

Asian Models for Aid: Is There a Non-Western Approach to Development Assistance?

Summary record of seminar held in Oslo, December 2006

Alf Morten Jerve

R 2007: 12

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Emerging and re-emerging donors: Challenging the ‘aid-consensus’¹

Since the early 1980s, Japan has been among the world’s largest bilateral donors. For most of this period, Japanese managed its aid in isolation from leading Western donors and the International Finance Institutions. The reasons for this can be found both in Japanese aid philosophy and the concentration of its aid to regional neighbours. Only in recent years, from the new ODA Charter of 2003, has Japan actively been pursuing a dialogue with other OECD-DAC donors and taken steps towards harmonisation of aid. Now Asia’s emerging market economies are also increasingly entering the landscape of international aid, partly motivated by their own political and commercial interests, and partly influenced by their experiences as recipient countries. China’s exponential expansion of aid and trade relations with Africa has triggered reactions from Western donors and observers, spanning from admiration to bewilderment and even moral indignation. India and South Korea have both set ambitious targets for increasing their official development assistance (ODA).

Are there similarities in the aid policies of these countries? In what way are they different to Western donors? What challenges and opportunities do they represent for the global development community?

Undoubtedly, the emergence of new actors on the donor scene represents a tremendous potential for recipient countries. It provides access to more resources and opens for greater selectivity and reduced aid conditionality. This enhances recipient country sovereignty, but the downside is likely to be increased donor competition, fragmentation of efforts and reduced aid effectiveness and accountability. At least, that is what proponents of aid harmonisation and the 2005 Paris Declaration on Aid Effectiveness will argue. The basic rationale of this “new aid architecture” is to empower recipient governments by pooling aid resources and aligning these to national planning and budget management processes. This notwithstanding, the attempt to marry the concern for increased recipient ownership with the need for increased coordination and cooperation among donors has been frustrated by the inherent conflict of interest between national sovereignty on the recipients’ side and policy conditionality on donors’ side.

The expansion of the international donor community clearly challenges the current “consensus” of a new “harmonised” aid architecture, and calls for strategies on how to adjust to an aid landscape with greater plurality and variety, for recipients and donors alike. A first step for a donor like Norway is to ask what can be learned from the Asian donors on new or alternative forms of donorship.

¹ The seminar was hosted by the Norwegian Ministry of Foreign Affairs in cooperation with the Chr. Michelsen Institute (CMI). **Alf Morten Jerve**, Assistant Director at CMI, chaired and summarised the seminar. The following speakers were invited:

Takahashi Motoki, Vice-dean and Professor, Graduate School of International Cooperation Studies, Kobe University: *“The Japanese aid experience and the notion of self-help”*

Liping He, Dr, Head of Department of Finance, School of Economics and Business Administration, Beijing Normal University: *“The current policy discussion on China’s aid policy and organization”*.

Shri Prakash, Professor, Academy of Third World Studies, Jamia Millia Islamia University, New Delhi: *“Determinants of foreign aid given by India: some comparisons with China and Japan”*.

Yul Kwon, Dr., Head of Southeast and South Asia Team, Centre for Regional Economic Studies, Korea Institute for International Economic Policy: *“Korea’s new role in development cooperation and the overall strategy of Korean ODA reform”*.

Gareth Price, Dr., Head of Asia Programme, Chatham House, London: *“Drivers of India’s foreign aid policy”*.

Poul Engberg-Pedersen, Director of Norad, commented on the presentations.

Quotations in the text are taken from the speakers’ draft manuscripts submitted to the organisers.

What can we learn from Japan's extensive aid experience, but also from China and India which started south-south cooperation and aid programmes back in the early 1950s?

Do they represent alternative thinking on what brings economic development and poverty reduction? Will this challenge some of the basic ideas underpinning the current emphasis of national poverty reduction strategies supported by the donor community?

Such questions formed the background for a seminar arranged in Oslo, 5 December 2006, inviting experts on Japan, China, India and South Korea to address the question: Is there a non-Western approach to development assistance? The following is a summary of the main messages and arguments presented, and the discussion on what Norway as a donor can do.

Japan: lessons to teach the West

The notion of self-help

According to **Takahashi Motoki** Japan's aid philosophy reflects two general ambiguities in the Japanese psyche – between the uniqueness of Japan and the Westernisation of Japan, and between restraint and intervention in international relations. The origin of Japanese aid is found in war reparations to Asian countries it invaded and colonised, and its devastating war experience led the country to pursue non-interference as a fundamental principle in foreign and aid policy. The remarkable growth in the Japanese economy and the accompanying aid budgets, however, challenged this perspective and gave rise to a debate on Japanese donor motives. Japan was criticised internationally as well as at home for using aid as a vehicle to promote Japanese exports. But Japan has continued emphasising that the main rationale is 'support for self-help'. It maintains what many Western development economists would label orthodox policies, arguing that the role of aid is to fill savings, foreign exchange and technology gaps in developing countries, and has been reluctant in following the claim by Western donors that the critical gaps to be filled are institutional and fiscal. The latter perspective has clearly brought Western donors closer to national political issues and the quest for good governance, while Japan has resisted this type of aid conditionality.

This stance, on the part of Japan, has been reinforced by its aid experience in the so-called "East Asian Miracle". The steady and rapid development of countries receiving the bulk of Japanese aid is taken as a success story. It means, according to Takahashi "that development or reduction of poverty is possible through meritocracy and self-help efforts; and that ODA could promote development of recipients without substituting their self-reliance".

A reluctant reformer

In summary, Japan's aid practice is influenced by the following factors:

- The hesitation to intervene in domestic affairs of recipient countries.
- The fragmented decision-making about ODA with several ministries involved.
- The reactive nature of the foreign policy.
- The success of aid to East Asia and little sense of aid weariness.

Through the 1990s a greater diversification and geographical spread of Japanese aid took place, leading to a call for revising the ODA Charter, to bring it more in line with international trends and a focus on how to reverse the negative development in Africa. Whereas the new charter (2003) broadens the aid agenda, flagging the concept of human security, and recognises the need for donor coordination, the notion of 'self-help' remains central and little has so far changed in reforming the management of the aid.

Japan's aid remains basically project-based with a high share of loan financing. Most assistance is in kind – material and services, and rarely is cash transferred directly to recipient governments, and Japan remains sceptical towards covering recurrent expenditures. Grant aid is most often tied to Japanese contractors. Japan does not provide recipient governments with projections of aid disbursements beyond the current year. Evidently, these are characteristics that make it difficult for Japan to harmonise with donors that emphasise on budget support and basket funding.

Japan agreed to the Paris Declaration in 2005, and some small, but significant, steps have been taken in this direction: contributing to general budget support to Tanzania, co-financing with World Bank a Poverty Reduction Support Credit to Vietnam, and linking the country assistance programmes for Ethiopia and Ghana to the countries' Poverty Reduction Strategies.

What can we learn from Japan's ambiguity?

Western donors should welcome a dialogue with Japan on the merits and demerits of donor intervention. How does it affect ownership and self reliance? According to Takahashi, many Japanese aid officials worry that budget support may discourage ownership because of the strong donor leverage involved. "Japan's modest stance in aid relations is not necessarily negative".

While currently there is a search in Japan for revised aid modalities, based on the 2003 Charter, there is reluctance towards wholesale adoption of the "global consensus" claimed by several Western donors and the World Bank and IMF. The challenge to Japan is how to translate the notion of self-help in its relations with aid dependent African countries. Hence, there is a search for the uniqueness in the Japanese aid experience. "It is regrettable that Japan has neglected to describe, analyse and elaborate the lessons learned from its own experience and from its relations with East Asia", Takahashi argued. There are at least two important dimensions to this. Firstly, Japanese tend to believe promotion of productive forces is essential to reduce poverty, no matter the roles of the government, and secondly, development cannot be realised without self-reliant endeavours by recipient societies. Aid must supplement not substitute for self-help. Maybe the time is ripe for some aid orthodoxy?

China: pursuing 'mutual interests'

From donor to recipient

In November 2006, an impressive number of African heads of states visited Beijing on the occasion of the China-Africa Summit. The Chinese President promised a doubling of Chinese aid to Africa within 2009 plus a number of initiatives to promote Chinese investments, mutual trade and human resource development. This has by some been interpreted as a new ambitious strategy in the scramble for Africa's natural resources to fuel China's economic growth, while others see it as a genuine attempt to help Africa rise out of poverty albeit with a different approach to that of Western donors.

China's donor history goes all the way back the late 1940s when the new communist government received many requests for supporting liberation struggles. Under Mao Zedong, China maintained an aid programme shaped by the geopolitical rivalry with the US (mainly in the 1950s and 1960s) and the Soviet Union (from the late 1960s to the early 1980s) estimated as high as 6 per cent of public expenditures (1971). With Deng Xiaoping taking power a new aid policy took effect from the early 1980s under the motto: "Giving moderately and receiving a lot". Except for the

competition with Taiwan for diplomatic recognition China by and large withdrew from the cold war power game. The emphasis was placed on economic growth including welcoming, from 1979, aid from Japan, Western countries and multilateral institutions, making China for a period the largest recipient of ODA.

The Ministry of Commerce was responsible for managing China's foreign aid, but the decisions were generally dictated by the involvement of the Ministry of Foreign Affairs and top Party and State leaders. Projects were mostly driven by proposals coming from the Chinese side and involved aid in kind – often as turn-key infrastructure projects. In 1994 the Export-Import Bank of China was established to provide subsidised loans and export credit to developing countries, raising funds from the domestic financial market. According to **Liping He**, very little statistical information is available from the Deng period, and there is no concept of ODA in government statistics.

(Re)emerging donor

From about 2000 we see some important changes taking place in China's foreign aid. For the first time large scale humanitarian and emergency aid is provided; to Afghanistan in 2003 and to tsunami-affected countries in 2005. China also starts getting involved in internationally coordinated aid programmes (for the first time in 1998 under an IMF-led lending programme for Indonesia after the Asian Crises). This is also the time when China starts feeling an emerging energy crisis. Oil imports tripled from 1999 to 2005 with African countries rising as major suppliers (Nigeria, Angola and Sudan). Chinese aid programmes have been intimately linked to this expansion of trade and investment activities in oil producing countries. Finally, China decided to join the international call for relief of debt to highly indebted countries, mostly African.

To date, virtually all Chinese aid initiatives have been of a bilateral nature, not involving coordination with other donors, but from 2005 contacts with OECD-DAC have become more constructive. China in the new millennium, Liping argued: “has gradually departed from its tradition of providing aid to “political and ideological friends”. Increasingly China has supplied its aid to developing countries that are of economic interest to the country or have implications for its international relations.”

An evolving Chinese aid discourse

A growing aid involvement raises both practical and principle issues for debate. On the practical side, China still has a way to go before a consolidated ODA administration is in place. Currently, several ministries and agencies are involved, and notably the Ministries of Foreign Affairs, Finance and Commerce all have sections dealing with aspects of foreign aid. A regulatory framework for foreign aid is still in the making, by the Ministry of Commerce, and, according to Liping, there are intensive discussions on how to mobilise budgetary resources for ODA.

One important underlying question is the concept of ODA itself. China is yet to issue a ‘charter’ or ‘white paper’ on aid, and it is too early to conclude on how China will balance between self-interest and altruism in its donorship. First of all, does China have an obligation to give aid? Is China still a developing economy, not yet obliged by the call of UN to provide aid at a minimum of 0.7 per cent of GNI? There is no consensus among Chinese commentators on this issue, but as Liping stated, “we may expect that China will continue to receive and give foreign aid in the foreseeable future, and will increase its aid-giving faster than reducing aid-receiving”. The government is unlikely to denounce its developing country status in the foreseeable future, for economic and political reasons.

Is there a Chinese model of development? This is another pertinent question in the aid debate, which has already been the topic of many Chinese sponsored international seminars pointing to features such as:

- Maintaining political stability when waging radical economic and social reforms.
- Allowing competition to work both inside and outside the public.
- Let working people be motivated mostly by economic gains.
- Strongly promoting export and foreign capital inflows.

Should China export this experience? There is at present much uncertainty as to the direction of Chinese foreign aid policy with respect to this idea. The basic elements of the “Chinese model” are debated, and so is its applicability for other countries.

Is there a Chinese model for aid?

The government of China has for decades pronounced certain “unique merits” of its aid policy. Using its own rhetorical language this includes:

- “Zero self-interest” in aid programmes.
- “Do not seek privileges” for Chinese expatriates and business activity.
- “Non-interventionalism” or non-attachment of political conditions in aid programmes.
- “Maximum satisfaction of local needs”.

These principles served well the concept of Mao’s “friendship projects”, but are being challenged today. Many Chinese observers argue that China has to learn from international experience. There is an increasing concern for the security of Chinese investments and Chinese citizens abroad, which brings governance issues on the table. How to balance this with non-interference? And sensitive questions about effectiveness and accountability are looming in the background. China has no tradition for independent evaluation. Whilst official publications tend to emphasise distinguished features of Chinese aid policy and practice, in reality, the differences between China and OECD-members “are smaller than before and would become even further smaller in the future”, Liping concluded.

India: aid as foreign policy instrument

Indian aid - wide-ranging and long-standing

India, like China, can best be described as a re-emerging donor. Indian economic cooperation, as it is officially labelled, dates back to the early 1950s, mainly focusing on its regional neighbours – Nepal and Bhutan being the largest beneficiaries. The Indian Technical and Economic Cooperation Scheme from the mid-1960s currently involves 156 countries, with a clear emphasis on unconditional technical, project-based cooperation. It further broadens the picture when we include India’s longstanding contributions to the UN system, its emergence as a major donor of food aid to the World Food Programme, its involvement in a large number of UN peace keeping operations, and, finally, the hosting of a large number of refugees from neighbouring countries (Sri Lankan Tamils, Tibetans and Bhutanese) today and in the past (around 10 million fled in 1971 to India from then East Pakistan).

What motivates Indian aid?

The speakers at the seminar seemed to disagree on the significance of altruism in Indian aid. While **Shri Prakash** emphasised the absence of a commercial bias, stating that Indian aid efforts “have to be understood in their own context and be de-linked from any argument which might see Indian aid

as linked to the promotion of Indian exports or securing imports for India or getting investment contracts for its private sector”, **Gareth Price** noted that “India’s current assistance strategy is clearly determined by political factors (strengthening relations with other developing countries, for example to gain support for India’s bid to gain a permanent seat on the UN Security Council) and by economic factors (such as gaining access to markets or raw materials).”

They would probably agree, however, that the legacy from Nehru’s policy on non-alignment and anti-colonialism is waning, and is gradually replaced by other strategic concerns. Despite the fact that the bulk of Indian trade is with industrialised countries, as argued by Prakash, there is a growing correlation between its aid portfolio and either potential markets for Indian goods or sources of raw materials and energy, as Price noted. For instance, India has expanded its facility for extending lines of credit to developing countries intended to cover Indian goods or services.

2003 seems to be a turning point. India announced that it no longer wanted to continue receiving bilateral aid from small (non G-8) donors, and a new India Development Initiative was pronounced. This reflects both a new economic self-confidence and a new role for India in a global economic perspective. The decision not to accept foreign assistance in the wake of the 2004 tsunami just fills in the picture.

Is there an Indian model?

According to Price, three ideas permeate India’s attitude towards aid:

- That assistance is given for political and economic purposes, as is the lesson from India’s own experience as aid recipient.
- But, for those reasons, that aid can be a highly effective means of improving relations.
- That conditional or tied bilateral aid can be degrading to the recipient.

India has so far decided, like China, not to establish its own “aid department”. The responsibility for ODA programmes is spread over several ministries. The aid is still predominantly bilateral, but encouraging experiences especially from international humanitarian operations have made India more positive towards aid coordination.

It is quite evident that India is well positioned to take a more active role in the international development debate. The country in many respects represents a development laboratory for the world, not least due to its vibrant development NGO sector but also inventive public policies, and it can draw on an impressive number of development experts in India and in the Indian diaspora (all with a good command of English). Still, there is no official Indian ODA charter, and there is no claim, at least not yet, to an Indian model for aid or development for that matter. In this respect, India is likely to differ from Japan, China and Korea, keeping the aid involvement less coherent and more pluralistic.

South Korea: promoting a development example

Rapid ODA expansion

Korea initiated development assistance in the mid 1960s when it invited trainees from developing countries, but it took until late 1980s before full-fledged aid agencies were established, first, in 1987, with the Economic Development Cooperation Fund for concessional lending managed by the Export-Import Bank of Korea, and second, in 1991, with the Korea International Cooperation Agency (KOICA) under the Ministry of Foreign Affairs. KOICA is responsible for grant aid and

technical assistance. Korean ODA more than tripled from 2000 to 2004, and the grant element of the aid rose from 37 to 42 per cent.

In 2005, two major events took place. Korea joined the IDA of the World Bank and its multilateral contributions jumped from about 100 to 290 million USD. A decision to support post-war reconstruction in Iraq led to a 40 per cent increase in bilateral aid under KOICA, and made Iraq the largest recipient of Korean aid (32 per cent in 2005). A total of 130 nations now receive Korean aid amounting to 750 million USD in total in 2005, 80 per cent of which goes to Asia (Iraq included). It is worth noting that that social infrastructure dominates and its share has been going up at the expense of economic infrastructure, reaching 60 and 20 per cent respectively. This testifies to a trend bringing Korean aid closer to the average OECD-DAC member pattern. Korea is the only OECD member not having joined the DAC, and its official aim is to do so by 2010. But there remains a way to go.

The new ODA policy

The ODA improvement plan presented at the end of 2005 sets some ambitious targets: doubling aid by 2009, tripling aid to Africa by 2008, and bringing aid to 0.25 per cent of GNI by 2015 (up from 0.096 per cent in 2005). This implies an estimated aid budget of 2.8 billion USD (in 2004 only six countries exceeded that amount), but still far behind the commitment of DAC members to reach 0.7 per cent of GNI by 2015. The realisation of these ambitions will, however, to a large extent hinge on what happens in the relations with North Korea. Aid to North Korea amounted to 430 million USD in 2005, and is for constitutional reasons not counted as ODA. A strong growth in aid to North Korea will probably crowd out ODA.

The plan, furthermore, formulated a three-prong vision: to contribute to poverty eradication; to support the sustainable development of developing countries; and to improve conditions for advancing Korea's relations with developing countries. The latter element Korea shares with many donors, not least its Asian neighbours, often expressed by the term "creating mutual benefits", but how this will be translated in practice may raise controversy. There are, however, signs in the new policy that ODA may be better shielded from undue political and commercial pressures. In 2006, government launched the International Development Committee with the prime minister as chairman and high level participation of ministries, KOICA and the Ex-Im Bank. The inclusion of 6 non-government members is a deliberate step towards raising public support for ODA. There is an emphasis on improved aid effectiveness and harmonisation with other donors, and the need for enhanced transparency and accountability.

A Korean model?

As argued by **Yul Kwon**, there is a Korean model: "Korea is a prime example of a country that successfully overcame poverty in earlier decades through assistance. The valuable experience Korea gained in reducing poverty through official development assistance is something other countries have not had in recent years". Hence, it is argued that the Korean experience is relevant for shaping development policies as well as how to make best use of aid. Essential features of the Korean model are:

- Promotion of trade and inducement of foreign investment.
- Planning and management of market based economic development.
- Human resources development through high quality education, research and training.
- Basic healthcare and education services.

It is argued that Korea's unique development experience – eradicating poverty in 40 years – should be a reference point for its ODA, and that a key driver should be knowledge transfer and capacity

building, and Yul emphatically stated: “We believe that the most effective assistance that an emerging donor with a relative short ODA history and limited resources can provide is technical cooperation focused on knowledge transfer”. Assisting Vietnam in establishing its stock exchange is a case in point.

The Korean government is striving to conform to the guidelines agreed upon by the international donor community, including the Paris Declaration, but face constraints at home in how to balance between national interests and international aid norms, and the financial and political basis for further expansion of aid is fragile. The global development community needs to help emerging donors strengthen their role. According to Yul “they can play a crucial role in bridging the gap between donor countries and developing partners by sharing their development experiences with the help of aid”.

Models in the making

Is there an Asian model of aid? The speakers at the seminar clearly answered no, if this is taken to mean one model. However, the speakers pointed towards national policy discourses emphasising the need to root aid policies in something national. This debate appears to be most advanced in Japan and South Korea, where both countries want to build on its own development experiences.

All four countries are among the world’s 12 largest economies, some (China and India) among the fastest growing, some with a remarkable record in poverty eradication (Japan and Korea), and all with experiences as recipients of aid. Obviously, these development experiences deserve greater attention from the international development community – even challenging the hegemony of Western models. But these Asian donors are still only modestly suggesting that they represent models to be emulated. Korea is probably most forthright on the issue; Japan seems to become more vocal, while China represents uncertainty and India pluralism. **Poul Engberg-Pedersen** welcomed a more nuanced debate on Asian development experiences, in particular the role of the state and export orientation, and a competition on ideas. This may result in better understanding of comparative strengths among donors, and prospects for division of labour.

In terms of ODA management there are major differences in structures as well as patterns of change. Japan and Korea are both taking steps towards stronger national coordination of ODA – Japan with the merger of JICA and JBIC, and Korea with a new national high-level committee. Both have signed up to international principles of “good” donorship, including efforts to de-link aid, trade and investments.

India and China seem to move in the opposite direction. Is this hypocrisy or sound aid policy? Interestingly, they may find justification for this strategy in the Japanese aid experience, which claims that much of the success of aid to East Asian countries rest on “mutual benefits” created through linking aid, trade and investments.

All four countries struggle with a domestic opinion that is either ignorant or basically sceptical towards ODA as international altruism. Civil society involvement in aid operations seems to be the strongest in Korea and India.

What can Norway do?

There is a concern that these Asian donors, and other emerging donors, will influence the aid architecture in undesirable ways. Seen from a Western donor perspective, the harmonisation agenda may suffer and, with it, donors’ leverage on policy reforms deemed necessary for achieving the

Millennium Development Goals and ensuring respect for human rights. The seminar confirmed that the first part of this perspective is most realistic, whereas the latter is more questionable.

The four Asian donors all subscribe to an aid policy based on non-interference. This, in addition to the added resources and experiences they provide, will increase recipient countries policy and negotiating space. It is the experience of the same donors, as recipients of aid, that this space was much needed when they developed policies of their own. Why is this not likely to be beneficial for Africa as well?

The seminar concluded that Norway should take on a learning attitude. There is no one model for aid, and there will never be a development model with a size that fits all:

- *Norway can take initiatives for sharing aid experiences with Asian donors both at the level of policy thinking as well as aid management at country and project level.*
- *This entails linking aid agencies (e.g. policy and evaluation departments) and relevant research institutions and NGOs.*
- *Norway can make efforts to better understand recipients' perspectives, through dialogue and independent studies.*
- *Norway can prepare for how to behave in a more competitive aid environment, with more donors, greater variety in objectives and practices, and more money.*
- *This includes a renewed focus on aid effectiveness which is less about defining "right" policies and more about addressing and constraining perverse incentives and moral hazard problems in aid relations.*

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SUMMARY

The expansion of the international donor community clearly challenges the current “consensus” of a new “harmonised” aid architecture, and calls for strategies on how to adjust to an aid landscape with greater plurality and variety, for recipients and donors alike. A first step for a donor like Norway is to ask what can be learned from the Asian donors on new or alternative forms of donorship.

What can we learn from Japan’s extensive aid experience, but also from China and India which started south-south cooperation and aid programmes back in the early 1950s?

Do they represent alternative thinking on what brings economic development and poverty reduction? Will this challenge some of the basic ideas underpinning the current emphasis of national poverty reduction strategies supported by the donor community?

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