GRIPS Development Forum
Discussion Paper No. 16

Country-Specific Growth Support in East Asia and Africa

—Japan's ODA to Vietnam and Ghana—

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January 2007

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This is a revised version of the paper submitted for the research project, "Remaking Transnationalism: Japan, Foreign Aid, and the Search for Global Solutions," directed by Professor Kay Warren (Watson Institute & Anthropology, Brown University) and Professor David Leheny (Department of Political Science, University of Wisconsin) under financial support of the Abe Fellowship Program. The early drafts were discussed at two workshops held at the Watson Institute, Providence, US (February 10-13, 2005) and the Shonan International Village Center, Hayama, Japan (February 18-19, 2006). The author is grateful to Prof. Warren and Prof. Leheny and those who have provided valuable comments on the drafts. Nevertheless, final responsibility of the views expressed in the paper and any errors rests with the author.

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1. Introduction

Japan's Official Development Assistance (ODA) policy is at a crossroads. First, a decade of prolonged economic recession is compelling the government to reduce the ODA budget which was previously regarded as *sacred*. Under fiscal austerity, Japan's ODA budget continued to decline from FY2000, recording a cumulative reduction of 35% from the peak level of FY1997-2000.[1] As a result of this trend, the United States (US) replaced Japan as top donor in 2001 for the first time since 1991, and Japan has been forced to strategically prioritize its aid in order to maintain its effectiveness. Second, despite the past effort in deepening mutual understanding between Japan and the Western aid community,[2] Japan continues to feel a gap between mainstream development thinking and the East Asian development experience, which is widely regarded as a "success story" and to which Japan itself made a significant contribution through aid, trade, and investment.

Moreover, the 9.11 tragedy marked a major shift of US foreign aid policy and also strongly affected the thinking of the entire aid community. The US and the European Union (EU) now aspire to bolster aid to a level unthinkable from their past stinginess.[3] Poverty reduction has been elevated to a high priority of the Bush administration's agenda to fight terrorism.

These domestic and external pressures have created a sense of urgency in the minds of Japanese development experts and officials, and innovative efforts have begun within and outside the government. In particular, Japan's ODA to Vietnam can be considered a model of moving away from the traditional reactive mode and projecting Japan's own ideas more strongly on the global scene. It embodies a key pillar of Japan's development vision based on East Asian development experiences—i.e., growth-oriented poverty reduction. Vietnam is a typical low-income country and enjoys generous support not only from Japan, but also from the World Bank, the Asian Development Bank (ADB), Western, and Nordic donors. Therefore, practices in Vietnam should provide important implications for global debates, as well as the ongoing ODA reform process within Japan.

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[1] Compared to each previous year, the ODA budget declined by 3.0 percent in FY2001, 10.3 percent in FY2002, 5.8 percent in FY2003, 4.8 percent in FY2004, 3.8 percent in FY2005, and 3.4 percent in FY2006 (based on data on the Ministry of Foreign Affairs (MOFA), ODA homepage).

[2] At the international level, this includes the World Bank and the UNDP, and among individual countries, the members of the Anglo-Saxon group, led by the US and UK, and the Nordic group of donor countries.

[3] For example, the US has pledged to add $5 billion annually during the next three years (FY2004-06) for the benefit of poor countries with "good practices." To this end, in 2002, President Bush proposed an additional funding mechanism, called the "Millennium Challenge Account," which provides performance-based grants to eligible countries, and in 2004 the Congress approved the establishment of the Millennium Challenge Corporation. UK is also firmly committed to increasing its ODA to 0.7% of GNI (gross national income) by 2013.

In addition, mindful of the recent global enthusiasm for Africa, Japan has decided to reinvigorate its aid to that continent. Ex-Prime Minister Junichiro Koizumi's announcement at the 2005 G8 Summit to double ODA to Africa in the next three years, as well as his latest visit to the African Union (AU), Ghana and Ethiopia in May 2006, can be seen as the manifestation of Japan's commitment to supporting Africa. Although African development is a tough issue and we must remain humble in the face of the enormity of the task, renovation of our aid to Africa should contribute to regaining confidence and pride in our entire ODA policy (K. Ohno & Takahashi 2003). In this sense, the recent Japanese government's effort to formulate a new Country Assistance Program (CAP) for Ghana is a notable experiment because it aims to refocus Japan's aid on growth support by prioritizing rural development and local industrial competitiveness. To do this, the new CAP for Ghana attempts to organize various aid inputs around priority pillars and to improve the medium-term policy predictability of Japan's ODA through enhanced country-based, policy dialogue. It should also be noted that Ghana is one of two pilot countries in Sub-Saharan Africa (together with Ethiopia) selected by the Japanese government for an innovative approach to country assistance programming taking account of the recent ODA reform debates.[4]

Against such a background, this paper presents Japan's distinctive approach to development and aid, which is based on its own experiences as a latecomer and a history of successful industrialization. I will first discuss global development trends and Japan's development vision in order to show where gaps exist. I will then use Vietnam and Ghana to show Japan's recent efforts to enhance its growth support with real-sector concerns in the two countries—one in East Asia and the other in Sub-Saharan Africa—which have different industrial potentials. Vietnam is a good example of Japan's stepped-up efforts to support the country's growth-oriented development vision, based on the East Asian aspiration for catch-up, by effectively combining bilateral assistance with the multilateral policy framework. The case of Ghana shows a pilot effort in organizing new growth support to Africa and improving the effectiveness of Japan's aid, especially in the region where Japan is a relatively small donor and active development partnership is taking place. In both cases, I will highlight the key role played by Japan's country-based ODA teams in orchestrating such growth support and reforming the existing aid practices, taking account of the country-specific context.

[4] The author was appointed head of the Tokyo-based Task Force of Ghana CAP by the Ministry of Foreign Affairs (MOFA) and worked closely with the country-based ODA Task Force in the CAP formulation process. The CAP process is regularly reported to the Board on Comprehensive ODA Strategy, which was established in June 2002 as part of MOFA's ODA reform initiatives. The Board is chaired by the Minister of Foreign Affairs and is composed of 18 members, including development specialists, former members of international organizations, NGO representatives, business leaders, and journalists. (Following the latest MOFA reform in organizational structure and the creation of strategic planning functions at Cabinet Office, the existing Board is to be reformulated.)

2. Global Development Trends and Japan's Vision

2-1. Global Trends

Current global development thinking has four major features with which Japan feels considerable unease. The first is concerned with the substance of development strategies, while the others are related to aid delivery:

- The combination of the poverty reduction drive and the neo-liberal economic framework. Under this regime, public actions are justified only in direct pro-poor targeting or macroeconomic management and, consequently, the contents of the growth strategy, such as industrial promotion and infrastructure development, are often superficially treated or simply ignored.
- Re-direction of ODA to the poorest countries, assuming that middle-income countries have access to private capital and thus do not need ODA.
- Increase in grant components and reduction of concessional loans.
- Aid harmonization in favor of non-project aid (typically, budget support) and pooled funding and the marginalization of project aid.

Strategic convergence rather than diversity is epitomized in the two currently dominant aid policies: the Poverty Reduction Strategy Paper (PRSP) initiated by World Bank President James Wolfensohn in late 1999 and the UN Millennium Development Goals (MDGs) adopted at the UN Millennium Summit in 2000. They both regard poverty reduction as the ultimate goal of development and assert that aid must be evaluated mainly by its contribution to this goal. Lately, there is a sign of growth resurgence, especially on the part of the World Bank, which is now under the presidency of Paul Wolfowitz. The latest World Bank publication on the challenges of African growth (Ndulu et al. 2006) implies such a trend shift. Although Japan should welcome growth resurgence in general, it should be aware of the reality how the global development debates are changeable in a short time span.

Furthermore, it is argued that the polarization of developing countries in which some countries perform well and others remain stagnant—some even call it the "Africanization of global poverty"[5]—provides a strong case for concentrating ODA on the poorest countries, particularly those in Sub-Saharan Africa, with increased grant components with no obligation to repay.[6] Since many Sub-Saharan African countries are highly aid dependent under the

[5] World Bank, *African Poverty at the Millennium: Causes, Complexities, and Challenges*, 2001.

[6] In the IDA13 replenishment (for FY2003-05), the grant component of concessional funding to low-income countries was drastically increased to 18-21 percent of the total, with particular emphasis on post-conflict assistance, natural disaster relief, and coping with HIV/AIDS. In the IDA14 replenishment (FY2006-09), grant eligibility will be decided on a country-by-country basis using the IMF/World Bank debt sustainability framework. It is estimated that the grant component will rise to 30 percent of total IDA funding.

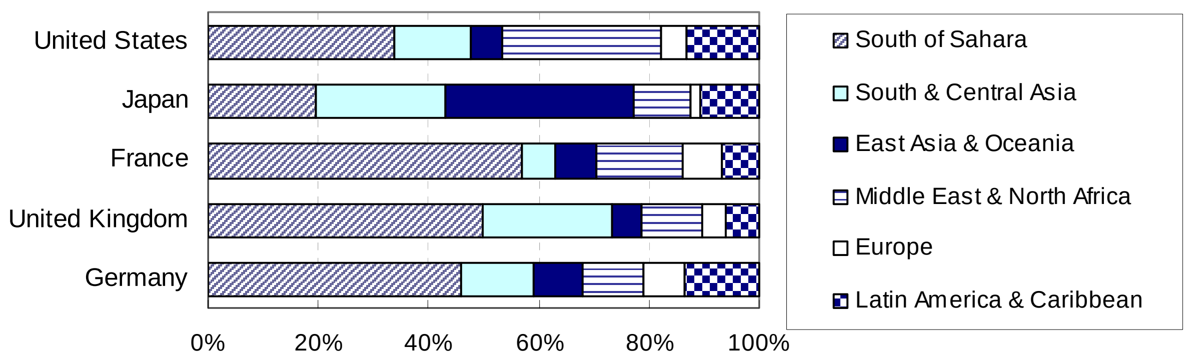
proliferation of donors and aid programs, there is a call for reducing "transaction costs" associated with multiplicity of aid in order to free recipient countries from unnecessary administrative burdens.[7] Now donors are encouraged to harmonize or even completely unify their aid disbursement procedures. The United Kingdom (UK), a strong proponent of non-project aid, has announced its intention to phase out project aid in favor of budget support. These initiatives are a European reaction to the disappointing records of African development in the past. They are, in a sense, the latest desperate attempt to meet the African challenge.

2-2. Missing Links?—Japan's Development Vision

By contrast, the East Asian development experience strongly affects Japan's approach to development and aid. The main characteristics of Japan's ODA support self-help through industrialization and include:

- Geographical concentration in Asia (see figure 2-1).
- High priority on economic infrastructure development (see figure 2-2).
- Broad aid menu including loans (see figure 2-3).

Figure 2-1 Top 5 Donors: Regional Distribution of ODA (2003-2004)

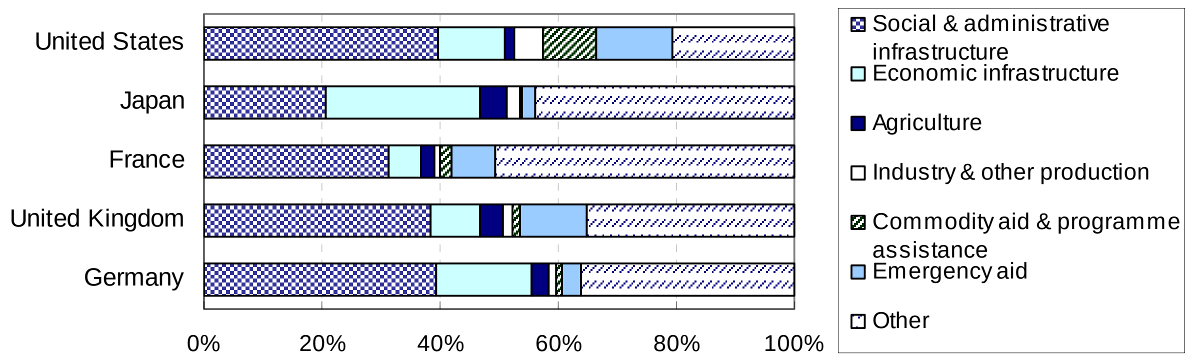


Note: 1) Percent of total net disbursements.
2) Including imputed multilateral flows, i.e. making allowance for contributions through multilateral organisations, calculated using the geographical distribution of multilateral disbursements for the year of reference. Excluding amounts unspecified by region.

Source: OECD (2006), "Regional Distribution of ODA by Individual DAC Donors" table from *Statistical Annex of the 2005 Development Co-operation Report*.

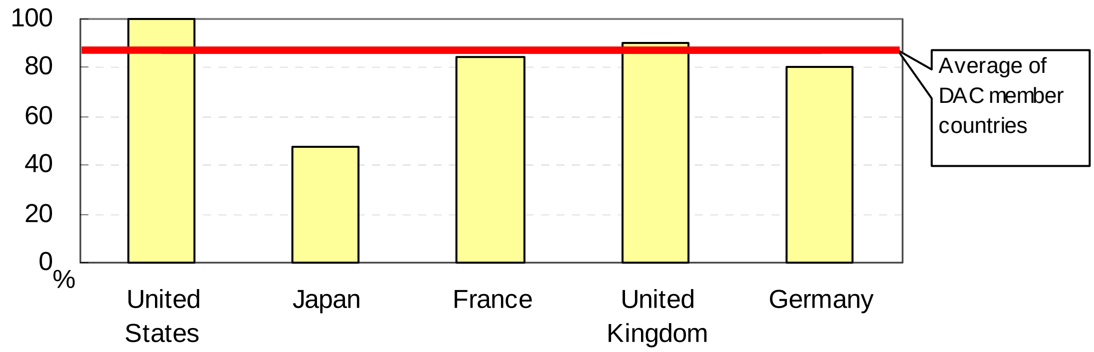
[7] In the mid-1990s, Tanzania had 40 donors implementing 2,000 projects without coordination.

Figure 2-2 Top 5 Donors: Sectoral Spending (2003-2004)



Note: Percent of total bilateral commitments.
Source: OECD (2006), "Major Aid Uses by Individual DAC Donors" table from *Statistical Annex of the 2005 Development Co-operation Report*.

Figure 2-3 Top 5 Donors: Grant Share of Bilateral ODA (2003-2004 average)



Note: Excluding debt reorganisation. Equities are treated as having 100% grant element, but are not treated as loans.
Source: OECD (2006), "Financial Terms of ODA Commitments" table from *Statistical Annex of the 2005 Development Co-operation Report*.

Two historic factors make Japan's aid and development vision so distinctive from those of other donors. First, Japan is the only non-Western country with a history of successful industrialization. Ever since Japan opened its doors to the world in the second half of the nineteenth century, the desire to catch up with the advanced nations in the West has been a strong driving force leading to its economic achievements today. Furthermore, not a few Japanese vividly remember the post-WW2 destruction and poverty which were gradually overcome by very hard work, in which they still take considerable pride. Japan's success in strengthening its manufacturing base contributed in turn to trade- and investment-driven development and resultant poverty reduction in East Asia. Second, Japan's postwar decision to abandon military forces implies that ODA plays a special role in Japanese diplomacy. In fact, ODA has been Japan's principal means to contribute to globally shared goals and to address specific external needs in each period, such as war reparation payment in the 1950s, trade promotion in the 1960s, securing imported energy and raw materials in the 1970s, and the "recycling" of the trade surplus in the 1980s.

These factors heavily influence the way development visions are shaped and the nature of the relationships Japan wishes to foster with developing countries through aid. In particular, the following latecomer perspectives are unlikely to emerge from the West.

- Self-help efforts (ownership) and growth aspiration: Aid is not charity or moral obligation to other people. Aid should support the self-help efforts of developing countries and contribute to fostering their national pride. Its ultimate goal should be providing assistance to developing countries to "graduate" from aid.
- Real-sector concern: In the early stages of development, the government should take an active role in promoting and even creating a market economy. Greater attention should be paid to the dynamic structure of the real economy, rather than frameworks.
- Long-term perspective: Development is a long-term undertaking and path-dependent in nature. It is thus necessary to give due consideration to the history, society, and culture of each country.
- Realistic and pragmatic approach in aid delivery: While observing general principles, respective countries should interpret and adapt approaches to the local context; diversity should be accommodated. An appropriate mix of aid modalities should be pursued with due attention to their complementarities.

The approach of Western countries and international organizations to aid for developing countries features farsighted frameworks, convergence toward a single system, and emphasis on macroeconomic financial issues. Japan, by contrast, makes past experience its starting point, perceives value in diversity, and emphasizes issues of the real economy involving the fostering of industry.[8]

Japan is unique in its relatively large share of loans in bilateral aid. Because loan aid can mobilize larger resources, it can be very effective in promoting broad-based growth (e.g., by financing large-scale infrastructure projects and policy reform)—if combined with a good growth strategy. At the same time, loan aid requires certain discipline on the recipient side (including strong ownership and debt management capacity) and donor responsibility for following-up to ensure project sustainability, as necessary. In this sense, the time horizon of the recipient-donor relationship under loan aid is much longer than under grant aid (i.e., beyond project completion until the last repayment), and it is expected that each party assume shared responsibility throughout the period.

[8] For further explanation of different views on poverty, market, and integration, see Izumi Ohno and Kenichi Ohno (2002), *Global Development Strategy and Japan's ODA Policy*, GRIPS Development Forum Discussion Paper No. 1.

There is no doubt that aid harmonization should be promoted wherever feasible and effective. But it must proceed in a realistic manner, based on the identification of country-specific bottlenecks of aid effectiveness. In doing so, a range of options should be considered, because "transaction costs" are just one factor and others matter, too (i.e., the contents of strategy, institutional capacity of recipient countries, type of ownership, and degree of aid dependency). Moreover, the appropriate matching of aid modalities with sector conditions and type of intervention is necessary, based on the respective comparative advantages.[9] All of these efforts should contribute to achieving sustainable development and reducing the aid dependency of recipient countries.

Against such a background, Japan's ODA to Vietnam is an innovative effort to share Japan's own development vision with Vietnamese policy makers through intellectual aid and support to Vietnam's infrastructure development and to project them clearly on the global scene. As I will explain in the following sections, Vietnam itself embraces a growth-oriented development vision, and Japan has effectively assisted in concretizing such vision by linking its bilateral and multilateral aid program (including the participation of budget support) and facilitating government-donor policy dialogue. A country-based team approach by the ODA Task Force—consisting of the staff of the Embassy of Japan, Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), and Japan External Trade Organization (JETRO)[10]—has played a key role in this endeavor. (The ODA Task Force is a new attempt to set up an all-Japan coordinating body in the field that can foster internal Japanese coordination around a common vision and build synergies among agencies dealing with grants (the Embassy of Japan), technical assistance (JICA), loans (JBIC).[11]) Furthermore, the recent effort to renovate Japan's CAP for Ghana deserves special attention because it aims to refocus existing resources on the areas of Japan's core competence, especially the production sector, and enhance the field-based policy dialogue and development partnership. Again, it is the country-based ODA Task Force that urged the headquarters to act for changes and initiated a process of formulating the new CAP.

[9] See Ohno and Niiya (2004) for a framework for considering the choice and combination of aid modalities.
[10] JETRO's overseas offices are located in the countries where Japan has a certain level of trade and investment promotion activities. Compared to JICA and JBIC, JETRO participates in the ODA Task Force in a limited number of developing countries.
[11] Based on the peer review of Japan's ODA by the Development Assistance Committee (DAC), compiled in OECD (2003).

3. Japan's ODA to Vietnam—Supporting the Concretization of the East Asian Development Vision

3-1. The Context of Vietnam's Aid and Development

Growth, globalization and poverty reduction

In 1986, Vietnam launched a domestic economic reform called *Doi Moi*. Around 1992, it initiated a vigorous process of international integration vis-à-vis Western countries and international organizations. The country restored diplomatic relations with the US and joined ASEAN in 1995, joined APEC in 1998, and signed a bilateral trade agreement with the US in 2001. More recently, Vietnam was admitted to join WTO in November 2006 and is expected to become the WTO's 150th member in January 2007. Within a relatively short period of ten years, the Vietnamese economy has become deeply integrated into the global economy through trade, investment, and aid. The synergy of domestic liberalization and external opening provided the engine for high economic growth, which has averaged 7 to 8 percent per year. The growth is broad-based, and Vietnam has made remarkable achievements in poverty reduction over the past decade. Between 1993 and 2002, the proportion of the population living below poverty line declined from 58 percent to 29 percent.

Nevertheless, Vietnam still faces many challenges. The latest Vietnam Household Living Standards Survey (General Statistics Office 2004) shows that the rate of poverty reduction has slowed and that disparities between rural and urban area are tending to increase. While the rates of economic growth are fairly good, the incremental capital-output ratio (ICOR) remains high. So, the economic growth rates are not commensurate with the growth of investment or with the country's potential and requirements. The investment, production, and business environments still face many difficulties and bottlenecks that lead to high investment and production costs. So, what should Vietnam do to meet these challenges and attain the high "quality" of growth, while taking full advantage of its development potentials?

Located in the center of East Asia and endowed with skillful and diligent workers, Vietnam has a good potential to join East Asia's production network as a latecomer. East Asia exhibits a very unique developing pattern. One by one, countries in different development stages have achieved economic growth by participating in the production network created by private multinational corporations. Linked by trade and investment and targeting the markets of the developed countries, a system of international division of labor with clear order and structure exists in the region. Under this system, industrialization has proceeded through geographic widening on the one hand and structural deepening within each country on the other. This supply-side dynamism is sometimes called the *flying geese* pattern of development.[12] So, it is

[12] This paragraph is based on: GRPIS Development Forum Information Module, "Vietnam's

quite natural to consider that the main driving source of Vietnam's development should come from its successful integration into the regional production network, through trade and investment.

Aid partnership

As a low-income country with per capita income of US$620 (2005 GNI data, World Bank), Vietnam cannot isolate itself from the influence of global aid debates if it wishes to attract sufficient aid flows. For this reason, particularly since 1999, the Vietnamese government has been actively engaged in aid partnership activities, following the principles of the Comprehensive Development Framework (CDF) introduced by the World Bank. These include the formulation of CPRGS, or the Vietnamese version of PRSP, and participation in aid harmonization discussions. In 1999, Vietnam became the first CDF pilot country in East Asia. Currently, there are 25 bilateral donors (including 21 who pledge aid on an annual basis) and 16 multilateral agencies. With good track records of growth and poverty reduction, Vietnam enjoys high aid flows. Since 1995, donor pledges at the Consultative Group (CG) have exceeded US$2 billion (annual figures), reaching a record high of US$4.45 billion in 2006.[13] Currently, Vietnam is one of the top ten aid recipients in the world.

Although Vietnam receives high levels of aid for a country of its size, it is not heavily aid dependent—if measured by the macroeconomic effects of aid. Compared to the average of low-income countries in Sub-Saharan Africa or Latin America, the ratio of aid to macroeconomic aggregates is not particularly high. In 2003, aid accounted for around 4.8 percent of GDP and one tenth of imports. Aid's share in the government budget is relatively small, at 19 percent of government revenues and roughly less than one-sixth of total investment. Aid is just one of several sources of foreign exchange (see table 3-1). In financial terms the role of aid has been modest, while export revenues have been the most important source. FDI, private remittances, and tourism receipts are as important as aid receipts. It is notable that such a favorable situation has emerged only recently. Until the 1980s, Vietnam was a typical aid-dependent economy, with aid paying for over half of its imports, nearly three-quarters of investment, and over two-thirds of government expenditure.[14] It was the growth turnaround and stabilization resulting from *Doi Moi* that brought about remarkable changes on the fiscal side and reduced Vietnam's aid dependency (Donge et al. 1999).

Industrialization Strategy in the Age of Globalization," 2003 (http://www.grips.ac.jp/module/vietnam/).

[13] Vietnam is now the largest IDA-only borrower from the World Bank. In addition, some 500 International NGOs provide over US$80 million in annual grant aid commitments.

[14] From unification (in 1975) to the late 1980s, Vietnam depended heavily on aid from ex-Soviet Union. During the period prior to unification (1955-75), the US provided massive aid to South Vietnam, greater than that provided any other single country or territory during the 30 year after World War II (Dinh 2000).

Table 3-1 Aid as a percent of Macroeconomic Aggregates (2003)

Unit: (%)

	GDP	Forex. Revenue	Investment	Gov't Exp.
Vietnam	4.8	6.5	13.8	19.1
Bangladesh	3.3	14.1	13.1	22.8
Ghana	14.9	18.5	55.8	45.4
Tanzania	17.5	49.8	94.0	74.9

Source: IMF (2004), OECD/DAC (2005)

Note: The aid data (gross disbursement) are based on donor report to OECD/DAC, which may not coincide with those reported by the government.

Vietnam's PRSP as a model for growth-oriented poverty reduction

Vietnam was the first Asian country to formulate a full-PRSP. There are two aspects that have made Vietnam's PRSP very unique compared to early PRSPs: (i) its strong growth orientation, including comprehensive reference to the role of large-scale infrastructure in pro-poor growth; and (ii) its status as supplementary to existing strategic documents, such as the Five-Year Plan and Ten-Year Strategy. (As will be explained in the latter part of this section, more recently, CPRGS was integrated into the new Five-Year Plan (covering the period of 2006-2010) in the next cycle of their reformulation.)

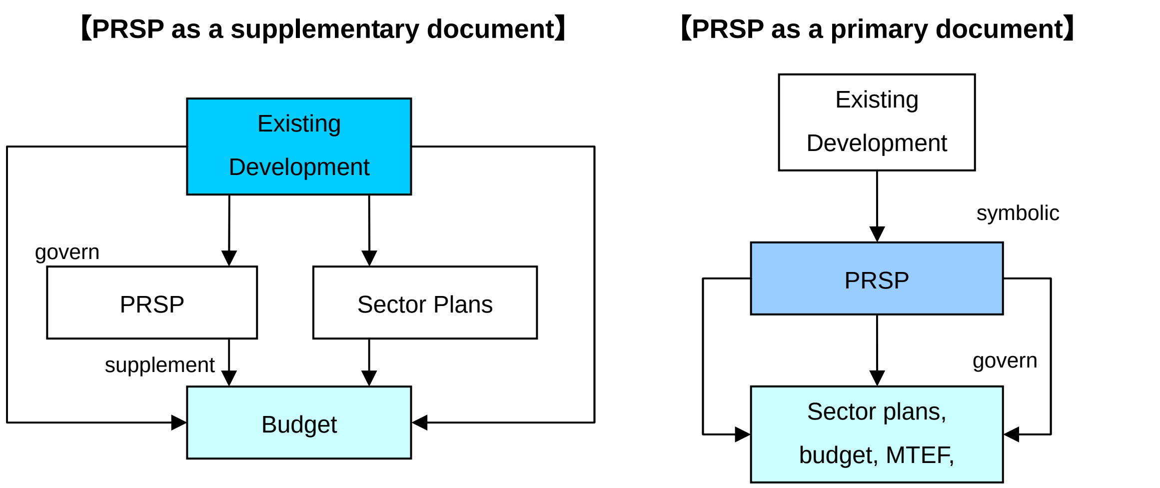
The Vietnamese government formulated a growth-oriented PRSP in May 2002 termed the "Comprehensive Poverty Reduction and Growth Strategy" (CPRGS). This was the first PRSP in Asia to differ sharply from early PRSPs, typically those in Sub-Sahara African countries, which had focused on social policies and direct-poverty targeting programs. CPRGS was produced on the government's own schedule, written by Vietnamese in the Vietnamese language, and only later translated into English for donor input. Moreover, the Vietnamese government renamed PRSP as CPRGS, adding the terms "comprehensive" and "growth."

Subsequently, the government expanded CPRGS by adding a new chapter on the role of large-scale infrastructure in growth and poverty reduction. CPRGS expansion was proposed by the Japanese government at the 2002 Consultative Group (CG) meeting and agreed to by the Vietnamese government and other donors. The revised CPRGS, including the new chapter on large-scale infrastructure, was approved by the Prime Minister in November 2003 and presented at the 2003 CG meeting. The new chapter has recognized the interaction between growth and poverty reduction, especially the important role of large-scale infrastructure in achieving pro-poor growth—directly and indirectly—through economic activities such as labor movement between regions and sectors and through income redistribution by tax, finance, and investment policies that enhance social equity and help the poor.[15] With explicit reference to large-scale infrastructure as one of the growth promotion measures, CPRGS has become further comprehensive and consistent with the government's Public Investment Program (PIP).

PRSP as a supplementary document

CPRGS also differed from early PRSPs in its relationship to the existing planning framework. Vietnam has an existing policy configuration in which all sector plans, public investment plans, and annual budget allocation are guided by two core documents—the Ten-Year Strategy and the Five-Year Plan. These were reviewed by the Communist Party and concerned ministries and approved by the Party Congress. They tower above numerous other official documents in terms of legitimacy and accountability. Here, at the time of its formulation in 2002, CPRGS was treated as a *supplementary document* to the two planning documents and was never intended to dictate overall budget allocation[16] (see figure 3-1). Certainly, PRSP could reinforce existing development plans with special attention to poverty reduction in a cross-cutting manner through the participatory process. However, it was not expected to become an overarching document by replacing the existing core documents.

Figure 3-1 Two Prototypes of PRSP



[15] The Socialist Republic of Vietnam, *The Comprehensive Poverty Reduction and Growth Strategy* (CPRGS), revised, November 2003.

[16] This view coincides with the findings of a DFID-funded study on Vietnam's PRSP. This study states that, reflecting its status as an action plan of the Five-Year Plan rather than a new policy statement, the CPRGS itself was not submitted to the assembly for approval but was signed by the prime minister. It also points out that one of the major motivations for drafting the CPRGS was the government's desire to access concessional financing from the World Bank and IMF (Pincus & Thang 2004).

This is different from cases in which PRSP serves as a *primary document*, and the operational procedures of the budget, sector plans, and receiving aid are all governed by it. For example, in Tanzania (a front runner of PRSP in Sub-Saharan Africa), the newly-introduced PRSP exerts a stronger influence than existing plans over the budgetary and legal framework (Ohno 2002).

The Vietnamese government regarded CPRGS as an action plan that translates the Ten-Year Strategy, the Five-Year Plan, and sector policies into concrete measures. The economic goals and budget allocation were simply copied from the Ten-Year Strategy and the Five-Year Plan. However, to complement the Strategy and Plan with a strong accent on growth, CPRGS has emphasized the "quality" of growth and proposed ways to minimize income and regional disparities, cut poverty, and achieve social equity in the process of rapid growth.

In fact, recent studies suggest that CPRGS was not a well-known document within government circles (Norlund et al. 2003, Pincus & Thang 2004). Responsibility for its production was assigned to one department within the Ministry of Planning and Investment (MPI). Even within central government agencies, knowledge of CPRGS was not widespread. Within the line ministries, awareness of the document is limited to those individuals directly involved in the process. Unlike the Ten-Year Strategy, it was not disseminated widely or publicized through the mass media. Familiarity with the document was even more limited at the provincial level. Thus, it is fair to say that the introduction of (externally-imposed) CPRGS has created a "dual system" in Vietnam's development planning (MOFA & UFJ Institute 2005). Therefore, it is quite understandable that at the mid-year CG meeting in 2004, the Vietnamese authorities announced their preference that the next round of CPRGS would be integrated into the next (eighth) Five-Year Plan.[17] This was endorsed by donors, and the subsequent CG meeting (December 2004) discussed ways to incorporate the "CPRGS approach"[18] into the next Five-Year Plan. Based on this understanding, the Vietnamese government proceeded with the drafting of the Five-Year Plan for the period of 2006-2010, seeking the broader consultation with various stakeholders including donors. In June 2006, the eighth Five-Year Plan was approved by the National Assembly.

3-2. Historical Background and Overview of Japan's ODA to Vietnam

Japan's development approach is characterized by a keen interest in the dynamic structure of the real economy. This perspective strongly influences the way Japan extends its support to Vietnam. Since the full-scale resumption of its aid to Vietnam in 1992, Japan has supported the Vietnamese government's development strategy that combines broad-based growth with social equity. In ODA volume, Japan has been Vietnam's top donor since 1995.

[17] See Press Release of mid-year CG meeting, http://www.worldbank.org.vn/news/press52_01.htm
[18] The CPRGS approach includes such principles as outcome-oriented planning and broad-based participation.

Simultaneously, Vietnam is considered one of the most strategically important recipients for Japan's economic cooperation. During FY2001-2003, Vietnam ranked among the top four recipients of Japan's ODA, together with such countries as Indonesia, China, the Philippines, and India. In FY2004, it was the third largest recipient of Japan's ODA (MOFA data, net disbursement base).

The most notable features of Japan's assistance to Vietnam, when compared with other donors, are: (i) intensive cooperation in infrastructure development in the transport and power sectors; and (ii) strong support for the transition to a market economy with a long-term development vision through policy research, institution building, and human resource development. Japan has been the largest donor in the transport and power sectors, exceeding the aid extended by the World Bank and the ADB in volume. Regarding (ii), in addition to a number of technical cooperation projects such as expert dispatch and development studies, Japan has conducted a series of large-scale, policy-oriented programs including:

- "Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam" (the so-called "Ishikawa Project"), supported by JICA;[19]
- "Judicial System Support" by JICA; and
- "Economic Reform Support Loan" (the so-called "New Miyazawa Initiative"), financed by the JBIC.[20]

Through these programs, Japan has made important contributions to the establishment of Vietnam's development vision, especially advising on the formulation and implementation of the sixth and seventh Five-Year Plans and the current Ten-Year Strategy (2001-2010).

The latest Japanese government's Country Assistance Program (CAP) for Vietnam, adopted in April 2004, consistently embraces the above vision, establishing the following three areas as key:[21]

- Growth promotion, through improvement of the investment climate, promotion of small-and medium-enterprises and private sector development, infrastructure

[19] The project was officially agreed to by the two governments when former Communist Party General Secretary Do Muoi visited Tokyo in April 1995. Shigeru Ishikawa, professor emeritus of Hitotsubashi University, was appointed leader on the Japanese side. The "Ishikawa Project" was implemented jointly by Vietnamese and Japanese teams over six years (1995-2001) and covered areas including agriculture and rural development, trade and industry, fiscal and monetary issues, state-owned enterprises (SOE) reform, and small-and medium-enterprises development, as well as macroeconomic balance and responses to the Asian financial crisis.

[20] The "New Miyazawa Initiative" supported a reform program covering private sector development, SOE reform, and the conversion of all non-tariff barriers into tariffs. This was Japan's first free-standing structural adjustment loan (in the amount of 20 billion yen); its conditionality design was based on bilateral policy discussions between Japan and Vietnam (Exchange of Note and Loan Agreement signed in 1999).

[21] Based on MOFA, ODA homepage, "Japan's Country Assistance Program for Vietnam."

development, human resource development, and economic reforms;

- Improvement in living and social conditions, particularly in the areas of education and health, agriculture and rural development, issues associated with rapid urbanization, and environmental protection; and
- Institutional development, including legal and administrative reforms.

3-3. Recent Initiatives and Country-Based Approach—Greater Engagement in the Multilateral Policy Dialogue

In addition to this full-fledged bilateral program, over the last few years Japan has made special efforts to strengthen its engagement in the partnership process toward concretizing growth-oriented development visions within the multilateral policy framework. Such an endeavor is crucial, given the intensification of aid partnerships in Vietnam from 1999 and especially with the Vietnamese government's decision to formulate CPRGS.

From the early stage of CPRGS preparation, Japan actively participated in partnership efforts, for example, by assisting in the establishment of localized CPRGS monitoring indicators (so called "Vietnam Development Targets" or VDTs) in the area of basic infrastructure, where Japan has comparative advantages over the other donors.[22]

But what is most notable—particularly from 2002 on—is that Japan has taken a leading role in encouraging the progressive change of CPRGS so as to: (i) reduce the initial "dual system" that existed between CPRGS and the Five-Year Plan (and Ten-Year Strategy) through "CPRGS expansion"; and (ii) facilitate the eventual integration of CPRGS into the Five-Year Plan in the next planning cycle. In parallel, Japan has provided intellectual support to enhance the content of growth and industrial strategies embodied in both CPRGS and the Five-Year Plan by advising specific measures to improve the investment climate and the development of an industrial master plan so these can be reflected in the formulation of the subsequent (eighth) Five-Year Plan 2006-2010.

Three points are worth noting in Japan's recent assistance to Vietnam:

- Contribution to the expansion of CPRGS and its integration into the next (eighth) Five-Year Plan 2006-2010;
- Intellectual support for the content of growth strategy through policy dialogue, an action plan to improve the investment climate (the so called "Japan-Vietnam Joint

[22] In the initial stage of CPRGS, donor-coordinated efforts to support CPRGS preparation evolved around the establishment of VDTs and poverty assessment. VDTs are country-specific, localized targets to achieve MDGs. Major donors, including the World Bank, the ADB, UK-DFID, UNDP, and Japan, assisted in the establishment of eight monitoring indicators—poverty and hunger, social protection, basic education, health and inequalities, environmental sustainability, ethnic minorities, basic infrastructure, and governance.

Initiative") and co-financing of the World Bank-financed budget-support type new aid modality—Poverty Reduction Support Credit (PRSC) III—with policy inputs; and

- Key role played by the country-based ODA Task Force in effectively linking bilateral and multilateral assistance.

On the first point, I would like to re-emphasize the role of CPRGS as a *supplementary document* in Vietnam's development planning. Vietnam had its own policy configuration even before the introduction of CPRGS, and a PIP (public investment plan corresponding to each five-year period) has been prepared in alignment with the Five-Year Plan. By contrast, due to the "dual system" created through the CPRGS process, alignment between the original CPRGS and PIP or budget was not as explicit as some donors (i.e., the World Bank, DFID, and Like-Minded Donor Group[23]) had hoped. A major bottleneck was that the original CPRGS, adopted in May 2002, lacked provision for the role of large-scale infrastructure, to which a significant budget had been allocated in the PIP. While embracing a growth orientation consistent with the Five-Year Plan and the Ten-Year Strategy, the original CPRGS lacked specific reference to large-scale infrastructure.

Japan has therefore played a critical role in reducing the "dual system" by supporting CPRGS expansion (see the previous section). The drafting of a new chapter on large-scale infrastructure was undertaken by the Vietnamese government itself, through the Inter-ministerial Working Group chaired by the MPI. But Japan took a lead in organizing intellectual support within the multi-donor framework under the government-donor partnership. It especially coordinated the work of other donors involved in Vietnam's infrastructure development, such as the World Bank, the ADB, AusAID, and DFID and provided an analytical framework and case studies on how large-scale infrastructure can contribute to sustainable growth and poverty reduction.[24]

CPRGS expansion has also provided opportunities among development partners to discuss measures to make infrastructure investment effective (e.g., enabling business environment, better financial management and investment planning, environmental and social safeguards) and to rethink the PIP in the overall planning and budgeting process (MOFA and UFJ Institute 2005). In fact, some of these measures have been incorporated into the policy matrix of the World Bank-supported PRSC III, as explained in figure 3-2.

On the second point, I would like to stress the importance of Japan's effort to: (i) integrate

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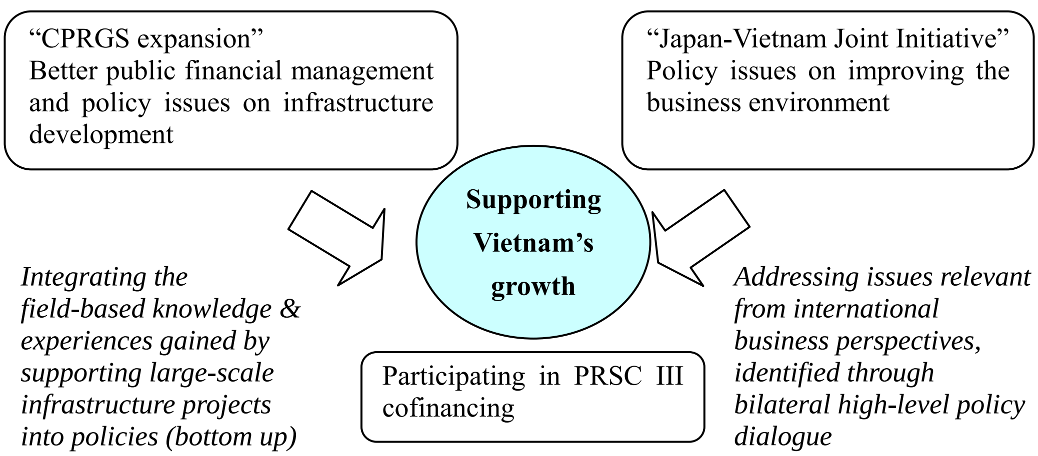
[23] The Like-Minded Donor Group (LMDG) consists of ten bilateral donors: Canada, Denmark, Finland, Sweden, Netherlands, Norway, Switzerland, Germany, United Kingdom, and Australia. They are strong proponents of new aid modalities (e.g., budget support) to put aid money into government systems.

[24] GRIPS Development Forum conducted a study that provides an analytical framework for the role of large-scale infrastructure in growth and poverty reduction. See GRIPS Development Forum (2003). JBIC also conducted a case study on impact assessment of a transport infrastructure project in northern Vietnam.

selected policy measures that have emerged from the bilateral "Japan-Vietnam Joint Initiative" into the multilateral, PRSC-related policy dialogue process; and (ii) deepen the content of growth strategy as inputs to the next round of Vietnam's Five-Year Plan. PRSC is a relatively new instrument devised by the World Bank, as non-project aid (budget support) to support the priority policies of country-owned PRSPs. In recent years, the PRSC process has become central to policy dialogue among development partners in Vietnam. Vietnam's PRSC III is Japan's first co-financing of PRSC operations and one of the two examples of Japan's participation in general budget support.[25] The other donors co-financing PRSC III include Denmark, the Netherlands, Sweden, and the UK.

The Joint Initiative itself is a bilateral, public-private partnership effort aimed at improving the business environment and strengthening Vietnam's competitiveness in the global economy. Under this Joint Initiative, a time-bound action plan of 44 items and a biannual monitoring mechanism were agreed between the Japanese and Vietnamese sides. At the same time, there exists broad recognition that some measures are quite relevant from an international business perspective and should be incorporated into a multilateral framework such as the PRSC III policy matrix. This led Japan to determine its participation in PRSC III, pledging a 2 billion yen co-financing loan in June 2004. Japan worked closely with the World Bank and the Vietnamese government to select and propose appropriate policy measures to be included in PRSC III. For example, in improving the business environment Japan made proposals for private sector development, legal development, and public administration reform, making use of the results achieved by the Joint Initiative (see figure 3-2 and box 3-1) .

Figure 3-2 Japan's Policy Inputs to PRSC III



Source: Shimamura (2005), Figure 5, p.47 and MOFA & UFJ Institute (2005)

[25] Vietnam's PRSC III and Tanzania's Poverty Reduction Budget Support (grant aid) are two examples of Japan's general budget support.

Box 3-1 Japan-Vietnam Joint Initiative: An Example of Public-Private Partnership to Support the Strengthening of Vietnam's Competitiveness

The Japan-Vietnam Joint Initiative (officially, "Japan-Vietnam Joint Initiative to Improve the Business Environment with a View to Strengthen Vietnam's Competitiveness") was first proposed by Japanese Ambassador Norio Hattori at the December 2002 CG meeting and was launched in April 2003 when Prime Minister Phan Van Khai visited Tokyo and reached an agreement with Prime Minister Junichiro Koizumi. This Initiative aims to strengthen Vietnam's economic competitiveness through FDI promotion. In the first phase, both the Japanese and Vietnamese sides agreed on a time-bound action plan of 44 specific items (comprising of 123 measures), identified as bottlenecks for FDI promotion in Vietnam, and a biannual monitoring mechanism to follow up their implementation. A Joint Committee was formed including representatives of the Vietnamese and Japanese governments and members of the Japanese business community. The Initiative resulted in the progress in the 105 specific measures (equivalent to about 85 percent of the agreed measures), and currently the second phase is underway, based on the agreement at the occasion of the East Asia Summit held in Malaysia in December 2005.

This Initiative is unique for a number of reasons. It is a major public-private partnership effort, implemented with the active participation of Japanese investors. Also, the outcome of its implementation process has been regarded as one of the criteria for the Japanese government to assess Vietnam's institutional and policy environment under Japan's CAP for Vietnam. More generally, the improvement of the investment climate is in the interest of all parties concerned with Vietnam's development, as well as in the interest of Vietnam as a prime beneficiary. The action plan and specific measures resulting from this Joint Initiative are expected to benefit not only the Japanese investors but also other foreign and local investors.

Source: *Report on Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthen Vietnam's Competitiveness* (December 4, 2003, http://www.mofa.go.jp/region/asia-paci/vietnam/report0312.pdf), Mitsuru Kitano and Takashi Yoshizawa (2004), and Daisuke Matsunaga (2006).

Moreover, by proposing the need to select priority industries (e.g., motorbike, electronics, IT & software, apparel and shoes, and food processing) and measures to strengthen their competitiveness to prepare for Vietnam's forthcoming integration into AFTA and WTO, Japan clarified key issues to be addressed in the next round of the Five-Year Plan 2006-2010, especially in the area of growth strategy. These discussions were shared not only bilaterally but also multilaterally, e.g., through a local workshop (November 2004) to advise the Vietnamese government on industrial competitiveness issues in its preparation process for the eighth Five-Year Plan (K.Ohno 2004).

In this way, through its assistance, Japan has given importance to the features of Vietnam's growth-oriented CPRGS, which is built on existing development visions and spells out East Asia's aspiration for economic catch up. Japan has also taken an initiative to expand CPRGS and contributed to resolving the problem of "dual system" caused by the externally-introduced CPRGS. It then participated in the multilateral support framework, with concrete policy inputs into PRSC III, based on its long-standing growth promotion support in Vietnam accumulated through the experiences of intellectual aid and infrastructure projects.

In this process, the perspectives of the business community have been also incorporated, building on the Japan-Vietnam Joint Initiative. Thus, Japan's aid to Vietnam can be viewed as a good example of achieving a mix of bilateral and multilateral support, as well as that of project and non-project aid. This demonstrates how different aid modalities can work complementarily, not exclusively. It is also a good example of linking ODA to public-private partnership efforts.

Why and how did Japan succeed in projecting and sharing its growth-oriented development vision with Vietnam and other developing partners and effectively linking it to bilateral and multilateral assistance? This question concerns the third point above. I believe that the quality of leadership of the country-based ODA Task Force was key to the success. The ODA Task Force was officially established in March 2003 by MOFA in 54 countries. Vietnam was one of the few countries where active inter-agency (or "all Japan") collaboration had been taking place even before the official decision.[26] Vietnam's ODA Task Force consists of the staff of the so-called "4J" (the Embassy of Japan, JBIC, JICA, and JETRO). Under the energetic and visionary leadership of senior officials of the Embassy of Japan, the team functioned effectively by sharing a strategic direction of Japan's aid and acting through the division of labor to fully utilize the core competence of respective agencies. By locally building consensus among the "4J," the team also succeeded in facilitating coordination at the headquarter level and shortening their decision-making process. By actively participating in (and even leading) some of the partnership groups, the team also gained credibility for their abilities and nurtured trusting relationships with the government and development partners. This is a pioneering example of country-based strategic coordination of aid-related activities.[27]

4. Japan's ODA to Ghana—A Pilot Effort for Promoting New Growth Support to Africa

4-1. Japan's Renewed Commitment to Aid to Africa

As stated before, international aid efforts have become increasingly focused on Africa, reflecting a shared consensus on the need to address the "Africanization of global poverty." Moreover, the year 2005 was widely seen as a pivotal year, and a series of international events have provided momentum to intensify aid to Africa. These included: (i) the G8 Summit in July held in Gleneagles, UK, in which Africa was identified as one of two priorities (together with climate change); (ii) the Millennium Development Summit which took place in September in New York, where the first five-year review of progress towards MDGs was

[26] As of March 2006, ODA Task Forces were present in 70 countries. Bangladesh and Ghana are examples of other countries which had active "All Japan" collaboration even before the MOFA decision.
[27] See Shimamura (2005) for a detailed account of the key role played by "4J" in realizing effective policy support in Vietnam.

discussed; and (iii) the WTO Ministerial Meeting in Hong Kong in December.

Faced with growing momentum and external pressure, the Japanese government declared its intention to reverse the trend of declining aid and to step up its aid to Africa. Specifically, in his message to the G8 Summit, Ex-Prime Minister Koizumi announced that Japan will increase its ODA volume by US$10 billion in aggregate over the next five years, including a doubling of ODA to Africa in the next three years. Also, Japan will reinvigorate its aid to Africa around the "three pillars," in line with the declaration at the 2003 Tokyo International Conference for African Development (TICAD) III: (i) poverty reduction through economic growth; (ii) human-centered development; and (iii) consolidation of peace.[28] Among these, (i) is closely related to Japan's aid philosophy and embodies its aspiration to share East Asian development experiences globally. Listed below are Japan's major initiatives related to (i). These initiatives should fit well with the aspirations of many countries in Sub-Saharan Africa, although any support must be carefully crafted to meet the regional or country-specific context.

- Supporting agriculture and rural development to help realize the "Green Revolution," increase agricultural productivity, and strengthen agro-industrial linkages;
- Providing comprehensive support for trade and investment through a joint initiative with the African Development Bank Group on private sector development,[29] trade insurance, the promotion of business exchanges and exports to Japan, and the expansion of market access to products from the least developed countries; and
- Strengthening Asia-Africa cooperation to share Asia's development experiences, for example, good practices of productivity movement and management skills.

Currently, Japan's aid to Sub-Saharan Africa accounts for only 10.9 percent of its total ODA (2004 data, net disbursement base). This is partly due to the region's geographical distance and limited historical relation with Japan. The number of field-based staff is small compared to that in Asia, with most based in the respective Embassy of Japan and JICA. (The local presence of JBIC and JETRO is severely limited in Africa.)

But I firmly believe that Japan, as a non-Western donor, can make a valuable contribution to Africa, provided it prepares well with adequate resources and institutions. It is now recognized that the first generation of PRSP lacked insight into the sources of growth (World Bank and IMF 2002, World Bank 2004a) and that many low-income countries, including those in Africa, are yearning for a new approach and hoping to make their second-generation

[28] Based on "Japan's Policy for African Development: Prime Minister Koizumi's Message to Africa in the context of the G8 Summit," MOFA, July 6, 2005.

[29] The joint initiative with AfDB, "Enhanced Private Sector Assistance (EPSA) for Africa," intends to provide up to US$1.2 billion over the next five years to foster SME activities and improve the investment climate. As part of this funding, the Japanese government is examining the possibility of resuming JBIC yen loans to selected HIPCs in Africa.

PRSP more growth-oriented. Japan does not have to offer a perfect answer at the outset, nor should it be afraid of making mistakes. What is required today is not the continuation of *ad hoc* responses but the construction of a consistent strategy that is long-term, comprehensive, and real sector-oriented. In this process, we should stop reacting passively to PRSP and aid partnership; we should instead begin to actively utilize them to achieve our ultimate aid goal.

While the importance of growth is widely recognized (as confirmed by its recent resurgence), the expected contents of growth policy differ quite a lot between Japan, which emphasizes concrete ingredients, and Western donors, which prefer general frameworks. Japan should therefore become a lead donor in assistance to the production sector where our comparative advantage lies. In doing so, we should recall that past industrial promotion that focused on modern manufacturing failed miserably in Africa. Our knowledge of Africa's comparative advantage and resource endowment, as well as the need for sustainable and broad-based poverty reduction, tells us that the priority should be in the agriculture sector, broadly defined (except for a limited number of mineral resource-rich countries which might attract FDI). Additionally, careful evaluation and necessary support for the very weak administrative and fiscal capacities in Africa are also called for (K. Ohno and Takahashi 2003).

4-2. Japan's ODA to Ghana in a Changing Environment—HIPC, PRSP, and Aid Partnership

In this context, a notable initiative has begun among Japanese aid professionals involved in Ghana since 2004. By taking advantage of the formulation of a new CAP for Ghana (the previous CAP was adopted in 2000), they have refocused existing resources on areas of core competence, especially the production sector. Importantly, it was the country-based ODA Task Force in Ghana (the Embassy of Japan and JICA) that initiated a request to the MOFA headquarters and proposed key issues to be considered in the new CAP. While various factors contributed to the country team's initiative, the most critical was a radical change in Ghana's development and partnership framework that took place in the early 2000s. Until recently, Japan has been slow and passive in reacting to the rapidly evolving aid environment in Africa, which is in the forefront of global development trends. There existed perception gaps between the country teams in Africa and the headquarters over the degree of urgency and the nature of reforms needed. Thus, the country team in Ghana viewed the formulation of the new CAP as a window of opportunity to voice their concerns through a formal channel and introduce changes in the existing aid approach.

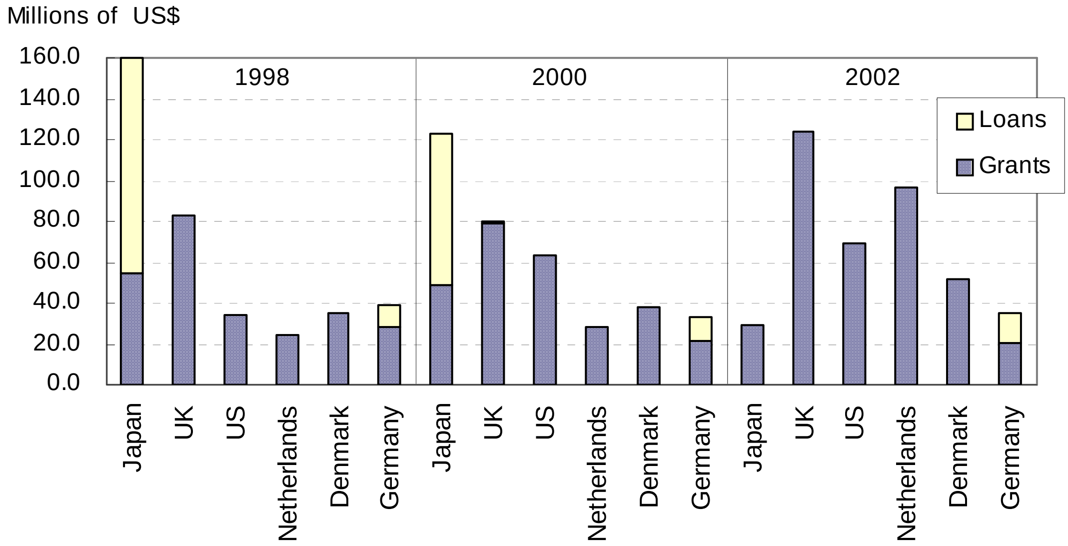
Ghana has been regarded as a leader in partnership innovations (World Bank 2004b). To facilitate regular dialogue with and among development partners, the Ghanaian government decided in 1997 to introduce locally-held, quarterly mini-CGs (shifting from the traditional CG meetings in Paris), as well as sectoral partnership groups. Extensive partnership efforts led to the pioneering of a Sector-Wide Approach (SWAp) in the health sector in 1996-97 that implemented multi-donor pooling of funds and to the introduction of the multi-donor budget support (MDBS) framework in 2003. Ghana was also one of the two pilot CDF countries in 1999. Being a low-income country in Sub-Saharan Africa with political stability and democracy (per capita GNI of US$420, according to World Bank data on 2005), the country has attracted considerable donor support. The largest donors are the World Bank and the UK, followed by the US, Netherlands, Denmark, EU, Germany, and Japan (2003 data based on OECD 2005).

During the last five years, the environment for Japan's aid to Ghana has changed dramatically, and Japan has been striving to make painful adjustments. Japan had been the largest bilateral donor in Ghana from 1985 (following only the World Bank) and maintained its status until 2000. It had a relatively large aid program in Africa and provided concessional loans for major infrastructure projects in power and transport, in addition to grant aid and technical assistance (TA). However, Ghana's decision to apply for the Enhanced HIPC Initiative in 2001 marked a big departure. The Japanese government cancelled debt owed by Ghana, equivalent to approximately US$1 billion. (The Exchange of Note was concluded in December 2004.) At the same time, based on its policy to suspend new ODA loans to those countries joining the Enhanced HIPC Initiative, Ghana has become eligible for only grant aid (including TA). The suspension of concessional loans has led to a significant reduction in Japan's ODA to Ghana, from roughly 160 million to 30-40 million from 1998 to 2002 (net disbursement basis, OECD 2004) (see figure 4-1).

In 2003, the Ghanaian government adopted the Ghana Poverty Reduction Strategy (GPRS) for the period 2003-2005. In contrast to Vietnam's CPRGS, GPRS is a *primary document* and exerts a strong influence over the budgetary and legal framework in Ghana (see figure 3-1 for the two prototypes of PRSP). GPRS succeeded (or replaced) the existing Medium-Term Development Plan 1996-2000 under the Vision 2020 that was adopted in 1995 as a twenty-five year development perspective. There is a broad consensus between the government and development partners that the operational procedures of the budget, sector programs, policy dialogue, and prioritization of aid receipt should be aligned to GPRS. GPRS is regarded as a common guiding principle for development partners, with the Multi-Donor Budget Support (MDBS) framework serving as a means of supporting its implementation (with participation of the majority of donors) and as a link to sector programs or SWAps.[30]

[30] There are ten donors involved in MDBS: African Development Bank, Canada, Denmark, France, Germany, the European Union, the Netherlands, Switzerland, the United Kingdom, and the World Bank. Italy is scheduled to participate in MDBS from 2006, Japan and the US participate in the policy dialogue as observers.

Figure 4-1 Trends of ODA by Top 5 Bilateral Donor Countries and Japan: Proportion of Grants and Loans (1998-2002)



Note: The amount of loan is calculated on a gross disbursement base.
Source: OECD (2004), *Geographical Distribution of Financial Flows to Aid Recipients 1998-2002.*

By 2005, MDBS comes to account for about one third of total aid inflow. In sum, Ghana's participation in the Enhanced HIPC Initiative, together with GPRS, has urged Japan to change its *modus operandi* of aid giving in Ghana. In parallel to the introduction of new aid modalities, harmonization and alignment of aid are being promoted around GPRS among the donor community.

It is worth noting that, in comparison with early PRSPs in some Sub-Saharan African countries (e.g., Tanzania), GPRS has a strong and explicit growth orientation. Subtitled "An Agenda for Growth and Prosperity," GPRS embraces five pillars of development priorities: (i) macroeconomic stability; (ii) production and gainful employment; (iii) human resource development and basic services; (iv) special programs for the vulnerable and excluded; and (v) governance (Government of Ghana 2003). In November 2005, the Ghanaian government formulated GPRS II for the period of 2006-2009, naming it "Growth and Poverty Reduction Strategy." While GPRS II essentially focuses on the above five areas, they are consolidated and organized around the three pillars: (i) private sector competitiveness; (ii) human development and basic services (which includes responding to the socially vulnerable); and (iii) good governance and civic responsibility.

In particular, both GPRS and GPRS II intend to address the following development challenges: The first concerns structural problems of the economy and real sector. The Ghanaian economy continues to be dependent on the export earnings of a few primary commodities, aid, and imports. Cocoa, timber, and gold provide about 70 percent of export earnings, and aid accounts for more than 70 percent of the development budget. Although the last two decades experienced changes in the economic structure (such as an increase in industry from 6.6 percent to 24.8 percent of GDP, an increase in services from 33.6 percent to 40.1 percent and a decline in agriculture from 59.7 percent to 35.2 percent), the size of manufacturing remains small and its share of GDP grew only from 3.9 percent to 8.4 percent during 1983-2003. This is a sharp contrast from Vietnam, where manufacturing grew rapidly from 12 percent to 20 percent during 1990-2004. Ghana must grow out of aid dependence, create a virtuous cycle of sustainable growth, and achieve self-reliant economic development. The second is poverty and inequalities. While the poverty rate decreased from 52 percent to 40 percent from 1991/92 to 1998/99, there have been widening gaps by, for example, region (urban-rural, south-north) and occupation, and serious regional disparities exist in access to social services. There is a need to improve access to and quality of services, especially in impoverished regions. The third challenge is governance. Ghana's public administration faces weak policy and implementation capacities. There is a need to improve public administration and institutional capacity and to develop human resources in the public sector at both the central and local levels.

4-3. Japan's Country Assistance Program for Ghana—Strategic Focus with Growth Orientation

Ghana (together with Ethiopia) was selected by the Japanese government to be the first Sub-Saharan African country to formulate CAP through an innovative approach to country assistance programming. Moreover, with its achievement of political and social stability in fragile West and Central Africa and steady progress in growth and poverty reduction, Ghana has come to be regarded as one of the model countries for Japan's growth promotion support in Africa. (Ethiopia is regarded as a model for Japan's support from a human security perspective.)

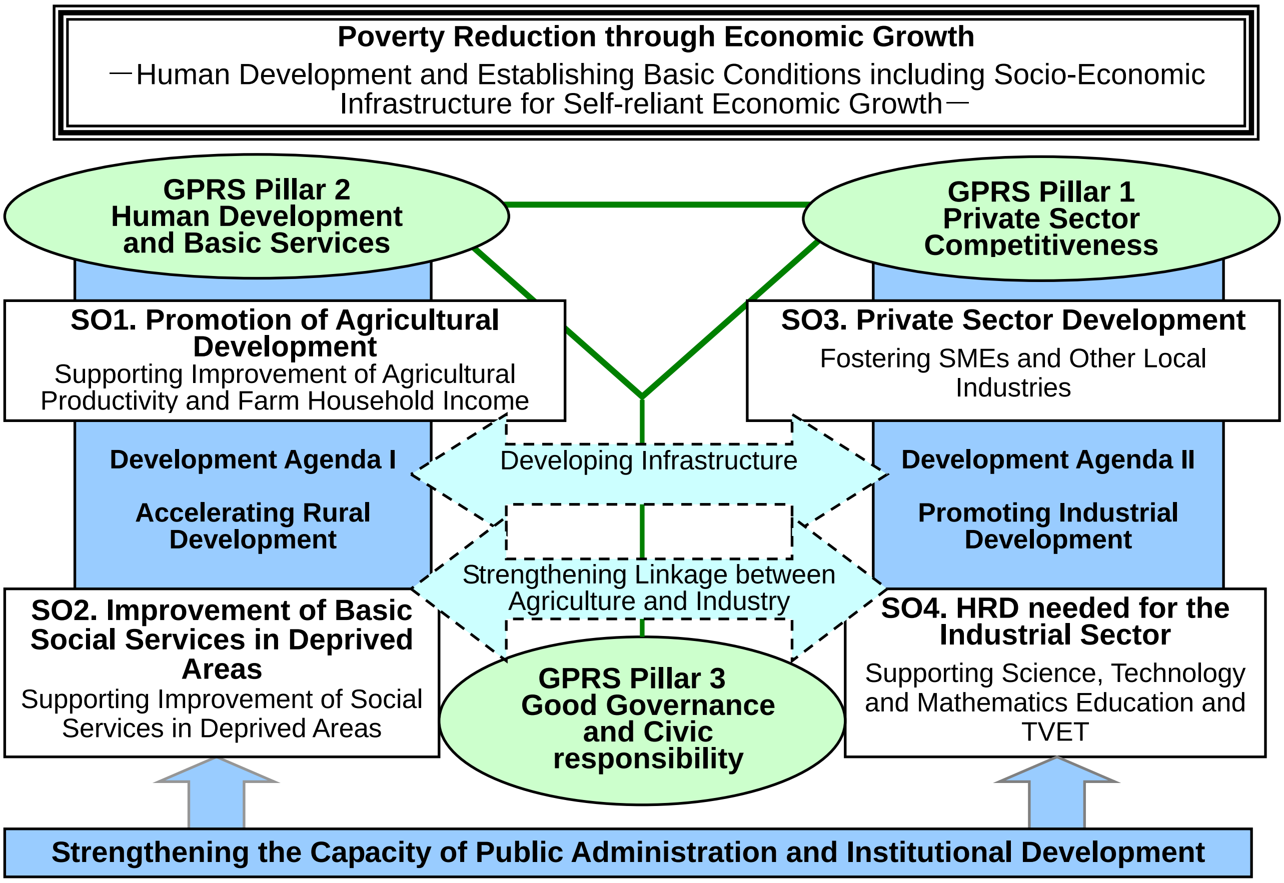
The new CAP aims to re-orient Japan's assistance to respond to radical changes in Ghana's development and partnership framework, including a sharply reduced aid volume since 2000. In fact, in the formulation process, Japan has endeavored to align the new CAP to GPRS and GPRS II, which are the nationally-owned strategies articulating Ghana's development priorities and the roadmap for their implementation, and step up its efforts for policy dialogue. Moreover, recognizing Japan's relatively small aid volume to Ghana (compared to the other donors), the CAP proposes that Japan organize its aid inputs and instruments in a selective manner, in line with the priorities of GPRS II ("selectivity and strategic focus").

Based on its own and East Asian catch-up experiences, Japan considers it essential to address the structural problems of the Ghanaian economy and support its economic growth and attainment of self-reliant and sustainable economic development. The new CAP is mindful of Japan's comparative advantages over other donors and wishes to include measures to promote the productive sector, in the context of Ghana's realities. Faced with limited aid volume and field staffing, the CAP proposes that Japan focus its assistance on the following two pillars, in which it is likely to have core competence, and maximize the synergic effects of aid inputs. To this end, intensified efforts are necessary to strengthen the inter-linkages among aid inputs and their alignment with the sector and overall development policy framework. To ensure the sustainability of development impacts, the CAP also proposes to strengthen public administration, selectively targeting the areas relevant to the two pillars (see figure 4-2 for the Cooperation Diagram of the Country Assistance Program to Ghana).

- Pillar 1: Accelerating rural development
  To activate the rural economy and improve the income of smallholder farmers, Japan will assist in promoting agricultural productivity, processing, and marketing, combined with rural infrastructure development. Taking a multi-sectoral approach, Japan will also support rural populations' improved access to basic social services such as primary healthcare, infectious disease control, and basic education.
- Pillar 2: Promoting industrial development
  To develop competitive local industry and create employment opportunities, Japan will support private sector development, especially small- and medium-scale enterprises through improvements in the business environment and the development of economic infrastructure in related areas. It will pay special attention to strengthening effective agro-industry linkages, as well as regional and international competitiveness. Japan will also support the development of human resources needed for the industrial sector, focusing on technical vocational education and training, science, and technology and mathematics education.

The Pillar 1 aims at supporting poverty reduction in rural areas and creating an environment for economic development. In light of the existing regional disparities, such assistance will be focused on the selected geographical areas where observed highly vulnerable, particularly northern areas. The Pillar 2 aims at contributing to medium- and long-term economic development in Ghana, with a view to achieve sustainable poverty reduction.

Figure 4-2 Country Assistance Program to Ghana: Cooperation Diagram



Notes: (1) GPRS: Growth and Poverty Reduction Strategy, (2) SO: Strategic Objective, (3) Grey: Development Plan by Ghana / Dark grey: Assistance by Japan, (4) HRD: human resource development.
Source: *Japan's Country Assistance Program for Republic of Ghana*, Ministry of Foreign Affairs (2006).

In proposing growth support to Ghana, the new CAP recognizes the need to explore country-specific growth potential. In Ghana, the size of local manufacturing is yet small, and the inflow of FDI remains limited (except for the mining sector, gold in particular). Given its resource endowment and the need for sustainable and broad-based poverty reduction, the CAP attaches high importance to the agriculture sector, which is the core industry absorbing the half of the working population, and the strengthening of agro-industrial linkages in promoting local industrial development. The CAP fully understands that sources of growth are different between Vietnam and Ghana and that a simple copy of growth promotion strategy based on the East Asian model is unlikely to work in Ghana (see box 4-1).

Box 4-1 Promoting Local Manufacturing Industries in Ghana through a Combination of Aid Inputs

Currently, Japan is supporting the development of resource-based local manufacturing industries, in selected districts in Ghana, through a diagnostic study and implementation of pilot projects. The study aims at assessing their production and manufacturing potentials, as well as bottlenecks, and formulating a master plan for local industry promotion, including measures to strengthen the business support and the value chain ranging from agro-industrial production to distribution and marketing. The target districts are located in four regions, with the identification of specific products as follows: Central (citrus), Ashanti (palm oil), Northern (shea butter), and Greater Accra (garment). The former three districts focus on agro-processing, to fully utilize local resource potentials. For example, the production and processing of sheer butter in the most deprived, Northern region is supported by complementary inputs by JETRO and Japan Overseas Cooperation Volunteer (JOCV). A possible support from UNDP is also being sought.

In combination with the above support, Japan has started to assist the Ministry of Trade, Industry, Private Sector Development & President's Special Initiative, in the formulation of the small- and medium-enterprises development policy, as well as the Ministry of Education, Science & Sports and the Ministry of Manpower, Youth & Employment in the concretization and implementation of the technical and vocational education and training (TVET) policy, on which JICA also provided advice at its formulation stage.

Source: Based on the interview and information provided by the JICA and UNDP officials during the author's visit to Ghana in August 2006.

Moreover, in light of active development partnerships around the MDBS framework, the new CAP to Ghana expresses Japan's commitment to reinforcing policy dialogue with various branches of the Ghanaian government and partnerships with the other donors. This should contribute to improving the policy predictability and harmonization of Japan's aid to the government's priorities. The CAP also clarifies its stance that Japan will mobilize various aid modalities including the possible application of budget support, if judged necessary in order to scale up the achievements of its aid activities.

These are the main thrust of Japan's new growth support and endeavor to improve its aid effectiveness in Ghana. Japan's experiment in Ghana has yet to be tested. Its success is not automatic and will depend critically on the effort of the country-based ODA Task Force in designing and implementing cooperation projects, as well as strategic and timely support from the headquarters of the ministries and agencies concerned. The country team must work hard to become actively engaged in development partnerships through enhanced policy dialogue and strategically organized aid inputs and instruments, in accordance with their relevance to the two pillars. At the same time, the headquarters must reform current aid procedures to allow the devolution of authority to the field offices and to facilitate coordination and synergy among different aid instruments. More fundamentally, the Japanese government must make a bold decision on country selectivity and prioritization of resource allocation (both budget and personnel) in its aid to Africa, in order to make real, long-lasting development impacts in the field.

5. Conclusions

Japan brings a new perspective to global development strategy as a non-Western industrialized country by adding diversity and a latecomer perspective to current debates and aid practices. In this regard, Japan's recent ODA to Vietnam is an excellent model for supporting a country-owned development vision based on East Asian aspirations for catch-up. Throughout this process, the country-based team has successfully mainstreamed Japan's ideas in the multilateral policy framework, moving away from the traditional reactive mode. Timely support from the policymakers in Tokyo has been also effective in reinforcing the efforts of the field-based country teams. Japan's innovative effort in Ghana's CAP also deserves attention because it endeavors to organize aid packages for the production sector, while changing Japan's conventional aid approach. It was again the country-based team that urged the MOFA headquarters to change the existing approach and adopt "selectivity and strategic focus" in light of the drastically changing aid environment.

In conclusion, I suggest that the following priority actions be taken—as a joint effort by development professionals.

- Initiate support for the design and implementation of a good growth strategy by conducting country-specific, in-depth studies and effectively engaging various development partners. For latecomer countries in Asia, it is particularly important to give industry-specific concrete advice that takes into account integration pressure. Similar long-term real-sector strategies will be needed for other countries as well, with appropriate adjustments as required. To this end, Japan should be able to offer the right mix of loans, grants, and technical assistance tailored to each country.
- Introduce new growth support and exercise leadership in a few selected African countries and sectors. Such support must be contextualized to fit Africa's realities. This will require a reform of Japanese aid to Africa, particularly in country selectivity, prioritization of resource allocation, and increased speed and flexibility in administrative procedures.
- Compile and widely disseminate East Asian development experiences so they can be well understood by policy makers, practitioners, and researchers in both developing and advanced countries. To maximize policy impact, a well-conceived dissemination strategy tailored to targeted audiences is needed.
- Bring pragmatism and flexibility to discussions on aid harmonization. It is useful to show selected Asian experiences with context-specific explanations, where a mix of project aid and policy support (through budget support) has been pursued. This will add diversity to the present debates (which are narrowly based on the African experiences of European donors). Furthermore, potential utility of project aid in Africa should not be ignored—especially to support the implementation on the ground and experimental activities—as long as they are property integrated and

aligned with the policy framework and other aid modalities. At the same time, Japan should take pains to reform its own aid procedures where necessary.

- Strengthen strategic coordination of aid policy making at the central level among the various ministries charged with ODA (particularly, MOFA, the Ministry of Economy and Trade and Industry (METI), and the Ministry of Finance (MOF)) and the two main executing agencies (JICA and JBIC). At the central level, it is important to clearly articulate the strategic importance of Japan's ODA to a particular country, as well as the prioritization of aid allocation across countries. Under the clearly defined overall ODA strategic framework, empower and delegate field-based country teams (Embassy of Japan, JICA, JBIC, and JETRO, as appropriate) to make decisions on country-specific matters. Country teams should be made fully responsible for conducting policy dialogue and partnership activities.

The perfect implementation of the above actions may require fundamental reform in the current system. But I am not overly pessimistic. The recent years have seen a series of ODA reform initiatives, which lately developed into a historic and significant decision by the government (March 2006) to restructure the institutional framework for ODA policy planning and implementation. Now, excellent opportunities are open to consolidate good practices piloted by selected, motivated country teams and to systematize them into the new institutional framework. Under a shared strategic vision and reinforced country approach, it should be possible to build intellectual networks among policy makers, aid practitioners, academics, and NGOs, to facilitate their collaboration across official institutional boundaries, and to bridge a series of actions for policy impact.

Examples of the recent reform initiatives include: the establishment of a Board on Comprehensive ODA Strategy within the Ministry of Foreign Affairs (MOFA) (2002), the formation of country-based ODA Task Force (2003), the adoption of a new ODA Charter (2003), and the enhancement of country assistance programming. The innovative efforts by the country-based teams in Vietnam and Ghana, as discussed in this paper, have come out of such reform process.

More lately, in March 2006, the Japanese government made a decision on the restructuring of the institutional framework for ODA policy planning and implementation. This decision is a component of the reform package of public financial institutions, promoted by Prime Minister Koizumi[31] and includes: (i) the establishment of the Overseas Economic Cooperation Council—a ministerial meeting chaired by the Prime Minister and supported by the Cabinet Secretariat—as an effort to strengthen strategic planning of ODA (April 2006); (ii) reform of

[31] The reform of public financial institutions is based on Prime Minister Koizumi's plan to downsize the administrative apparatus in Japan. Although the restructuring of the ODA system was not the major objective of this administrative reform, the treatment of JBIC, which is a public financial institution charged with international financial operations, triggered active debates on the appropriateness of the existing ODA system and resulted in the creation of new JICA.

the MOFA organizational structure related to ODA to enhance its capacity for holistic policy planning and coordination (August 2006); and (iii) the establishment of a new ODA implementation system through the integration of ODA loan operations (currently under JBIC) and substantial part of grant aid (currently under MOFA) into JICA, which is presently dedicated to technical assistance. The new JICA is expected to be operational in October 2008.

The new JICA will become effectively the world's largest bilateral development agency, and, overall, second only to the World Bank. With an annual budget estimated at around US$9 billion, it will become a unique aid agency providing technical assistance, grant aid and ODA loans in an integrated manner. If properly designed, a single ODA executing agency should lead to stronger linkages among various aid instruments and enhance the already started efforts to reinforce country-based approaches with greater field delegation. It is also possible that country offices of the new JICA might assume the greater responsibility within the future ODA Task Force.

The year 2008 is critical because Japan will host the G8 Summit and convene TICAD IV. Japan should not miss this opportunity to articulate its development and aid visions and act for changes—for the sake of supporting the self-sustainable development in Asia as well as the other developing world including Africa.

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