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Diversity and Complementarity in Development Aid: *East Asian Lessons for African Growth*

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Background

- ODA Policy Report (Feb. 2008), aimed at:
 - Serving as the conceptual basis for Japan-UK partnership
 - Assisting GoJ in formulating key messages in the 2008 events -- TICAD IV, G8 Summit, Accra HLF, new JICA, etc.
- Independent research initiative by GDF, in collaboration with the interested parties in UK
 - Authors: researchers, policymakers and practitioners in UK, Japan, Asia (Malaysia) and Africa (Uganda)
- While focusing on Japan-UK bilateral aid partnership, this Report intends to serve for the broader donor community.



Topics of Presentation



- Key concept
 - Diversity and complementarity as a key principle of aid partnership
- What is the East Asian way?
- Entry points for East Asian engagement in Africa

1. Key Concept



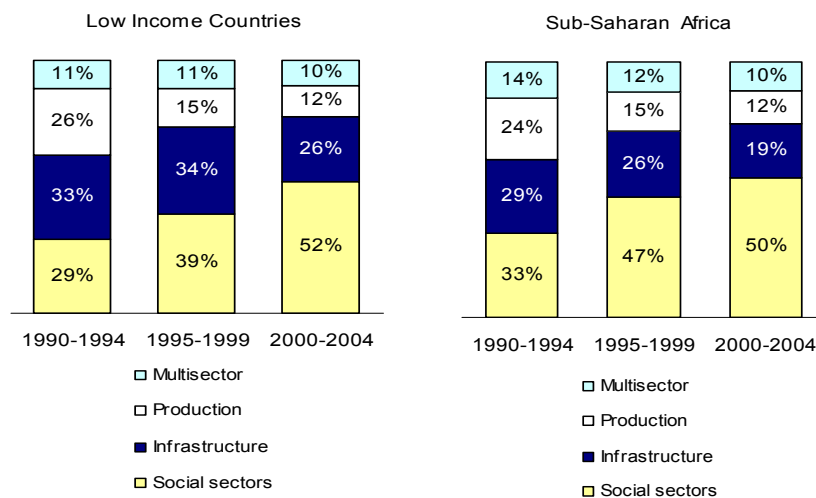
- Donor collaboration based on the principle of **“diversity and complementarity”**
- Arguments for strategic and instrumental diversity
 - *Comparative advantages of donors*
 - *Non-fungibility of ideas*
 - *Inseparability of content and instruments*
- ➔ We believe that this concept can be extended to the entire donor community.

Comparative Advantages of Donors



- *Is global convergence to a single idea or approach desirable?* (← large swings in development vision in the past decades)
- Heterogeneity of partner countries, as well as the donor community
- Each donor has different strengths and weaknesses relative to others
- Donor diversity likely to increase in the future
- Importance to seek an inclusive approach to enhance combined aid effectiveness

Distribution of Sector Allocable ODA to Low Income Countries and Sub-Saharan Africa (commitments, period averages, %, 1990-2004)



Source: IDA (2007) *Aid Architecture: An overview of the main trends in official development assistance flows*. p.11, Chart 7.

Non-fungibility of Ideas



- Policy ideas are often non-fungible even under harmonized procedures.
 - In light of diversity of donors and partner countries, we should be open to various possibilities and explore ways most suitable for each case.
 - Importance of providing alternatives
 - Country ownership, based on policy multiplicity.
- *If all donors' advices are the same, how can partner countries choose and combine ideas?*

Non-fungibility of Ideas (Examples)



- “Infrastructure”
 - Innovation in infrastructure financing (**UK**) -- local currency guarantee, project development facility for privately-financed infrastructure, reaching the poor, etc.
 - Building roads & bridges (**Japan**) -- location, design & technology, etc.
- “Industrial promotion”
 - Challenge funds (**UK**) -- matching grants for innovative business models, designing architecture for public-private partnerships, etc.
 - Concrete industrial support (**Japan**) -- Master Plan for specific industries, factory diagnosis, industrial human resource training, etc.

How Different?: Japan's Bottom-up Approach to Quality Improvement (Eg. Tunisia)

	JICA Projects	EU Projects
Project Objectives	<ul style="list-style-type: none"> Strengthening international competitiveness of Tunisian industries 	
Main Activities	<ul style="list-style-type: none"> Quality improvement guidance at the production floor of model firms 	<ul style="list-style-type: none"> Assistance for firms to acquire ISO certification (int'l standards)
Features of Assistance	<ul style="list-style-type: none"> Different approach for each firm (<i>order made</i>) Instructors required to have practical experiences on the production floor Formulation of M/P through the bottom-up approach, deriving from the production floor 	<ul style="list-style-type: none"> Common approach for all firms (<i>ready made</i>) Instructors not required to have practical experiences Focus on quality management & document management systems

Source: T. Kikuchi, Ch.7(GRIPS 2008)

Inseparability of Content and Instruments



- Content (= ideas) and instruments (= approaches) are hardly separable
- In development aid, different content / ideas call for diverse aid instruments
- Need to match aid modalities with development priorities of each country

→ *Conflict with the need for instrumental harmonization?*

Cf. Different degree of specificity and transaction intensiveness in public sector activities [Pritchett and Woolcock (2002); Fukuyama (2004)]

Inseparability of Content and Instruments



It is important to match country needs, instruments, and *comparative advantages of donors*

	Projects	Budget Support
Instruments	Addressing specific problems, seeking policy innovation, implementing pilot activities (for well-defined objectives)	Providing large resource transfers (incl. recurrent expenditures), generating multiple policy and institutional reforms in a synergic manner
Donors	Preferred by donors who emphasize field-based process support, as an entry point	Preferred by donors who excel in policy dialogue and administrative reform

2. What is the East Asian Way?

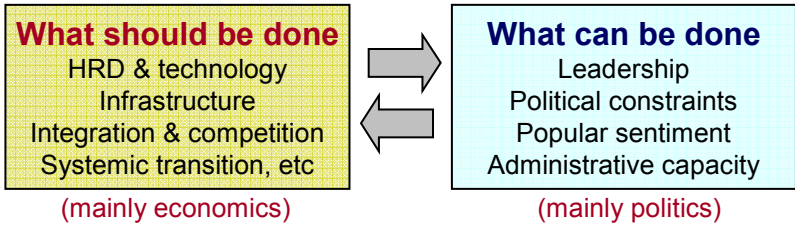


- No standard “East Asian model” exists
- It should be the **methodology** (in a broad sense) to design and implement policies unique to each country
- Japan could complement the current international growth support, by incorporating East Asian perspectives and approaches:
 - Continuous policy dialogue for joint strategy formulation
 - Goal orientation with concrete thinking, building on your strengths

Policy Design: Desirability vs. Feasibility



- Development is both a political process and an economic process.

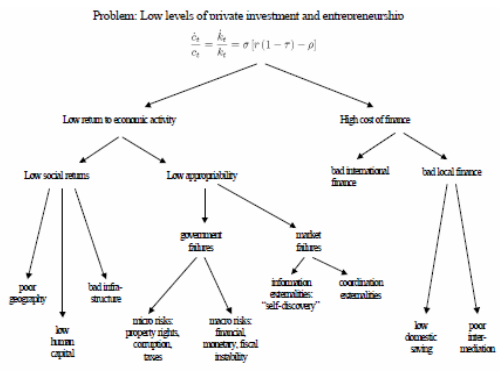


- Each country is unique in *what needs to be done* as well as *what can actually be done*.
- Any policy maker must work with economic and political space simultaneously.

Growth Diagnostics (HRV Model)? Hausmann, Rodrik and Velasco (2005)



- Discover a small number of **most binding constraints** to growth in each country.
- **HRV Tree**—private investment is key to growth; inquiry starts with *low return* or *high cost of finance*, and the causes of each.
- Harvard, WB, DFID, AsDB, IDB etc. are conducting GD in many countries.



Problems with Growth Diagnostics



- Search for desirable policies without considering political/administrative feasibility (a few or many, common or unique – secondary issues).
- Discovery of general weaknesses relative to global norm instead of enhancing the country's unique strengths (do you need to be “average” in all aspects before launching a development strategy?)
- Diagnostics only—no clear mechanism for prescribing concrete actions (the task is left to policy makers).

How to Cope with Economics-Politics Nexus



- **Policy-capability matching (WDR97 WB) :** ?
“Matching the state's role to its capability”

- Improve institutions/governance before attempting difficult policies (such as selective industrial policy)

“The path to a more effective state, although not linear, is likely to be a two-stage process. First, the state must focus what capability it has on those tasks that it can and should undertake. As it does this, it can then focus on building additional capability.” (p.3, Box 1)

→ *Too broad without focus; difficult to put into practice or mobilize political support*

Economic-Politics Nexus (cont.)



- **Dynamic capacity development:** Improve ability through selective hands-on experience
- Goal orientation: **long-term vision** → **phased strategies** → **concrete action plans**.
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses.
- Stop abstract thinking and start concrete action
 - No**—Is industrial policy useful? What is the role of state?
 - Yes**—Let's build this port & industrial zone successfully, etc.
- Achieve successes one by one, and be proud.

3. Entry Points for East Asian Engagement in Africa



- (1) If the country already has valid national vision, strategies and action plans, **mobilize aid to realize the existing vision**.
- (2) If not, engage in **continuous policy dialogue** for self-discovery and strategy formulation (preferably followed by specific ODA and other assistance).
- (3) Build **core infrastructure** and align aid and investments around it through donor coordination and private-public partnership (e.g., development corridors, OSBP, OVOP).

(1) Mobilize Aid to Realize the Existing National Vision



- Ethiopia's industrial vision (ADLI, Ind. Dev. Strategy) and strategies (Leather M/P, etc) are largely valid and clear.
- Donors should support Ethiopia's vision rather than creating a new one.
- Japan has many aid tools for industrial support:
 - Production and technology management
 - Industrial human resource training
 - Efficient logistics and marketing
 - Infrastructure (esp. transport and power)
 - Regional development planning
 - Creating necessary laws, standards, institutions
 - Removing negative impacts of industrialization

Eg. Japan's ODA: Standard Policy Menu for Enhancing Industrial Capability in East Asia

Policy area	Measures
1. Capacity building (for specific firms)	<ul style="list-style-type: none"> - <i>Shindanshi</i> (enterprise evaluation) system - TA for management and technology - Mobilization of current or retired Japanese engineers - Intensive support for limited sectors (e.g., die & mold) - Awards, PR and intense support for excellent local companies
2. Human resource (general or institutional)	<ul style="list-style-type: none"> - Management/technical centers and programs - Mobilization of current or retired Japanese engineers - Alliance between FDI firms and local universities/centers - <i>Monozukuri</i> school (to be upgraded to university) - Meister certification system
3. Finance	<ul style="list-style-type: none"> - Credit guarantee - SME finance institutions - Two-step loans
4. Incentives	<ul style="list-style-type: none"> - Exemption or reduction of taxes and custom duties - Grants or loans for specified actions

Standard Policy Menu (cont.)

5. FDI-local linkage	<ul style="list-style-type: none"> - Database and matching service - FDI-vendor linkage program - Parts Industry Association and Business Study Meetings - Trade fairs and reverse trade fairs - Improving logistics
6. FDI marketing	<ul style="list-style-type: none"> - Creation of strategic industrial clusters - Industrial parks and rental factories - Efficient logistics and infrastructure - FDI marketing targeted to specific sectors or companies
7. Policy framework	<ul style="list-style-type: none"> - Supporting industry master plan - SME law - SME ministry - Business associations and industry-specific institutes - Quality standards and testing centers

Note: This table summarizes Japan's assistance measures to East Asian countries contained in the New Aid Plan for ASEAN (late 1980s to early 1990s), the Mizutani Report for Thailand (1999), the Urata Report for Indonesia (2000), and ongoing discussion for strengthening Vietnam's supporting industries (Ohno, 2008b).

(2) Japan's Policy Dialogue with Developing Countries



- **Argentina** – Okita Mission 1985-87; 1994-96 (follow up)
- **Vietnam** – Ishikawa Project 1995-2001
- **Thailand** – *Mizutani Report* for upgrading SMEs and supporting industries, 1999
- **Indonesia** – Continuous Government-Business Policy Dialogue; *Urata Report* for SMEs, 2000; Prof. Shiraishi & Asanuma, 2002-04 (post-Asian crisis)
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Myanmar** – Prof. Odaka, 1999-2002 (but failed)

Ishikawa Project in Vietnam 1995-2001



- Communist Party General Secretary Do Muoi requested Prof. Shigeru Ishikawa to study the Vietnamese economy. The bilateral project was agreed between two prime ministers.
- JICA mobilized a large number of scholars and consultants. Prof. Ishikawa emphasized the spirit of mutual respect and joint work (and a lot of patience).
- Topics covered: macro, budget & finance, industry, agriculture, trade, SOE reform, Asian financial crisis.
- Continued dialogue—New Miyazawa Plan (1999), Vietnam-Japan Joint Initiative for improving investment climate (2003-).
- Now under preparation—Vietnam-Japan Partnership for Supporting Industry Development.

Ishikawa Project in Vietnam



Vietnam = Transition economy
 + Underdevelopment

Tasks:

- Macroeconomic stabilization
- Structural adjustment (systemic transition to market economy)
- Long-term development strategy

Advise on the drafting process of the 6th Five-Year Plan

Advice on the implementation issues of the 6th Five-Year Plan, including participation in AFTA/APEC/WTO and industrial policy

Advice on the emerging issues arising from the East Asian crises and the economic integration process

Advice on the formulation of the 7th Five-Year Plan

Phase 1 (95.8-96.6)

- > Macro-economy
- > Fiscal and monetary policy
- > Industrial policy
- > Agricultural and rural development

Phase 2 (96.7-98.3)

- > Fiscal and monetary policy
- > Participation in AFTA/APEC/ WTO and industrial policy
- > Agricultural and rural development
- > SOE reform

Follow-up Phase (98.7-99.7)

- > General commentary
- > Fiscal and monetary matters
- > Industry and trade
- > Agricultural and rural development

Phase 3 (99.9-01.3)

- > General commentary
- > Fiscal and financial reform
- > Trade and industry
- > Agricultural and rural development
- > SOE reform and private sector development

Follow up

Joint research (2001-)

- > Agriculture and rural development (livestock, vegetable, fruits and industrial crops, etc.)
- > Monetary policy under partial dollarization
- > Fiscal policy (introduction of personal income tax)
- > Trade and industrial policies in the age of integration (NEU-JICA joint research program → GRIPS-VDF)

Source: MPI and JICA, Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy In the Socialist Republic of Viet Nam (Phase 3) Final Report Vol. General Commentary, 2001, pp.iii-vi.

JICA Vietnam Office, Executive Summary of "Ishikawa Project" Phase 3, March 29, 2002.

Continuous Policy Dialogue in the Partnership Context



The case of Zambia (South-South cooperation)

- JICA is conducting “Triangle of Hope” Project 2006-09 (improving investment climate), mobilizing a Malaysian expert (ex-MIDA official).
- Task forces organized within GoZ, with the involvement of President
- Investment promotion initiatives – targeted at Malaysia and India
- JICA support to the development of Multi-facility Economic Zone (MFEZ).
- As a next step, Zambia wants Japan to help formulate a long-term industrial strategy.

(3) Japanese Assistance for Core Infrastructure



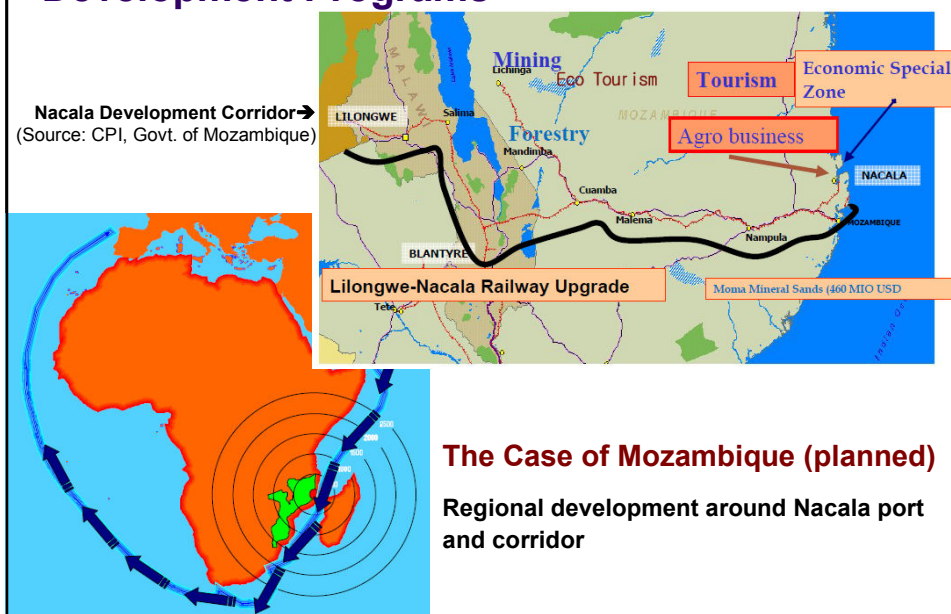
- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **Vietnam** – Highway No.5 (Hanoi – Haiphong Port) for FDI attraction (industrial clusters)
- **Cambodia** – Sihanoukville Port, power and telecom networks, special economic zone
- **El Salvador** – La Union Port + regional development
- **Mozambique** (planned) – Nacala Port and Corridor for regional development

El Salvador: Growth Diagnostics vs. Japan's ODA



- **Hausmann-Rodrik Growth Diagnostics 2003:** The largest constraint in El Salvador is the lack of self-discovery caused by market failure (low appropriability). Infrastructure is not a binding constraint.
- **Local Report 2008 (FUSADES):** Our infrastructure is best in Central America and we are already a regional hub, but we can do even better by handling trade more efficiently. This will raise our productivity and competitiveness. For this purpose, infrastructure, especially *La Union Port*, is essential.
- **Japanese ODA in El Salvador:** Upgrade *La Union Port* as key infrastructure. Additional support for social & HRD, productive sectors, Eastern Region development, and regional integration.

Build Core Infrastructure and Align Development Programs



Conclusion: East Asian Policy Engagement



- Building new competitiveness from the country's strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans.
- Focus effort strategically—don't waste time in general improvement without clear goals.
- Donor-recipient policy dialogue for trust, knowledge transfer, and strategy formulation.
- Long-term open-ended engagement rather than outcome-based approach with frequent reviews.

More Books from GRIPS

<http://www.grips.ac.jp/forum-e/index.htm>



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Ohno, Kenichi, ed (2006), *Industrial Policy Formulation in Thailand, Malaysia and Japan: Lessons for Vietnamese Policy Makers*, Vietnam Development Forum/Publishing House of Social Labour, Hanoi.

Ohno, Kenichi (2006), *The Economic Development of Japan: The Path Traveled by Japan as a Developing Country*, GRIPS Development Forum. Also available in Japanese, Chinese, Vietnamese, Arabic.

GRIPS Development Forum (2008), "Proposal for a New African Growth Support Initiative", Policy Note No.5