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From a Late-comer Donor to the Top Donor: How Special is Japanese ODA?

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Preface

Japan has become one of the top donor countries since the late 1980s. The volume of Japanese ODA (Official Development Assistance) in 1991 amounted to more than \$11 billion. The total amount of Japanese funds to developing countries in 1991 was \$25 billion. The share of ODA in total amount of flow of funds from Japan in 1991 was 44.1% (Table 1). It is quite natural for us to entertain a lively concern for the effectiveness of Japanese ODA.

1. Quantity and Quality of Japanese ODA

The ODA/GNP ratio in 1991 was 0.32%, the 12th among DAC members. The per capita ODA was \$73.4, the 11th among DAC members. The grant share in 1989-90 was 45.6%, the 18th among DAC members, and the grant element in 1989-90 was 77.6%, the 17th among DAC members. The average figures for grant share and grant element of DAC members were 76.9% and 92.8% each, so Japanese ODA is far short of these averages (Figure 1). The larger share of loans compared with other donor countries is the main cause of the smaller grant share and lower grant element in Japanese ODA. The share of Yen loan in total bilateral ODA in 1991 was 61.7%, and that of grant was 38.3%.

It has been argued that it is an urgent task for us not only to increase the

**Table 1 Flow of Funds to Developing Countries from
Japan: 1990 and 1991**
(net payment base, \$ million)

	1990	1991
1. ODA	9,222 (48.4%)	11,034 (44.1%)
2. OOF	3,470 (18.2%)	2,699 (10.8%)
3. PF	6,262 (32.9%)	11,142 (44.5%)
4. NGO	103 (0.5%)	168 (0.7%)
5. TOTAL	9,057(100.0%)	25,043(100.0%)

Source: Ministry of Foreign Affairs, *Japan's ODA, 1992 Annual Report*, Vol. 1, p. 101

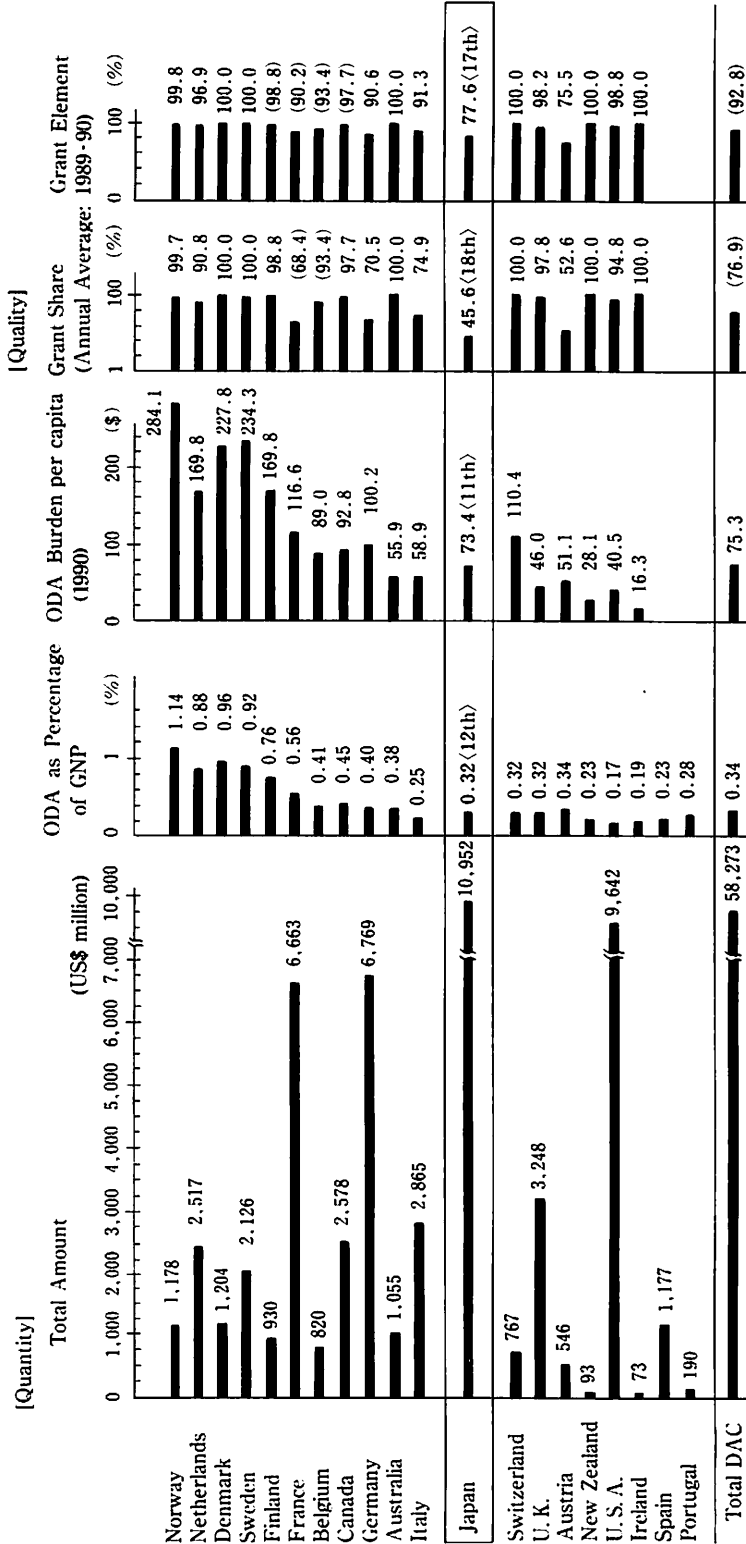


Figure 1 DAC Members' ODA Contributions (1991)
 Source: Ministry of Foreign Affairs, Japan's ODA, 1992 Annual Report, vol.1, p.21.

amount of ODA but also to improve the quality of ODA, because today Japan is one of the biggest economic powers of the world. But it is not clear whether grant aid is a more effective means for development than loan aid. It is highly plausible that the failure ratio of grant projects is bigger than that of loan projects. We cannot judge the "quality of aid" from the viewpoint of grant share or grant element. Nor can we admit that the grant share or grant element is the index of "humanitarian consideration". The desirability of grant aid over loan aid is pertinent only when we consider the financial burden of repayment for the recipient countries.

If we look at the region-wise distribution of Japanese ODA in 1991, the share to the Asian region stands at 51.0%, Middle East 20.4%, Africa 10.3%, Latin America 9.5% and so on. It is natural for Japan to concentrate her ODA in the Asian region, remembering the fact that Japan herself belongs to the Asian region and that Japanese ODA started from the indemnity payments for the Second World War to Asian countries. We should appreciate the efforts of Japanese government to diversify her ODA quickly from the Asian region to other regions. In 1980, 70.5% of Japanese ODA was directed to the Asian region.(Table 2)

The share of untied aid in total amount of ODA in 1990 was 82%. This large share of untied aid is second among DAC members. In 1989, the share of untied aid for the UK was only 24.0%, and that of the U.S.A. was 34.9% (Table 3). In the case of Yen loans, of the total, the actual share of goods and services supplied from Japanese companies in 1990 was only 27%. An additional 21% of goods and services was supplied from other OECD companies, and 52% was supplied from LDC companies. The assertion that Japanese aid is aimed to promote exports from Japanese companies has no basis any more. The large share of untied aid is a reflection of the strengthening international competitiveness of Japanese companies.

Technical cooperation is one part of grant aid. The share of technical cooperation in total bilateral ODA was 14.7% in 1990, the 11th among DAC members. However, the absolute amount was the 4th among DAC members. The average share of technical cooperation of DAC members was 23.1%. Japanese technical cooperation includes not only cooperation in the basic needs sector such as health and nutrition but also cooperation in the high technology sector such as computer

Table 2 Region-wise Distribution of Bilateral Japanese ODA

	(%)		
	1980	1985	1991
Asia	70.5	67.8	51.0
North East Asia	4.2	15.3	8.0
South East Asia	44.0	37.6	25.5
South West Asia	22.2	14.7	17.4
Others	0.3	0.1	0.0
Middle East	10.4	7.9	20.4
Africa	11.4	9.9	10.3
Latin America	6.0	8.8	9.5
Others	1.8	5.7	9.0

Source: *Japan's ODA, 1992 Annual Report*, Vol. 1, p.90

Table 3 Tying Status of Japanese ODA

	(%)	
	Untied Aid	Tied Aid
1977	44	56
1980	53	47
1985	68	32
1990	82	18

Source: *Japan's ODA, 1987 Annual Report*, Vol. 1, p. 28; *Japan's ODA, 1992 Annual Report*, Vol. 1, p. 22

Table 4 Tying Status of Some DAC Members in 1990

	Untied Aid	Tied Aid
Australia	15.8	84.2
Canada	38.8	61.2
France	47.1	52.9
Germany	43.6	56.4
New Zealand	100.0	0.0
UK (1989)	24.0	76.0
USA (1989)	34.9	65.1

Source: *Japan's ODA, 1992 Annual Report*, Vol. 1, p. 22

know-how. The region-wise distribution of technical cooperation in 1991 is as follows; Asia 58.1%, Latin America 18.8%, Africa 10.75%, the Middle East 7.7%, the Pacific 3.3%, Europe 1.3%.

It is very clear that technical cooperation is a very useful means to alleviate poverty, because this form of aid is mainly pursued through human exchanges and it is possible to treat poverty problems more effectively. The basic cause of the lower share of technical cooperation from Japanese ODA is the lack of sufficient experts.

2. Basic Philosophies of Japanese ODA

The basic philosophies of Japanese ODA have consisted of two elements, i.e., "humanitarian consideration" and "recognition of the interdependence among nations of the international community". The ODA Charter which was adopted by the Cabinet on June 30, 1992 added the third element, "environmental consideration" (Ministry of Foreign Affairs, 1992a). These philosophies have universal validity and are not specific only to Japanese ODA. However, while the philosophy of "humanitarian consideration" is a message directed to the least developed countries or a message to the world poverty problems, the philosophy of "recognition of the interdependence" is a message directed to expectations for constructing friendly economic relationships with foreign countries.

There was not a big perception gap between "humanitarian consideration" and "recognition of interdependence" when almost all Asian countries were still poor and also almost all Japanese ODA was directed to these poor neighboring Asian countries. However, during the 1980s Japan grew to be one of the biggest donors and neighboring Asian countries experienced remarkable development. Because of this quickly changing situation, there appeared a gap between "humanitarian consideration" and "recognition of interdependence". Today each philosophy represents a different evaluation.

Judged from the present status of developing countries, the countries which fall typically under the first category are those such as Sub-Saharan African countries or the South Asian countries, while the countries which fall typically under the second category are the East Asian and the South East Asian countries. The devel-

opment stage of each category of developing countries are very different and the quality of developmental problems are also very different. If we put “humanitarian consideration” and “recognition of interdependence” on equal footing, the criteria to supply ODA may have a double standard.

3. “Request Principle” and “Self-Help Efforts”

One of the most conspicuous characteristics of Japanese ODA has been the request principle or the principle of self-help efforts. The request principle or the principle of self-help efforts is interpreted as follows by the Ministry of Foreign Affairs;

“the leading actor of development is developing countries themselves. We maintain our standpoint that because we give our aid to support the self-help efforts of developing countries, we respect as much as possible the contents and priorities of their request for aid”.

(Ministry of Foreign Affairs, 1991, vol.1, p.43)

1992 ODA Report which explains “ODA Charter” says,

We Japanese, reflecting development experiences of our own country and the East Asian countries, believe that to promote development through self-help efforts can bring true economic take-off. In case there are no self-help efforts of the recipient countries, we cannot be expected to give a lot of aid. According to these considerations, we adopt the so-called request principle to select aid projects.”

(Ministry of Foreign Affairs, 1992b, vol.1, p.55)

That is to say, they think that the requests for Japanese aid reflect the self-help efforts of the recipient countries. It is quite clear that, without any self-help efforts of the recipient countries, aid cannot work properly. As the Cassen Report tells us, “In so far as the relief of poverty is a collaboration between recipient governments and aid, aid is definitely the junior partner. Far more important are the recipient’s policies, politics, social structure, and so forth — these are the critical matters.” (Cassen and Associates, 1987, p.298)

However, the “request principle” is one thing, and the “self-help efforts” is another. Each is determined by different factors. It may not be impossible but it is definitely insufficient to judge self-help efforts of recipient governments from the contents and priorities of their aid request. The contents of self-help efforts are much wider than the contents and priorities of their aid request.

One of the main issues of the concept of self-help is whose self-help efforts should be assumed. ODA is a contract between donor government and recipient government or the transfer of funds from government to government. If so the self-help efforts means more precisely the self-help efforts of the recipient government. Then we should judge how accurately the aid requests reflect the self-help efforts of the recipient governments. Further we should judge how accurately the self-help efforts of the recipient governments reflect the needs of the people of those coun-

tries. The skepticism expressed by Myint that “how far official aid is capable of reaching the poor after it has gone through the double filter of the governments of the aid-giving and aid-receiving countries, each naturally pursuing its own political and economic goals” still has validity (Myint, 1984, p.172).

As is well-known, Fei & Paauw argued that the essence of the self-help problem was “the relationship between external assistance and the mobilization of domestic savings”, and they tried to measure the “self-help” efforts by the per capita marginal savings ratio (Fei & Paauw, 1965). However, as Eckaus has indicated, the “self-help” could not be a criterion of aid distribution from donor countries (Eckaus, 1969). The “self help” efforts are nothing but the development process itself.

4. Hard-Technology Orientation of Japanese ODA

If we look at the ex-post evaluation reports of Japanese ODA projects (Ministry of Foreign Affairs, each year), we can find very few reports which pointed out any problems or difficulties regarding adopted hard-technology. Rather the problems or difficulties of Japanese ODA projects to be solved are related to “soft-technology” such as unsuitable building design to local society, insufficient operational manuals written in local languages, unsuitable technology interface with local technology, and so on. Or the difficulties are related to the more complicated socio-economic problems such as insufficient orders to the local companies, re-settlement of local inhabitants in the case of dam construction or some sort of mismatch with local living styles, and so on.

Many of the Japanese ODA projects are typically hard-technology oriented and are very weak in terms of socio-economic considerations. The main criteria for selecting projects seem to lie in the appropriateness of financial returns and the suitability of selecting hard-technology. The importance of socio-economic research or the social acceptability of ODA projects seem to be not fully recognized as crucial in Japanese ODA management. Here again the critical problem is the deficiencies of expertise. It is an urgent task for us to make wider socio-economic research networks which include researchers of the recipient countries.

5. Japanese Type of Policy Based Lending?

The above mentioned characteristics of Japanese ODA, i.e., the larger share of Yen loan, concentration on infrastructure building, the smaller share of technical assistance, concentration in Asian regions, a double standard for aid philosophies of humanitarian consideration and recognition of interdependence, the identification of request principle with the principle of self-help efforts and the hard-technology orientation, were all produced by Japan’s historical position as “a late-comer donor”.

As Japan grew to be a super economic power of the world, and particularly as the Japanese trade balance surplus structurally became bigger and bigger, it became an urgent task for Japan to transform the Japanese ODA system from a late-comer type to a developed country type. To do so, the increase of amount of aid, the

upgradation of aid quality, the diversification of aid receiving regions including the ex-Soviet block, the strengthening of technical cooperation, the adding up of environmental consideration to the philosophy of ODA, the stressing values such as democratization, human rights and the maintenance of peace are required. New fields such as poverty, population, women's role in development are also added to tasks to be done. Japanese government vigorously responds to these new fields and problems. Particularly interesting is the task of overcoming the request principle and the raising necessity of policy dialogue.

The active supporters for overcoming the request principle urge that the so-called "Japanese type of structural adjustment" programs are necessary to support the balance of payment difficulties of developing countries, and they urge that a more active policy dialogue is necessary. They assert that the concrete contents of "Japanese type" structural adjustment programs could be drawn from the lessons of Japanese development experience.

Professor Toshio Watanabe argues that the lesson to be learned from Japanese development experience is "self-help efforts". (Watanabe, 1991). It is undeniable that "self-help" might be a good enough philosophy or slogan for the ODA, but it is insufficient when we present concrete Japanese type policy recommendations to the developing countries. It is necessary to clarify the criteria of self-help; whose, what kind, and what degree of self-help efforts are being carried out. Professor Watanabe argues that self-help includes all the social factors and it is a "black box". But if the contents of the self-help efforts are a "black box", it is impossible to have any policy dialogue.

We can find another notable discussion in "Issues related to the World Bank's approach to structural adjustment" by OECF (OECF, 1991). The basic standpoint of this paper is as follows;

"It is fully recognized that efficient resource allocation through the market mechanism [advocated by the World Bank] is an important issue of economic policy. However, when we make up an economic reform program, various factors other than efficiency must also be taken into account. If efficiency of resource allocation is stressed too much without giving due consideration to these factors, the program will not be a properly balanced one. This can lessen the significance of introducing the market mechanism itself. Therefore, a well-balanced program pursuing more than just economic efficiency is required. Furthermore, efficiency must be considered from a long-term viewpoint."

And the paper takes up four specific points that seem to have been overlooked by the World Bank;

1. Measures aiming directly at promoting investment;
2. Some measures for fostering industries;
3. To utilize development finance institution lendings with subsidized interest rates in various cases.
4. To adopt various factors other than efficiency as the criteria for decision making when considering privatization.

On the subject of structural adjustment programs, the World Bank has enough experience. It is necessary for us to scrutinize their experiences of policy-based

lending. *Aid and Power: The World Bank and Policy-based Lending*, by Paul Mosley, Jane Harrigan and John Toye is one of the most excellent studies on the effectiveness of structural adjustment lending by the World Bank (Mosley, Harrigan & Toye, 1991, vol.1, pp.299-304).

They conclude:

1. here are more justifications for government intervention than the Bank has generally been prepared to accept and that further work to determine the appropriate form and levels of such intervention is now urgent.
2. Even overt slippage on conditions has been substantial — over 40 per-cent, according to the evidence of their studies.
3. By contrast, with the Bank's generally acknowledged success in project lending (e.g. an average ex-post rate of return of 17 percent across all projects between 1960 and 1980), it is not even clear whether the net return, in terms of growth of gross national product, on the \$25 billion which the Bank so far invested in policy-based lending is positive or negative.
4. The shift from project assistance to a mixture of hard-conditionality IMF finance and soft-conditionality Bank program lending has led to a squeeze on public-sector development spending. The fact that both domestic and overseas private investment, especially in the poorer developing countries, have often fallen rather than risen in response to cuts in public development expenditure has compounded the problem.
5. It is in these poorer developing countries that we encounter the kernel of the World Bank's adjustment-lending dilemma. A policy of trade liberalization works better if industry is already competitive on export markets; price incentives to commercial farmers work better if those farmers have access to credit, fertilizer and good roads; privatization works better if there exists a private sector able to and willing to take over the public sector's assets.

There are some doubts to the idea that Japan should recommend a Japanese type of structural adjustment program on bilateral ODA base.

First, it is possible only for multilateral institutions such as the World Bank or the IMF to intervene on economic reforms of the recipient countries. If any one country tries to do so in the same manner on a bilateral base, it can not escape from the criticism of intervening in the national politics of the recipient countries. It is better for Japan to persuade the multilateral agencies to realize the Japanese model adjustment program.

Second, there doesn't seem to be enough expertise in Japan to execute a policy reform program which is based on Japanese development experience.

Third, it is impossible to generalize the Japanese experience of economic development as the model for eradicating poverty in developing countries. Particularly the "Japanese model" is unsuitable for the least developed countries. We cannot ignore the huge and qualitative differences of initial conditions between Japan and those developing countries.

6. Final Comments

It is neither correct to over-expect ODA nor to denounce it as harmful or meaningless. ODA has neither been able to buy political support of the recipient countries nor dramatically improve macro-economic performances of developing countries if we take developing countries in aggregate (Mosley, 1987, Chapter 5). As a lot of studies clarify, there has been no positive correlation between inflows of ODA and growth rate. Where ODA has positive impacts on economic development, it doesn't mean ODA made economic development successful, but it means only where the economic development succeeded ODA could be used effectively. The experiences of East Asian countries or ASEAN countries are good examples.

ODA is not a magic wand, but still there is reason to supply ODA. The reason is that it is necessary for human beings today to combat against world poverty, and to that purpose it is necessary to give public support. There is absolute poverty of 1 billion people in the world, and it is not impossible for us to solve this problem when we realize the enormous productive power of the world today. There is enough ethical reason to support aid.

The issue to be examined is whether or not too many different kinds of purposes, motivations, and forms of official transfers are included in ODA. It is an urgent task for us to discuss the agenda and the non-agenda of Japanese ODA.

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