

**Supporting Growth and Poverty Reduction:
Toward Mutual Learning from the British Model in Africa
and
the Japanese Model in East Asia**

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This paper is a reproduction of *Supporting Growth and Poverty Reduction: Toward Mutual Learning from the British Model in Africa and the Japanese Model in East Asia*, JBIC Institute Discussion Paper No.8. The author, Shigeru Ishikawa is emeritus Professor of economics, Hitotsubashi University. All the opinions and interpretations expressed in this paper are the author's personal views. They bear no relation to public activities the author is involved in. We are grateful for the JBIC Institute to give us an opportunity to disseminate Prof. Ishikawa's views.

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1. Introduction

My interim report to the December 2003 Study Group¹, “East Asian Model Aid of Growth and Poverty—Japanese Experience,” spells out the following research objective:

Ultimately I would like to contribute to mutual understanding and learning between Japan and the UK and Nordic countries by contrasting Japan’s aid policy based on its experience in East Asia and British and Nordic aid based on their experiences in Africa. In that process, I would like to propose a Japanese model of aid to low-income developing countries to be disseminated internationally as early as possible. My objective at the present preliminary stage is to highlight the special characteristics of the East Asian model of aid policy based on Japan’s experience as an improved alternative to the aid policy toward low-income countries recently being implemented in the international aid community. In doing so, I assume that many of the new international aid policies attempt to address difficulties faced in British and Nordic aid to African countries.

The largest hurdle in this research was the difficulty in understanding whether the British government’s aid policy centered on poverty elimination through grants can truly realize sustainable growth and poverty reduction in Africa. We know that the 1997 *White Paper on International Development*² outlining British aid policy states, in the beginning of the first section, that the encouragement of economic growth along with the elimination of poverty as its policy objectives. We also know that the new Labor government’s Department for International Development (DFID), which authored the White Paper, has assumed the responsibility to make and implement the British government’s aid policy as a cabinet-level ministry. As a result, DFID is able to speak up vis-à-vis other key ministries not only on its core area of Official Development Assistance (ODA) issues but also on foreign policy and trade and investment policy as well. Accordingly, the department may place greater emphasis on trade and investment policy than aid to promote growth. However, there is hardly any official explanation of the process by which growth support will be delivered and linked to poverty reduction.

With the progress of my research, I have come to understand that the UK’s diagnosis of the current situation in African development and the outline of its long-term policy prescription are consistent with the general aid policy of the British government indicated in

¹ This Study Group (titled “Chiiki Keizai Apurochi wo Fumaeta Seisaku no Ikkansei Bunseki: Higashi-azia no Keiken to Hoka Donā no Seisaku Kenkyū-kai” (Regional Analysis on Policy Coherence: Past Experiences in East Asia and Current Donor Practices)) was organized by the JBIC Institute for the period of November 2003 - July 2004. The author was a member of the Study Group.

² DFID, *Eliminating World Poverty: A Challenge for the 21st Century – White Paper on International Development*, HMSO, November 1997.

the above White Paper, as well as with the philosophy behind it. It must be clarified that this understanding is based not only on my research on British aid policy and Africa, but also on the publications of the Overseas Development Institute (ODI)—a British think tank with deep experience in Africa research and extensive collaboration with DFID. However, many of the policy prescriptions indicated there are wishful scenarios and do not offer the prospect of resolving pressing problems. Nor do they propose concrete policies related to economic growth. In general, viewed from the perspective of the near-term future, Britain’s Africa aid model is by no means an optimistic model.

By contrast, the East Asia model of Japan’s assistance started and expanded as aid to East Asian countries (NICs and ASEAN countries), originating as reparations and semi-reparations to countries on which Japan imposed extensive (or somewhat less extensive) damage during World War II. This aid model achieved success, thanks to a combination of extremely favorable conditions: (a) respect for recipient country ownership in the selection and implementation of aid projects, under a procedure called the “request-based system” (As a result, ODA loans to fund investment projects for infrastructure construction expanded quickly along with Japan’s economic growth); (b) the fact that the need for Japan to import mineral resources and export capital goods for its postwar reconstruction and rapid growth was matched by complementary needs in recipient countries; and (c) the existence of high human and social capability in East Asian countries. We know each of these elements well, however. What is necessary in this research is to link these elements and establish a Japanese aid model for East Asia that is comparable with the British aid model for Africa.

1-1 Organization

Section 2 will examine the current British Labor government’s aid system and philosophy, based on the 1997 *White Paper on International Development*. This is a topic which is not necessarily recognized by many people. Regarding aid philosophy, I will complement the plain explanation in the White Paper with descriptions in *The Third Way*³—the new Labor government’s welfare state policy, authored by the Prime Minister and Labor Party leader Tony Blair in 1998. The ethical standard of the Third Way resembles Amartya Sen’s Capability Approach⁴ to poverty alleviation; so this section will also touch on that.

³ Tony Blair, *The Third Way: New Politics for the New Century*, The Fabian Society, 1998. This paper relies heavily on Hideki Fukai, “Shakai-teki Haijo Mondai to Nijūisseki Kanzen Koyō Kōzō—Blair Fukushi Kokka no Shatei to Genkai,” (The Problem of Social Exclusion and the Idea of 21st Century-style Full Employment: The Range and Limitations of the Blair Welfare State”), *Hitotsubashi Ronsō*, vol. 130, no. 4 (October 2003).

⁴ Amartya Sen, *Development as Freedom*, Alfred A. Knopf, New York, 1999. Examination of this approach in the context of ideological trends in the international aid system is discussed in Shigeru Ishikawa, “Growth Promotion versus Poverty Reduction—World Bank Rethinking of Aid Policy and

Section 3 explores how British aid policy applies to the issues of development and poverty alleviation in the African countries, the main recipients of British aid. It pays attention to the ODI analysis of initial conditions in several African countries chosen for case studies. These case studies reveal that a modern bureaucracy has not been established in many of these countries and that their political systems still retain a patron-client system (or patrimonial system); consequently they are unable to coordinate among ministries or adopt coherent policies and it is impossible to establish priorities in government expenditures. These initial conditions complicate development and poverty reduction; on the other hand, Britain's aid policy expects that if the political leadership commits to poverty reduction, the political system itself may democratize. In reality, this possibility has hardly been realized.

Section 4 clarifies the characteristics of Japan's aid model toward East Asia and why it is regarded as a success model in the NICS, China and the ASEAN 5, based on the recognition that the British aid model for Africa has not achieved success despite its grand, idealistic aid policy system. I will discuss only major points to keep the paper concise.

The final section of the paper will offer an interim conclusion on how the UK and Japan can and should learn from each other in order to develop a common policy for true cooperation, assuming that mutual understanding of the two aid policies can be achieved based on the results of the above research.

2. British Aid under the New Labor Government – System and Philosophy

2-1 Creation of DFID as a Cabinet Ministry⁵

DFID was newly established as a cabinet-level ministry with responsibility for foreign aid and international development under the Labor government, which returned to power in May 1997. DFID's cabinet level representation ensured a stronger position compared with its predecessor, Overseas Development Administration (ODA). ODA was no more than one unit within the Foreign and Commonwealth Office (FCO). Under the Conservative Thatcher

Implications for Developing Countries,” Discussion Paper No.5, GRIPS Development Forum, August 2002. The original text in Japanese was published in *Transactions of the Japan Academy* (Nihon Gakushiiin Kiyō), Vol. 56, No.2, January 2002.

⁵ The analysis in this subsection is mainly based on information from ODI, *Changing Aid Policies of the Major Donors: UK Case Study: Final Report*, London, 2004. The study was contracted by JBIC Institute, and based on this study, a detailed report in Japanese has been compiled. See Satoshi Iijima and Mami Sakuma, “Eikoku Enjo Seisaku Dōkō—1997 nen no Enjo Seisaku wo Chūshin ni” (UK Development Assistance Policy—Focusing on Changes since 1997), *Kaihatsu Kinyū Kenkyūsho-ho*, vol. 19, June 2004.

government from 1979-1997, aid and development policy was ignored or treated in a secondary manner in the face of political and commercial considerations. In contrast, as mentioned earlier, DFID became a ministry able to speak up on British foreign and economic policy from a development perspective (thus, in theory, it has been given a status equal to FCO and the Department of Trade and Industry, DTI).

British aid and development policy after 1997 gave birth to a sea change at home and abroad, but this was not only the result of the government organizational restructuring. The fact that Clare Short, an influential figure in the Labor Party, was appointed DFID's Secretary of State and exercised strong leadership also influenced the change (Short was one of the leading figures in the Labor Party, on par with Prime Minister Tony Blair and Chancellor of the Exchequer Gordon Brown). Under her leadership total ODA on a net disbursement basis, which had fallen to a low annual average of merely \$1.48 billion in 1984-85 during the Thatcher years, recovered sharply after 1997, reaching a high \$6.17 billion in 2003 on a provisional basis. The Aid and Trade Provision (ATP), the tied grant aid incentive scheme which was promoted by the Thatcher government but then caused a scandal, was abolished. In addition, DFID decided to end "pursuit of commercial profit" through aid. In both cases, Clare Short's strong executive ability is said to have operated in the background. Internationally, the 1999 decision on the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative was the product of Short's teamwork with Chancellor Gordon Brown. Strong pressure from the "Like-Minded Group" formed under Short's leadership among the UK, the Scandinavian countries and Holland was at work when the World Bank's Poverty Reduction Strategy Papers (PRSP) system was established, replacing the Structural Adjustment Lending (SAL) system, and when all low-income countries seeking concessional aid were required to participate. Recently Short also pressed hard, in cooperation with the same group, for a proposal to change the form of donor bilateral ODA to Africa, ending investment projects and loans and replacing them with the Sector-Wide Approach (SWAp) and general budget support based on development partnership.

2-2 Aid Concept in the 1997 *White Paper on International Development*

In November 1997, six months after DFID's establishment, the International Development Secretary presented the *1997 White Paper on International Development* to the Parliament. When read together with Prime Minister Blair's *The Third Way* discussed in the next section, the White Paper appears to be based on a philosophy of social justice expanded and applied internationally and to attempt to build a grand doctrine with theoretical comprehensiveness and consistency as an aid policy system.

Prime Minister Blair's Third Way represents neither the concept of nationalist social democratic welfare state of the Labor government elected in 1905 (First Way) nor Thatcherism's neo-liberal welfare policy (Second Way). As a Third Way, it elucidates a new welfare state concept that guarantees "rising capabilities based on equal opportunity" to people under the new order. It also has a structure that closely resembles the Capability Approach of Amartya Sen in relation to development and poverty reduction. On the other hand, the aid policy system presented in the White Paper does not conflict with the realization of poverty reduction, the ultimate goal of the PRSP system advocated by the World Bank and IMF and agreed by the international aid community; instead it even tries to correct the imperfections of the development model and systemic procedure model contained in the PRSP system.

However, adhering to ethical integrity, comprehensiveness and consistency as theory can produce a lack of flexibility required on the actual political stage, and thus easily gives rise to discord with various kinds of pragmatism. Presumably, this is the background which led to the idealistic policy being questioned after Ms. Short resigned in May 2003 due to a difference of opinion with Prime Minister Blair over Iraq policy.

In this sub-section, first I will attempt to summarize the British aid philosophy and system to the extent it can be grasped from the 1997 *White Paper on International Development*.

2-2-1 Aid Philosophy

The first section of the White Paper, "The Challenge of Development," discusses the philosophical background of the Labor government's new international development approach while providing an overview of the progress of British and international development over the previous 50 years. Let me mention a few of those points:

(1) The quest for international development has been one of the great themes of the last 50 years. A key challenge was to manage the transition from the colonial empires to a world characterized by independent states. (1.1)

(2) The end of the Cold War has transformed international politics. Until 1989, the ideological divide distorted development efforts. Both sides used aid to tie developing countries to their interests, leading to the diversion of effort from sustainable development. The new era provides a fresh opportunity to focus development efforts on poverty elimination. (1.5)

(3) Some 1.3 billion people—nearly a quarter of the world’s population—continue to live in extreme poverty, on less than the equivalent of \$1 per day. They lack access to opportunities and services. They feel isolated and powerless and often feel excluded by ethnicity, caste, geography, gender or disability. (1.9)

(4) The fact that people survive at all under these conditions is a remarkable testament to the human spirit. Poor men and women apply enormous creativity, strength and dynamism on a daily basis to solve problems that those who live comfortably can hardly begin to understand. Poor people have assets—in their own skills, in their social institutions, in their values and cultures and in their detailed and sophisticated knowledge of their own environment. (1.11) Given the necessary support, the poor can be the means as well as the beneficiaries of sustainable development. (1.12)

(5) There have been two flaws in models of development over the past half century. The first was characterized by a belief that the State should extend its control over production and trading activities, and over the allocation of resources and prices, in a way which created distortions and led to inefficiency and corruption. The second was a belief in a minimalist State and unregulated market forces which failed to secure economic growth and led to increases in inequality across the world. (1.15) There is now an opportunity to create a new synthesis which builds on the role of facilitating economic growth and benefiting the poor. Both States and markets make good servants and bad masters. We have learned that the virtuous State has a key role to play in supporting development. (1.16)

(6) The present British government was elected on 1 May 1997 on a renewed commitment to the principles of social justice—security for all, access to health and education services, strong social institutions, greater equality and the provision of opportunity. What we want for our children, we want for all children. These principles form the basis of our international as well as our national policies. The Government has already made clear its commitment to human rights and a more ethical foreign policy. (1.20)

2-2-2 Aid Policy System

Here, I will examine the aid system presented over four sections of the White Paper in two parts, using the framework of my previous work⁶: the development model (explaining the

⁶ Shigeru Ishikawa, “PRSP Taisei no Yukosei ni tsuite,” *Kokusai Kyoryoku Kenkyu*, vol. 19, no. 1, April 2003 (in English, “On the Effectiveness of the PRSP Regime,” *Technology and Development*, no.17, Institute for International Cooperation, JICA, January 2004). The framework of the paper is built on three pillars: in addition to the two pillars discussed here I added a third pillar, “the effectiveness of the HIPC

mechanism of how development in the recipient country is realized using aid as one of the input factors) and the aid system narrowly defined (explaining what kind of aid procedures can motivate recipient countries to implement the above development model).

(a) Development Model

The analysis of the development model can be made fairly straightforward by quoting the main points stressed in the White Paper.

(1) The ultimate goal of international development assistance: the elimination of poverty and encouragement of economic growth.

(2) Elements of the mechanism for linking poverty elimination and encouragement of economic growth: Sustainable development to eliminate poverty rests above all on the achievement of economic growth that is not only stable and vigorous, but which embraces poor people and allows them to share in the fruits of development. (1.17) Specific requirements for growth are the following:

- Macroeconomic stability, including a sound fiscal balance and low inflation.
- Promotion of more open domestic and less regulated foreign trade.
- Resultant higher savings, which can help to finance investment.
- Such a framework will encourage private sector development, which provides the main impetus for economic growth.
- In some countries, foreign investors play an important role.
- The transformation of the economic environment in this manner will greatly invigorate a wide range of productive activities, most importantly providing opportunities for poor people to establish sustainable livelihoods. (1.18)

(3) Development program and policy support: Development is a complex process, and the challenge is daunting particularly for countries with limited resources. Some countries with successful records (with effective government, enlightened legislation, prudent budgeting and an efficient administration) will make more rapid progress toward international development goals. However, most poor countries seek help to carry through their development programs. Effective support for their efforts will require action both through development programs and through wider policies. (2.1, 2.2)

Initiative,” and treated the debt forgiveness issue separately from the discussion of the aid system narrowly defined. Here, however, they are examined together.

- Interventions necessary for direct support of the development program are as follows: support for the provision of the basic necessities of life; water and food; investment in education; health and family planning services; investment in necessarily infrastructure to create employment opportunities through the encouragement of small-scale enterprise; support for good governance and the rule of law and firm action against corruption; and action to promote greater equality for women and to end the exploitation of children. (2.3)
- Where low-income countries are committed to the elimination of poverty and pursuing sensible policies to bring that about, the British government will be ready to enter a deeper, long-term partnership and to provide an enhanced level of resources and greater flexibility in the use of resources. (2.21) Within such partnerships, the different types of assistance may include capital aid (financial support for specific projects or activities); program aid (balance of payments and budgetary support); technical cooperation and various other schemes. What we do in any particular country will take into account the situation of the partner countries, other donors, and ourselves. Where we have confidence in the policies and budgetary allocation process and in the capacity for effective implementation in the partner government, we will consider moving away from supporting specific projects to providing resources more strategically in support of sector-wide programs or the economy as a whole. (2.22)
- Donor coordination: True partnership between developing countries and donors is important for poverty reduction. We, together with the rest of the international community, must be ready to respond accordingly and to commit resources over extended periods in support of sound development strategies. Countries with limited administrative capacity should not have to negotiate separate country plans with each of the major bilateral donors and the multilateral agencies. We will encourage strengthened donor coordination. (2.20)
- Policy consistency: Development assistance is an important part of the way in which we can help tackle poverty. But, it is not by any means the only aspect of our relationship with developing countries. Both nationally and internationally, there is a complex web of environmental, trade, agricultural, political, defense, security, and financial issues which affect relations with developing countries. To have a real impact on poverty we must ensure the maximum consistency between all these different policies. (3.1)

(4) Financial assistance: Financial assistance is necessary to support programs in developing countries. Concessional resource transfers from the international community to developing countries have declined sharply in recent years. Britain's ODA expenditures are the same and have fallen from 0.51% of GNP in 1979 to the current level of 0.27%. We are

committed to reversing the decline and increase ODA to 0.7% of GNP as demanded in the United Nations Millennium Development Goals. (4.9) It is important to public confidence that there should be a clear and unambiguous framework for the use of our development funds. (4.6) Furthermore, all our future assistance to developing countries will be on grant terms.

(b) Aid System Narrowly Defined

In the World Bank-IMF SAL or PRSP systems, discussion of the aid system narrowly defined tends to concentrate on the pros and cons or the contents of policy reform conditions (so-called conditionality) between donors and the recipient government. But in the case of the British Labor Party's aid policy, this will not do. As has already been indicated in (a) above, the development model envisioned under this aid policy model assumes that sustainable development and poverty reduction in developing countries can be facilitated by the provision of desirable forms and levels of support from the UK and other donors, such as material and financial assistance as well as policy support—in addition to the development capabilities of each national economy. Thus, the aid system narrowly defined that ensures the effective operation of this development model must also furnish incentive mechanisms across multiple dimensions and situations which correspond to the development model. Below, I will look at each part of this multi-layered system.

(1) The White Paper provides the following description of relations between the British government and recipient governments:

The Government believes that genuine partnerships between poorer countries—including developing countries and relevant middle income countries such as countries in transition and Dependent Territories—and the donor community are needed if poverty is to be addressed effectively and in a coherent way. The establishment of such partnerships moves beyond the old conditionalities of development assistance and will require political commitment to poverty elimination on both sides. We hope that developing countries will be ready to set out their strategies for moving towards the achievement of the targets, and share their plans internally as well as externally so that civil society is consulted about national priorities and can use its voice to strengthen commitment to the implementation of pro-poor policies. (2.19)

The White Paper does not indicate the procedures to confirm the establishment of a partnership that fulfills the above requirements, but it clearly suggests what kind of incentive mechanism is required. As described in (a) above, establishment of a partnership will lead to larger and longer commitments and greater flexibility in the use of aid. In addition, use of higher-level aid modalities such as SWAp and general budget support will be considered.

There is also a possibility of simplifying aid negotiation procedures as a result of donor coordination and reducing transaction costs. The benefits gained from such partnership can be compared with countermeasures for cases where partnership does not materialize. The following paragraph describes such circumstances:

There will be some circumstances under which a government-to-government partnership is impossible, because the government concerned is not committed to the elimination of poverty, is not pursuing sound economic policies or is embroiled in conflict. Where poor countries are ruled by governments with no commitment to helping the poor realise their human rights, we will help—where we can do so—through alternative channels. These will include the institutions of civil society, voluntary agencies and local government. In such cases our assistance will be tightly focused on the victims of neglect and oppression. (2.24)

(2) Relations between the UK and Other Donors and International Institutions

The White Paper's development model describes policy measures to support recipient development programs that are possible only when close cooperation exists with other donors and international institutions. However, it does not give the details of partnership relations necessary for this purpose. The White Paper states that by allocating half of the British development aid budget (roughly £1.1 billion) through contributions to international institutions such as the World Bank Group, regional development banks and the United Nations (UN) (and presumably the European Union (EU) and British Commonwealth), the UK can "have influence over a much larger area" compared to relying only on its own bilateral aid program. In other words,

We can, however, use our influence in the multilateral system to increase international commitment to poverty eradication, and work in such a way that our multilateral and bilateral efforts complement each other. (2.8)

With regard to relations with other donors, a key issue is how to gain their consent and implement new aid modalities as part of partnership efforts which strongly reflect the British approach.

(3) Coordination within the British Cabinet

The White Paper's development model also mentions policy support, in addition to direct assistance to development programs, as a way to assist developing countries. This is exactly the realization of "policy consistency" centered on development. Such policy consistency became possible when DFID was elevated to a cabinet-level ministry with

ultimate responsibility for development policy. As a result, other ministries of the British government have been pressed to implement trade, investment and agriculture policies that take account of DFID's sustainable development objective. System-specific measures were already discussed in 2-1 above.

(4) Relationship between the British Government and the Private Sector

The White Paper's development model also protects the interests of developing countries by imposing restrictions on commercial activities by the British private sector in developing countries. The White Paper provides the following statements to counter potential opposition from the private sector.

Just as we want to develop partnerships with developing countries, the Government will seek a new partnership with the UK private sector based on a shared understanding of the role that the public and private sectors can play in development. (2.31) From a business perspective the developing countries contain a majority of the population in the faster growing markets. There is therefore a shared interest in a constructive approach between Government and business to support sustainable development. Such an approach needs to avoid the distortion of development funds in pursuit of short-term commercial objectives, such as the previous Government's support for the Pergau project or Westland helicopters.⁷ (2.32, 2.33) In the international arena, we will therefore strongly support, and seek to strengthen, the disciplines which limit the use of tied aid credits... We will also seek to develop further the use of local and regional skills and resources in assistance programmes. (2.34) With British business, we will move away from a narrow relationship based on individual contracts to a broader sharing of approaches to the eradication of poverty, drawing on the extensive skills of the British private sector—consultants and contractors, investors, exporters and importers, business organisations, large companies and small firms. The Aid and Trade Provision (ATP⁸) lacks poverty elimination as its central focus; no more applications will be accepted for ATP assistance, and the scheme will be closed. This does not preclude deploying development assistance in association with private finance, including in the form of mixed credits. But in order to avoid the abuses of the past, any mixed credits will be

⁷ These refer to aid projects carried out during the Thatcher government under ATP (discussed in the next section) that became scandals. One, the Pergau incident, arose from the Pergau 24 project in Malaysia. The British government made a £2.34 million fund allocation under ATP to British firm that was bidding on the project, but the Malaysian government prohibited the bid, claiming corruption on the part of the firm. The British NGO World Development Movement brought suit against the same firm in High Court in 1994 in relation to the corruption charge. In November of that year, the court ruled that the fund allocation was contrary to the economic and humanitarian interests of the Malaysian people and ordered Foreign Secretary Douglas Hurd to retract the allocation. See ODI document cited in footnote 5.

⁸ A scheme installed in 1977 in the Department of Trade and Industry called "Aid and Trade Provision" which allows the UK government to provide aid funding to development projects if securing a contract would benefit British commerce or industry. See the same paper as above.

managed within agreed country programmes and subject to the agreed strategy and sectoral focus of each country, which would have the primary aim of helping to reduce poverty not of subsidising exports. (2.35)

(c) Synthesis

The following summarizes the above analysis of the British aid policy system as seen in the 1997 *White Paper on International Development*, with a comparison to what is inherent in the World Bank's SAL and PRSP systems.

(1) The recipient country "development model" assumed in the White Paper is a multi-layered process in which economic growth and poverty elimination are achieved with material and financial assistance as well as policy support (particularly through trade and investment policy and aid partnership) from the UK, other donors and international institutions—in addition to the country's own reforms. The development model under the SAL and PRSP systems primarily focuses on an economic growth and poverty reduction process, based on the recipient government's own reform efforts. Here, the role of aid is limited to the World Bank-IMF balance of payments and budget support.

(2) Regarding the growth mechanism, there appear to be few essential differences between the White Paper model and the SAL-PRSP model. Both models assume a scenario in which macroeconomic stability and deregulation lead to development of the private sector (also the expansion of foreign direct investment in some countries), which becomes the engine of growth. Both models lack recognition that industrial policy is indispensable at the stage when the market mechanism is underdeveloped.

(3) Corresponding to the development model's multi-layered process, the description of the "aid system narrowly defined" also becomes multi-layered. It is recognized both inside and outside the World Bank that conditionality in exchange for aid allocation was a failure as an incentive structure. (Conditionality was the most intensively debated topic under the SAL system.) The White Paper, recognizing the same, proposes preferential aid principles as an incentive mechanism in place of conditionality for countries that have established development partnerships with the British government. This partnership requires, among other things, that the recipient government make a political commitment to eradicate poverty and design a development strategy to make that commitment concrete. Compared with the conditionality debate under the SAL and PRSP systems, the partnership concept goes beyond simply rectifying the failure of *ex ante* conditionality by replacing it with *ex post* conditionality; it tries to use the latter as a tool of country selectivity for aid provision. This

does not mean in either case that countries not selected are completely cut off from aid. Still, whether this partnership approach is effective or not remains to be tested.

(4) With regard to the incentive mechanisms for other situations not included above, some concepts are clear (Britain's domestic Cabinet relationships, relations with the private sector) while others are not. In either case, the policy objectives that are the target of incentives are highly ethical in nature. Since some of them are not fully explained, their feasibility must still be tested.

2-3 Tony Blair's Third Way and Amartya Sen's Capability Approach

In this sub-section, I will discuss the aid philosophy presented in the *1997 White Paper on International Development*, using the welfare state concept of Tony Blair's *The Third Way*. Furthermore, I will touch on the Amartya Sen's Capability Approach to poverty alleviation and development, which has a similar theoretical structure.

First, it is important to emphasize that the White Paper states that the principles of social justice mentioned in the Labor Party's victorious 1997 election manifesto apply not only to the British, but also to the people of all countries. Next, the White Paper states that there were two flaws in the development models of the past half-century. First, the state intervened excessively in the economy, causing distortion, inefficiency and corruption. Second, too much confidence was placed in the minimalist state and the power of the unregulated market, which failed to secure economic growth and sharply increased global inequality. The White Paper also states that an important lesson of the past several years is the need for balance between the state and the market in generating economic growth that benefits the poor. These correspond to the statements that the Third Way aims for an optimal goal, different from strong social protection under the old welfare state concept of the First Way and also from the Second Way with its anti-welfare, anti-social protection policy of the market principles under the Thatcher government. The following are more concrete descriptions of the choices made under the Third Way:

(1) Although the series of policies on income security introduced by the Blair government severely reduced income support to the individuals outside the labor force (On this point the Labor government followed the policy of the previous Conservative government that sought the cut, arguing that the support creates a moral hazard); on the other hand, it has undertaken various measures to provide preferential treatment to people with low incomes and to make work an attractive option. Measures include favorable tax schemes and national health contributions as well as the introduction of a minimum wage system. It has also taken steps to

ensure that those who truly need public assistance would not be demeaned by receiving it.

(2) The government has been making efforts to encourage employers to hire informal laborers to create employment in the external labor market.

(3) Adopting austere fiscal and monetary policies, the Blair government abandoned full employment policy through macroeconomic management; however, it has been carrying out employment expansion on the supply side with support for job-search activities, provision of employment subsidies, and job training and education as micro policy interventions into the labor market.

The reason for choosing the Third Way on welfare policy is easy to understand when one looks at the sharp increase in households with no working members plus individuals outside the labor force (the economically non-active population). The particular cause of this problem is that the drastic change in industrial structure in recent years has brought about a decline in leading industries in traditional regions and created unemployment and a large population that is outside the labor force, since unskilled workers are unable to transfer to new jobs and have lost the motivation to seek employment.⁹

Blair considered the unemployed labor force and those outside the labor force victims born of “social exclusion” and designated the elimination of the causes of such exclusion a challenge for the various Third Way measures. The objective was to give these people “equal opportunity” with regular workers, providing the same starting line and enabling them to demonstrate their capabilities.

Finally, let me touch on the structural similarity between the Third Way and Sen’s ethical economics. The latter also attaches the highest value to enhancing the “capability” of the poor (ideally, making it equal among all people). Capability is not a specific thing that people acquire (wealth in the form of income), but a combination of things, abilities, restrictive factors which can change to function and serve in various ways and forms to improve people’s lives (By Sen’s definition, “functioning” is what a person manages to do or to be with things, and “capability” is a set of that person’s “functioning” vectors). Incidentally, there are a variety of social restrictions on the capabilities of poor people (“social exclusion”). The World Bank’s *World Development Report 2000/2001* on attacking poverty summarizes

⁹ See previously cited paper by Hideki Fukai. The sharp rise in individuals outside the labor force is also an issue that has garnered attention in Japan recently. Yūji Genda and Mie Maganuma, *Nīto Freeter demo naku Shitsugyūsha demonaku*, (*NEET: Neither Freeters nor Unemployed*) Gentōsha, Tokyo, 2004.

Sen's consideration of social exclusion in three concepts—i.e., lack of opportunity, powerlessness and low security—and uses them as a framework of its structure. When the causes of social exclusion are removed, the capabilities of the poor are enhanced and equal opportunity is assured. This is Sen's concept of social justice.

Where the strong similarity between the conceptual framework of social justice in Blair's Third Way and Sen's Capability Approach comes from is an interesting question for research, but it is not important for the moment. The most important point is to note that, despite the similarities in concept and structure, there is a significant difference in the context of the real economy—which brings about social exclusion—between the society, households, the labor force in a mature market economy and the same in a low income developing economy in which the majority of the population lives in rural areas.

3. British Approach to the African Economy

3-1 DFID-ODI Research on Africa

In Section 2, I examined Britain's idealistic aid policy formulated under the new Labor government and the leadership of Clare Short. The central topic in this section will be how this policy and, above all, its distinguishing characteristic of focusing on poverty eradication through grants, reflect the economic challenges of its main recipient region, Africa, and how those issues are being resolved as a result of implementation of the policy.

The relationship between Britain's policy and the development demands of the African economy is not easy to investigate head on, so it is more realistic to identify a narrow "entry point" that conforms with our research objective. After experimenting with various approaches, I decided to use the entry point suggested by joint Africa research projects between DFID and ODI. They respectively have long experience with aid to Africa and extensive research accomplishments regarding the economies of Africa. Here, I refer to three sets of ODI Africa research projects. An overview report of each is as follows (ODI also has country reports separate from these, but I have read no more than parts of these).

PRSP Institutionalization Study: Final Report, Chapter 1: Overview of PRSP Processes and Monitoring (Submitted to the Strategic Partnership with Africa), 15 October 2001, ODI (hereafter, ODI 2001).

The study covers eight countries: Benin, Ghana, Kenya, Malawi, Mali, Mozambique, Rwanda, and Tanzania.

M. Foster, A. Fozzard, F. Naschold, and T. Conway, *How, When and Why Does Poverty Get Budget Priority? Poverty Reduction Strategy and Public Expenditure Reform in Five African Countries*, ODI, May 2002 (hereafter, ODI 2002).

This study covers five countries: Uganda, Ghana, Tanzania, Malawi and Mozambique.

Laure-Helene Piron and Alison Evans, *Politics and the PRSP Approach: Synthesis Paper*, ODI, March 2004 (hereafter, ODI 2004).

This paper covers four countries: Bolivia, Georgia, Uganda, and Vietnam.

Of the three projects, the first is formally research contracted by the Strategic Partnership with Africa (SPA); but it specifies that the overall coordination, especially the review of important reports, would be conducted by DFID for SPA. The second and third reports were conducted with DFID funding. The distinguishing characteristics of the DFID-ODI Africa research that furnishes our “entry point” can be summarized into the following three points.

(1) In the Terms of Reference (TOR) for the research, DFID specified that the researchers would draw up an effective prescription for aid to Africa (focusing on poverty reduction through grants) based on DFID’s aid philosophy. But prior to the research, ODI identified a common context of the target African countries, using its own accumulated knowledge: the structure of the “vicious cycle” (with the “neo-patrimonial state” political system suggested as the point of departure).

(2) Consequently DFID-ODI’s hypothesis for the entire research is the proposition that poverty reduction in African countries may be impeded by the existence of the vicious cycle, but that the structure of the vicious cycle may be gradually broken down if there is a commitment of political leaders to poverty reduction.

(3) What became clear from the research is that although there are major differences among African countries, there has been very little progress toward poverty alleviation in general. Nonetheless, there have been some incremental changes in political systems.

In the following, I examine the relationship between British aid policy and the African economy, using the above-mentioned entry point.

3-2 The Political Economic Structure of “Semi-Democratization”

The TOR for ODI 2001, which is the starting point for the ODI research series, sought

to investigate public expenditure management and governance policies as essential elements of the functioning of the PRSP system aimed at poverty reduction. It acknowledged that to strengthen the PRSP system, it is necessary to have not only the strong commitment to the system by the recipient countries and other stakeholders, but also the implementation of these policies. This is the background for “PRSP Institutionalization Study.” However, at the scoping stage of the project,¹⁰ ODI had already identified a research topic not included in the TOR—that is, the importance of recognizing that the PRSP process is political—and it designed a detailed account of the “common context in the eight countries” to explain its reasoning.

Below are the key points of the common context identified in the final report.

(1) In the international movement toward democratization through elections since the 1980s, presidential elections under a multi-party system became common in Africa by the late eighties. A free press was also seen. However the democracy seen there was superficial, with the reality that these were no more than “semi-democratized states.” In the language of political science, they should be called “neo-patrimonial states” and in general, they have political systems based on patron-clientism. In the genuine patrimonial state (that existed historically), a state’s resources were not public property in the modern sense, rather they were treated as the patrimony (private property) of the ruler. Public servants and their retainers received compensation not through salaries but through prebends associated with the appointed positions. Whether it exists under autocracy or a bureaucracy with the façade of a liberal democratic state governed by the rule of law, neo-patrimonialism functions in a dominant manner anywhere the above principles apply.

(2) Where patron-clientism is the dominant political form, each government ministry resembles a fiefdom or prebend under a stipend system rather than a unit executing authorities entrusted by the center. As a result, the Cabinet is unable to guarantee policy decisions. Senior bureaucrats do not necessarily participate actively in internal policy decision-making. Even if decisions are made, in principle there can be no assurance that the policies are coherent among ministries. In general, this means that the policy process is fragmented.

(3) Heavily aid-funded activities, especially construction projects, tend to strengthen fragmentation of the policy process under neo-patrimonialism. This type of aid weakens the accountability toward domestic stakeholders and removes planning and policy implementation capacity from the recipient. It also implants a rent seeking culture in both the

¹⁰ PRSP Institutionalisation Study (Scoping Phase) Report on Progress and Preliminary Findings, November 2000, ODI.

public and private sectors, further amplifying neo-patrimonial social and political relationships.

(4) At a more technical level, the public expenditure and revenue management systems have not served public policy objectives, at least until recently. The administrative system has been the same, characterized by low morale and weak incentives to achieve results.

Additional Thoughts on Neo-Patrimonialism

I would like to provide some additional thoughts on the concept of the neo-patrimonial state, the highlight of ODI's research on Africa.

First. ODI was original in its raising the neo-patrimonial state political system as the primary initial condition of African economies. We in the Japanese development community have worked so far to understand the characteristics of the African economy relying exclusively on economic analysis, but in reality these methods have been inadequate and the results have been unsatisfactory. When investigating characteristics of the African economy, we tend to use comparisons with the Asian economy, but what emerges with economic analysis is nothing more than degrees of difference in key variables between the two regions. By contrast, patrimonialism is a political science term, coined by Max Weber. In China, it is known as the political system that gave birth to state enterprises based on the “bureaucratic capitalism” of the Nationalist Party and which was abandoned with the emergence of the People's Republic. In Thailand, the end of “patrimonial corporations” began when Prime Minister Sarit accepted the aid conditions of the U.S. government (later, the World Bank). In this way, in East Asia the abandonment of patrimonialism has been a clear signal of modernization; thus, the difference with African countries, where patrimonialism remains, is an absolute one.¹¹

Second. However, I have one reservation at this stage of my research about the term “patrimony” used in ODI 2001. In the case of China, when you discuss the traditional socio-political structure in terms of a patrimonial system, there is evidence that it includes a

¹¹ Shigeru Ishikawa, *Kaihatsu Keizaigaku no Kihon Mondai*, (Basic Issues in Development Economics; Iwanami Shoten, 1960) treats the concept of “patrimonial state” as a key concept in the political economy approach to modern development economics. With regard to the information on the vestiges of the patrimonial state owned enterprises of the Chinese Nationalist government, see Mitsutoyo Matsumoto, *Chūgoku Kokumintō “Toei Jigyō” no Kenkyū* (The Study of the “Party Enterprises” of the Chinese Nationalist Party), Asia Seikei Gakkai, 2001. With regard to the information on Thailand, please refer to; Oey A. Meesook et.al., *The Political Economy of Poverty, Equity, and Growth*, Thailand (March 1987), mimeo; J. Alexander Caldwell, *American Economic Aid to Thailand*, Lexington Books, Lexington, Mass. 1974; Akira Suehiro, *Tai: Kokka to Minshushugi* (Thailand: The Nation and Democracy), Iwanami Shinsho, 1993.

centralized bureaucratic system that can be traced back to the Han Dynasty. In India as well, there are ample records and research showing that control of Indian society in the medieval era of Muslim conquest (from the beginning of the 13th century to the end of the 18th century) was based not on feudalism but on a bureaucratic prebend system (in which bureaucratic positions accompanied by perquisites were bought and sold).¹² I do not yet know what historical research is behind ODI's reference to patrimonialism, nor is my knowledge of the political systems of the ancient African kingdoms destroyed by colonialism sufficient. From that perspective, ODI's interpretation is best understood for the time being as the patron-client system, which is used in almost the same way as patrimonialism. The World Bank's *World Development Report 1997*,¹³ a special issue on the role of the state in development, teaches us that until the 19th century the British government was managed by public servants that received their positions under a traditional patron-client system (There was no common salary system; instead, salaries were supplemented through bribery. Bureaucrats considered their positions personal property that could be bought and sold, and they frequently hired staff and paid their salaries.). In 1854, the Northcote-Trevelyan report presented a blueprint for bureaucratic reform, calling for the first time for introduction of a modern bureaucratic system based on a career public service. But there was strong resistance to the recommendations, which all ministries were finally compelled to adopt in 1970. ODI's reference to patron-client relations at minimum teaches us that African countries are presently in a "pre-Northcote-Trevelyan report" state.

Third. Whether one calls it a patrimonial system or a patronage system, it should be emphasized that it has appeared in Africa since the late 1980s. After colonial states pulled out of Africa there was a long period of tribal conflict. The 20 years of "national violence" from 1966-1986 in Uganda (the conflict between the Bantu tribe in the fertile south and the Nilotic tribe in the barren north) and the 1967-1970 Biafra civil war in Nigeria (a conflict among the northern Hausa-Fulani tribe, the western Yoruba tribe, and the eastern Igbo tribe) are examples of this. In the 1980s a change in the nature of the conflict began to appear. A

¹² A patrimonial state was originally a prototypical concept related to Max Weber's historic "The Types of Legitimate Domination" in *Economics and Society: An Outline of Interpretive Sociology* (in Japanese translation, *Kenryoku to Shihai*). Regarding the cases of India and China mentioned here, Weber writes in detail about each in his great work, *Gesammelte Aufsätze zur Religionssoziologie* (*The Sociology of Religion*), which contains "Konfuzianismus und Taoismus (Confucianism and Taoism)" and "Hinduismus und Buddhismus (Hinduism and Buddhism)." Each has been translated into English by Hans Gerth and Don Martindale under the title of *Religion of China: Confucianism and Taoism*, and *Religion of India: The Sociology of Hinduism and Buddhism* (Japanese Translation, *Jukyō to Dōkyō* and *Hindū-kyō to Bukkyō: Sho-Shūkyō no Keizai Rinri II*, translated by Tokusaburō Hosoya and Hiroshi Fukazawa respectively. In either case, under this system the ruler who stands at the pinnacle of political power divides his power over time among his subordinates, demanding obedience (or loyalty) and administrative services (maintaining the peace, collecting taxes, etc.) in return for the perquisites of office. Thus, we see perquisites and services linking the center to the periphery.

¹³ World Bank, *World Development Report 1997* (The State in a Changing World), p. 80.

number of causes for this change can be cited, but one is that the political influence of Britain, Europe and international development institutions strengthened, replacing the East-West conflict of the Cold War. As a result, one began to see states with presidential systems from multi-party elections but unchanged tribal conflicts. In this situation, the appearance of patronage political structures can be regarded as mechanisms for pursuing political and social stability. ODI 2001 mentions the following facts with regard to what it sees as the distinctive characteristics of relations among political parties:

- Opposition parties are numerous, unstructured, non-ideological and lacking in policy positions, with continual defections to the dominant political party.
- There is very little modern political transition, where the dominant party loses an election based on its policy platform leading to a change of administration.
- Civil society in the classical sense is virtually non-existent.

3-3 PRSP Institutionalization: Slow Progress

Next, following the framework of ODI's research project "PRSP Institutionalization," I will examine how much poverty alleviation has progressed. However, due to the short time since the start of the PRSP system, the research results could only provide interim conclusions. The research plan itself is evolving each year. In ODI 2002 the objective was to study the relationship between the poverty reduction strategy and public expenditure management (PEM) reform, and ODI 2004 focused on the relationship between the PRSP approach and the political structure. But these attempts are not sufficient to compensate for the limited experience with PRSP. The only progress has been the recognition of the background to slow institutionalization of PRSP. The following discusses ODI's observations on this point.

3-3-1 Government Commitment as the Premise of Institutionalization

Government commitment to poverty reduction is strong at the level of central government officials, but weak at the regional or local government level. Furthermore, commitment at the political level is far weaker than at the technocratic level. This is especially true in Ghana and Kenya. In Mozambique and Rwanda, there is political support but it is limited to the ruling party. In Tanzania a high level of political support is assumed but most observers question whether it will continue after the completion of HIPC2.[ODI 2002] In Uganda, President Museveni of the National Resistance Movement, which brought tribal conflicts to an end and unified the country as a result of the 1986 coup d'etat, has shown a strong commitment. However, there have been some doubts on its sustainability as the country's political structure is an unusual "no political party" system, and political tensions

have arisen surrounding the president's plan to seek a third term in the presidential election scheduled for 2006. [ODI 2004]

3-3-2 MTEF and PEM¹⁴

Public expenditure management, the major focus of reform in PRSP institutionalization, was inefficient and regressive in all five countries studied by ODI. One aspect is that the government has been involved in numerous activities and consequently most of them do not receive necessary budget or administration. Available revenue was not allocated efficiently among the necessary expenditure items, with little attention to specific criteria or objectives. Each year the increment over the previous year's budget is allocated equally among existing expenditure items based on incrementalism. The Medium-Term Expenditure Framework (MTEF) was proposed to resolve this particular problem of PEM. It aims to re-allocate expected revenue over a three-year period based on officially agreed expenditure priorities. [ODI 2002] However, there is insufficient coordination within government units between those responsible for planning and those for budget, which has made MTEF implementation difficult. As another aspect, the efficiency of MTEF is based on the premise that the government needs to control all its revenue. But in reality, foreign aid funds are not captured in the budget, and there are many off-budget accounts within the government. [ODI 2004] Country case studies indicated that the only country that has achieved desirable results on all three aspects is Uganda. Progress in other countries is lagging. [In Uganda, the Ministry of Finance, Planning and Economic Development (MFPED) was established with centralized authority for planning and budget; the Poverty Eradication Action Plan (PEAP) was institutionalized as the basis for budget planning; and MTEF was implemented. But MFPED does not control the military budget and state house expenditures that include those of the president's office (NRM)].

3-3-3 Was Reform of the Political System Induced?

As mentioned earlier, this topic was proposed by ODI at the beginning of the DFID-ODI joint study. It is not only one of the highlights of the joint study but also the issue that holds the key to the near term success of DFID's aid policy designating poverty reduction as its ultimate goal. ODI's diagnosis [ODI 2004] on this issue concludes that progress in that direction is possible at least for the period to 2004, but changes to date have been incremental.

¹⁴ For the two concepts, please refer to Shigeru Ishikawa, "Hinkon no Wana to Kōkyō Shishutsu Kanri—Atarashii Kaihatsu Model wo Motomete" (The Poverty Trap and Public Expenditure Management—Seeking a New Development Model), FASID, *Discussion Paper on Development Assistance*, No.2, December 2003

This is similar to the result of its assessment of the political commitment to PRSP. However, when ODI says progress is possible, I take it to mean that there is deeper understanding of the theoretical possibility. Below are some descriptions that indicate this view.

- (1) *... if governments are obliged to discuss poverty and what they are doing about it with their citizens, they are likely to regard these things more seriously, and to be held to account more effectively. If this happens, it will involve processes that are formally or informally political.* [ODI, 2001: 58]
- (2) *Poverty reduction is fundamentally a political objective: relations of power, access to state resources, government policy priorities, legislative frameworks, and even constitutional guarantees may need to be transformed...Even if poverty reduction is not necessarily a zero sum game, there will inevitably be winners and loses in the process of change, as vested interests are no longer protected, discriminatory practices come to an end, and policies become more broad based and benefit wider social groups..* [ODI, 2004: 4]

4. East Asia Model of Japanese Aid—Basic Characteristics

Above I have examined the British model of aid to developing countries. For the sake of keeping this paper concise, in Section 4 I will summarize the principal structural elements of the East Asia model of Japanese aid, using the framework introduced in Section 2 and comparing it with Britain's Africa model. That should be sufficient to achieve the objectives of this section because there is a common understanding among (at least) Japanese researchers on the key elements of Japan's East Asian aid model.

4-1 Aid Policy to Developing Countries

4-1-1 Aid Philosophy

The policy of the current British Labor government systematically stresses that the commitment and a theoretical basis for the new philosophy of social justice (equal opportunity and for that purpose, ending social exclusion) should apply not only to British citizens but also to all people of developing countries. Japan adopted the ODA Charter in 1992 and since then has made continuous efforts to establish its own aid philosophy. Nevertheless, Japanese aid is not based on the same sort of grand concept or theoretical system. In practice, it is the request-based approach that has been long recognized as Japan's aid philosophy. This approach reflects the Japanese sense of atonement inherited from reparations and semi-reparations to East Asian countries victimized by Japan in World War II,

and it is justifiable from an ethical perspective.

4-1-2 System of Aid Procedures

In the UK, DFID as a cabinet ministry bears the sole responsibility for aid. Based on the government's aid philosophy, the department has the ultimate authority on matters related to assistance to developing countries. DFID can speak up vis-à-vis other ministries (especially FCO and DTI) when British trade and investment policy has an effect on the development of recipient countries. In addition, it has the authority to negotiate with the other donor governments and international aid institutions. In Japan, the Ministry of Foreign Affairs (MOFA) plays the central role, under the Council of Overseas Economic Cooperation-Related Ministers, in coordinating aid policy. While cooperating with the Ministry of Finance (International Bureau), the Ministry of Economy, Trade and Industry (Trade and Economic Cooperation Bureau), and other ministries, MOFA makes the decisions, consulting and making adjustments along the way. Although this system achieves policy uniformity and balance, it also makes it difficult to pursue an aid policy with leadership based on Japan's own development and aid expertise.

4-1-3 Development Model

The development model assumed by British aid policy is structurally similar to the model of the World Bank-IMF PRSP system. The development model assumed by Japanese aid policy is implicit but is consistent with the other models, with the exception of one point. The point is that the World Bank and IMF believe that structural reform policies can transform a developing country into a market economy and the market mechanism will automatically take care of modernization and industrialization of an industrial structure, while most Japanese officials and economists believe that such approach is difficult without a proactive "industrial policy."¹⁵ British policy declares both poverty eradication and economic growth as the ultimate objectives of development. This fits comfortably with Japanese policy, but because the British approach does not touch on industrial policy, Britain's growth support

¹⁵ To avoid misunderstanding, the industrial policy referred to here does not assume the early Japanese or Korean-type industrial policy with strong intervention in industry and private firms, using means such as import restrictions and export subsidies, selective financing, and preferential tax measures. An acceptable definition of industrial policy can be a government policy to correct misallocation of resources among industries, as often occurs due to market failure. Protection of infant industries is only allowed in this case. However, in the case of developing countries where the market economy is underdeveloped, the government must assume a more proactive role. In this situation, the market does not signal what industries need to be developed or which industries have potential to be competitive. The first thing the government should do is to build capacity for answering these questions, including the implementation of survey. Strengthening the investment climate is also urgent. When industrial policy requires narrowly defined industrial protections, then countries must comply with GATT and other international commitments.

may end simply at rhetoric. On the other hand, DFID's authority to influence trade and investment policy may play a role in place of industrial policy.

4-1-4 Aid and Conditionality

Based on its recognition that the policy conditionalities on macroeconomic assistance under the SAL system damaged recipient government ownership and were a failure, the British government proposed an alternative approach to build development partnerships with the governments in recipient countries. After securing the government's commitment to poverty reduction and implementation of a series of appropriate development policies as conditions, the UK would pledge to give preferential aid. Aid would still be given even if the partnership were not established, but it would be provided directly to the poor through NGOs, local governments, etc. rather than through the central government. The effectiveness of this approach as an incentive system still needs to be tested. By contrast, the Japanese government has traditionally given aid, without policy conditionalities, on a request basis to projects proposed by the recipient government. Under this approach, Japan discusses and advises on the related development policies in a separate policy dialogue in which the two parties participate with independence and on equal footing. This has contributed to strengthening relationships of mutual trust.

4-2 Application to Major Recipient Countries

4-2-1 Initial Conditions

The most critical initial condition of the African countries (hereinafter, from five to eight countries that have deep relations with the UK) is the fact that, as a result of international pressure for democratization of political systems in the 1980s, national social and political relations broke free of tribal conflict and shifted to relations distinguished by a patron-client system or a neo-patrimonial system centered on a president elected in multi-party elections. Under this system, even if the government hierarchy and the supporting bureaucracy appear to be organized according to modern discipline and chain of command, that is not the case in reality. Instead, job positions are patrimony accompanied by their own perquisites: in return for providing certain services (loyalty, tributes, etc.) to superiors, officials are unrestricted in exploiting their positions. As a result, there is no policy consistency or coordination among ministries, and public finance is not managed so as to allocate resources based on uniform criteria.

The decisive difference in East Asia is that shortly after World War II, the patrimonial

structure was systematically abolished and modern administrative mechanisms and bureaucracy made their appearance. Consequently, unified policies on modernization and industrialization and unified fiscal management became feasible. While some countries experienced the excesses of autocracy and statism, resulting in an inefficient detour in the development process, most of these returned to the proper path without external intervention. To understand why this occurred, it is necessary to understand additional initial conditions such as differences in the stage of development of human and social capability.

East Asian countries also experienced the problem of ethnic conflict, similar to the tribal conflict in Africa. I will make two comments about this. 1) The roots of this conflict lie in the history of the East Asian region being structured as primary product exporting economies under colonialism. Since most of the land was occupied by the closed self-sufficient communities, the majority of the needed labor force was filled with immigrant labor from labor surplus regions of India and China. 2) This immigrant labor gradually assumed a key role in primary industry and grew into an indispensable class in supporting the post-independence export economy. While there were some conflicts and strife with the ruling native ethnic groups (belonging to such classes as government bureaucrats and employees of state enterprises), ethnic conciliation and assimilation were critically important to achieving the growth of newly emerging states. The most remarkable achievement can be seen in Thailand, where ethnic assimilation has been realized. Malaysia, which experienced serious conflict, implemented the “Bumiputra” policy from 1971-1990, giving preferential treatment to the economically and socially disadvantaged Malay ethnic group so they would grow to have the ability to compete with overseas Chinese. The policy had substantial positive results, so in 1991 a new national policy called “Vision 2020” was put in place to formulate a “national consensus.” The Vision calls on Malays and Chinese to “competitively coexist” in a sense of unity within the framework of Malaysia as a nation. Malaysia’s success in its rapid industrialisation cannot be explained without taking into account the considerable effect of this national consensus.

4-2-2 Development Process

In African countries where British aid is dominant, the downward trend in per capita income stopped around 1995 for the first time since the 1970s, thanks to the effects of donor assistance. However, the expected reduction in poverty has been slow. Promoting change in the traditional political structure and democratic reform through implementation of poverty reduction strategy is an excellent approach, reached after experiencing many difficulties. But, it too has hardly produced any results. In contrast with this approach, in East Asia most countries have made steady progress in poverty reduction together with growth. With regard

to industrial structure, the rural agricultural economy had developed first, followed by rural industrialization, and the start of industrialization in urban small and medium enterprises and large-scale advanced technology firms. This industrialization brought about urbanization of the population and an increase in the working middle class. These changes promoted reform in the social system and further democratization of the political system (albeit within the framework of an autocratic system in some cases).

4-2-3 Role of Aid

Let us look at the role of aid in the development process discussed above. In the case of aid to Africa, I will examine the issue for the entire international aid community since it is impossible to isolate aid from the UK alone. Prior to the 1980s, aid took place almost exclusively in the form of projects; then structural adjustment lending became the main form of aid. Past results suggest that both types of assistance have been unsatisfactory. The primary reasons for the failure of project aid were that the macroeconomic framework was not in place, communication and coordination among donors of investment projects were insufficient, and recipient governments lacked management capability; therefore, implemented projects took on a mosaic quality with no coherent plan.¹⁶ This evaluation brings to mind the following. In discussions of the lack of capabilities in low-income countries to manage public expenditures, which became a significant issue in the 1990s, the key reason identified for central governments not having full information on their fiscal balances was the practice of donors treating aid funds as off-budget items.¹⁷ Similarly in discussions of the fungibility (the possibility of diverting funds) of project aid, raised in a World Bank study on aid effectiveness, case studies of seven African countries showed (paradoxically) that cases with no fungibility had the least desirable results. Because the seven countries did not have the capacity to select public investment projects and manage their budgets, government program became largely driven by the projects selected and funded by donors.¹⁸ Furthermore, cases of corruption are often cited in discussions of the micro effects of project aid. On the other hand, it is widely recognized that structural adjustment lending in Africa was a particular failure. A debt relief plan for HIPC's was thus recognized as unavoidable in the mid-1990s.¹⁹ The above describes the issues British aid policy to Africa currently faces. It remains to be seen if the concept outlined in the 1997 White Paper can resolve them.

¹⁶ World Bank (Africa Region), *A Continent in Transition: Sub-Saharan Africa in the Mid-1990s*, November 1995, pp. 72-73.

¹⁷ See Ishikawa's paper cited in footnote 13.

¹⁸ World Bank (1998) *Assessing Aid: What Works, What Doesn't, and Why*, Japanese translation by Hirohisa Kohama and Yōko Tomita (Yūkō na Enjo: Fungibility to Enjo Seisaku), Tōyō Keizai Shinpōsha, 2000, pp. 104-5.

¹⁹ Ismail Serageldin, *Poverty, Adjustment, and Growth: Africa*, The World Bank, January 1989, p. 21.

In the 1960s and 70s most East Asian countries were in the initial stages of development. The import of foreign capital and technology was a high priority to establish and expand economic infrastructure such as transportation, communication or electrical power and, particularly for the countries that had taken the first steps toward industrialization, to establish basic industries such as steel, metals and chemical fertilizer. On the other hand, Japan was engaged in reconstruction from World War II and urgently needed to develop its capital goods industries, led by ship and plant production for export, and to secure long-term contracts to import overseas resources for heavy industry. A symbolic incident in which the needs of both parties matched was the February 1978 signing of the Japan-China Long-Term Trade Agreement. The 1979 start of ODA loans to China by the Overseas Economic Cooperation Fund (OECF) and the 1980 start of resource development loans between the Export-Import Bank of Japan (JEXIM) and the Bank of China were designed to deal with the unexpected state of affairs that arose shortly after the start of large-scale mutual exchange based on this agreement. The trade agreement stated that over an eight years period beginning in 1978 Japan would send \$10 billion in plant, technology and capital equipment for construction to China, on deferred payment (at least initially), while China would send oil and coal to Japan in return. The Chinese government immediately signed contracts for plant imports, mainly from Japanese firms, and it initiated its Ten-Year Modernization Plan in the same year. However, the Chinese government experienced difficulties in project planning and as a result, notified Japan that execution of the contracts would be extended or cancelled. The provision of ODA loans and JEXIM bank loans was proposed to overcome this crisis. The contents of the loans are also interesting. The JEXIM loan was used to modernize export production of coal in Shanxi province and oil in Shandong Province and Daqing City. ODA loans were applied to modernize rail and port infrastructure to transport the increased coal and oil production to export facilities. Until the mid-1990s assistance to China continued with the same form and objectives, using ODA loans and JEXIM resource development loans. In this way, the needs of the two countries continued to converge.²⁰ A similar aid structure can be seen in Japan's ODA loans to Korea which began in 1966 and those to Thailand which began in 1969.²¹

²⁰ Shigeru Ishikawa, "Sino Japanese Economic Cooperation" in *the China Quarterly*, March 1987. Satoshi Iijima, *Chūgoku no Kaihatsu ni taisuru Nihon no Keizai Kyōryoku no Kōken— En Shakkan no Yakuwari wo Chūshin ni (The Contribution of Japan's Economic Cooperation to Development in China - Focusing on the Role of ODA Yen Loans)*, May 2004, mimeo.

²¹ Japan Bank for International Cooperation (JBIC), *Higashi Asia ni okeru Nihon no Keizai Kyōryoku no Seisaku Ikkansei— En Shakkan no Jirei, (The Consistency of Japan's Economic Cooperation Policy in East Asia - Examples of ODA Yen Loans)*, February 2004, mimeo.

Later in the 1980s, particularly after the 1985 Plaza Accord, the economies of Japan and other East Asian countries developed markedly; consequently, the convergence of needs evident during the reconstruction and early stages of development no longer existed. The nature of economic cooperation between the two is shifting. It has graduated from an aid relationship to the promotion of direct investment (from Japan) and industrialization (in East Asia), based on ever-advancing trade relations.

4-2-4 Toward Low-Income East Asian Countries

To conclude Section 4 I must add some important supplementary information. I have outlined the East Asia model of Japanese aid but in reality “East Asia” in this context refers, beside Japan, only to the NICS and the five founding members of ASEAN. These countries had already grown to become middle-income countries by the 1990s. Japan has also become a mature capitalist nation. A newly emerging issue is aid toward the remaining low-income countries of the region, such as Vietnam, Myanmar, Mongolia, Cambodia and Laos, that were not discussed above. Key questions are: what is the outlook for growth and development in these countries; and how can Japan manage desirable aid relationships and contribute to progress in development in these countries. What is clear from the lessons learned from the East Asia model is that mutual trust was established when Japan provided aid without attaching conditionalities and by continuing serious policy dialogue based on equal partnership. Japan must retain this approach in supporting the current low-income countries of East Asia.

(a) Vietnam

As pioneering research on aid policy toward low-income countries in East Asia at the start of the 21st century, we have undertaken a “Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy” in Vietnam over the six year period 1995-2001. This study was begun at the request of the Vietnamese government, which sought the Japanese government’s advice on the design and implementation of Vietnam’s Five-Year Plan. It is a new form of aid called “intellectual cooperation.” The unique characteristics of the methodology for this research are that comprehensive and thorough analyses were conducted by a joint research team, involving Japanese academics (approximately 20 researchers in the field of development economics) and the Vietnamese counterparts (mostly senior professionals in the Ministry of Planning and Investment) and that the research identified and examined issues related to formulation and implementation of Vietnam’s long-

term economic development plans and made policy proposals to address them.²² We were involved in two plans, i.e., the Sixth Five-Year Plan (1996-2000) and the Seventh Five-Year Plan (2001-2005). Through this Joint Vietnamese-Japanese Research mutual trust and friendship with our counterparts were fostered. I believe we also received the trust of the leaders of Vietnam. Our research on East Asian low-income countries has been able to clarify for an underdeveloped socialist economy the process of formation of a market economy in the areas of agriculture, the rural economy, and state-enterprise reform. Furthermore, it has made some progress, while incomplete, on the formation of industrial policy, including trade liberalization and attracting foreign direct investment. Let me indicate three publications where results are presented:

Shigeru Ishikawa and Yōnosuke Hara, *Vietnam no Shijōkeizaika* (Vietnam's Transition to a Market Economy), Tōyō Keizai Shinpōsha, 1994

Ministry of Planning and Investment and Japan International Cooperation Agency, *Study on the Plan to Assist the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam, Phase 3, General Commentary*, March 2001.

Kenichi Ohno and Nozomu Kawabata, *Vietnam no Kōgyōka Senryaku* (The Industrialization Strategy of Vietnam), Nihon Hyōronsha, 2003.

(b) Laos and Myanmar

“Intellectual cooperation” using the same methodology as in the Joint Vietnamese-Japanese Research was carried out in Laos from April 2000 to June 2002 with Professor Yōnosuke Hara of University of Tokyo as the team leader, and in Myanmar from November 1999 to December 2002 with Professor Kōnosuke Odaka of Hitotsubashi University (at that time) as the leader. Together with the subsequent follow-up studies, these efforts have contributed to clarifying the special characteristics of the low-income countries of East Asia and the ideal approach of Japanese aid in the two countries. To list the principal reports, Committee for Planning and Cooperation (Lao People's Democratic Republic and Japan International Cooperation Agency), *Macroeconomic Policy Support for Socio-Economic Development in the Lao Republic. Sector Report, Volumes 1, 2, and 3*. July 2002.

²² The author was appointed as the leader on the Japanese side. The project was implemented jointly by the Vietnamese and Japanese teams over six years (from August 1995 to March 2001) in three main phases plus additional studies.

The Government of the Union of Myanmar and Japan International Cooperation Agency, Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy, *Executive Overview*, March 2003.

5. Toward Mutual Learning—Conclusion

The ultimate goal of this report is to facilitate mutual understanding and learning between the UK and Japan regarding their aid policies on which there exist considerable differences. I have done this by comparing Japan's aid policy based on experience in East Asia and British aid policy based on experience in Africa. I believe we have achieved our goal on mutual understanding to a considerable degree because we were able to stylize the British aid model in Africa and Japan's in East Asia. However, the mutual learning objective can be achieved only by systematically indicating what lessons we draw from mutual understanding so that the international community can build a common aid policy on which donors can truly cooperate. This is a significant issue that warrants new preparation, but several points are already clear at this stage. I would like to close with a few of those points.

5-1 Expectations on the British Model

First, I believe that the British model needs reconsideration. We have been strongly impressed that the aid policy of the British Labor government forms a doctrine supported by a grand design and idealism; however, we cannot help but perceive problems of feasibility when the equality of opportunity and the need to overcome social exclusion—the ethical norms of Prime Minister Blair's Third Way (the domestic version of the doctrine)—are simply applied to developing countries. This is because the central problem for social exclusion in the Third Way is the structurally unemployed and persons outside the labor force in a mature economic society which results from high growth. By contrast, the central problem for social exclusion in developing countries, especially those in Africa, is the problem of the poor which originates in low levels of productivity and development.

A related issue emerges when that aid policy is applied to Africa. DFID realized that it would not be easy to achieve poverty reduction—the overarching goal of its policy—in Africa but it continued to search for a more effective path to that goal, not moving away from the difficulties. In a series of studies on African countries, ODI asserts that at the root of those difficulties is the fact that the patrimonial (or patron-client) political system that dominated the traditional political regimes of African countries reappeared, together with the end of tribal conflicts and the movement toward democratization including implementation of

multiparty presidential elections. (In most countries of East Asia the patrimonial system was fundamentally abolished soon after the end of World War II before modernization and industrialization.²³) ODI calls this a neo-patrimonial system. At the same time, it emphasizes that if African leaders make a political commitment to eliminating poverty the neo-patrimonial political system will gradually dissolve. However, the expected results have yet to be seen.

Based on our knowledge mainly from Asia, we know that changes in old social structure and even, in some cases, political structure can occur in two ways: one through reform of the institutional system or the structure itself; and the other as a by-product of economic development including industrialization. When a government hurries reform, it initiates systemic change without touching development which takes a great deal of time to realize. In hurrying reform at the expense of development this approach risks becoming an even more protracted path. On the other hand, when development takes precedence there is a strong likelihood that even if vestiges of the old system remain, the political system will be able to overcome this barrier and move forward provided government and private sector development activity is sound—though of course this process may be delayed depending on the degree of underdevelopment in the social system. Such evidence can be seen in many successful examples of the East Asian model.²⁴ ODI is primarily interested in the pursuit of

²³ The cases of China and Thailand have been discussed above (pp.18-19). Indonesia is a classic country where a patrimonial system remains. Under the Suharto regime it was called KKN or CCN (Corruption, Cronyism or Collusion, and Nepotism). The inefficiency and difficulties brought about by this (system) did not surface when growth was high prior to the 1997 Asian Financial Crisis. See Cornell University's Iwan Azis, "Why and How Institutions Matter in Indonesia's Episode of Economic Performance," ADB Institute, December 1999, mimeo, and Sudarno Sumarto, et al, "Governance and Poverty Reduction: Evidence from Newly Decentralized Indonesia," in Y. Shimomura, ed., *The Role of Governance in Asia*, Japan Institute for International Studies, 2003. Richard Robison, *Indonesia: The Rise of Capital*, Sydney: Allen and Unwin, 1986 (Japanese translation by Hirotune Kimura) is also important. In China and Vietnam, the patrimonial regime was curtailed by the socialist reform, but its remnants remain in the administration of state enterprises, blocking rationalization and modernization of management.

²⁴ Let me provide several concrete examples: (i) In Japan, "farmer landlordism (tezukuri jinushi-sei)," the Tokugawa era system maintained by the supply of poor rural labor (as tenants and farm laborers), transformed into "parasitic landlordism," when new urban industrial centers such as the Yokohama-Tokyo and Northern Kyushu areas attracted them as workers during the Russo-Japanese War (1905-06) and World War I. In the process of industrialization, the farmer landlordism was forced to lose its labor force foundation. Regarding the Saga Plain in Northern Kyushu, see the research of Toshihiko Isobe, "Iwayuru Saga Dankai no Kenkyū," (Research on the So-called Saga Class) *Shuyōchitai Nōgyō Seisanryoku Keiseishi*, vol. 2, Nogyo Sogo Kenkyūjo, 1959, and Penelope Francks, *Technology and Agricultural Development in Pre-War Japan*, Yale University Press, 1984. Regarding Atsugi Village in Kanagawa (the Yokohama-Tokyo area), see Den Wada's naturalist novel *Mon to Kura*, three volumes and sequel, Ie no Hikari Kyokai, 1972-1974. (ii) Regarding the destruction of the Jajmani system in Mysore villages in the south of India, see the research of Scarlett Epstein, *Economic Development and Social Change in South India*, Manchester University Press, 1962. As a more recent example, (iii) in China, progress in industrialization spurred the rise of an urban middle class, which formed the background for the March 2004 revision of the constitution (to add the concept of the "Three Represents" and protection of private property). (iv) In the background of England's 1854 Northcote-Trevelyan Report which was mentioned earlier was the rise to prominence of

the first case, and even in regard to change in the patrimonial political system, it seems to believe that if political commitment to poverty reduction exists, reform can be achieved together with PRSP institutionalization. Even if this is theoretically possible, in reality it is an extremely inefficient approach. It would be more effective and straight forward to rely on the results from modernization of the economic structure through growth promotion. At minimum, I would like to see the UK reconsider the East Asian model that supports such an approach experientially. I would like to make several related points.

(1) In a speech in London in late 1999, Ms. Short stated that the UK strongly supports broader adoption of the Sector-Wide Approaches and under them, measures by which donors jointly support sound programs for development of all sectors of the economy. She stressed that project aid, the main type of aid to that time, often failed because donor countries provided it to serve their own political and commercial interests, with very few successes. If donors truly think about supporting development, then they must stop competing over flag projects or insisting on tied aid.²⁵

(2) The 1997 White Paper also states that SWAp or general budgetary support is preferable to project aid (as mentioned in 2-1), but it does so using expressions with diplomatic terms and reservations. Perhaps Ms. Short candidly stated the policy's true intentions.

(3) Whatever the case, it is clear that the UK has no understanding of the successful experience of Japanese aid in East Asia centering on project aid. Japan's project aid (with support from other official flows such as JEXIM bank loans) helped address the real industrialization needs of developing countries such as China, Korea, and Thailand. Our successful experience is the aggregate result of the micro-level development effects of project aid.

(4) The work of evaluating the macro-level impact of Japanese project aid, taking into consideration its fungibility as well, has not yet produced sufficient findings.²⁶ Nevertheless, an IMF study comparing the impact of grants and loans on the domestic fiscal balance using

the middle class (The middle class demanded government job opportunities for their children). See Jenifer Hart, "The Genesis of the Northcote-Trevelyan Report," in Gillian Sutherland (ed.), *Studies in the Growth of Nineteenth Government*, Routledge and Kegan Paul, 1972.

²⁵ Speech by the Rt. Hon. Clare Short MP, "Protectionism in Aid Procurement—Disposing of a Dinosaur," The Adam Smith Institute, 2 December 1999. A counterargument by Yutaka Iimura, Director General of the Economic Cooperation Bureau of Japan's Ministry of Foreign Affairs, appeared in the *Financial Times* on February 22, 2000 ("Japan is dedicated to fair aid programme").

²⁶ The series of case studies by Haider Khan of Denver University on the fungibility of Japanese foreign aid by recipient country is of special importance. For examples of published studies, see "Impact of Japanese Aid to India: An Econometric Study of Bilateral Aid," *Asian Journal of Economics and Social Studies*, vol. 12, no. 4 (Supplement), 1994, pp. 377-388.

data from 107 recipient countries from 1970 to 2000 (in this period, the weight for Japan was heavily toward loans, with less weight on grants) is suggestive. The study results indicate that when total aid, including net loans and grants, increases each recipient country's domestic revenue decreases. However, when the effects of loans and grants are looked at separately, domestic revenue increases in the case of loans (on average, a doubling of loans from 1.5% of GDP brings about an increase in domestic revenue of 0.35% points of GDP), while it declines with grants (doubling grants from a GDP 4% level results in a decline in domestic revenue of GDP 1.1%).²⁷

5-2 Japan's Aid to Africa

I believe that Japan's aid policy also needs reconsideration. First, there is a tendency to generalize our knowledge of aid experience with East Asia when the Japanese talk about the African economy or aid policy to Africa. At the Third Tokyo International Conference on African Development (TICAD III), which took place in Tokyo under Japanese government sponsorship in September 2003, I was impressed that the TICAD Tenth Anniversary Declaration and the Summary by the Chair made numerous references to "Asian experience" and that they emphasized phrases such as "partnership based on respect and trust," the aid style that we believe Japanese aid organization staff uses in East Asia, and "poverty reduction through economic growth," which we believe is the distinctive characteristic of the development model supporting aid policy there. However, we must be cautious because Japan's interaction with Africa to date has been extremely limited. One reason is that Africa is geographically distant from Japan and apart from a very small number of specialists, our knowledge and experience with regard to its particular politics, society, financial affairs, economy and especially history is extremely meager. With regard to Japan's aid, Africa in the 1990s was not a priority region, accounting for no more than 10% of total Japanese aid. (While being assigned a low priority in terms of regional distribution, the absolute volume of Japan's aid to Africa may not have been insignificant.) As a consequence, policy interest in Africa was also low. Since the 1980s the international aid community has undergone dramatic shifts in strategy: introduction of the SAL system, inclusion of political and administrative reform (governance) in conditionalities and its increasing overall importance, the Enhanced HIPC Initiative, introduction of the PRSP system to replace SALs, and proposal and strengthening of aid coordination among major donors. All of these began to address and overcome the failure of Africa aid policies of the UK and other European donor

²⁷ B. Clements, S. Gupta, A. Pivovarsky, and E.R. Tiongson, "Foreign Aid: Grants versus Loans" in *Finance and Development*, September 2004. The study also has estimates classifying recipient countries by corruption index. It indicates that in the case of grants to countries in the lowest quarter of the index, additional grants are completely cancelled out by the drop in domestic revenue.

countries. The Japanese government in general has taken a passive, somewhat reserved stance toward these movements and been slow to participate in the initiatives.

Thus, the summary documents of the TICAD III mentioned above should be understood not so much as international endorsement of the relevance of Japan's development experience to Africa, but rather as a public commitment that Japan is ready to become seriously involved in the development and national welfare of African countries and its acknowledgement by participating countries.

Next, let us touch on the question of the type of aid model Japan should adopt as it becomes actively involved in aid to African countries. Discussions in the previous sections already suggest two features of Japan's East Asia model that can be applied immediately: the aid style centered on policy dialogue and the characteristic of giving attention to industrial policy. However, even these features must be applied carefully. Especially for industrial policy, there are numerous related areas that must be given careful thought (such as the need for a macro-level analysis of funding requirements based on in-depth study of the fiscal and monetary policies).

Finally, the most difficult issue is to consider what sort of message Japan should send to improve the drastically changing international aid policies led by British aid policy toward Africa. The cornerstone of Britain's policy—aid for poverty elimination through grants—is already supported by the fact that grants account for 98% of all ODA [2002 DAC statistics] and project and sector assistance has decreased to a mere 10% of all aid [2003 DFID annual report]. This reality is unlikely to be reversed easily. Still, where Japan can press hard, for the time being, is probably limited to this area. Japan's input would be that there are situations where project aid and support for industrial policy using project aid are effective, though Japan has not made sufficient effort to explain this point to date. British policy goes further in requesting aid coordination among other leading donors (particularly on general budget support) to advocating stringent policies on selection (selectivity) toward recipient countries. Currently, Japan has difficulty in preparing a sufficient response to the question of what stance it should take vis-à-vis this approach and on what basis it should support its position. This situation arose because until now Japan's aid policy did not pay sufficient attention to trends in the international aid community, instead walking the path of splendid isolation. Responsibility for mutual learning on this point lies on our side. We must urgently carry out our responsibility.

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