



**POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA
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**BUDGET SUPPORT
AND AID EFFECTIVENESS:
EXPERIENCE IN EAST ASIA —
DISCUSSANT COMMENTS**

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1. Key messages – drawing experiences from East Asian countries

- The role of aid is only a part of the entire development process for recipient countries.

We should not confine our attention to enhancing aid effectiveness *per se* but need more holistic perspectives to address ways to enhance broader development effectiveness.

- Strategic utilization of aid as integral part of development management is important for recipient countries.

Having an “exit plan” to eventually graduate from aid is essential.

- Providing useful “policy options” and “concrete development prescriptions” that would meet the *real needs* of recipient countries is crucial for donors.

Aid should not be used to support what donors believe are the ‘right’ policies.

- Various entry points and sphere for assistance should be maintained for donors, while avoiding unnecessary fragmentation of aid.

Donors need thorough consideration of recipients’ country-specific context when providing assistance.

2. The case in Vietnam – the ideas behind the key messages

- The Vietnamese government sees the aid relationship as just one component of the whole development management and their ownership covers wider range beyond aid relationship.
 - The government carefully considers the political and economic dimensions of aid.
 - The government sees aid as temporary, supplementary recourse to fill domestic financial and capacity gaps. (cf. The Five-Year Socio-Economic Development Plan, 2006-2010: the government clearly stated to utilize ODA capital into large scale economic infrastructure projects to achieve high and sustained growth, and to become a modern industrial country by 2020.)

- The government is careful about maintaining bargaining power against donors.
- As part of prudent donor management strategy, the Vietnamese government let different donors to compete according to each donor's priorities and comparative advantages.
 - The government has been mindful of each donor's comparative advantage and priority areas in its assistance strategy.
 - The government chooses what they believe is the most suitable proposals presented by different donors. ➔ "We will listen to different donors' advice for reference but we will make our own decisions for ourselves".
 - Competition among donors to provide assistance tailored to the government's needs (in terms of level, areas and issues, and modalities of assistance) fosters the government ownership and leadership.
- While the central government (i.e. the Ministry of Planning and Investment: MPI) is skilful at managing donors and aid, line ministries vary in capacity to manage the entire development. Coordination between MPI and line ministries needs to be strengthened.
 - Patient, continuous and concrete discussions on the ground with line ministries are also necessary for donors because real improvements could not happen only through the general policy discussions with the central government.
- The role of aid and donors is to support and facilitate what the Vietnamese government considers as necessary and important reform.
 - The Ishikawa Project's¹ 'think together' approach (on the ground, process oriented approach with longer-term development vision) ➔ facilitated trust building among stakeholders and created educational effects to the Vietnamese government.
 - Donors can never impose any programs that the government does not agree with. ➔ The symbolic incidence: the termination of the IMF's PRGF in 2004.

¹ The official name of this policy oriented assistance provided by JICA is "The Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy (1995-2001)". Policy dialogues between Vietnamese and Japanese experts took place in various areas and their fruits were reflected in Vietnamese government's successive Five-Year Socio-Economic Development Plans (1996-2000 and 2001-2005). The topics studied and discussed included macroeconomic policy, reform of industry structure, industry promotion, reform of banking system, reform of state-owned enterprises, agriculture and rural development etc.

- The government has been exercising strong initiatives in managing the PRSC process with a number of co-financing donors. → The PRSC has been functioning as an effective platform for policy dialogue between the government and donors to share whether the direction, speed and sequence of reforms are on the right track, but donors can never impose conditionality to the government to push the reform forward.
- Diversity in sphere of donor assistance with various entry points enhances mutual complementary and synergy effects among different modes of assistance provided by different donors.
 - Budget support type assistance (e.g. PRSC) can promote policy dialogue with certain incentive mechanisms (top-down approach based on higher policy perspective), whereas project type assistance can provide finely-tuned, concrete prescriptions on the ground (bottom-up approach based on real public expenditure activities).

3. Possible suggestions for donors

- The ultimate goal of donors' assistance should be to strengthen the recipient's country systems and to enhance its capacity.
 - Enhancing aid effectiveness is not the goal in itself, but supporting approaches in achieving capacity development of recipient countries.
 - Capacity development facilitates sustainable development of recipient countries and vice versa.
 - Donors can align their assistance to recipient government's 'good' policy and system.
 - Aid should act as catalyst for broader institutional reform, and it should not become an enclave that ends up in creating dual system between ODA and local system.
- The recipient country's ownership should be respected and encouraged in proceeding with capacity development.
 - Donors should not impose reform but provide useful policy "options" for recipient countries' to make their own assessment and decide what to do to localize them into their own context. (cf. past experiences of Thailand and Malaysia in the 70s and 80s also give relevant insights that overlap the case in Vietnam.)

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