

Diversity and Complementarity in Development Aid

East Asian Lessons for African Growth

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About This Book

This book was born out of our desire to link two very different strands of development thought, the one in the East and the other in the West, for synergetic cooperation in development assistance. In undertaking this project, we, the Japanese researchers, found ideal partners in the aid circle of the United Kingdom (UK) where government, academia, and civil society worked together to generate policy activism. The National Graduate Institute for Policy Studies (GRIPS) in Tokyo cooperated closely with the Overseas Development Institute (ODI) in London to produce this volume. However, bilateral discussion quickly spilled over to other countries. We were delighted to also invite experts with development experiences in Malaysia, Zambia, Tunisia and Uganda to contribute to this volume.

This book hopes to be both provocative and persuasive. It is published in 2008, the year in which Japan hosts the G8 Summit and the Fourth Tokyo International Conference on African Development (TICAD IV), as well as the year in which the Japan International Cooperation Agency (JICA) is restructured to assume greater functions as aid agency. This book is offered as an intellectual input to these events. We are also confident, however, that it contains ideas that are useful far beyond 2008. The principles advanced here should be applicable to all donors, NGOs and business enterprises engaged in the task of development.

Chapter 1 presents the basic ideas of this volume. Chapters 2 and 3 review the Eastern and Western ways. Chapters 4 to 6 discuss recent shifts in development vision and introduce growth-enhancing governance, a concept that may bridge the gap between the East and the West. Chapters 7 to 10 go into concrete details of particular countries and give examples of how the East approaches industrial policy problems. We did not impose uniformity in style or terminology on our diverse authors, which range from renowned academicians to experienced practitioners. The reader will surely see that, collectively and ultimately, all chapters speak in one voice despite different backgrounds from which they arise.

Key Concepts of the Overview Chapter

Each developing country is unique. The donor community is also a heterogeneous group. Development effort should take advantage of these differences instead of suppressing all development strategies and aid instruments into one. Japan and the United Kingdom (UK) are very different donors and, precisely because of that, there is a great potential for productive bilateral cooperation in aid efforts between them. The report discusses important but different roles that Japan and the UK have played in development, and proposes

enhanced partnership between them.

Global aid trends have changed significantly over time. Even within the last two decades, dominant aid policy has shifted from macro-oriented structural adjustment to poverty reduction with concrete social sector targets, then to a search for a new source of growth. Recently, there has also been strong pressure to adopt budget support and unify aid procedures. In some developing countries, project aid has been marginalized regardless of whether it is integrated into the government's policies and systems. Expenditures on health and education increased greatly at the cost of economic infrastructure. These shifts are often global and driven by the quest for new initiatives and political leadership on the donors' side rather than by customized responses to socio-economic situations in individual developing countries.

This report argues that donor collaboration should follow the principle of diversity and complementarity so as to maximize aggregate aid effectiveness. The idea is a general one that should be extended to the entire donor community although we mainly focus on Japan-UK cooperation in this volume. This proposal is justified by the principles of comparative advantages among donors, non-fungibility of ideas, and inseparability of content and instrument.

Aid policy and instruments should be partly common and partly different among donors. Donors should be sufficiently common to be able to work together, share long-term goals, and simplify procedures. But they should at the same time retain their natural differences to permit a meaningful division of labour in development efforts.

Donor collaboration should be based on the principle of diversity and complementarity.

Comparative advantages of donors: Each donor has different strengths. To maximize outcome, they should mainly work on respective "comparative advantages" and exchange expertise with each other. This is the most basic theory of international economics that should apply to aid as well as trade. The situation where all donors do the same thing, regardless of what they can do best, should be avoided.

Non-fungibility of ideas: Policy ideas are often non-fungible, even under harmonized procedures. Developing countries are diverse in stages of development, levels of institutional capacity, specific needs, and so on. Donors also have different approaches toward the same goal, be it industrial competitiveness or rural poverty reduction. Donors should be open to various possibilities and explore ways most suitable for each country, rather than imposing cookie-cutter molds.

Inseparability of content and instrument: The content and instrument of donor assistance are sometimes separable, but in many important cases they are closely related. Donors which excel in policy dialogue and policy support may find budget support very useful. Donors that emphasize field-based process support may prefer project aid as entry points. As content diversity and instrumental harmonization may conflict with each other, practical balance should be sought in achieving both goals.

Japan has growth orientation that reflects its catch-up experience as a latecomer, as well as East Asia's development experiences to which Japan contributed through aid, trade and investment. Japan's aid is often bottom-up with strong field-based real sector accents. By contrast, the UK has deep knowledge and experience in African development. It is also a leading donor in poverty reduction. The UK is good at designing policy frameworks and institutional architecture, conducting policy dialogue, and stakeholder engagement with effective communication strategies.

Without conscious effort to work with each other, the two countries will conduct aid more or less independently, and fruitful partnership will not be realized. They should know and complement each other to achieve common goals.

The past decade has seen debates between extremes such as "poverty reduction vs. economic growth" or "budget support vs. project aid." Fortunately, there is an emerging consensus that such dichotomies are neither realistic nor desirable. Moreover, a rising interest in growth promotion in the UK, and Japan's new desire to make a new contribution to Africa, offer an excellent opportunity to strengthen the bilateral partnership. The UK's framework-building approach, including the recent concern over governance issues, and Japan's concrete, bottom-up approach to industrial development and technology are highly complementary. There is also a good possibility of Asia-Africa cooperation based on knowledge sharing between East Asia's emerging donors such as Malaysia and Thailand and African countries, in which Japan can play a mediating role. Through these efforts, Japan-UK cooperation should help concretize growth initiatives in developing countries, especially Africa.

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