infrastructure* as a key pillar of poverty reduction (CG, Dec. 2002)

Vietnam (contd.)

- Institutional aspects:
 - PRSP as a supplementary document:
Highest national documents are *Five-Year Plan* and *Ten-Year Strategy*.
 - National goal: “Industrialization and Modernization” by 2020; doubling of income by 2010 (East Asian aspiration for catch-up)

Vietnam (contd.)

- Aid harmonization: progress on diverse fronts
 - Loan-giving donors: 3 Banks (JBIC, WB, ADB)
 - Grant-giving donors, particularly Like-minded Donor Group (UK, Nordic donors)
 - JICA : study on T/C underway to identify specific bottlenecks

Vietnam (contd.)

- Aid harmonization, applied in the local context:
 - Sector: transport (30%), power (30 %), health & education (15%)...
 - GoV wants to receive both project and non-project aid.
 - SWAp means a common strategic framework (not linked with non-project aid).

4. Implications: “Best Mix” Approach

Country-tailored approach: Agree on general principles, but apply them locally!!

Best mix for what?

1. **Strategic alternatives**: pro-poor targeting & broad-based growth promotion
2. **Institutional application**: relationship with the existing system, institutional capacity
3. **Choice of aid modality**: non-project aid & project-aid, TA ⇒ depending on strategic contents & institutions



Thank You Very Much!

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