GRIPS Development Forum UK Mission Report

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A team headed by Prof. Kenichi Ohno and including Prof. Izumi Ohno and myself (hereinafter, "the team"), visited London to interact with officials and researchers at the Department for International Development (DFID) and the Overseas Development Institute (ODI) – a UK-based independent think tank on international development.

Objectives:

1. To launch a book titled "Diversity and Complementarity in Development Aid: East Asian Lessons for African Growth" that aims to promote a UK-Japan dialogue on aid effectiveness in developing countries, especially in Africa and;
2. To learn about the UK's assistance for African growth especially with regard to:
   (i) Private sector development in Africa;
   (ii) Public-private partnerships (PPPs) in Africa for infrastructure development; and
3. To understand the methodology of "Growth Diagnostics"

Mission Highlights

1. ODI seminar and book launch:

Japan and the UK are two very different development assistance donors. Whereas Japan's approach (the so called ingredient approach) is bottom-up and emphasizes field-based problem solving, the UK's approach (the framework approach) is top-down and emphasizes policy design framework. A collaborative effort between researchers from the UK and Japan, the book (edited by GDF) was launched at a seminar organized by the ODI.

The book poses a fundamental question that is, despite their different approaches, can Japan and the UK find synergies and increase cooperation in development assistance? It discusses whether global convergence to a single approach is desirable and goes on to argue that, because the needs of developing countries are multiple and diverse varying from country to country, and because donors have different strengths, comparative advantages should be acknowledged to allow them to play to their strengths.

The seminar attracted a wide range of participants including university students, researchers, development assistance practitioners and NGOs. Professors Izumi Ohno and Kenichi Ohno made particularly interesting presentations. They covered (i) the principle of Japan-UK aid partnership based on diversity and complementarity and its implications for aid to Africa and

(ii) the right lessons Africa can learn from the East Asian development experience, respectively. Equally interesting were ODI discussants Dr. Fletcher Tembo and Dr. David Booth's remarks which drew attention to (i) the need to broaden the discussion to include the role of international financial institutions, (ii) consideration of recipient country processes and ownership, (iii) need for real diversity in aid instruments taking account of the types of activities, etc.

2. The UK's development assistance for African growth.

The team met with several DFID's officials as well as researchers at the ODI and officials at the CDC group (Elumba only) to gain a better understanding of the DFID's programmes in support of growth in Africa. These meetings also provided a good opportunity for networking with development practitioners in the UK.

The general view in the UK is that although in recent years, several African countries have registered relatively strong GDP growth (>5%), a large number of impediments still hamper private sector activities including their participation in infrastructure development through public-private partnerships (PPPs). Relieving these impediments is generally seen as a prerequisite for stronger and sustainable growth and significant poverty reduction.

The DFID has gradually been shifting its focus on infrastructure development for growth in developing countries. In 2002 they published the "Making Connections: Infrastructure for Poverty Reduction". With the publication of the Commission for Africa report in 2005, the DFID signaled a renewed enthusiasm for infrastructure development in developing countries, an approach Japan as a latecomer has successfully implemented herself as well as in development assistance to East Asia. While recognizing the need for substantial investments to develop infrastructure in Africa, the Commission for Africa report also acknowledged that, this need would remain a challenge for policymakers unless key reforms related to policies, institutions, and regulation are scaled up to ensure a healthy flow of capital from the private sector (both domestic and international).

In this backdrop, the DFID through a number of programmes has sought to catalyze the private sector in developing countries to participate in infrastructure development. Table 1 describes the DFID's identified constraints to private sector participation and their response.

Table 1. Constraints to Private Sector Participation and DFID's Response

Constraints	Enabling environment	Financing	Project preparation	Capacity building	Reaching the poorest
Response	PPIAF	PIDG			AECF
	ICF	EAIF	DevCo	TAF	
		GuarantCo	InfraCo	GPOBA	

The programmes are described below:

A. The Africa Enterprise Challenge Fund (AECF)

Established:	*June 2007*	DFID commitment	*US$50 million*
Operation term:	*7 ~ 9 years*	Total commitments	*US$100 million*
Other donors	*CGAP*	*IFAD*	*Netherlands' MOFA*
	AGRA	*AfDB*	

The AECF is a DFID-led initiative to stimulate pro-poor growth and create employment in Africa. The programme offers matching grants on a competitive basis to private companies. By helping to test innovative but unproven business models with assured social impact but uncertain financial returns, the programme will enhance the ability of such projects to be replicated and to access commercial finance. With more successful cases, the programme will stimulate greater participation of the poor in markets both as consumers and also as workers and producers. The AECF's area of focus will be in innovation in agricultural markets and deepening access to financial services. (CGAP: the Consultative Group to Assist the Poor; IFAD: the International Fund for Agriculture Development; AGRA: the Alliance for a Green Revolution in Africa; AfDB: the African Development Bank).

B. The Africa's Investment Climate Facility (ICF)

Established:	*November 2005*	DFID commitment	*US$30 million (3 years)*
Operation term:	*7 years*	Total commitments	*US$35 million*
Other donors	*Anglo American*	*Shell Foundation*	*Royal Dutch Shell plc.*

The ICF is a public-private partnership focused on improving Africa's investment climate. It aims to remove obstacles to domestic and foreign investment and promote Africa as an attractive investment destination. The ICF is a pan-African body, based in Africa, explicitly focused on improving the continent's investment climate. It is a quick disbursing, dynamic and responsive facility. The ICF will focus its programmes mainly in 24 African countries that have signed up to the Africa Peer Review Mechanism under the New Partnership for African Development (NEPAD). Over its initial phase of three years, the ICF expects to support initiatives costing up to a total of US$120 million for its first three years of operation (source: DFID).

C. The CDC group plc. (Formerly the Commonwealth Development Corporation)

Established:	*1948 (1999: plc.)*	DFID commitment	*Fully owns CDC*
Operation term:	Long-term	Total commitments	*US$ 2.2B (invested).*
Other donors	*Mobilizes other third party capital*		

While it operates at arms-length, the CDC is wholly owned by the DFID. The CDC aims to maximize the creation and growth of viable businesses in poorer developing countries, through responsible investment and mobilizing private finance.

The CDC's main function lies in setting up an investment framework, mobilizing funds, hiring private sector fund managers (to work on for profit basis) and finding the deals to take to the investor committee. One such fund management company, which manages CDC's existing portfolio of investments as well as its commitments to a group of new funds for Africa, and South Asia, is Actis. Actis concentrates on structuring complex financing solutions for introduction into the capital markets. Their work is built around private sector discipline.

D. The Private Infrastructure Development Group (PIDG)

Established:	*2002*	DFID commitment	
Other donors	*SECO (Swiss)*	*DGIS (Netherlands)*	*SIDA (Sweden)*
	ADA (Austria)	*The World Bank*	*Irish AID*

PIDG is a grouping of six European government development assistance ministries and the World Bank that have joined forces to develop new approaches to support infrastructure development in low income developing countries. Since its launch in 2002, PIDG has sought to put in place a number of new facilities, which have been specifically designed to help overcome the constraints listed in Table 1 above. Several of these facilities are described below. The PIDG Trust is located in Mauritius but managed by a London based trust company in conjunction with two Mauritian trustees. (SECO: the Swiss State Secretariat for Economic Affairs; DGIS: the Netherlands Ministry of Foreign Affairs; SIDA: the Swedish International Development Cooperation Agency; ADA: the Austrian Development Agency)

(i) The Emerging Africa Infrastructure Fund (EAIF)

Established:	*Jan 2002*	PIDG group commitment	*US$100 million)*
Operation term:	*15 years*	Total commitments	*US$365 million*
Other donors	*FMO*	*Barclays Bank PLC*	*DBSA*
	DEG	*Standard Bank of South Africa Ltd.*	*KfW (Germany)*

The first PIDG initiative launched in 2002, EAIF provides long-term foreign exchange denominated debt or mezzanine finance to finance the development and construction of private infrastructure in 45 countries across sub-Saharan Africa, in the energy, telecommunications, transportation, and water sectors. While EAIF lends on commercial terms, it aims to support projects that promote economic growth and poverty reduction, benefit broad-based population groups, address issues of equity and participation, and promote social and economic justice. Investments with a tenor of up to 15 years can range from a minimum of US$10 million (or equivalent) to a maximum of US$36.5 million (or equivalent) for any one investment. (FMO: the Netherlands Development Finance Company, DEG: Deutsche Investitions; DBSA: Development Bank of Southern Africa: KfW: Kreditanstalt fur Wiederaufbau).

(ii) The Global Programme of Output Based Aid (GPOBA)

Established:	*Jan 2003*	DFID commitment	*£6.8 million (03 - 06)*
Other donors	*the World Bank*	*SIDA*	*IFC*
	AusAID	*the Government of the Netherlands.*	

GPOBA is a grant financing facility that aims to address the affordability of infrastructure for poor people by defining objectives and expected performance in terms of outputs. Under GPOBA, public money is applied through performance-based contracts to subsidize (mitigate the increase in costs of infrastructure for poor consumers) the cost of delivering basic services to the poor. GPOBA will remain crucial in attracting private capital, particularly in sectors such as water and road transport. (SIDA: the Swedish International Development Cooperation Agency; IFC: the International Finance Corporation; AusAID: Australian Agency for International Development)

(iii) The Project Development Facility (DevCo)

Established:	*June 2003*	DFID commitment	
Operation term:	*to 2009/2010*	Total commitments	*US$15.7 million*
Other donors	*Dutch MOFA*	*All the PIDG donors*	

High up-front transaction costs, risk and poor information, are important factors in deterring the private sector from investing in working up prospective infrastructure projects in developing countries in the manner undertaken by commercial companies in developed countries. As a result, there is a paucity of infrastructure projects structured in a way attractive to private sector involvement. To address this, in 2003 the PIDG augmented an existing project development facility operated by the IFC to give greater emphasis to the development of projects for private sector investment in poorer developing countries. The resulting facility is DevCo. DevCo funds help defray the costs of expert consultants who work with teams lead by IFC's Advisory Services to prepare infrastructure projects for private sector investment. DevCo's areas of focus include water and sanitation, electricity, telecommunications and ICT, transportation, housing, solid-waste and other physical infrastructure services.

(iv). The Infrastructure Development Company (InfraCo)

Established:	*August 2004*	DFID commitment	*US$10 million*
Operation term:	*3 years pilot*	Total commitments	*US$20 million*
Other donors	*PIDG Donors*		

Although DevCo (above) can help governments structure infrastructure services to be more conducive to private sector investment and assist in attracting investors, it cannot replace the private sector developer, who takes on the entrepreneurial risk of developing a project and then selling this on the market to an implementation company. Such private sector developers have, however, all but disappeared from developing country markets. InfraCo focuses on lower income countries and funds early stage, high risk costs by taking an equity stake in the project and making decisions that will lead to a socially responsible and successful construction and operation.

(v). The Local Currency Guarantee Facility (GuarantCo)

Established:	*September 2003*	DFID commitment	*US$25 million*
Operation term:	*15 years*	Total commitments	*US$80 million*
Other donors	*PIDG Trust & FMO*		

Lack of long-term debt finance is a major constraint to infrastructure development. The EAIF addresses this need for large, primarily hard currency funded infrastructure projects. However, many infrastructure projects, particularly at the sub-sovereign level (municipal and parastatal entities) derive most of their revenues in local currency, making hard currency debt funding inappropriate. GuarantCo is designed to mitigate risks for local currency financing of infrastructure.

(vi) The Local Capacity Technical Assistance Facility (TAF)

Established:	*2003*	Total commitments	*US$3 million per annum*
Other donors	*All the PIDG donors*		

The overall objective of the TAF is to enhance the ability of public and private sector clients to attract private capital to the financing of infrastructure and related services. Through the issuance of short- and medium-term technical assistance grants the TAF provides funding to assist the PIDG investment vehicles, and clients to evaluate, develop and/or implement risk mitigation, financial and regulatory mechanisms, standards, systems and procedures essential to raising funds in the capital markets.

E. The Public Private Infrastructure Advisory Facility (PPIAF)

Established:	*July 1999*	DFID commitment	*£15.3 million (3 years)*
Other donors	*UK and Japan Govt.*		

PPIAF is a multi-donor facility that works with developing country governments at central and municipal levels to improve the enabling environment for private sector involvement in infrastructure services. PPIAF currently has 14 contributing donors and undertakes a broad range of activities, including the development of legislation and regulatory systems, sector reform strategies, the training of regulators and assistance with facilitating transactions.

3. Growth diagnostics

The “Growth diagnostics” framework pioneered by Harvard professors Ricardo Hausmann, Dani Rodrik and Andrés Velasco, represents a key element in the efforts to search for new approaches to growth strategy. Their framework - a strategy for discerning policy priorities and their desired sequence - is based on three considerations. First, while development is a broad concept entailing the raising of human capabilities in general, they believe increasing economic growth rates is the central challenge that developing nations face. Second, trying to come up with an identical growth strategy for all countries, regardless of their circumstances (geography, political and economic situation, local institutions or historical background), is not likely to prove productive. Third, it is not helpful to provide governments with a long, un-prioritized list of reforms, which may not be targeted at the most binding constraints on economic growth and development.

This “new” approach - more contingent on the economic environment of a country - would force policy makers to confront countries economic growth constraints in a systematic way. As a strong proponent, the DFID has stepped up its involvement in a number of programmes (for instance private sector and infrastructure development) that promise to accelerate and make growth more inclusive. In addition, the DFID is considering plans to set up an International Growth Center (IGC) to provide world-class research and technical assistance on growth to developing countries.

However, there still remain substantive analytical and research challenges around growth. In this regard the DFID works closely with the World Bank in building the new methodological framework with growth diagnostics already underway in a number of developing countries including Africa (Rwanda and Malawi). In early April 2008, they plan to organize an international conference to discuss the draft growth diagnostics on Rwanda, in Johannesburg South Africa.

With this new focus on growth, and considering Japan’s development assistance experience in East Asia (emphasis on the productive sector, including infrastructure development and industrialization), the team believes the time is right for Japan to become more assertive in publicizing its ideas on economic development assistance on the international stage.

4. G8 Summit

With a rare opportunity of having both TICAD IV and G8 Summit in Japan in 2008, expectations have been raised in the international development community to see Japan show strong leadership to draw international commitment for Africa. Opportunity seldom knocks twice. The team strongly believes Japan should be encouraged to seize the opportunity to mobilize support for a major initiative on Africa.

As the Commission for Africa ‘s report (delivered in March 2005, approximately 3 months before the G8 Gleneagle’s summit), was used as a blueprint for action by the G8 Gleneagle’s summit in July of the same year, many in the UK’s development assistance circles showed a keen interest in the preparation of these two events.

5. Other consultations

A. Meeting with Prof. Leftwich

Prof. Adrian Leftwich (political scientist, the University of York) read Prof. Kenichi Ohno’s work and became interested in meeting him during the team’s stay in London. The team met him along with his colleague Dr. Steve Hogg (AusAID researcher, on assignment at the DFID), to discuss leadership studies. While discussions focused on elites and their coalitions in the story of Japan's transformation from the 1870s, the pair believes significant gap exists in the international community’s understanding of the role of leaders and elites in the formation and evolution of institutions and the functioning of the effective state and are very interested in working on a joint research on the topic. They are currently working on a study to understand effective leadership; how it emerges, how it works collectively, how it can be helped, and how it can be sustained. Governance, they reckon is the missing big part in the development assistance jigsaw.

B. Meeting at the Gatsby Foundation

Lord David Sainsbury was introduced to Prof. Kenichi Ohno’s work too and found resonance with his own work to support development in Africa. The Gatsby Charitable Foundation - of which he is the founder - works to explore innovative ways of delivering services to communities through provision of financial and technical skills and understanding of local social and economic complexities. To achieve its goals, the foundation engages with small businesses and grassroots producers to open up new market opportunities for the poor.

Amongst the foundation’s recent activities is a project to improve productivity in the cotton industry in Tanzania. Despite cotton being a top cash crop for Tanzania, there being suitable environmental conditions for cotton production, and the existence of a rudimentary cotton processing capability, cotton’s productivity was still very low. The project is designed to change this.