

Trends in Development Assistance—Series 2

Global ODA since the Monterrey Conference



Edited by
AKIYAMA Takamasa
KONDO Masanori

FASID

Foundation for Advanced Studies on International Development
International Development Research Institute (IDRI)

Global ODA since the Monterrey Conference

The Foundation for Advanced Studies on International Development (FASID) was established in April 1990. FASID and its affiliate, International Development Research Institute (IDRI), conduct research, facilitate interaction among researchers and practitioners, and offer training programs to development specialists. These activities are aimed for improvement in the quality of development programs and policies.

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e-mail : pub@fasid.or.jp

URL : <http://www.fasid.or.jp>

Foreword

Naonobu Minato

**Acting Director, International Development Research Institute,
Foundation for Advanced Studies on International Development**

This is the second volume in the series *Trends in International Assistance*, edited and published by the International Development Research Institute (IDRI) of the Foundation for Advanced Studies in International Development (FASID). IDRI follows trends and issues in international development assistance through research, analysis and discussions arranged and organized by its Development Assistance Study Unit.

The first volume in the series, published in 2002, reviewed the history of development assistance theory and practice since World War II through an examination of the strategies and activities of mainly one influential organization, the World Bank. This second volume focuses on the present and on a range of major players. It offers in-depth analyses of key current trends in the development assistance programs and policies of the United Nations Development Programme (UNDP) and the governments of Japan, the United States, the United Kingdom, France and Germany, as well as the World Bank. Attention is also given to important issues occupying the international development community through describing major topics discussed at key international conferences.

IDRI expresses its appreciation to the outside contributors to this volume, each of whom has brought insights to this book from academic studies and hands-on experience: Masanori Kondo, International Christian University; Suzanne Akiyama, DEVINAK Associates; Akiko Yuge, UNDP; and Masahiko Kiya, Ministry of Foreign Affairs of Japan. We are also very grateful to Hajime Sato for the difficult translation work and to Seth Beckerman for his excellent editing.

We hope that the topics presented in this book will provide researchers, practitioners, and students of the international development community with relevant and topical information.

Global ODA since the Monterrey Conference

Foreword

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Abbreviations and Acronyms

AfD	Agence française de Développement
APEC	Asia-Pacific Economic Cooperation
ARPP	Annual Report on Portfolio Performance
ART	Anti-Retroviral Drug Treatment
ASEAN	Association of Southeast Asian Nations
ATP	Aid and Trade Provision
BASD	Business Action for Sustainable Development
BCPR	Bureau for Crisis Prevention and Recovery
BHN	Basic Human Needs
BMZ	Federal Ministry for Economic Cooperation and Development
CAPs	Country Assistance Plans
CAW	Country Analytic Work
CCA	Common Country Assessment
CDD	Community-Driven Development
CDF	Comprehensive Development Framework
CICID	Comité Interministériel de la Coopération Internationale et du Développement
CGIAR	Consultative Group on International Agricultural Reform
CIS	Commonwealth of Independent States
CPC	Crisis and Post-Conflict
CPIA	Country Policy and Institutional Assessment
CPRP	NetCrisis Prevention and Recovery Practice Network
CSOs	Civil Society Organizations
DAC	Development Assistance Committee
DFID	Department for International Development
DG	Development Gateway
DGCID	Directorate General for International Cooperation and Development
DPA	Department of Political Affairs
EAP	East Asia and the Pacific
ECHA	Executive Committee on Humanitarian Affairs
EFA	Education for All
E/N	Exchange of Notes
EPA	Economic Planning Agency
ERD	Emergency Response Division
EU	European Union

FDI	Foreign Direct Investment
FfD	Financing for Development
FILP	Fiscal Investment and Loan Program
GAGP	Grant Assistance for Grassroots Project
GDA	Global Development Alliance
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HCCI	l'Haut Conseil de la Coopération Internationale
HIPCs	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IDB	Inter-American Development Bank
IDEA	Initiative for Development in East Asia
IDPs	Internally Displaced Persons
IDTs	International Development Targets
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JEXIM	Export-Import Bank of Japan
JICA	Japan International Cooperation Agency
JPF	Japan Platform
JPO	Junior Program Officer
JOCV	Japan Overseas Cooperation Volunteers
KfW	Kreditanstalt für Wiederaufbau
LDCs/	
LLDCs	Least Developed Countries/Least among Less Developed Countries
LDP	Liberal Democratic Party
LICUS	Low-Income Countries Under Stress
LOTFA	Law and Order Trust Fund for Afghanistan
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MITI	Ministry of International Trade and Industry
MENA	The Middle East and North Africa

MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MYFF	Multi-Year Funding Framework
NEPAD	New Partnership for Africa's Development
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
ODA	Overseas Development Administration
OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
PBA	Performance-Based Lending
PREM	Poverty Reduction through Economic Management
PRODERE	Development Programme for Displaced Persons and Returnees in Central America
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSI	Private Sector and Infrastructure
PSIA	Poverty and Social Impact Analysis
QAG	Quality Assurance Group
REAP	Recovery Employment Afghanistan Programme
SAL	Structural Adjustment Loan
SAP	Sociology, Anthropology and Political Science
SURFs	Sub-Regional Resource Facilities
TICAD	Tokyo International Conference for African Development
TRAC	Target for Resource Assignment from the Core
UNCDF	United Nations Capital Development Fund
UNCT	United Nations Country Team
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNOPS	United Nations Office for Project Service
UNV	United Nations Volunteers

USAID	United States Agency for International Development
VENRO	Association for Development Policy of German NGOs
WBI	World Bank Institute
WFP	World Food Programme
WHO	World Health Organization
WID	Women in Development
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization
WWF	World Wild Fund for Nature
ZSP	Priority Solidarity Zones

1

Overview

Takamasa Akiyama
Masanori Kondo

International development assistance is in a period of significant transition. Past theories and methods are being questioned and new ones are being searched, proposed, and perhaps implemented. The development assistance community faces a serious challenge of improving aid effectiveness and efficiency. On the brighter side, the declining trend of worldwide official development assistance (ODA)¹ may have been reversed, and there is hope for new strategies and approaches that emphasize institutions and human aspects of development. These trends are especially apparent in the United Kingdom and other European countries. The United States seems to be skeptical about new approaches, but is more enthusiastic than before about helping the democratization of developing countries, partly due to its concerns about terrorism. Various new strategies and methodologies have been discussed and implemented during the past few years, but based on experience it is difficult to predict which will be effective. We are likely to see more significant changes in assistance approaches in the near future.

The World Bank and other members of the international aid community seem to be optimistic and think that future aid will be effective. An analysis by the Bank postulated that countries with a poor record of development and poverty reduction lack good policies and institutions, and therefore aid will be utilized effectively if it is provided to countries where these two factors are present.² Some also believe that while past assistance tended to be

Akiyama is senior advisor to the International Development Research Institute, FASID, and visiting professor at the National Graduate Institute for Policy Studies. Kondo is assistant professor at the International Christian University.

1. The total amount of the world's ODA decreased by 20 percent in real terms from 1990 to 2001 (World Bank, 2002a, p. xviii).
2. World Bank (2002a) for an example.

used as a tool for the major donors' diplomatic and political strategies, this tendency weakened with the end of the Cold War and aid will be allocated to countries or sectors where it will be used most effectively. However, the foundation of this optimism may be eroding. The terrorist attacks in September 2001 shifted our attention from the Cold War to counterterrorism and to the related issues of political institutions and democratization in developing countries. This change will not only dictate the aid policy of the United States, but will also have a significant effect on the policy of international organizations and other donor countries.

The focus of international development aid evaluation is shifting from inputs such as the amount of total aid to outputs or effects. This approach may have important ramifications in the future. The adoption of the Millennium Development Goals (MDGs), which currently carry great importance to the development community, was originally motivated by doubts as to whether development assistance was really effective in reducing poverty. MDGs also represent an implicit shift in emphasis from growth promotion to poverty reduction. Moreover, they were based on a belief that aid must be evaluated in terms of its concrete outcomes, especially in poverty reduction. It is difficult, however, to link concrete goals such as MDGs and actual aid at the country level. In spite of this, some major donors such as the United States have a policy of linking aid expenditures to clearly measurable outcomes.

In Japan, public support for ODA has waned from a few years ago³ and many doubts have been voiced about its effectiveness. This, and fiscal difficulties associated with the recession that is more than 10 years old, have reduced Japanese ODA in the past few years. In 2001, Japan lost the long-held position as the world's largest donor country to the US. As these developments suggest, Japanese development assistance has entered a period of significant transition and ODA reform is inevitable. The Japanese aid community is aware of this transition, and these issues are debated vigorously, including the Second Council on ODA Reform. Under these circumstances, it is expected and desired that Japanese assistance will be implemented more efficiently and effectively in the future. Just as aid coordination among major donors and international organizations is advocated, coordination among aid agencies within Japan must be enhanced. Also, more coop-

3. The support for development assistance increased because of the 9-11 terrorist attacks, but it is not clear if this is sustainable.

eration from Japan will be called for in such related areas as peacebuilding, counterterrorism, and trade. In reaction to these developments, the Japanese government reviewed the ODA Charter and the request-basis principle, has reorganized the Japan International Cooperation Agency (JICA) as an independent administrative institution, reorganized the Economic Cooperation Bureau of the Ministry of Foreign Affairs, and is increasing assistance for social infrastructure and preparing Country Assistance Plans.

The main purpose of this volume is to analyze world aid trends, including those of Japan. Using 2002 as a baseline, we summarize this analysis for the Japanese development community and examine the challenges and outlook that are derived from the analysis. We also analyze the trends from major international conferences held in 2002 and major international organizations and donor countries. The following chapters were written by FASID staff and the experts in corresponding fields.

Recent trends in development assistance

In the past few years, international development assistance has revolved around the MDGs that were adopted in September 2000 at the UN General Assembly. A March 2002 UN conference in Monterrey, Mexico (International Conference on Financing for Development) aimed to increase ODA. There we saw signs that the total world ODA, which had been declining for more than 10 years, might increase. After the Cold War, major donor countries and organizations, including the World Bank and European nations, began to believe that it was possible to provide more effective and efficient assistance that was based on new concepts such as institution-building, participation, and ownership, and were focused on poverty reduction. Following the 9-11 terrorist attacks, the US, which had been skeptical about new concepts, began to concede that poverty may breed terrorism and that poverty reduction is therefore an important means to prevent terrorism.

However, as we see from the eligibility conditions of the Millennium Challenge Account (MCA) that were announced at the Monterrey Conference, the core of the US strategy is to make the governments of developing countries more ‘democratic’ from the perspective of Western nations. The US also emphasized the issue of aid effectiveness and began to shift toward a results-oriented approach, arguing that aid is meaningless if its contribution to poverty reduction and other goals is unclear. Under these circumstances, the most notable changes in international aid strategies in the past few years have been shifts—from growth promotion to poverty reduc-

tion, from partial to comprehensive development, from individual efforts to coordination, and to a results orientation. In academia, scholars are moving away from a sole emphasis on economics to also embrace sociology, anthropology, and political science (SAP) (Kanbur, 2002, pp 477-486). Each of these changes is examined below.

From growth promotion to poverty reduction

One reason why poverty reduction became more important in international development assistance was that UN agencies were critical of the World Bank's structural adjustment loans — especially the United Nations Development Program (UNDP) — and advocated a focus on human development. In 1990 the human development index was released. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) followed in 1996 with International Development Targets (IDTs), the first of which was poverty reduction.⁴ This action by the DAC was an attempt to revitalize the international development community, which was then experiencing 'donor fatigue'. The passionate efforts of Clare Short, who became the Secretary of State in charge of the newly created Department for International Development (DFID) of the United Kingdom, contributed significantly to this change.

Although hesitant at first, World Bank Pres. James Wolfensohn adopted the IDTs, which placed a top priority on poverty reduction as the central strategy of the Bank. In the fall of 2000, the UN adopted the MDGs which were, in effect, slightly modified IDTs and set poverty reduction as the number one goal. The US seems to have also accepted the argument of British Prime Minister Tony Blair that poverty breeds terrorism and therefore assistance intended to reduce poverty is important.⁵

The MDGs — which call for poverty reduction and emphasize the closely related areas of social development such as health, education, and gender equity — became the central issue of international development aid strategies in large part because the notion that economic infrastructure development should be led by the private sector gained popularity. In the 1990s, foreign direct investments (FDIs) flowed into developing countries in much larger amounts than ODA at the global level. The emergence of East Asian countries — which seemed to have achieved economic development because

4. Japan made a great contribution toward the adoption of IDT. See Ishikawa (2002a).

5. This argument is often countered with an assertion that even rich nations such as Saudi Arabia support terrorism.

of FDIIs — questioned the *raison d'être* of the World Bank and other international development organizations. Under the newly popularized belief that even infrastructure projects such as roads, electric power, telecommunications, and ports should be handled by the private sector, some donors thought that government involvement could be justified in poverty reduction and associated social development such as health, education, and gender equity.

Development theorists have also come to believe that the most important factor for economic development is not capital but appropriate policies and institutions.⁶ This shift was caused by the tremendous impact that economists such as North⁷ — who focused on the importance of institutions and won the Nobel economics prize — and Stiglitz⁸ had on the discipline of economics, including development economics. There was also a significant influence from Sen,⁹ another Nobel laureate, who advocated poverty reduction and freedom in developing countries. These developments resulted in the current situation where the central theme of international development assistance is poverty reduction in a broad sense, which includes the expansion of human dignity and political and economic freedom for people in developing countries. The MDGs are the concrete goals of this endeavor.

More recently, however, it seems that the importance of economic infrastructure in aid is being recognized again by the World Bank and other organizations. One reason is the stagnant world economy of recent years that has caused a sharp decline in private investments to the economic infrastructure of developing countries, an area where corporations used to invest heavily. Moreover, representatives of China and India strongly requested the Bank to emphasize infrastructure in the summer of 2002. The Poverty Reduction Strategy Paper (PRSP) for Vietnam written in the same year focused on growth. Considering these developments as well as criticism that recent development strategies have placed too much emphasis on social infrastructure, the pendulum of development thinking may have begun to swing once again.

6. Another contribution to this trend came from the endogenous growth theory that became popular in the late 1980s and placed more importance on the accumulation of knowledge rather than capital.

7. For example, see North (1990).

8. For example, see Stiglitz (1989).

9. For example, see Sen (1995).

Human security

The emphasis on poverty reduction throughout the 1990s was based on thinking that saw poverty not only as an income problem but in a broader context that included education, health, and even freedom of choice. An even more comprehensive concept of ‘human security’ was advanced at the end of the 1990s. The background for this concept was a post-Cold War world that saw more frequent conflicts over religious, racial, ethnic, historic, or cultural differences; human rights violations; refugees and domestic evacuees; and problems of anti-personnel mines and small arms. The concept was based on the recognition that we need to focus on individual human beings in addition to ‘national security’ provided by individual governments if we are to overcome the widespread problems that directly threaten the existence, livelihood, and dignity of each person. Human security is a concept that calls for an enhanced effort to protect individuals from the threats to human life, livelihood, and dignity and to allow each to realize his or her unique, rich potential.

The concept of human security was mentioned in the UNDP’s Human Development Report 1994 and received much international attention. The Japanese government was quick to adopt it as an important perspective of its diplomacy. It established the Trust Fund for Human Security in the UN in March 1999 and established the Commission on Human Security in January 2001, which consists of 12 well-informed members under the co-chairmanship of Sadako Ogata and Amartya Sen. These developments are still fresh in our memory as Japan’s initiatives in the international aid community.

From partial to comprehensive development

To achieve institutional reform and reduce poverty in a broad sense, donors must use their development assistance to support not only the recipient country’s economic institutions and infrastructure, but also development that includes social, cultural, and political systems. As Ishikawa points out, this is in line with the new development strategy of the World Bank that includes the idea of modifying the entire society (Ishikawa, 2002a). The concept is to provide assistance while paying attention to the entire society or country instead of thinking about partial development. Traditional, isolated projects do not fit well in this approach. Donors must now position each project within a larger context and examine its sustainability and potential effects on the society, politics, and the broad economy. In addition, a new

idea has been advanced in the aid community — increasing fiscal assistance for the development budget in general (or national government finance) or for specific sectors, while considering such recently emphasized aspects as participation, ownership, and fungibility.

A problem with this approach is its consistency with grassroots aid activities by non-governmental organizations (NGOs) and other actors who are considered important. The PRSPs call for coordination with NGOs and other actors, but it remains a challenge for donors to coordinate with NGOs within the framework of development and poverty reduction policies of an entire country.

From individual efforts to coordination

Inadequate policies and institutions in recipient countries are noted as a cause of aid inefficiency, but the same can be said about the lack of donor coordination. The severity of this problem was vividly portrayed in the Helleiner Report (Helleiner et al., 1995). This report detailed a situation in Tanzania where many donors implemented numerous projects without coordination so that Tanzanian government officials were swamped and development assistance as a whole became very inefficient. This problem is especially serious in small countries with insufficient manpower. World Bank Pres. Wolfensohn emphasized this issue at the 2002 IMF-World Bank annual meeting. The Bank is trying to use the Comprehensive Development Framework (CDF) and PRSPs to solve the donor coordination problem, but coordination efforts are not always successful because international aid organizations and donors have different policies, strategies, and political objectives. This problem poses a particularly difficult challenge for Japan because it has a highly centralized aid administration system. Aid coordination with associated meetings also requires more time and expenses, especially on the part of donors.

Results orientation

The traditional evaluation of aid has been to measure dollars spent. We see many discussions, for example, that the total world ODA is about \$50 billion and represents a certain percent of the Gross National Product (GNP) of donor countries. But this measures only the input side, and we have had surprisingly few discussions about the results, for example poverty reduction or income increases. The MDGs and a results-oriented approach represent an effort to change this tendency. The US aid strategy is becoming clearer

on this point, with the government taking a position that it will not provide aid unless its effects can be identified quantitatively. This has great significance. Traditionally we tended to think that evaluations were conducted after the fact, but under this new American policy, at the planning stage aid officials must consider whether or not a project can be evaluated quantitatively. In this way the issue of evaluation influences the entire project. Also, in relation to the shift from partial to comprehensive development described above, it is now required to measure not only the impact of individual projects but also of an entire program or policy that connected them.

Issues of international development assistance

There are various issues associated with trends in international aid during the last several years. Some of these issues are listed briefly here.

Too much emphasis on poverty reduction

During the past few years, the focus of international assistance has been poverty reduction, and PRSPs have played a central role in many of the poorest countries. One major characteristic of MDGs is that they focus on social development goals such as education, health, and the environment, and that despite the recognition that economic growth has a large impact on poverty reduction, there are no goals for economic growth or economic infrastructure. This seems to be based on the notion that economic growth and infrastructure building are the territory of the private sector, that governments should deal with institutional issues such as policies, law and order, and governance so that the private sector can do its job, and that international donors should simply support the governments in this effort.

This belief that the private sector should lead economic growth has been central to the mainstream thinkers of development aid since the 1980s when many Structural Adjustment Loans (SALs) were implemented. However, the central pillar of Japanese aid policy has been infrastructure building and yen loans in support of it. Japan's policy so far has been based on the view that poverty reduction comes as a result of economic growth. This approach is based on the history of Japan's own economic development, the impact of World Bank loans on the Japanese economy, and the experience of East and Southeast Asian countries that have received the majority of Japanese aid.¹⁰

Our concern is this: International assistance in recent years is so much focused on poverty reduction that in developing countries with insufficient manpower, competent government staffs are involved in poverty reduction

projects, and as a result, projects and policies for economic development may be neglected. If too many human and financial resources are concentrated on the PRSPs and achieving MDGs, economic growth may be slowed and may negatively affect poverty reduction in the long run. In other words, we may end up with ‘pro-poor stagnation’ instead of ‘pro-poor growth’.

Assistance to countries with poor policies and/or institutions

Assistance is likely to be reduced to countries that do not have good policies, good institutions, and/or the strong administrative organizations required to implement projects. The World Bank has said that it would focus on capacity building in these countries (FASID, 2002a), but if aid is not provided, these countries will be left behind and suffer even more poverty. The fact that it is probably more difficult to measure the effects of aid in these countries may also reduce aid. One international organization has objected to this approach. The United Nations Conference on Trade and Development (UNCTAD, 2002) has claimed that PRSPs can have adverse effects in countries with weak policies and institutions and argued that donors should focus on trade and provide assistance that would increase exports from these countries (FASID, 2002c). Also, the United Nations Educational, Scientific and Cultural Organization (UNESCO) has asserted that the international development community should focus on education and that it is the countries with weak policies that the donors must support (UNESCO, 2002, Chapt. 6, p.5).

Validity of current aid methods

As the focus of international assistance shifts to the issues of political and social institutions, there will be increasingly serious questions about the validity of the conventional loan format of the World Bank, regional development banks, and Japanese yen loans, and whether the organizational structures and staff composition of these organizations are able to deal with institutional issues. Projects in these areas are often complex and require higher costs and more time. As discussed above, the World Bank group has come up with new strategies, procedures, and tools to deal with this situation (Akiyama et al., 2002, Chap. 4.). However, as stated in the World Bank’s Rural Development Strategy Paper (FASID, 2002d), people in

10. Because there is some opposition to SALs in Japan, some argue that the policies proposed in the current PRSPs place too much emphasis on direct poverty reduction measures and not enough on growth. For example, see Ishikawa (2002b), K. Ohno (2002), and I. Ohno (2002).

charge of projects tend to avoid difficult, time-consuming, and expensive projects such as agricultural projects, although this is probably true in any aid organization.

If aid agencies are to be more deeply involved with institutional issues, including society and politics, there will be a need for experts who are familiar with each developing country and detailed, country- and sector-specific studies and research by these groups.¹¹ However, such expert groups do not exist within aid agencies now, and the cost will be enormous to develop them in-house. Thus there is a need for coordination among international organizations and bilateral donors and an expansion of the staff and policy decisions at local offices. Another issue is how much they can be involved with these problems will be an issue for the World Bank and UN agencies that have a policy of not interfering in the internal affairs of member countries.

Also, because the direct beneficiaries of economic infrastructure and other projects are often private enterprises, donors should cooperate with them in terms of project planning, implementation, and maintenance. Moreover, we can expect an increase in Community-Driven Development (CDD) projects which have been used in rural development for the past few years by the World Bank and other organizations.

Trade

The importance of trade for development is now indisputable in light of the East Asian and other regional experience. Developing countries are fully aware of this, and many are asking donors to increase trade rather than aid. Many of the poorest countries have very small domestic markets, so there is probably no long-term development strategy for them that does not rely on trade. International negotiations on this issue will be conducted through the Doha Round of the World Trade Organization (WTO). Partly due to NGO demonstrations in Seattle and other places, the international trade system will be linked to development in the negotiation process.¹² The special focus of this round of negotiations will be trade liberalization of agricultural products and services.

11 According to the Rural Development Strategy Paper of the World Bank, the necessity of country and sector research is widely recognized, but the number of such studies has declined over the past several years (World Bank, 2002b).

12 Dani Rodrik of Harvard University insists that development should be an important agenda at the WTO (Rodrik, 2001).

The problem for many developing countries and especially LDCs is the financial difficulty of attending the many meetings related to the Doha Round and the lack of trade experts. Some assistance will be provided, but its effect is uncertain. As the liberalization of world trade progresses, developing countries will be afforded less special treatment in customs duties and other aspects of trade.

Possibility of not achieving MDGs

For the past few years, the world aid community seems to have focused on achieving MDGs. According to reports by UNDP and others, many Asian countries may be able to achieve MDGs by 2015 but it will be very difficult for other regions, especially Africa, to do so.¹³ Also, many developing countries have difficulty even measuring progress toward MDGs. International aid organizations and bilateral donors may experience ‘donor fatigue’ again if and when it becomes clear that MDGs cannot be achieved in many countries. In that case, aid that is currently considered effective will also be questioned.

Increase in time and costs of aid and coordination among donors

Recent years have seen a consensus that donors should consider not only issues such as the environment and gender, but also aid coordination, participation, ownership, and impact measurements. These factors are important to enhance long-term efficiency and sustainability of aid, but it is also true that they make planning, implementation, and evaluation of individual projects more complex and difficult. The increase in such costs¹⁴ may trigger a rethinking of conventional aid methods, and by extension, of the organizational structure of aid agencies. Newer methods proposed by the British DFID such as the general budget support, sector-specific budgetary support, and common basket approach — a method in which aid funds from multiple donors are pooled to be used by the recipient country — may be used more commonly in the future. Also, more than a few aid officials have pointed

13. It is still not settled whether the MDGs should be achieved globally or by country, but the latter view seems to be gaining popularity. UN Secretary-General Kofi Annan reported in July 2002 that we cannot be optimistic about the outlook for achieving MDGs. UNESCO (2002) also reported that 70 countries will not be able to achieve the education goals by 2015.

14. This issue came up in a meeting with the acting director of the Operations Evaluation Department (OED) of the World Bank who said that the Bank spent \$700,000 to evaluate assistance to Ghana’s education sector that included seven donor countries.

out a challenge in applying the common fund approach, which tends to be sector-specific in the context of decentralization (or multi-sector projects). In addition to coordination, another area of cooperation among donors is harmonizing procedures. Emphasis on this issue has shifted from harmonizing procedures to those of the recipient country.

Although the details are still unclear, the US government took care in establishing the Millennium Challenge Corporation (MCC) to keep the number of staff low and to ensure that the recipient country will be responsible for project plans and achieving results. We do not know if the US can achieve these goals, but the MCC may well change the conventional forms of aid.

Africa

The importance and difficulty of African development has been recognized, especially when the World Bank began its structural adjustment loans in 1980. It is not a stretch to say that Africa faces all the assistance issues that are considered important by the international development community today, including policies, institutions, regional conflicts, and AIDS. High expectations were expressed at the G8 Summit and the World Bank-IMF Annual Meeting in 2002 with the New Partnership for Africa's Development (NEPAD)¹⁵ as a new approach with an emphasis on ownership by African people. This approach is also seen with skepticism, however, because of governance and other problems. African problems and NEPAD were discussed at the Third Tokyo International Conference for African Development (TICAD III) in 2003.

15. FASID (2002b). NEPAD is a development program for Africans to solve African problems. There is optimism about its effectiveness because it is not forced on them by outsiders.

Contents of this book

Chapter 2 looks at important international conferences that were held during 2002. Two that will influence development assistance for at least several years were the UN International Conference on Financing for Development and the World Summit on Sustainable Development. In addition, the G8 Summit and the IMF-World Bank annual meeting are examined.

The arrival of the 21st century has brought significant changes to development assistance. Chapter 3 and 4 analyze the trends of the World Bank and UNDP as examples of international organizations, and of the US, the UK, France, Germany, and Japan as the major donor countries. The fifth and last chapter looks at the future of Japanese development assistance.

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2

Discussions at International Conferences during 2002

Junko Ohara

There were 26 international conferences in 2002, including those related to the development of poorer countries (Table 2-1). Many of these development conferences dealt with increasing aid to help achieve the Millennium Development Goals (MDGs)¹ and promoting good governance in developing countries to improve the effectiveness of aid. Conferences that attracted special attention were the United Nations International Conference on Financing for Development (Monterrey Conference) held in March at Monterrey, Mexico, and the World Summit on Sustainable Development (Johannesburg Summit) held in September at Johannesburg, South Africa. After the UN and World Bank announced prior to the Monterrey Conference that the current amount of ODA — approximately \$50 billion annually — needed to be doubled to achieve the MDGs, the United States announced plans to increase its ODA by \$5 billion by 2006, and the European Union announced its intention to increase its contribution by \$7 billion by the same year.

The Monterrey Conference was generally considered a success. The most important achievement was arguably the decision to substantially increase ODA, which had been declining in recent years. The Johannesburg Summit was an important conference because it was positioned as a place for a comprehensive evaluation of Agenda 21,² which was adopted 10 years earlier at the UN Conference on Environment and Development (Rio Summit). It was also an opportunity to complete trade discussions that

Ohara is a program officer at the International Development Research Institute, FASID.

1. Millennium Development Goals (MDGs) are intended to be achieved by 2015. They include seven major goals: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; and ensure environmental sustainability. (World Bank Tokyo Office)

began at the Fourth WTO Ministerial Conference held in November 2001 at Doha, Qatar, as well as the discussion of development financing that began at the Monterrey Conference. The Johannesburg Summit was also one of the largest conferences in UN history — more than 21,000 people representing governments, municipalities, international organizations, research institutes, enterprises, and NGOs attended, including 191 heads of state.

This chapter examines four important international development conferences that were held during 2002 (shaded in Table 2-1) and their achievements.³

UN International Conference on Financing for Development (March 19-22, Monterrey)

The Monterrey Conference was motivated by announcements from the UN and World Bank that current ODA needed to be doubled (to \$100 billion) to achieve the Millennium Development Goals (MDGs).⁴ The Monterrey Consensus, adopted at this conference, was a comprehensive list of future measures to fight poverty in developing countries. Important points of the Monterrey Consensus include (United Nations, 2002):

INCREASING AID. The amount of ODA must be doubled in order to achieve MDGs by 2015. Developed countries should strive toward a target of 0.7 percent of gross national product (GNP), a target that was adopted by a UN General Assembly resolution in 1975.

DEBT RELIEF. For aid funds to be used directly for sustainable growth and development in poorer countries, their external debt burden must first

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2. Agenda 21 is a long-term action plan for earth renewal which includes 40 chapters on poverty reduction, changing consumption patterns, protection of human health, natural resources management, waste management, financial assistance, technology transfer, and other issues. Countries that gathered at the Rio Summit in 1992 adopted Agenda 21 and pledged that they will pursue a balance between development and environmental conservation.
 3. This chapter is based on the *Saishin Kaihatsu Enjo Doko Report* [Report on Trends in Development Assistance] Nos. 1-6. (FASID 2002a-f). These reports can be downloaded from the FASID website: <http://www.fasid.or.jp>.
 4. After adopting the MDGs at the UN Millennium Summit in September 2000, the UN estimated the funds required to achieve them. In June 2001, the High-Level Panel on Financing for Development reported that, as an approximate figure, an additional \$50 billion would be needed — which roughly doubles the current amount of development aid. However, this idea of ‘doubling aid’ did not get much attention until Britain’s finance minister Gordon Brown made a November 2001 speech at the Federal Reserve Bank of New York. Brown urged developed countries to take a unified stance at the Monterrey Conference and to increase aid substantially to provide an additional \$50 billion without delay. His speech was based on a report on the cost of achieving MDGs written by former Mexican Pres. Ernesto Zedillo. This report estimated an additional \$50 billion per year was needed overall, saying that at least \$20 billion a year was needed to halve the proportion of people living in extreme poverty, \$12 billion to achieve universal primary education, and \$10 billion to achieve health-related targets.

Table 2-1. Primary international conferences held in 2002

Date	Conference name	Location
Jan. 4-6	South Asian Association for Regional Cooperation (SAARC) Summit	Katmandu, Nepal
Jan. 20-22	International Conference on Reconstruction Assistance to Afghanistan	Tokyo, Japan
Mar. 19-22	United Nations International Conference on Financing for Development	Monterrey, Mexico
Mar. 26	Organization of Petroleum Exporting Countries (OPEC) General Meeting	Vienna, Austria
Apr. 20-21	IMF-World Bank Spring Meeting	Washington, D.C., US
May 10-12	Asian Development Bank (ADB) Annual Meeting	Shanghai, China
May 14	World Health Organization (WHO) Annual Meeting	Geneva, Switzerland
May 15-16	Organization for Economic Cooperation and Development (OECD) Ministerial Council and Development Assistance Committee (DAC) High Level Meeting	Paris, France
May 19-20	European Bank for Reconstruction and Development (EBRD) Annual Meeting	Bucharest, Romania
Jun. 4-20	International Labor Organization (ILO) International Labor Conference	Geneva, Switzerland
Jun. 21-22	European Union (EU) Summit	Seville, Spain
Jun. 26-27	G8 Summit	Kananaskis, Canada
Jul. 8	Bank for International Settlements (BIS) Annual Meeting	Basel, Switzerland
Jul. 8-10	Organization of African Unity (OAU) 38th Summit Meeting African Union (AU) First Summit Meeting	Durban, South Africa
Aug. 26-Sep. 4	World Summit on Sustainable Development	Johannesburg, South Africa
Sep. 10-20	United Nations General Assembly	New York, US
Sep. 22-24	Asia-Europe Meeting (ASEM) Summit	Copenhagen, Denmark
Sep. 28-29	International Monetary Fund (IMF)-World Bank Annual Meeting	Washington, D.C., US
Oct. 7	Commonwealth of Independent States (CIS) Summit	Kishinyov, Moldova
Oct. 16-18	Global Environment Facility (GEF) Second Assembly	Beijing, China
Oct. 23-Nov. 1	Eighth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP8)	New Delhi, India
Oct. 23-24	Asia Pacific Economic Cooperation (APEC) Ministerial Meeting	Los Cabos, Mexico
Oct. 26-27	APEC Summit	Los Cabos, Mexico
Nov. 4-5	Association of Southeast Asian Nations (ASEAN) Summit	Phnom Penh, Cambodia
Nov. 21-22	North Atlantic Treaty Organization (NATO) Summit	Prague, Czech Republic
Dec. 12-13	European Union (EU) Summit	Copenhagen, Denmark

Source: Compiled by the author

be relieved. Debt relief programs for Heavily Indebted Poor Countries (HIPC)s should be implemented immediately.

TRADE. Open and fair multilateral trade based on liberalization and international rules promotes the development of all regions of the world.

Developed countries should abolish import restrictions and subsidies for their own agricultural produce, and open their markets to exports from developing countries.

ROLE OF DEVELOPING COUNTRIES. Good governance is essential for sustainable development. Implementation of sound economic policies, promotion of democracy, and improved infrastructure are the basis of development. Developing countries must give priority to eliminating corruption at all levels.

IMPORTANCE OF PRIVATE FUNDS. Private investments command a far greater share in development financing than ODA and play an important role in development.

FINANCIAL REFORM. There is an urgent need to enhance coherence, governance, and consistency of the international monetary, financial, and trading systems. The structural reform of international finance must be continued in order to strengthen financing for development and poverty reduction.

At the Monterrey Conference, Pres. George W. Bush announced a US plan to increase ODA by \$5 billion by 2006 (from \$10 billion to \$15 billion in 2006), and that additional funds will be allocated to a Millennium Challenge Account (MCA). A characteristic of the MCA is that more aid will be provided to countries that show good performance in anti-corruption measures, educational reform, improved sanitation, and opening markets, while little or no aid will be provided to countries that waste aid funds or repeatedly fail to implement reform. By introducing the MCA, Pres. Bush tried to provide a financial incentive for developing countries to improve institutions and policies so that ODA would be used in a more effective manner.

The European Union announced its plan to increase ODA by \$7 billion by 2006 (an increase from the then current level of about \$32 billion). In contrast to significant aid increases by the US and the EU, Japan attended the conference with a plan to reduce its ODA by 10 percent. The background of this difficult decision was the grim fiscal condition and increasing public criticism against a lack of transparency in the decision-making process of ODA projects, and the lack of visible proof of concrete benefits. The US is encouraging other developed countries to provide grant aid rather than loans, but Japanese ODA is still skewed toward loans — in fiscal 2000 Japan provided 227.3 billion yen in grant aid and 867.3 billion yen in loans (Ministry of Foreign Affairs of Japan, 2002, p. 151, 172). These criticisms

suggest that there is room for improvement in Japan's aid, both in terms of quantity and quality.

The ODA increases of the US and EU are a total increase of \$12 billion by 2006, which is still far from the \$50 billion that is considered necessary to achieve the MDGs. At the Monterrey Conference, developed countries were asked to meet the goal adopted by a 1975 General Assembly resolution, which is to allocate 0.7 percent of their respective GNPs to ODA. If all of the Development Assistance Committee (DAC) member countries achieved this goal, the total aid amount would be close to three times the current level — substantially more than what is considered necessary to achieve MDGs. The resolution adopted nearly 30 years ago appears not conform to the current situation. While increasing the quantity of aid is of course important, it is just as important to improve the quality of aid. The key to development is government ability to prevent corruption, implement educational reforms, improve sanitation, and open markets. Past experience does not guarantee that an increase in aid always leads to real development. Effective use of ODA hinges largely on whether the recipient country implements sound policies and has the institutions necessary to implement those policies.

G8 Summit Meeting (June 26-27, Kananaskis)

Because the G8 Summit of 2002 fell between the Monterrey Conference (March) and the Johannesburg Summit (September), its main agendas included development-related issues such as 'building a new partnership for the development of Africa' and 'promoting growth of the world economy and sustainable development.'

In addition to representatives from the G8 nations, four presidents of African countries — Mbeki of South Africa, Obasanjo of Nigeria, Wade of Senegal, and Bouteflika of Algeria — and UN Secretary-General Kofi Annan were invited. Participants discussed the challenges faced by African countries and how the G8 should support the New Partnership for Africa's Development (NEPAD).⁵ As a result, the G8 Africa Action Plan was adopted as a framework to support NEPAD. The action plan can be summarized

5. NEPAD is a pledge made by African leaders to African people that they will strengthen democracy, pursue sound economic policies, and promote peace, security, and human-centered development. It was prepared and is being implemented by African leaders themselves. It focuses on investment-led economic growth and economic governance as the driving force toward poverty reduction, as well as on regional and sub-regional partnerships within Africa. It also sets a quantitative goal to realize 7 percent annual average economic growth by 2015.

as follows:⁶

PARTNERSHIPS. G8 countries will establish ‘enhanced partnerships’ with African countries and provide more aid to those whose performance reflects the NEPAD commitments to good governance and the rule of law, investments in their people, and policies that spur economic growth.

ENHANCED PARTNERSHIPS. The African Peer Review Mechanism⁷ will inform the G8 of eligibility for enhanced partnerships.

MONETARY REWARDS. Of the total increase of \$12 billion announced by the US and the EU at the Monterrey Conference, half or more could be directed to African nations that govern justly, invest in their own people, and promote economic freedom.

MORE GRANTS. G8 countries support an increase in the use of grants, as opposed to loans, in financial assistance to the poorest countries. At the G8 foreign ministers conference held immediately before the G8 Summit, an agreement was reached to increase the share of grants provided to the poorest countries by the International Development Association (IDA) from the current level of about 5 percent to 18-21 percent.

PROMOTING PEACE. G8 countries committed to providing technical and financial assistance so that by 2010, African countries and regional and sub-regional organizations are able to engage more effectively to prevent and resolve violent conflict on the continent, and undertake peace support operations in accordance with the United Nations charter. Furthermore, G8 countries will work with African partners to deliver a joint plan by 2003 for the development of African capability to undertake peace support operations.

CAPACITY BUILDING. G8 countries will expand capacity-building programs related to political governance in Africa, focusing on the NEPAD priority areas of improving administrative and civil services, strengthening parliamentary oversight, promoting participatory decision-making, and judicial reform. G8 countries will also strengthen capacity-building programs related to economic and corporate governance in Africa, focusing on the NEPAD priority areas of implementing sound macro-economic strategies, strengthening public financial management and accountability, protecting

6. See the G8 Summit official Web site (<http://www.g8.gc.ca/2002Kananaskis/>), G8 Africa Action Plan Highlights.

7. Learning from past experience that sometimes aid was not used effectively due to the lack of governing abilities, NEPAD introduced the peer review mechanism as a system for African countries to monitor each other in an effort to establish democratic governance.

the integrity of monetary and financial systems, strengthening accounting and auditing systems, and developing an effective corporate governance framework.

FREE TRADE. G8 countries will work toward the objective of duty-free and quota-free access for all products originating from the Least Developed Countries (LDCs).

MAKING UP THE SHORTFALL. G8 countries will fund their share of the shortfall in the HIPC (Heavily Indebted Poor Countries) Initiative,⁸ recognizing that this shortfall could be up to \$1 billion.

FIGHTING DISEASES. G8 countries will continue their support for the Global Fund to Fight AIDS, Tuberculosis and Malaria, and work to ensure that the fund continues to increase the effectiveness of its operations and that Africa benefits from them. The US announced its commitment to providing \$500 million over the next three years to fight AIDS in Africa and the Caribbean.

ELIMINATE POLIO. G8 countries will provide sufficient resources to eliminate polio by 2005.

With strong pressure from the United Kingdom and Canada, the G8 countries decided to allocate half of the \$12 billion increase in ODA to African countries as support for NEPAD. However, resources are still insufficient because a significant aid increase demanded by African leaders was not approved at the summit. Leaders of NEPAD say that an additional fund of \$64 billion per year is necessary to achieve MDGs. In response to this situation, Pres. Chirac of France announced his plan to increase aid to Africa and hoped to achieve the target of 0.7 percent of GNP within five years.

Pres. Bush was quite skeptical of the peer review system in which African nations monitor each other to establish democratic governance, partly because Zimbabwe, which had accepted the principles of the system, conducted an unfair election. He said the US would use its own mechanism to review whether African states are improving their governing ability and taking measures to eliminate corruption. Bush also announced that the \$5 billion additional ODA would be paid into the newly created MCA and provided only to countries that have shown good performance in anti-corruption measures, educational reform, improved in sanitation, and open mar-

8. A debt relief initiative for heavily indebted poor countries. It was proposed by the World Bank and IMF in 1996 and endorsed by governments.

kets.

In addition to the G8 Africa Action Plan described above, the G8 Summit produced many declarations on the promotion of sustainable development. The following are important ones among them:⁹

DOHA AGENDA. G8 countries will work with developing countries to reach an agreement on the negotiation of Doha Development Agenda¹⁰ by January 1, 2005.

RECONFIRM CONSENSUS. It is important to reconfirm the Doha Development Agenda and Monterrey Consensus. G8 countries will make efforts so that the Johannesburg Summit in September will produce an effective partnership for sustainable development and visible achievements.

GOOD GOVERNANCE. G8 countries will support the countries that benefit from debt relief under the HIPC Initiative in establishing good governance.

EDUCATION. G8 countries will adopt proposals to support the efforts of developing countries to provide universal primary education (UPE) and equal access to educational opportunities for girls and boys. In order to promote Education for All (EFA),¹¹ the G8 Education Task Force published a report that emphasized the importance of commitments by developing countries, required roles of developed countries, and the necessity to improve evaluation systems. Main points of the report include:

- Political commitment at the country level, the provision of adequate domestic financing, and the development of sound education strategies are the foundations for achieving EFA. To achieve universal primary education, developing countries will have to devote a significant share of domestically generated funds to education. Research by the World Bank indicates that countries on track to achieve five years of UPE spend about 20 percent of their recurrent budget on education, and half of this on primary education. Developing countries should allocate a

9. See the G8 Summit official website (<http://www.g8.gc.ca/2002Kananaskis/>), The Kananaskis Summit Chair's Summary.

10. The multilateral trade negotiation after the Fourth WTO Ministerial Conference held at Doha, Qatar, in November 2001. A variety of themes were on the table, including agriculture, services, nonagricultural products, intellectual property rights, WTO rules, investment rules, competition policies, trade and environment, and electronic commerce. The Doha Development Agenda is unique in that it emphasizes the importance of development issues and considerations for the interests of developing countries.

11. In 1990, the World Bank, UNDP, UNESCO, and UNICEF co-hosted the World Conference on Education for All and adopted the World Declaration on Education for All, which has a goal of providing all children with free primary education. In April 2002, the World Bank prepared an action plan to achieve the goal of Education for All (EFA).

similar level of funds to primary education.

- The responsibility for developing and implementing sound education plans must remain with developing country governments. The sustainability of these plans is enhanced when they are integrated into the country's broader strategy to eradicate poverty. Local communities, private providers, and non-governmental organizations should be seriously engaged in the development and implementation of education plans.
- G8 donors will significantly increase their bilateral aid to basic education for countries with a strong policy and financial commitment to the sector.
- G8 countries call upon the World Bank and the regional development banks to provide additional support to countries that have made a commitment to education and gender equality and have a proven track record of strong management or are demonstrating strong management progress.
- G8 countries will strengthen their existing efforts to build capacity in developing countries not yet in a position to qualify for enhanced support, with a particular focus on countries with large out-of-school populations.
- G8 donors will accelerate the reconstruction of education systems in countries emerging from conflict.
- A reliable evaluation and analysis system is essential to the promotion of EFA. Donor countries should support developing countries in improving their capacity to implement institutional reform.

In June 2001, the US announced its plan to spend \$100 million to support education in Africa. Immediately before the G8 Summit, it announced an intention to spend an additional \$100 million over the next five years. Japan announced a plan to allocate \$2 billion (about 250 billion yen) in the ODA budget over the next five years to support education in developing countries. Japan had been allocating about 40 billion yen in the annual ODA budget to education, but more than 80 percent of it was used for construction and improvements to education facilities. The government now intends to emphasize the support for such endeavors as expanding primary education, improving the literacy rate, and training teachers. Research by the World Bank, however, indicates an additional \$4 billion is necessary to send all children in the world to school. Even if we combine the additional aid in education pledged by the US and Japan, it is still not enough.

The World Summit on Sustainable Development (August 26–September 4, Johannesburg)

The decision to hold the World Summit on Sustainable Development (Johannesburg Summit) was made at the UN General Assembly in December 2000. Its purpose was to comprehensively evaluate the implementation of agreements made at the Rio Summit, to discuss measures to push the implementation of Agenda 21, and to discuss issues the world has come to face since the Rio Summit. Figure 2-1 at the end of this chapter illustrates the transition process from the Rio Summit to the Johannesburg Summit.

The theme of the Rio Summit was ‘environment and development’ but that of the Johannesburg Summit was ‘sustainable development,’¹² with a special emphasis on maintaining the balance between economic development, social development, and environmental conservation. One of the characteristics of the Johannesburg Summit was that its agendas were set by merging Agenda 21 and the MDGs. The second characteristic was that the Summit was positioned as the place to complete discussions on development issues that had begun at other international conferences held during the past year. These topics included market access for products from developing countries, development finance issues such as targets for percent of GNP as ODA, the creation of a poverty eradication fund, and issues of African development such as support for NEPAD.

The Johannesburg Plan of Implementation, which was adopted at the Summit, incorporated agreements on various issues from poverty eradication to changing unsustainable patterns of production and consumption, conservation and management of natural resources, health issues, development of small island developing states and Africa, and the means of implementation. However, most were nothing more than a confirmation of past international agreements such as Agenda 21, MDGs, Doha Ministerial Declaration, and Monterrey Consensus. One of the few advances was new quantitative targets and deadlines that were set to manage hazardous chemicals, improve sanitation, restore fish resources, and protect biodiversity. The main points of the Johannesburg Plan of Implementation include:¹³

MANAGEMENT OF HAZARDOUS CHEMICALS. “Achieve by 2020 that chemicals are used and produced in ways that lead to the mini-

12. The term ‘sustainable development’ was first used in *Our Common Future*, a report published in 1987 by the World Commission on Environment and Development (the Brundtland Commission). The development community began to pay attention to environmental issues after this commission was formed in 1983 under the auspices of the UN.

mization of significant adverse effects on human health and the environment.”

Reflecting their concern for human health, the EU insisted on setting a deadline for reducing use and production of hazardous chemicals. Developing countries, however, opposed the idea, arguing that chemicals can enhance agricultural and manufacturing productivity and their alternatives cannot be obtained cheaply. Japan and the US sided with developing countries. In the end, an agreement was reached by not using the term ‘reduction’ but instead ‘minimization’ of the harmful effects to health and the environment.

IMPROVING PUBLIC SANITATION. “Halve, by the year 2015, the proportion of people who do not have access to basic sanitation.”

This is a new goal that goes with one of the MDGs: “To halve, by the year 2015, the proportion of people who are unable to reach or to afford safe drinking water.” The US was initially opposed to it because of a concern that enormous investments for sanitation facilities may be necessary, but eventually accepted it.

CONSERVATION OF FISH RESOURCES. “Restore depleted fishery stocks to levels that can produce the maximum sustainable yield, where possible not later than 2015.”

The EU and some developing countries insisted on a clear stipulation of an achievement deadline, as in ‘not later than 2015’, but countries that have large fish industries, including Japan, opposed. The issue was settled by adding ‘where possible’.

PROTECTION OF BIODIVERSITY. “Achieve, by 2010, a significant reduction in the current rate of loss of biological diversity. For this purpose, provide new and additional financial and technical resources to developing countries.”

COMMON BUT DIFFERENTIATED RESPONSIBILITIES. “Undertake concrete actions and measures at all levels and enhance international cooperation, taking into account the Rio Principles, including, *inter alia*, the principle of common but differentiated responsibilities as set out in the Rio Declaration.”

Previously, application of this principle of the Rio Declaration (developed countries bear more responsibilities) had been limited to matters relat-

13. United Nations (September 4, 2002) World Summit on Sustainable Development, Plan of Implementation, Asahi Shimbun, Sankei Shimbun, Nihon Keizai Shimbun, Yomiuri Shimbun, Financial Times.

ed to the environment. Developing countries insisted on expanding it to the area of development, arguing that poverty is largely a product of past colonial rule and aspects of the international economy that are not advantageous to them. Developed countries initially refused to accept such an application, but in the end, this principle would influence the entire document because it was decided, as a way of acceding to the demand of developing countries, to incorporate the principle in the introduction and the ‘means of implementation’ section.

GOOD GOVERNANCE. “Good governance within each country and at the international level is essential for sustainable development. At the domestic level, sound environmental, social and economic policies, democratic institutions responsive to the needs of the people, the rule of law, anti-corruption measures, gender equality and an enabling environment for investment are the basis for sustainable development.”

Developed countries demanded that developing countries make efforts on good governance, including democratization and eradication of political corruption, but developing countries countered by saying this interfered in domestic affairs. Pres. Mugabe of Zimbabwe was applauded by African representatives when he said, “Mr. Blair, keep your England and let me keep my Zimbabwe.” Eventually, an agreement was reached by deleting some phrases such as “enhance the citizens’ access to information” from the draft.

ESTABLISHMENT OF A WORLD SOLIDARITY FUND. “Establish a world solidarity fund to eradicate poverty and to promote social and human development in the developing countries, while stressing the voluntary nature of the contributions and encouraging the role of the private sector and individual citizens in funding the endeavors.”

10-YEAR FRAMEWORK. “Encourage and promote the development of a 10-year framework of programs in support of regional and national initiatives to accelerate the shift towards sustainable consumption and production.”

CORPORATE RESPONSIBILITY. “Promote corporate responsibility and accountability toward the environment and the society.”

Opinions on corporate responsibility were divided between countries that wanted strict stipulations, including Norway and some developing countries, and countries that wanted an expression that would leave it to voluntary actions of corporations, including Japan, the US, and the EU.

RENEWABLE ENERGY. “With a sense of urgency, substantially increase the global share of renewable energy sources with the objective of

increasing its contribution to total energy supply, recognizing the role of national and voluntary regional targets as well as initiatives. Regularly evaluate available data to review progress to this end.”

The EU insisted on stipulating an increase in the contribution of renewable energy to the world’s total energy supply to 15 percent by 2010, and to increase the renewable energy supply ratio in developed countries by 2 percent from the 2000 level no later than 2010. Japan and the US objected, citing a concern for the impact on their industries, saying that uniform targets should not be imposed because each country has different energy situations and policies. Because many developing countries and oil producing countries feared a potential reduction in oil consumption and were therefore opposed, the EU had to back down. Eventually, an agreement was reached to insert a phrase “with a sense of urgency” instead of stipulating numerical targets and deadlines.

KYOTO PROTOCOL. “States that have ratified the Kyoto Protocol strongly urge States that have not already done so to ratify the Kyoto Protocol in a timely manner.”

Japan and the EU insisted on stipulating that the Kyoto Protocol should be put into force soon and that the Protocol is the universal rule on efforts to fight global warming. The US, which withdrew from the Protocol, and Australia, which was reluctant to ratify it, opposed. Japan prepared a compromise draft that contained the phrase “strongly urge . . . to ratify the Kyoto Protocol in a timely manner,” which was eventually accepted. Initially it was expected that the Protocol would enter into force at the Johannesburg Summit, but it became impossible due to the withdrawal of the US and Russia’s delayed ratification.¹⁴ During the Summit, Prime Minister Zhu Rongji of China — the second largest producer of atmospheric carbon dioxide — officially announced ratification of the Protocol.¹⁵ Prime Minister Kasyanov of Russia, which held the key to making the Protocol effective, also announced the government’s intent to ratify it in the near future.

14. There are two conditions for the Kyoto Protocol to enter into force. First, 55 or more signatory states must ratify it. Second, the share of CO₂ emissions by the ratifying developed countries in 1990 must be 55 percent or more of total emissions. The first condition was met when EU and Japan ratified the Protocol, but the second has not been met, mainly because the US, which accounted for 36.1 percent of the total CO₂ emission in 1990, has not ratified it. To meet the latter condition without the US, ratification by Russia, which accounted for 17.4 percent of total CO₂ emission in 1990, is necessary. The Kyoto Protocol will enter into force 90 days after both conditions are met.

15. Because China is classified as a developing country under the Kyoto Protocol, it will not be directly obligated to reduce emission of greenhouse gases even if it ratifies it.

ACTIONS TO COMBAT COMMUNICABLE DISEASES. “Reduce HIV prevalence among young men and women aged 15-24 by 25 percent in the most affected countries by 2005 and globally by 2010, as well as combat malaria, tuberculosis and other communicable diseases.”

This numerical target and deadlines were a reconfirmation of the Declaration of Commitment adopted by the UN General Assembly Special Session on HIV/AIDS in June 2001.

PROCUREMENT OF DRUGS AND TECHNOLOGY TO FIGHT COMMUNICABLE DISEASES. “Make available necessary drugs and technology in a sustainable and affordable manner to fight and control communicable diseases such as HIV/AIDS, tuberculosis and malaria.”

FINANCING FOR DEVELOPMENT. “Urge the developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of GNP as ODA to developing countries. Underline the importance of undertaking to examine the means and time frames for achieving the target.”

Developing countries insisted on setting a deadline for increasing ODA to 0.7 percent of GNP, but developed countries opposed. In the end, an agreement was reached not to set an achievement deadline but to emphasize its importance.

SUBSIDIES. “Encourage reform of subsidies that have considerable negative effects on the environment and are incompatible with sustainable development.”

Developing countries insisted on stipulating the reduction or elimination of agricultural subsidies in developed countries, arguing that they hinder agricultural exports from developing countries. Opposition came from the EU and other countries which spend vast amounts of money on agricultural subsidies. The wording above was accepted in the end, but it was not an improvement from the Doha WTO Ministerial Declaration, which called for substantial improvements in market access by 2004 and substantial reductions in trade-distorting domestic subsidies in agriculture. Developing countries and NGOs are critical of agricultural subsidies in developed countries because they believe those subsidies hinder the economic independence of developing countries and increase poverty.

In addition to the Johannesburg Plan of Implementation, the Johannesburg Declaration on Sustainable Development (the ‘Political Declaration’) was adopted.¹⁶ This declared the commitments of world leaders, and was prepared based on the Plan of Implementation. The Political

Declaration called on the UN to establish an effective mechanism to evaluate the progress of the Plan of Implementation. This was motivated by the recognition that only 30-40 percent of the goals stated in Agenda 21, a product of the Rio Summit ten years earlier, had been achieved. Also, the phrase “there is a need for private sector corporations to enforce corporate accountability” was inserted in the Declaration because developing countries and some NGOs were concerned that the role of corporations and especially the effectiveness of partnerships with corporations were emphasized during the Johannesburg Summit.

At the same time as the Plan of Implementation and the Political Declaration were adopted, the Type 2 Partnership Initiatives were announced.¹⁷ The document summarizes concrete action plans for various actors, including governments, international organizations, NGOs, and corporations to reduce poverty and conserve the environment. The concept of partnership was featured at the Johannesburg Summit based on the Partnership Plan that was announced by the UN Secretary-General in July 2000. The Partnership Plan called for the cooperation of entities other than governments to achieve MDGs by 2015. The idea behind it was to have the gap between necessary and available funds filled by corporations. During the Johannesburg Summit and following a long delay in decision-making at the Ministerial Conference, Secretary-General Annan emphasized the importance of the role of corporations in development: “Corporations should pursue their development initiatives without waiting for decisions or legislation at the government level. We recognize that significant progress towards sustainable development cannot be expected without the participation of corporations.”

Business leaders called on large corporations to increase their investments in the 50 poorest countries and proposed to the leaders of NEPAD that they establish a board composed of business leaders. Director-General Brundtland of the World Health Organization (WHO) asked corporations to be more responsible for the health of their employees. Anglo American of South Africa (a mining company) and De Beers (a diamond company) have already begun to provide funds for drugs to prolong the lives of their employees and their families who have AIDS.

16. United Nations (September 4, 2002) World Summit on Sustainable Development, The Johannesburg Declaration on Sustainable Development.

17. United Nations (August 28, 2002) World Summit on Sustainable Development, Type 2 Partnership Initiatives.

In recent years, more and more local communities and NGOs are establishing partnerships with corporations with the hopes of using their knowledge and technology for development purposes. There are, however, still quite a few NGOs that are skeptical about the role of corporations in development. As the effectiveness of partnerships is emphasized, developing countries have come to voice concerns that ODA might be replaced by partnerships. The United Nations assured these countries that partnerships complement, and do not replace, ODA.

In his speech at the Johannesburg Summit, Japanese Prime Minister Koizumi announced plans to provide more than 250 billion yen in educational aid over the next five years (which had already been announced at the G8 Summit in June 2002). The money was to be used to train 5,000 people in developing countries in environmental issues over the five years beginning in fiscal year 2002, and to provide \$30 million of food assistance to mitigate a food crisis in southern Africa, all based on the Koizumi Initiative.¹⁸ This initiative centered on human resource development in developing countries. Japan and the US announced their collaborative assistance in the water and sanitation sector, the Clean Water for People Initiative.¹⁹ British Prime Minister Blair and French Pres. Chirac announced that the two countries would provide financial assistance to Africa and implement a \$1 billion private investment promotion program.

During the summit, the UK, France, and Germany announced plans to increase the amount of ODA. The UK pledged to “double the ODA to Africa and increase the total amount of ODA by 50 percent,” France to “increase the ODA within the next 10 years to 0.7 percent of GNP”, and Germany to “contribute 500 million euros to promote cooperation in renewable energy.”

At the final preparatory meeting for the Johannesburg Summit, negotiations broke off because of differences between developed and developing countries over the financing for development and trade issues, leading many to think that the Summit was in jeopardy. In the following month, an unofficial meeting called Friends of the Chair was held in New York to find a way out of the impasse. At that meeting, developed and developing countries

18. Ministry of Foreign Affairs of Japan (August 21, 2002) *Koizumi Initiative (Concrete Actions of Japanese Government to be taken for Sustainable Development - Towards Global Sharing)* (<http://www.mofa.go.jp/policy/environment/wssd/2002/kinitiative.html>).

19. Ministry of Foreign Affairs of Japan (September 4, 2002) *Clean Water for People: A United States-Japan Partnership to Provide Safe Water and Sanitation to the World's Poor* (<http://www.mofa.go.jp/policy/environment/wssd/2002/document/us.html>).

basically agreed that they would not go beyond the contents of the Monterrey Consensus and the Doha Ministerial Declaration, thus avoiding the revival of these issues at the Summit itself.

In the process of preparing the Plan of Implementation at the Summit, however, the interests of countries clashed and they often tried to reach a compromise by not stipulating numerical targets or achievement deadlines. The US was against setting any new numerical targets. The Plan of Implementation, which was therefore a product of many compromises, turned out to be lacking in binding force and specificity and turned out to be a collection of declared ideas. Another factor that led to this result was the lack of sufficient time to hold discussions on each issue because too many were on the agenda. When the UN holds another multilateral conference as large as the Johannesburg Summit, it could improve the conference by, for example, narrowing the scope of discussions from the beginning.

Many observers believe that the Johannesburg Summit was a failure because the adopted Plan of Implementation was rather toothless. On the other hand, it should be recognized as an achievement in that representatives of 191 countries assembled to discuss initiatives toward sustainable development and reconfirmed the importance of improving public sanitation, use of renewable energy, mitigation of global warming, measures to contain communicable diseases, increase ODA, and abolish agricultural subsidies. The effectiveness of the Plan depends on whether governments and international organizations can prepare and implement specific policies that are aimed to execute the Plan. In this sense, and as it is stated in the Political Declaration, it is extremely important to create a mechanism within the UN to evaluate progress of the Plan of Implementation.

IMF-World Bank Annual Meeting (September 28-29, Washington, D.C.)

The IMF-World Bank Annual Meeting was held several weeks after the Johannesburg Summit. Participants reconfirmed the achievements made during the past year at development-related international conferences at Doha, Monterrey, Kananaskis, and Johannesburg, and discussed what the World Bank, IMF, and donor countries should do to promote implementation of agreements made at these conferences. The 66th IMF-World Bank Development Committee issued a communiqué, the main points of which included:²⁰

TAKING ACTION. Organizations involved in international aid must

now convert the ideas and shared approaches agreed to in Doha, Monterrey, and Johannesburg into concrete action and evaluate ongoing progress. Experience has repeatedly shown that progress will only be made through implementation of sound and sustainable country-driven strategies. These strategies must also be supported by better coordination and cooperation among development partners and by effective alignment of donor support with country strategies.

IMPORTANCE OF TRADE. The crucial importance of trade as a source of growth and poverty reduction was reaffirmed. Developed countries must do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries. At the same time, we recognized the importance of continued efforts toward trade liberalization in developing countries as part of an overall development strategy.

RESULTS ORIENTED. The overall approach of making outcomes central to the management of development programs in both developing countries and development agencies was endorsed. The World Bank was urged to intensify its work with multilateral and bilateral partners, as well as share information on planned and ongoing country development activities as a foundation to better align donor support and national development strategies. Delegates also urged increased use of joint evaluations of donor programs, especially for country and sector program support. The need for increased and coordinated donor support for capacity building, including results-oriented monitoring, evaluation, and statistics was highlighted.

COORDINATE POLICIES. There was a recognition of the need to better coordinate operational policies and procedures of agencies working at the institutional and country levels so as to enhance aid effectiveness and promote greater ownership by developing countries.

ASSISTANCE TO AFRICA. Recognizing the special challenges faced by Africa in meeting the MDGs, the Bank and IMF were urged to scale up assistance to these countries based on the NEPAD initiative.

HIPC INITIATIVE. The continued progress made on the HIPC initiative was welcomed and reconfirmed a commitment to its implementation and full financing. The urgency of meeting the financing shortfall of the HIPC Trust Fund, which could be up to \$1 billion, was stressed. The recent announcements of support were welcomed and called upon other donor

20. Development Committee (September 28, 2002) *Development Committee Communiqué*.

countries to make firm pledges and contributions as early as possible.

POVERTY REDUCTION STRATEGY PAPERS. The Committee is encouraged by the increased momentum in country efforts to develop and implement their Poverty Reduction Strategy Papers. The IMF and World Bank and all other donors were called upon to align their support with country PRSPs.

At the Development Committee meeting, Haruhiko Kuroda, Japanese Vice Minister of Finance for International Affairs, said that it is important for HIPC countries to develop and implement sound policies based on PRSPs. He also announced Japan's decision to provide \$4.8 billion debt relief under the HIPC initiative to 26 countries that have reached their decision points. This was the largest amount among the G8 countries and 25 percent of total G8 contributions. He said it was important to reduce the burden of recipient countries by harmonizing operational policies and procedures. In addition, he said that with the collaboration of the World Bank and Asian Development Bank, Japan had made meaningful progress in a pilot country toward a harmonization procedure in such areas as procurement, financial management, and reporting. Considering this experience, Japan would take a realistic approach to harmonization and start with feasible items and countries where appropriate.²¹

US Treasury Secretary Paul O'Neill²² acknowledged that multilateral development banks began to emphasize measurable results in development due to an agreement reached during the negotiations over the 13th replenishment of IDA.²³ However, he said that this was only a beginning, stressing the need for a more comprehensive evaluation system that measures progress toward targeted development results, examines the causes of successes and failures, and can be used by all multilateral development banks.²⁴ Clair Short, British Secretary of State for International Development,²⁵ and Finance Minister Gordon Brown announced a commitment to provide 12

21. Ministry of Finance of Japan (September 28, 2002) Statement by Japan at the 66th Meeting of the World Bank/IMF Joint Development Committee.

22. Resigned in April 2002.

23. In July 2002, IDA donor countries agreed to contribute about \$23 billion to the IDA over the next three years. This 13th replenishment is about 18 percent larger than the 12th. Three new policies were initiated at the negotiations: (1) Link IDA programs to country-specific development results and introduce a results-oriented appraisal system; (2) Significantly raise the share of grants in IDA funds (18 to 21 percent of total IDA funds); and (3) Open this discussion to borrower countries and representatives of civil societies in order to improve the transparency of deliberations.

24. Development Committee (September 28, 2002) Statement by Paul H. O'Neill, Secretary of the Treasury, United States of America.

25. Resigned in March 2003.

percent of all donor country contributions and UK's share of the EC's contribution to the HIPC Trust Fund, which could generate a financial shortfall of up to \$1 billion. They also welcomed the fact that many developing countries are preparing and implementing their PRSPs, and said that UK's aid budget would be increased from 3.4 billion pounds in 2002/03 to 4.6 billion in 2005/06, and that the share of UK's bilateral aid programs toward low-income countries would be increased from 78 percent to 90 percent by 2006. Moreover, following the agreement on the 13th replenishment, they announced a decision to contribute 1 billion pounds — the largest amount ever — to the IDA over the next three years.²⁶

At the 2002 Annual Meeting, special attention was given to the discussion about how to improve aid effectiveness. The first point was improved coordination and cooperation among donor agencies. Traditionally, many donor countries put their national interests first in administering their development programs which often included tied aid.²⁷ There has been not enough program coordination among aid agencies to increase aid effectiveness. Indeed, there have been many cases where aid agencies were running projects in the same sector of the same country without communicating with each other. When multiple aid agencies implement development programs in one country without coordination, the recipient country must take on that task, and it can be a substantial burden for countries that lack management capacities. In his speech at the Annual Meeting, World Bank President James Wolfensohn encouraged the use of Development Gateway²⁸ to solve this problem and coordinate the efforts of different aid agencies.²⁹

Second, a results-oriented approach to development programs was emphasized. Since the Monterrey Conference, the US and European countries introduced systems to evaluate the performance of recipient countries in order to judge whether or not to increase aid. Such efforts are expected to enhance the effectiveness of development programs that are designed to achieve targeted results.³⁰ Moreover, at the negotiations for the 13th IDA

26. Development Committee (September 28, 2002) Statement by The Rt. Hon. Clare Short, MP, Secretary of State for International Development and The Rt. Hon. Gordon Brown, MP, Chancellor of the Exchequer, United Kingdom.

27. Aid in which goods and services must be procured from the donor country.

28. This is an initiative that aims to use the Internet to provide a variety of development-related information. It is being implemented by the World Bank with cooperation from other international organizations, governments, and private entities. Information on on-going development projects all over the world can be obtained by using the Development Gateway.

29. The World Bank Tokyo Office (September 29, 2002) Annual Meetings Address by James D. Wolfensohn, President, The World Bank Group.

replenishment in July 2002, IDA donor countries urged the World Bank to link IDA programs to country-specific development goals and to introduce a results-oriented appraisal system. This request was aimed at scrutinizing the achievements of IDA assistance and ensuring that IDA funds would be utilized effectively to promote poverty reduction.³¹

Third, improving an evaluation system that measures progress toward targeted results was also emphasized. Progress must be measured regularly in order to administer a results-oriented development program. However, aid agencies are currently evaluating their programs in a disjointed manner and the results of such evaluations are consequently incoherent and have little universal value. To deal with this issue it is important to have joint evaluations by multiple aid agencies. Moreover, it is desirable to develop a comprehensive evaluation system that can be used by all aid agencies so that evaluations across different organizations will be more consistent. The World Bank is currently preparing to publish its rating system and the ratings of IDA eligible countries so that the information can be used as a building block to ensure consistency among the evaluations of different aid agencies.³²

Conclusion

Since the MDGs were adopted at the UN Millennium Summit in 2000, the international community has been working to achieve them by 2015. Realization of the MDGs was discussed at four international meetings during 2002 — Monterrey Conference, G8 Summit, Johannesburg Summit, and IMF-World Bank General Meeting. Among many others, two important topics were discussed at these meetings, development financing and aid effectiveness.

Development Financing

Immediately before the Monterrey Conference in March, the UN and the World Bank each announced that an additional \$50 billion, in addition to the current \$50 billion annually, would be needed to achieve the MDGs. Following these announcements, the US and the EU committed to increase

30. Development Committee (September 18, 2002) Better Measuring, Monitoring, and Managing for Development Result, p. 7.

31. The World Bank Tokyo Office The World Bank News Release No.2002/001/S.

32. Development Committee (September 18, 2002) Better Measuring, Monitoring, and Managing for Development Result, p. 7.

their ODA by \$5 billion and \$7 billion, respectively, by 2006. At the G8 Summit that followed, it was decided that a half of that total increase, \$6 billion, would be provided to Africa as support for NEPAD. This amount was seen as insufficient compared to the \$50 billion advocated by the UN and the World Bank, let alone an additional \$64 billion advocated by the leaders of NEPAD as necessary to achieve the MDGs.

To deal with this financing gap, UN Secretary-General Annan emphasized the concept of partnership at the Johannesburg Summit, specifically calling on corporations for financial support. Corporations are already making some contributions in the health and sanitation sectors such as with the provision of AIDS drugs and construction of water and sewerage facilities. However, as more emphasis is placed on the role of corporations in development, some NGOs are concerned that partnerships with corporations may replace ODA. Moreover, the importance of private investments was emphasized at the Monterrey Conference because private investments command a much larger share of development financing than ODA.

At the Johannesburg Summit, leaders of the Business Action for Sustainable Development called on large corporations to increase their investments in the 50 poorest countries. Also at the Johannesburg Summit, Prime Minister Blair of the UK and Pres. Chirac of France announced that the two countries would join to implement a \$1 billion private investment promotion initiative. The G8 Summit emphasized the urgent necessity to fill the financing gap in the HIPC Trust Fund that could be as much as \$1 billion. Against such a backdrop, there were many announcements of additional financial assistance in 2002. Japan and the UK announced their financial contribution to the HIPC Trust Fund at the IMF-World Bank Annual Meeting. At the G8 Summit and following the publication of a report on the promotion of EFA by the G8 Education Task Force, the US decided to provide an additional \$1 billion over the next five years for education in Africa on top of \$1 billion that had been pledged for the same purpose in 2001. Japan also announced its plan to allocate about \$2 billion in ODA over the next five years to support education in developing countries. These commitments, however, did not add up to the additional funds deemed necessary to achieve the MDGs. In this context, developing countries demanded that developed countries achieve the goal of spending 0.7 percent of their respective GNPs for ODA

Aid Effectiveness

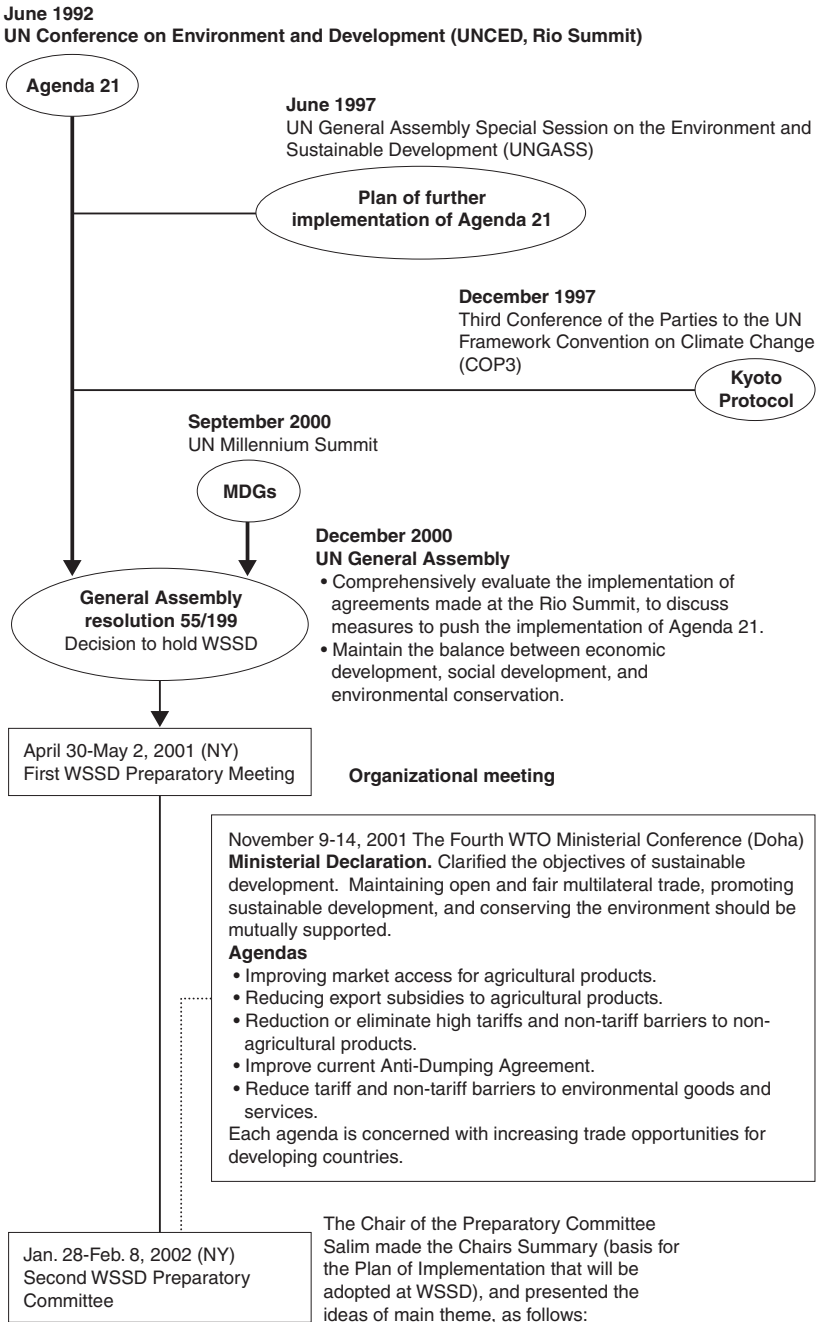
Aid effectiveness was another central point of discussion. Experience has shown that large amounts of ODA were not necessarily used effectively because developing countries lack infrastructure and administrative support. In this light, the US announced a plan to increase ODA by \$5 billion and create the Millennium Challenge Account, which would hold these additional funds and be controlled by the US. The US made it clear that more aid would be provided to countries that show good performance in eliminating corruption, reforming education, improving sanitation, and opening markets, and no aid would be provided to countries that waste money and repeatedly fail to implement necessary reforms.

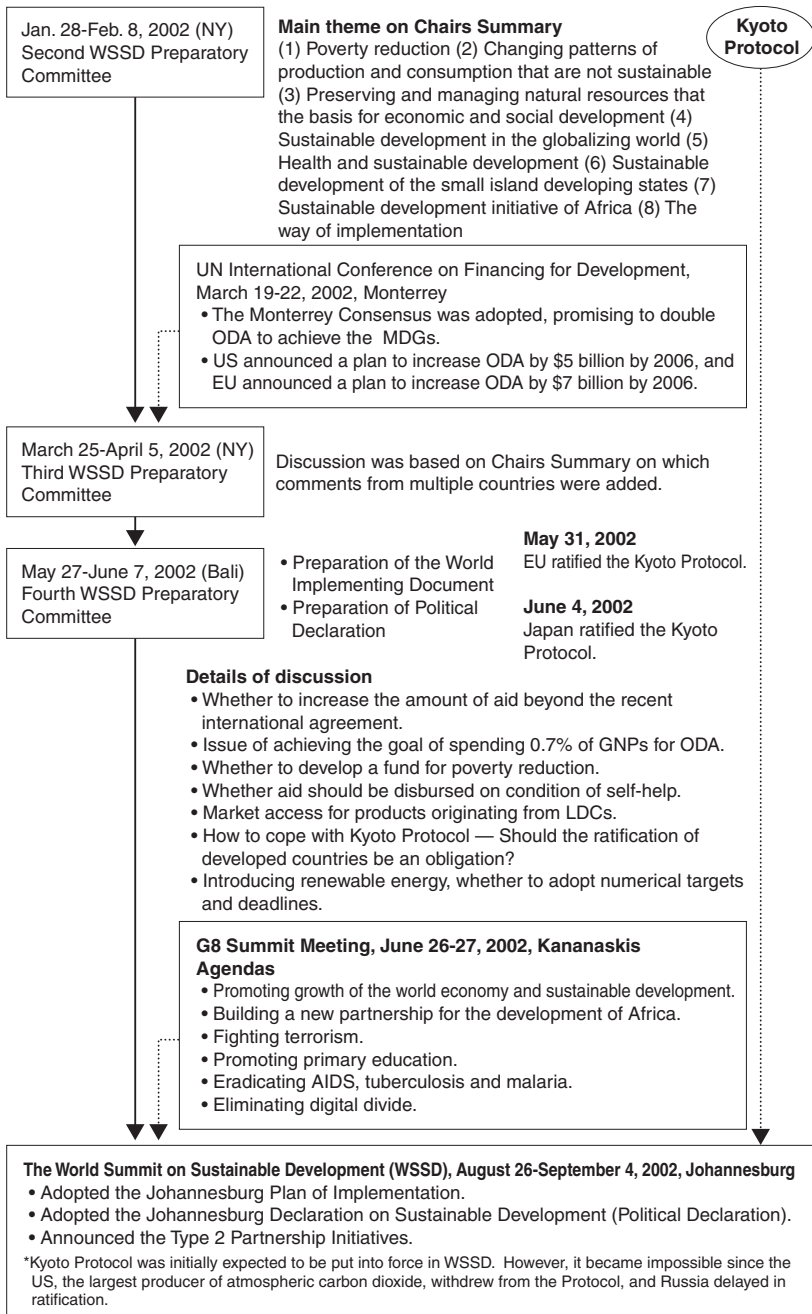
The World Bank has also adopted a similar policy to provide more financial aid to countries that show good performance. At the negotiations for the 13th replenishment of IDA in July 2002, donor countries urged the Bank to link IDA programs to country-specific development goals and to introduce a results-oriented appraisal system. At the IMF-World Bank Annual Meeting, participants discussed ways to improve aid effectiveness. They emphasized the need to correct the current situation — multiple aid agencies implementing disjointed development programs in one recipient country — by enhancing coordination and cooperation among aid agencies. Emphasis should be on results, and a comprehensive evaluation system should be used by all agencies so that evaluations will be consistent.

Other Issues

Another recurring discussion during 2002 international conferences was the demand by developing countries that developed countries increase their ODA and achieve the 0.7 percent of GNP goal, as stated in a UN resolution of 1975. Developed countries countered with their own demands — developing countries should establish good governance, including elimination of corruption, education reform, improved sanitation, and open markets as a condition for increased aid. The year 2002 saw the international community confirm the importance of coordination among donor agencies as a means to increase aid effectiveness; coordination of aid implementation policies and procedures, preparation and implementation of results-oriented development programs, and consistent program evaluations among different aid agencies.

Fig. 2-1. Transition process to the Johannesburg Summit (WSSD)





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3

International Organizations

World Bank

Suzanne Akiyama

The World Bank is an assortment of development assistance organizations known collectively as The World Bank Group.¹ The International Bank for Reconstruction and Development (IBRD) is the original organization that was established in 1944. Other members of the World Bank include:

- The International Finance Corporation (IFC), established in 1956 to support private sector investment in developing countries.
- The International Development Association (IDA), established in 1960 to help countries not able to borrow from IBRD.
- The International Center for Settlement of Investment Disputes (ICSID), created in 1966 to facilitate the settlement of disputes between governments and foreign investors.
- The Multilateral Investment Guarantee Agency (MIGA), established in 1988 to provide political risk insurance to private investors and lenders.

The World Bank is the largest and most influential of the multilateral development banks.² Its Washington headquarters staff number some 8,000, with an additional 2,000 staff decentralized among more than 100 country offices. These staff and country offices are shared by IBRD and IDA, whose operations overlap. In general, a reference to the ‘World Bank’ is a reference to the IBRD/IDA tandem. This section adheres to that practice.

The World Bank is both a bank and a development agency. The banking

Akiyama is a consultant at DEVINAK Associates.

1. IBRD and IDA: <http://www.worldbank.org/>, ICSID: <http://www.worldbank.org/icsid/>, IFC: <http://www.ifc.org/>, MIGA: <http://www.miga.org/>

2. The others are regional: Asian Development Bank, African Development Bank, Inter-American Development Bank, and the European Bank for Reconstruction and Development.

functions are largely carried out by IBRD, which loans money at market rates. The Bank has 184 member countries, and since it was established, has loaned \$360 billion. In fiscal 2002 (July through June), it loaned \$11.5 billion to 96 operations in 40 countries. For development, IDA offers money at highly concessional rates to countries that cannot afford IBRD terms. IDA has 162 member countries, and has loaned \$135 billion since it was founded. In fiscal 2002, it loaned \$8.8 billion for 133 operations in 62 countries. Further description of the Bank's overall portfolio is given in a later section.

The founding documents of the World Bank are its Articles of Agreement. According to Article One, the purpose of the Bank is

- To facilitate the investment of capital for productive purposes
- To promote private investment
- To promote long range . . . growth of international trade . . . and equilibrium in balance of payments

Poverty reduction is not mentioned in the Articles of Agreement. Since the mid-1990s, however, emphasis has been shifting within the Bank toward recognizing poverty reduction as an explicit objective.

Until the mid-1970s, the core of the Bank's strategy was to invest in government-led, large-scale infrastructure projects, and then until the late 1980s, Structural Adjustment Loans (SALs), which were intended to reduce government interference in economic activities in developing countries.

The poverty reduction orientation gained momentum in the early 1990s, and after James Wolfensohn became president in 1995, it became the overarching goal. The mission statement of the World Bank is now "Our dream is a world free of poverty." IDA, whose main targets are the least developed countries (LDCs), is gaining importance because of its emphasis on poverty reduction, including the achievement of the Millennium Development Goals (MDGs).

The current strategy of the Bank under Wolfensohn emphasizes not only poverty reduction, but also strengthening coordination with developing country governments, actors in the private sector such as non-governmental organizations (NGOs), other aid agencies and donors, as well as residents of the recipient countries. Based on the theory that policies and institutions determine the effectiveness of aid, the Bank has also adopted a system of deciding loan/credit amounts based on level of policies and institutions of the recipient countries.

World Bank in 2002³

During the calendar year 2002, the Bank redirected its attention more toward poverty reduction as a goal, and less toward economic growth. The Financing for Development Conference in March 2002⁴ can be seen, in retrospect, as the turning point.

The conference was a success in that all participants endorsed the Millennium Development Goals⁵ and financial commitments were received from the United States (although with some stipulations) and from the European Union. Since that event, however, efforts to achieve the goals have proceeded on many fronts, but progress has stalled. With the passage of time, success becomes less and less likely. At the same time, analysts and economists skeptical of the poverty reduction strategy, known now as the PRSP after the Poverty Reduction Strategy Papers which form its core,⁶ began to be heard. During this time, hard evidence emerged that the HIPC program — a program to relieve the debt burden of highly indebted countries so that they could allocate those resources to poverty reduction — was not working as hoped.⁷

These doubts and concerns have affected the World Bank. It is giving broader emphasis to the MDGs. Achievement of the MDGs has been implicit in Bank activities for several years, but the first goal, which relates specifically to poverty reduction, was actively pursued. In 2002, however, the Bank formally recommitted to all the goals under the rubric MDG+ (QAG, 2002).⁸ In addition, the contribution of growth to poverty reduction which had previously been glossed over, is again being explicitly recognized. Moreover, the importance of such ‘hard’ development aspects as infrastructure is being stressed along with such ‘soft’ aspects as empowerment. The program mentioned below, Making Infrastructure Work for the Poor, is a specific example. The World Bank is now looking in two directions for poverty reduction — investment climate and empowerment.

The pillars of the PRSP — process, ownership, participation, and institutional change — are still intact, but the balance between that process and the

3. A presentation by Yukio Yoshimura, World Bank Vice President and Special Representative in Japan, at the FASID/GRIPS Symposium on February 17, 2003, provided some of the basis for this paper. His presentation was on “World Bank, Japan and the East Asian Miracle.” The topic of the symposium was “Can Japan and Asian Experiences Be Applied to Other Countries?”

4. <http://www.un.org/esa/ffd/>

5. <http://www.un.org/millenniumgoals/index.html>

6. This process was introduced in 1999.

7. HIPC was launched in 1996 and reviewed in 1999.

8. Further clarification on MDG+ can be found in this reference.

fundamentals of economic growth is being revisited. Rather than being simply 'pro-poor', the discussion is turning on 'pro-poor growth' or 'pro-poor development'.

It is possible that the World Bank has put itself at a disadvantage by neglecting the economic growth factor in development, instead reorganizing and re-staffing to pursue the PRSP process and the analytic support that drives it. As the MDG clock runs down (the goals are to be reached by 2015), other influential stakeholders are seeking alternative routes. The United States is creating a Millennium Challenge Account to be administered by a Millennium Challenge Corporation that potentially will change the way that country's development assistance is handled.⁹ The United Kingdom is proposing an International Finance Facility that could change the way development assistance funds are raised.¹⁰

Meanwhile the global economy has not been performing well and the optimism of the 1990s has dissipated. This poor investment climate, along with specific events such as the collapse of Enron, a major infrastructure investor in developing countries, has reduced the flow of private development money. Currently the situation is such that more money is flowing out of developing country economies, with a notable exception of China, than into them, a negative flow that jeopardizes their ability to handle their debt. This has serious implications for the Bank — the Argentina problem mentioned below illustrates this. Wolfensohn, who has steadily reoriented the World Bank to the poverty reduction focus, may leave the presidency after 10 years in 2005. The departure, if realized, of this poverty reduction champion from the World Bank may accelerate a reorientation.

13th Replenishment of the IDA

Negotiations for the 13th replenishment of the IDA (IDA13) took place in six meetings beginning in Paris in late February 2001, following six meetings of the Board of Executive Directors in Washington. The final agreement was reached in July 2002. One point of contention was the share of grants. The United States insisted on increasing the share of grant aid in IDA financing to 50 percent, based on an argument that investments in education and health sectors take a long time to produce returns and that loans often end up requiring debt relief measures such as the HIPC initiative. The

9. <http://www.whitehouse.gov/news/releases/2003/02/print/20030205-4.html>

10. http://www.him-treasury.gov.uk/documents/international_issues/int/int_gnd_intfinance.fm

United Kingdom and other European countries were opposed, arguing that the Bank should provide loans and that grant aid should be handled by the United Nations and bilateral aid agencies. In the end, the debate was settled with a compromise to set the share at 18-21 percent.¹¹

Representatives in this negotiation also agreed to introduce results-oriented evaluations. An emphasis was placed on linking IDA financial assistance to the performance of recipient countries. The Bank now must report the progress of measuring concrete indices in education, healthcare, and private sector development and monitor how IDA assistance contributes to the achievement of the MDGs.

One feature of IDA13 was the emphasis on policies and institutions in the allocation of IDA credits. Based on research of the past few years, the Bank concluded that aid is effective in countries that have good policies and institutions. To use this research outcome in allocation of IDA credits (Performance-Based Lending, or PBA), the Bank introduced the Country Policy and Institutional Assessment (CPIA) in IDA12.¹² The CPIA has a total of 20 policy and institutional items to be assessed, categorized into four dimensions — economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions. They are designed to gauge whether the government has healthy economic and social policies and whether there are governance-related problems. CPIA has been influenced by the 9-11 terrorist attacks in that the issue of money laundering is considered under the dimension of public sector management and institutions. The Bank and IMF, in cooperation with other organizations, also assess whether developing countries are considering this issue and implementing relevant training programs.

Another noticeable feature of IDA13 was the emphasis on cooperation with other aid organizations based on PRSPs, ensuring the transparency of IDA operations through information disclosure, and the accountability of recipient countries for development and poverty reduction. Higher priority was given to education, gender, communicable diseases, private sector development, rural development, the environment, and governance.

Bank activities in 2002

During 2002 the World Bank was actively involved in a number of impor-

11. See Sanford (2002) and also FASID (2002) for details.

12. See IDA (2002) for details.

tant areas, some of which are detailed below. More on these topics and many others is available through the World Bank website (<http://www.worldbank.org>).

Sector and policy papers

Over the course of the 12 months, work was conducted on six strategy or policy papers that describe and explain the overall Bank approach to the sector or issue in question¹³ and are intended to be comprehensive. When final, they are presented to the Bank's Board of Executive Directors for approval.

INDIGENOUS PEOPLES POLICY. A draft policy was presented in February. When finalized, this policy will aim to promote the development of indigenous peoples while respecting their uniqueness. Consultations with representatives of various indigenous populations are an important part of defining this policy. A summary of consultations with external stakeholders was presented in October.

WATER RESOURCES SECTOR STRATEGY. A draft was prepared in March. Water is increasingly important worldwide, and water-related projects are expected to increase from 16 per cent to 24 percent of the World Bank portfolio in the coming years. Water resources management is the integrating concept for several sub-sectors, including hydropower, water supply, sanitation, and irrigation. Water-related projects usually have significant environmental effects and are thus frequently controversial and often actively opposed by NGOs. While the Bank has an established practice of working with NGOs, it will not be their policy to allow water-related projects important to the well-being of poor people to be derailed unnecessarily. This strategy was presented to the Board in January, 2003.

PRIVATE SECTOR DEVELOPMENT STRATEGY. This strategy was approved by the Executive Board in April. The Bank wants to encourage the private sector to provide services to the poor that are either not provided by public entities or are not satisfactorily provided. The intent is that through market-based incentives, private enterprise can provide such services as health and education, increasing their availability while at the same time reducing the need for government to take on the requisite additional debt. One mechanism for accomplishing this is called 'output-based aid',

13. Including those worked on during 2002, the Bank has sector strategy papers for these sectors — cities, education, energy, environment, the financial sector, forestry, gender mainstreaming, governance, health, nutrition and population, private sector development, the rural sector, social protection; and water.

whereby no compensation is paid until results have been produced. NGOs concerned with the social service access of poor people adamantly oppose this strategy

RURAL DEVELOPMENT STRATEGY. This strategy was endorsed by the Executive Board in October. Entitled “Reaching the Rural Poor”, it is intended to treat the total rural space, not just agricultural activities. Also in the area of rural and agricultural efforts, reform was started on the Consultative Group on International Agricultural Reform (CGIAR), a consortium of agricultural research centers coordinated by a secretariat at the World Bank.

FORESTRY STRATEGIC PAPER. This paper was approved in October. Approximately 500 million impoverished people depend on forests, but forests also have significant environmental importance. The strategy will cover all forest types. Although the Bank has entered into alliances with environmental groups, in particular the World Wildlife Fund, its forest strategy is opposed by NGOs that fear it will increase deforestation while worsening conditions for the poor.

Initiatives and Programs

As the Bank continues to refine and clarify its poverty reduction focus, it introduces, pursues, and in some cases retires, initiatives and programs. This was very much the case during 2002, when attention was given to a number of significant items.

INFRASTRUCTURE. In February a campaign to emphasize the importance of infrastructure was kicked off with an international conference call press conference. The campaign was entitled “Making Infrastructure Work for the Poor”. It aims to address those aspects of the Millennium Development Goals that are infrastructure-related, including energy, water, telecommunications, and public services. Improved infrastructure can create jobs, raise productivity, increase access to health and education, and improve quality of life. Some in the development community, notably Japan, have criticized what they had seen as a weakened commitment by the Bank to infrastructure.

POVERTY AND SOCIAL IMPACT ANALYSIS. A draft users’ guide became available in April and some pilot studies were completed. The PSIA is intended to be used in conjunction with the Poverty Reduction Strategy Paper. It will provide a mechanism to evaluate the effects of key policies on the poor. Some observers, notably United Nations Conference

on Trade and Development (UNCTAD 2002), have voiced dissatisfaction that the Bank has not had a mechanism to assess the social impact of its poverty reduction measures.

RESULTS-BASED MANAGEMENT. Also known as Better Measuring, Monitoring and Managing for Results, this program is a by-product of the March Financing for Development Conference in Monterrey, Mexico. A vice-president for results was named in March, and work got underway to develop a system to monitor and measure the actual results of aid expenditure. Development of this system was required by the agreement on IDA13 based on the insistence of then US Secretary of the Treasury Paul O'Neill, to establish indices to measure the effectiveness of international organizational assistance. At IDA13, it was decided to measure indices in education (primary education enrollment), healthcare (measles immunization), and private sector development (time and cost to start a business) at the country level and to research the measurement of IDA's contribution to the development of recipient countries. It was also important to the MDG campaign because the goals have quantifiable targets. The MDG+ concept is designed to incorporate results-based features. The lack of statistics in IDA-eligible countries will surely be a bottleneck for measuring the results of assistance, but following the resolution to adopt a results-oriented approach, an enormous amount of money will be spent for this purpose.

LICUS. This task force report on Low Income Countries Under Stress was reviewed by the Executive Board in March and July. The report discusses approaches to working with countries whose governance is incompatible with effective development assistance. In October, a joint workshop was held among the Bank, OECD/DAC, the European Commission, and UNDP on working with 'difficult' partnerships, which is different terminology for the same problem.

INTERNATIONAL TRADE GROUP. Created in October, this group coordinates work on international trade within the context of the Bank's poverty reduction focus.

COUNTRY ANALYTIC WORK. This partnership program began in October. There are 24 participating organizations, including the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA). This program is designed to facilitate donor coordination of development policies and practices. It is expected to encourage collaboration within the development community. Lack of donor coordination is often wasteful to both donors and clients.

NEW TERRITORY. The World Bank also ventured into some new territory, with publications and programs in:

- *Empowerment.* A by-product of the *World Development Report 2001, Empowerment and Poverty Reduction, a Sourcebook*, offers 20 ‘tools and practices’ to encourage empowerment of the poor.
- *Disabilities.* The Bank estimates that some 400 million people in developing countries are disabled, contributing to their poverty and marginalization. In June, an internationally recognized expert on disability and diversity issues was appointed as disability advisor.
- *Freedom of the press.* Making the link between poverty reduction and availability of information, *The Right to Tell — the Role of Mass Media in Economic Development* argues that unfettered mass media empowers readers and encourages transparency in governance.

Other active areas

The World Bank is an organization with a broad scope and is continually engaged in a myriad of activities at all stages. The following are some of the most prominent pursued in 2002:

DEVELOPMENT GATEWAY. This is an interactive portal for information and knowledge sharing relevant to sustainable development and poverty reduction. It was initiated in mid-2001, but became operational during 2002. It is ostensibly operated by the Development Gateway Foundation, but is actually run by the World Bank. The DG is further to the Bank efforts to become a ‘knowledge bank’, and joins other efforts, including the Global Development Network, since spun off to an independent secretariat; the Development Forum, an on-line venue for development dialogue; and the Global Development Learning Network, operated by the World Bank Institute. The Development Gateway is bitterly criticized by NGOs because it concentrates too much control over information within the Bank. They fear that it will drive out independent voices.

MILLENNIUM DEVELOPMENT GOALS. These have received renewed attention by the Bank under the rubric MDG+. While previously everything the Bank did was expected to further progress toward achievement of the MDGs, only one Bank initiative, the Education for All action plan¹⁴ was specifically directed at any MDG other than Goal 1, poverty

14. The EFA plan was presented to the Development Committee at the Spring Meeting in April.
<http://www.worldbank.org/springmeetings/>

reduction. This is an indication that the Bank had not yet integrated them operationally. An increased effort will now be made to do this in such a way that results can be measured to further the results-based methodology required by the IDA13 replenishment agreement.

AIDS. This disease is also an ongoing focal point for the Bank, which sees it as a development issue as well as a health problem. The Bank is partnering with other agencies to reduce the spread of the disease, promote AIDS education, and provide treatment. It works closely with the Global Fund against Aids, Malaria and Tuberculosis. It has also established a multisectoral campaign team for Africa, ACTafrica, based in the office of the Regional Vice President for Africa.

Specific country issues

Various World Bank client countries face urgent situations each year, while some, such as the LICUS countries referred to above are by definition in ongoing crisis. During 2002, particularly important problems were faced by the LICUS country Afghanistan, the middle-income country Argentina, and the group of post-Soviet Union transition countries collectively known as Commonwealth of Independent States-7.

AFGHANISTAN. In May, the World Bank issued a country brief, World Bank Assistance to Afghanistan. The Bank has four projects worth \$100 million underway in Afghanistan. It is also the administrator of the Afghan Reconstruction Trust Fund that began in mid-July with a disbursement of \$20 million.

ARGENTINA. Argentina failed to make a required reimbursement to the Bank in October, and after 60 days, it went into default and triggered penalties. It became ineligible for further loans or reduced interest on current debt. The country's problems stemmed from difficulties with IMF measures, not directly with those of the World Bank.

CIS-7. An initiative is underway to help the CIS countries develop and pursue poverty reduction strategies. In February, at a seminar in London, the initiative was proposed to help the CIS countries (Armenia, Azerbaijan, Georgia, Moldova, Kyrgyz Republic, Tajikistan, and Uzbekistan). In April, a Ministerial meeting was held in Washington, and in December, the third Forum on Poverty Reduction Strategies for CIS-7 countries was held in Almaty, Kazakhstan.

World Bank loan portfolio

The fiscal 2002 portfolio of \$102 billion was significantly smaller than the peak portfolio of \$126 billion in 1997 during the Asian financial crisis, but its structure has been broadly stable. Among the regions, East Asia and the Pacific (EAP) continued as the largest share of commitments at about 25 percent and Africa (AFR) the largest number of projects (24 percent in of number projects, 15 percent in value). The Middle East and North Africa (MENA) is the smallest region, and received just over 5 percent of commitments.

The composition of the portfolio has changed. The Bank loans through two windows, IBRD and IDA, and until recently, in two formats, investment and adjustment. Historically IBRD loans, extended at market rate and returning a profit to the organization, have predominated. They are still the majority, but much reduced relative to IDA. Most of the decline is in investment rather than adjustment lending. IBRD commitments are at their lowest in more than a decade. Over the past five years, they declined by 25 percent, all of which was in investment lending. In 2002, for the third year running, more loans closed out than were opened. The change in ratio between investment and adjustment lending is affected by an increase in programmatic lending vis-a-vis project lending. Program lending is money made available in tranches for non-specific purposes on an iterative basis; that is, the disbursement of each tranche depends on the effectiveness of the preceding one. Programmatic lending is often linked to a PRSP. This method is increasingly used, tending to blur the investment/adjustment distinction.

Since the late 1990s, the Bank has been organized into administrative units called networks and by cross-cutting topics called themes. The portfolio analysis also reveals changes among theses. The Private Sector and Infrastructure (PSI) network remains the largest at 43 percent, although it has shrunk over the past five years from more than 50 percent. The Poverty Reduction through Economic Management (PREM) network showed the greatest increase, with an 8 percent share. (Fig. 3-1). In terms of themes, Financial/PSD (Private Sector Development) and Environment/Natural Resources were the largest. At the same time, Financial/PSD showed the greatest percentage decline from the previous fiscal year, from 25 percent to 19 percent. The greatest increase was in the Social Development thematic group, from 5 percent to 8 percent. (Fig. 3-2).

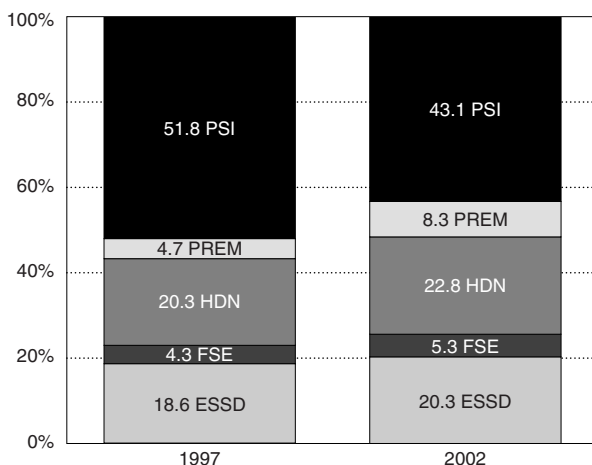
The 2002 World Bank portfolio included operations in some 130 countries. Three regions — Latin America and the Caribbean, East Asia and the

Pacific, and Europe and Central Asia — received 88 percent of all IBRD loans (Table 3-1). On the other hand, Africa and South Asia accounted for nearly 80 percent of the IDA portfolio with a record amount of credits provided to these two regions (Table 3-2). Five countries received 45 percent of net commitments — Brazil, China, India, Mexico, and Turkey. By contrast, the 50 smallest borrowers received 6 percent of net commitments. In terms of project numbers, the distribution is somewhat more even, with the top 10 countries accounting for 30 percent of the portfolio.

The portfolio reflects a number of factors:

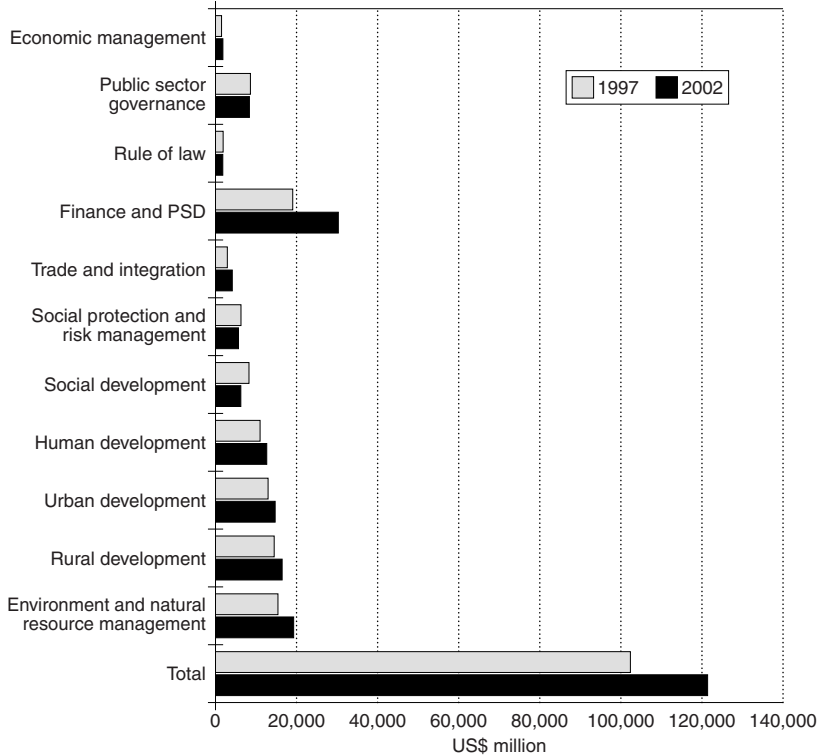
- Movement between IBRD and IDA status and the availability of alternative funding sources.
- Shift in Bank orientation from infrastructure toward social service/governance.
- Increased attention to recipients' institutional and policy environment such that lending has been reduced in countries with weak policies in favor of stronger performers.
- Uncertainty in terms of world events, such as the terrorist attacks of 9-11, which can have widening repercussions that are not easily predicted.

Figure 3-1. World Bank lending by network



PSI – Private sector development and infrastructure
 PREM – Poverty reduction through economic management
 HDN – Human development
 FSE – Financial sector
 ESSD – Environmentally and socially sustainable development

Source: World Bank (2002)

Figure 3-2. World Bank lending by theme

Source: QAG (2002a)

The ARPP concludes the Bank is at a turning point in terms of the structure and composition of its portfolio. Loan compositions are changing, PRSP means that recipients are increasingly involved in decision-making, and results-based management must be accommodated. Portfolio size will be determined by how, and how well, the Bank deals with these situations.

Table 3-1. IBRD lending by region (US\$ million)

Region	1989-1993 (annual average)	1994	1996	1998	2000	2002
East Asia & Pacific	3,770.1	4,623.8	4,252.2	8,847.0	2,495.3	982.4
South Asia	1,728.6	474.0	1,161.6	1,318.0	934.3	893.0
Europe & Central Asia	2,648.2	3,533.3	3,918.2	4,462.3	2,733.1	4,894.7
Middle East & North Africa	1,521.9	1,050.6	1,276.7	722.0	760.2	451.8
Africa	831.2	127.7	0.0	57.4	97.6	41.8
Latin America and Caribbean	5,521.2	4,434.5	4,047.2	5,679.5	3,898.1	4,188.1
Total	16,021.2	14,243.9	14,655.9	21,086.2	10,918.6	11,451.8

Source: World Bank Annual Report (1998, 2000, 2001, 2002b)

Table 3-2. IDA lending by region (US\$ million)

Region	1989-1993 (annual average)	1994	1996	1998	2000	2002
East Asia & Pacific	910.0	1,410.6	1,167.9	776.2	483.8	791.2
South Asia	1,912.3	1,896.0	1,767.5	2,546.4	1,178.1	2,615.4
Europe & Central Asia	29.1	193.1	476.4	762.0	309.1	628.9
Middle East & North Africa	127.8	100.0	318.5	246.5	159.8	102.7
Africa	2,777.4	2,680.2	2,740.1	2,816.4	2,061.4	3,751.6
Latin America and Caribbean	253.5	312.2	390.3	360.2	165.3	177.8
Total	6,010.1	6,592.1	6,860.7	7,507.7	4,357.5	8,067.6

Source: World Bank Annual Report (1998, 2000, 2001, 2002b)

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Recent Aid Trends at UNDP

Suzanne Akiyama

Among the numerous United Nations agencies, the United Nations Development Programme (UNDP) is the one that is most involved in development assistance. In recent years, UNDP seemed to be searching for new operational areas as it overhauled its operations after facing financial difficulties at the end of the 1990s. At the same time, UNDP became the scorekeeper for the Millennium Development Goals (MDGs).

Overview of UNDP

As the leader of the United Nations Development Group (UNDG), UNDP oversees development operations within the UN system. The chairman of UNDG is the UNDP administrator. UNDP also plays a leading role in coordinating the development efforts of various UN subsidiary units through the United Nations Country Teams (UNCTs).¹ The current Administrator of UNDP is Mark Malloch Brown, a national of the United Kingdom. UNDP has operations in 166 countries divided into five geographical groups, although it does not have local offices in all countries.² The staff numbers about 3,300 in addition to thousands of experts and consultants who work on a contract basis.

UNDP was established by Resolution 2029 adopted by the 20th UN General Assembly in 1995, which consolidated the United Nations Expanded Programme of Technical Assistance and the United Nations Special Fund into one entity. UNDP's mission is to follow the development strategy of the Decade for International Development, which is adopted by the General Assembly every 10 years (the current one is the fifth and covers the decade from 2001 to 2010). It also helps developing countries and countries in transition to market economies in realizing sustainable development. The UNDP mission statement is:

UNDP's mission is to help countries in their efforts to achieve sustain-

Akiyama is a consultant at DEVINAK Associates.

1. The United Nations Resident Coordinator System is administered by the UNDP administrator, but resident coordinators are employed by various organizations that belong to the UNCT.
2. The five regions are Sub-Saharan Africa (offices in 39 countries); Arab states (offices in 17 countries and the Palestine Program); Europe and former Soviet Union countries (offices in 24 countries); Latin America and the Caribbean (offices in 24 countries) and Asia and the Pacific (offices in 24 countries).

able human development by assisting them to build their capacity to design and carry out development programmes in poverty eradication, employment creation and sustainable livelihoods, the empowerment of women and the protection and regeneration of the environment, giving first priority to poverty eradication. (UNDP, 1996)

Although originally established as a technical cooperation agency, UNDP's character has changed significantly during the past 10 years. In 1995, UNDP handed its technical training and cooperation operations over to the United Nations Office for Project Service (UNOPS)³ and began shifting its emphasis to more sophisticated advisory and recommendation services. This shift was initiated by Mark Malloch Brown who assumed the post of UNDP Administrator in July 1999 when UNDP's finances were in a critical condition. Malloch Brown announced his reform strategy in a new business plan entitled *The Way Forward* in January 2000 (UNDP 2000). According to this plan, UNDP had a comparative advantage in helping governments through policy assistance and advice rather than through project implementation because it was small but well respected. If UNDP took such a course, donors were expected to support its activities. Table 3-3 details the fundamental changes.

Table 3-3. UNDP's course corrections

Yesterday	Tomorrow
Project-oriented	Policy-oriented
Process-oriented	Results-oriented
Low level of expertise	Clear ability assessment
Small share of knowledge-based capacity	Innovative capacity that is networked by information technologies
Risk averse	Risk taking
Inward looking and skeptical about partnerships and coordination	Outward looking and embraces partnerships and coordination
Bureaucratic culture	Results-oriented culture that emphasizes initiatives
Complicated decision making	Flexible and timely decision making
Weak management accountability	Responsive management with strong leadership

Source: UNDP, 2002a

In addition to its own development assistance operations, UNDP manages two funds and one organization. The United Nations Capital Development Fund (UNCDF) established in 1966 aims to reduce poverty through rural development and micro-finance programs implemented mainly in Least Developed Countries (LDCs). In 2002, UNCDF provided \$17.6

3. Based on Resolution 501 adopted by the 48th UN General Assembly in 1994.

million to 28 LDCs through 55 projects. The United Nations Development Fund for Women (UNIFEM) established in 1976 supports programs that aim to promote women's rights, political participation, and economic security. It currently operates in more than 100 countries. In 2002 UNIFEM was active in the areas of peace and reconstruction, economic stability, and women's rights. The United Nations Volunteers (UNV), established by a UN General Assembly resolution in 1970, recruits and dispatches volunteers. In 2002, it had 5,234 active volunteers from 158 countries working in 139 countries.

UNDP finances

FINANCIAL RESOURCES. UNDP is funded by voluntary contributions, not by compulsory assessments. Total available funds increased and reached a record \$2,830 million in 2002. The core resources⁴ reversed their seven-year decline and began to increase in 2001, reaching \$670 million in 2002. The previous decline in donor contributions to the core fund was probably due to a perception that contributions did not bring visible results. The reversal of this trend was probably due to wider recognition of UNDP's significant role in recent years and donors' positive reactions to its reform efforts.

There have been significant increases in non-core resources as well. In 2002, third-party co-financing increased from the previous year's \$683 million to \$935 million. Third-party co-financing includes many trust funds. Through Thematic Trust Funds, UNDP provided funds to 334 operations in 135 countries during fiscal 2002. With a total revenue of \$64 million, Thematic Trust Funds mainly assist LDCs and African countries.

Furthermore, the actual receipt of cost-sharing contributions increased to more than \$1 billion. Through this arrangement, the program-implementing governments contribute to their own development programs through UNDP.

FUND ALLOCATION. UNDP allocates 90 percent of core financing to developing countries with a per capita national income of \$900 or less. In terms of thematic allocation, governance and poverty reduction account for 70 percent of total expenditures. Table 3-4 shows actual expenditures by thematic areas, while Table 3-5 shows actual expenditures by region.

4. Unspecified funds that support UNDP's basic operations, administration, and management of programs and local resident representatives.

Table 3-4. UNDP's actual expenditures by thematic area, FY2001 (%)

Thematic area	2000	2001
Governance	42	45
Poverty reduction	31	22
Environment	14	14
Gender	1	1
Development under special circumstances	10	17
Assistance for the United Nations	<1	<1
Total	10	100

Source: Compiled by author from Ministry of Foreign Affairs (2002, 2003).

Table 3-5. Actual UNDP expenditures by region (US\$ million, %)

Region	1999		2000		2001	
	Amount	Share	Amount	Share	Amount	Share
Asia, Pacific	246.7	15.1	180.7	12.4	180.6	11.9
Arab states	51.2	3.1	73.4	5.1	77.8	5.1
Africa	261.2	16.0	189.8	13.1	199.2	13.1
Latin America	926.3	56.9	865.7	59.6	926.6	60.9
Europe, former Soviet Union	80.6	4.9	92.2	6.3	112	7.4
Multilateral	62.5	3.8	51.6	3.6	25.4	1.7
Total	1,628.5	100	1,453.4	100	1,521.6	100

Source: Compiled by author from Ministry of Foreign Affairs (2002, 2003).

Status of UNDP reform

UNDP began a major strategic shift in 2000 that is still continuing. Implementation of the 2000-2003 business plan began in 2000; specific changes from 2000 to 2002 are described below.

In terms of human resource management, UNDP strengthened the management system for staff achievements and abilities and began the annual staff assessment in 2000. It tried to reinforce the staff by revitalizing leadership teams. UNDP also started a leadership development program to promote new talents. As it began to recognize the importance of sharing knowledge and best practices, 100 policy experts were assigned to nine Sub-Regional Resource Facilities (SURFs) in five geographical regions. SURFs function as the hubs of UNDP's knowledge network by gathering best practices from all over the world and promoting the dissemination and application of expert knowledge. At the end of 2002, about 2,500 UNDP staff participated in knowledge networks that were related to the priority areas.

At the same time as it enhanced the quality of its human resources, UNDP resolutely implemented staff reductions in order to reorganize the functions of headquarters and improve efficiency. In fiscal 2001 UNDP reached a goal of reducing headquarters staff by 25 percent and further

reduced personnel in the main resident representative offices by 24 percent. Savings in resources were invested in information technology and staff training. In line with its overall strategy, UNDP also overhauled its 135 resident representative offices in 2002.

In terms of structure, UNDP created the Bureau for Crisis Prevention and Recovery (BCPR) at the end of 2001 to deal with natural disaster abatement, judicial and security sector reform, small arms reduction, disarmament, demobilization, reintegration, demining, conflict prevention, peace-building, and post-conflict economic and social reconstruction. The Bureau now manages programs in more than 60 developing countries. It also manages the knowledge network (CPRP Net) that is designed to share lessons learned and success stories from past programs within UNDP (Yuge, 2003).

There was also a course correction in operations. In 1999, UNDP began to prepare the Multi-Year Funding Framework (MYFF) to focus its operations in areas in which it has comparative advantages. In 2002, UNDP reorganized programs around six priority areas. In answering the long-standing issue of how to use resources effectively and efficiently, establishing priority areas was an integral part of a series of reforms that included streamlining operational management and vigorous enforcement of results-oriented systems. By setting priority areas, UNDP tried to select the areas that deserve more resources and concentrate those in six areas — democratic governance, poverty reduction, conflict prevention and post-conflict recovery, environmental conservation and sustainable energy development, information and communications technologies (ICTs), and HIV/AIDS.

The largest event of 2002 for UNDP was its appointment as the coordinator of the Millennium Development Goals (MDGs) within the UN system. The United Nations International Conference on Financing for Development and the World Summit on Sustainable Development (WSSD) confirmed the commitment of the entire world to achieve the eight goals included in the MDGs. UNDP plays an important role in this effort. In December 2001, the UNDP administrator was appointed ‘campaign manager and scorekeeper’ by the UN Secretary-General for MDGs within the UN system. As an expert mediator, UNDP is trying to create various partnerships within the development community and use the expertise of each organization to help achieve the MDGs. For example, it has partnered with the Bill and Melinda Gates Foundation and the Bank of Sweden Tercentenary Foundation in an effort to promote global awareness of the MDGs. In the middle of 2002, partners within and outside the UN system answered

the call of UNDG and gathered under the chairmanship of UNDP to adopt the United Nations joint strategy to support countries that are making efforts to achieve the MDGs. UNDP has thus far supported 25 countries to prepare and publish their MDGs reports.

Priority areas

In the Multi-Year Funding Framework, UNDP designated six areas as priorities.

Democratic governance

Democratic governance refers to promotion of political participation at all levels and enhancement of accountability in developing countries. A significant portion of UNDP's development program funding (45 percent in 2001) is allocated for democratic governance.

In 2001, UNDP implemented 145 programs in this area, including election assistance in East Timor and Sierra Leone. A radio debate in Niger about a decentralization bill, an election in Lesotho, and the National Judicial Commission of Nicaragua, among others, were supported during 2002. UNDP has also established the Governance Centre in Oslo, which conducts research on good governance and collects and shares related data.

Poverty reduction

Among the six priority areas, UNDP considers poverty reduction the most important because, above all, the organization's largest challenge and task is achievement of the MDGs. It allocates 90 percent of core resources to help developing countries with a per capita national income of less than \$900, especially African countries. In 2002, UNDP supported more than 60 developing countries in preparing their Poverty Reduction Strategy Papers (PRSPs) and executing those strategies. UNDP has published the *Human Development Report* every year since 1990 and has been monitoring the progress of human development; it leads the debate about poverty reduction and extends its knowledge.

Conflict prevention and post-conflict recovery

Developing countries suffer greatly from natural disasters and frequent armed conflicts, the damage of which sometimes negates years of development efforts. UNDP is interested in what kinds of development strategies encourage or reduce conflicts. Based on a belief that development efforts

must promote peace building, UNDP is actively involved in conflict prevention and post-conflict recovery. A notable example is its proactive support for Afghanistan's recovery from civil strife that lasted 23 years. In fiscal 2002, it provided more than \$75 million to the country's Interim Administration Fund. It also administers the Law and Order Trust Fund for Afghanistan (LOTFA), has established and supports the Judicial Commission, pays the salaries of police officers, and provides equipment other than firearms. In addition, UNDP started the Recovery Employment Afghanistan Programme (REAP) with support from the Japanese government immediately after the Interim Administration was established in January 2002.

Smooth transitions from emergency assistance to reconstruction/development assistance, as well as the early entrance of aid agencies into conflict areas to ensure that transition, have long been recognized as important issues in the area of conflict and development. In November 2001, the UNDP Executive Board adopted a policy document, *Role of UNDP in Crisis and Post-Conflict Situations*, that systematically delineates the role and strategy of UNDP in crisis situations, including natural disasters, conflicts, and post-conflict situations (UNDP, 2001). For details, see the next section in this chapter.

One of the areas with which UNDP has become involved recently is demining. Mine-related activities are conducted mainly by the United Nations Mine Action Service, but UNDP is also playing an active role, focusing on capacity building at the national and local levels.⁵ It is currently implementing mine action programs in 19 countries.⁶ Many of them are comprehensive mine action programs that establish and administer mine action centers, create social rehabilitation programs for mine victims, and run conventional job training and rural development projects. It is also raising money for mine action projects through a demining support program called Adopt a Minefield.⁷

5. The United Nations Policy on Mine Action states that "UNDP will be responsible for addressing the socio-economic consequences of landmines and for supporting national/local capacity building to ensure the elimination of the obstacle they pose to the resumption of normal economic activity, reconstruction and development."

6. Azerbaijan, Albania, Angola, Yemen, Iran, Ukraine, Ethiopia, Eritrea, Cambodia, Guinea-Bissau, Croatia, Sri Lanka, Somalia, Thailand, Chad, Bosnia and Herzegovina, Mozambique, Laos, and Lebanon.

7. http://www.undp.org/erd/mineaction/other_programmes/aam.htm.

Environmental conservation and sustainable energy development

UNDP believes it is important for a poverty reduction strategy to consider the environment and natural resources. It is involved with various environmental conservation activities, including protecting scarce natural resources and reducing the dumping of waste. In addition, UNDP is helping developing countries implement the Montreal Protocol through technical assistance to stop use of ozone depleting substances and training to adopt technologies that help protect the ozone layer. Also, UNDP's Drylands Development Centre in Nairobi is assisting 16 African and Arab countries in their efforts to reduce the risks of climatic damage and to manage natural resources.

The primary achievement of UNDP in this area during 2002 was the efforts that culminated in WSSD at Johannesburg. In preparation for the summit, UNDP and the Indonesian government jointly announced Capacity 2015, a capacity-building initiative with the ultimate goal of achieving Agenda 21⁸ and the MDGs. Together with seven other partner organizations, UNDP also launched the Equator Initiative which aims to accelerate poverty reduction in the equatorial belt through exchange of information about biodiversity conservation and practical examples.

In the energy sector, in cooperation with the UN Department of Economic and Social Affairs, the World Energy Council, and more than a hundred scientists and development experts, UNDP produced a publication called World Energy Assessment and a new blueprint for action, *Energy Policy for Sustainable Development*. Activities in this area include the Rural Energy Development Program in Nepal. In a country that has not been able to take advantage of its abundant water resources because of guerrilla attacks and other obstacles, this project aims to increase the electric power supply by installing hydraulic turbines. So far, 93 water turbines have been installed in 15 regions, supplying electricity to more than 11,000 households.

Information and communications technologies (ICTs)

UNDP is searching for tools that can be used to reduce poverty through ICT. Leaders at the 2000 Kyushu Okinawa Summit decided to create the

8. Agenda 21 is a specific action plan adopted in 1992 at the United Nations Conference on Environment and Development (commonly known as the Earth Summit or Rio Summit) to achieve sustainable development in the 21st century. It explored programs that dealt with social and economic factors such as population, poverty, and human habitat, as well as challenges associated with atmosphere, forests, climate, water, biodiversity, and waste. See Chapter 2 of this volume.

Digital Opportunity Task Force, commonly known as the DOT Force, to prepare and implement the strategy for the effective utilization of ICTs for development.

UNDP's activities in 2002 in the ICT area included several efforts. It formed a partnership with the Coca-Cola Co. of the United States to initiate a lifelong E-learning project in Malaysia and Bolivia.⁹ These countries are using ICTs as educational tools. It is hoped that this project will eventually be used as a pilot case for future programs planned in Africa and South Asia. In the Solomon Islands, UNDP is involved with the People First Network that connects people living on 850 different islands.

In Jordan, UNDP is assisting the Royal Commission for Information Technology Community Centers, which encourages thousands of Jordanians to use and study computers, and provides them with an opportunity to acquire ICT skills to make a living. In 2001, this project opened 20 new computer centers throughout Jordan.

HIV/AIDS

UNDP is making various efforts to fight HIV/AIDS. It is urging government leaders to recognize the importance of HIV/AIDS in preparation of their national plans and budgets. It is also involved in educational activities to counter discrimination and look for ways to cope with the loss of human resources.

Specifically, UNDP forged a close affiliation with The Global Fund to Fight AIDS, Tuberculosis and Malaria which was established in 2001. In Botswana, where the risk of AIDS death for 15-years-old boys is as high as 90 percent, the government and other development partners are preparing a five-year national strategy to deal with the secondary effects of HIV/AIDS on society and the economy. UNDP is assisting this effort.

The fight against HIV/AIDS is particularly difficult in the Arab region, but UNDP has hosted or initiated many events. In 2002, those responsible for HIV/AIDS policies in 17 countries gathered in Yemen, promised to build a system of cooperation, and agreed to link all development issues to this problem. In Tunisia, UNDP helped organize the Network for Civil Society Organizations on HIV/AIDS in the Arab States, where civil society organizations from 14 countries decided to cooperate with each other in HIV/AIDS prevention efforts.

9. This project aims to expand access to ICTs and education that uses ICTs.

While these are the priority areas, UNDP is also stressing the protection of human rights and empowerment of women in all of its operations. In the area of women's empowerment, the Women in Development (WID) Fund established by Japan is making important contributions.

UNDP has been emphasizing South-South cooperation since the 1970s¹⁰ and created a specialized division.¹¹ Successful examples of South-South cooperation in recent years include:

- applying the experience of fingerprint registration in Jamaica to the voter registration and conflict prevention program in Lesotho;
- support from India and other developing countries for election administration, voter education, and election monitoring in Indonesia that aimed to strengthen democratic governance in that country;
- applying lessons learned in Brazil to other countries in the fight against HIV/AIDS;
- assistance from an expert agency in the Philippines for disaster management in Madagascar;
- employing experts from other developing countries for a capacity-building program in East Timor;
- Cuba's medical assistance to other countries; and
- assistance to the Philippines using the micro-finance expertise of Bangladeshi non-governmental organizations (NGOs).¹²

Human Development Report

UNDP publishes many reports and periodicals to promote the debate about development and make use of its wealth of research and lessons learned from long years of experience. The *Human Development Report* is probably the most influential among them. Since 1990, UNDP has been publishing this annual report with a different theme every year to advance the debate about human development (Table 3-6). The report does not represent the official opinion of UNDP, but has led the development debate within the international community and is highly influential in the international arena. In this report, UNDP publishes the Human Development Index that quantifies the development level of each country based on fundamental factors such as the per capita Gross Domestic Product (GDP), average life expectancy, and school enrollment ratio. The index measures only a few

10. See <http://www.undp.org/dpa/publications/fftdce.pdf> for details.

11. Special Unit for Technical Cooperation among Developing Countries (SU/TCDC)

12. UNDP Web site (www.undp.org/dpa/publications/fftdce.pdf)

Table 3-6. Themes of Human Development Reports

Year	Theme
2002	Governance and human development: Deepening democracy in a fragmented world
2001	New technologies and human development: Making new technologies work for human development
2000	Human rights and human development: For freedom and solidarity
1999	Globalization and human development: Globalization with a human face
1998	Consumption patterns and human development: Consumption for human development
1997	Poverty and human development: Human development to eradicate poverty
1996	Economic development and human development
1995	Gender and human development
1994	New dimensions of human security
1993	People's social participation
1992	Global dimensions of human development
1991	Financing human development
1990	Concept and measurement of human development

aspects of human development, which is defined as “a process of enlarging people’s choices to raise the achievable level of welfare” (UNDP, 1997), but it is prepared for more than 175 countries and is watched closely by the international community.

The focus of the 2002 *Human Development Report* was on governance. Its central message was that “effective governance is central to human development, and lasting solutions need to . . . be firmly grounded in democratic politics in the broadest sense.” (UNDP 2002a). It also included a chapter on conflict prevention and building peace. Moreover, the report warned that, if the current trend continues, the achievement of MDGs — halving the number of the poor by 2015 — would be in jeopardy.

Human development reports are also prepared at the national level. As of October 2002, more than 420 national human development reports had been issued for 135 countries.

In 2002, UNDP published the landmark *Arab Human Development Report 2002: Creating Opportunities for Future Generations*. The report focused on the issues of governance, women’s empowerment, and access to knowledge as obstacles for the development of Arab states, and pointed out the widening of regional and domestic gaps (UNDP 2002b).

Japan and UNDP

Japan has been one of UNDP’s most supportive donors from the beginning, and has influenced its policy making as an original Executive Board member since the organization was first established. The country has always

been one of the top donors for core financing. Japan's contributions to core resources in calendar years 2001 and 2002 were \$96 million and \$86.77 million, respectively, representing 14.7 percent and 12.9 percent of total core funding.

Japan makes other contributions as well. The government has established the Human Resource Development Fund within UNDP to develop human resources in developing countries, and contributed \$7.1 million to that fund in fiscal year 2002.¹³ In 2001, Japan contributed \$5 million to the Trust Fund for Information and Communication Technology for Development, which was established by UNDP. In 1995, Japan established the WID Fund in UNDP to support women of developing countries. By fiscal year 2002, it had contributed a cumulative \$16.51 million to that fund. Japan has also given more than \$100 million since 1993 (\$7.85 million in 2001) to the Japan-Palestine Development Fund, which was created to support the Middle East peace process by helping to stabilize lives and development in the West Bank and Gaza Strip.

Japan and other donor countries are searching for a way to coordinate their aid so that they can use their limited funds more effectively. Aid coordination efforts between Japan and UNDP in recent years include a program in the Republic of Kiribati where Japan provided solar power generation systems and UNDP trained the technicians to manage and maintain them, and a waste disposal improvement program in Pakistan in which Japan provided equipment through grant aid and UNDP supported the organization and institution building (Ministry of Foreign Affairs, 2003). In the Philippines, the Japan International Cooperation Agency (JICA) and UNDP is building a partnership in a solid waste disposal project and in the area of women's job training (Ministry of Foreign Affairs, 2003).

Conclusion

In recent years, UNDP has increased its presence and significance as the main organization that supports achievement of the MDGs. It is forming a network with many aid-related organizations and is vigorously pushing toward the realization of the MDGs by using the expertise of partner organizations. UNDP is able to fulfill such a role because the new administrator came on board in 1999 and shifted the focus of the organization from project implementation to 'upstream' policies through a series of reforms. As

13. Of the \$7.1 million, \$3.5 million was specifically earmarked for South-South cooperation.

discussed above, UNDP has implemented various reforms including establishing a network of experts using information technologies, expanding operations in conflict prevention and building peace, and participating in mine removal, the fight against HIV/AIDS, and climate changes. UNDP has been responding to new development-related problems in a timely manner and is leading the discussions about them. The reform of UNDP is still in progress.

In recent years, many bilateral donors, including Japan, are trying to coordinate their aid with other donors so that they can use their limited funds more effectively. To enable better coordination, donors must be aware of activities in other countries and those of the donor community. The direction of UNDP, which plays a central role in the donor community, needs to be watched closely.

The financial problems UNDP experienced at the end of the 1990s, however, will always remain a worrisome issue for an organization funded by voluntary contributions. UNDP seems to have regained the confidence and support of the international aid community, thanks in large part to the new administrator, but the future is uncertain. Major developed countries have particularly strong doubts about both the efficiency and the effectiveness of United Nations agencies. The talk of merging UNDP with the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO) could come up in the years ahead. Also, the recent decision to let the International Development Association (IDA) of the World Bank Group handle grant aid may turn IDA into a competitor of UNDP.

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UNDP Activities to Build Peace — Institutional Reform and Operational Restructuring

Akiko Yuge

As an increasing number of developing countries face the challenges of post-civil war or post-conflict reconstruction, the importance of development assistance in conflict prevention, post-conflict recovery and reconstruction, and activities to build peace has grown since the 1990s. Donors and other groups are responding by strengthening their efforts in this area. UNDP has increased its peace building efforts through development cooperation in recent years, but in order to do so, a number of fundamental reforms in many aspects of its institutions and operations were necessary. Development aid aimed at peace building is different from traditional UNDP activities in many ways, and the organization needed a fundamental restructuring of its organization and operations in order to provide effective peace building support.

This section examines how a development aid organization has changed its roles, strategies, and institutions to deal with peace building activities by focusing on UNDP's organizational reforms. As background to UNDP efforts at peace building, we will look at changes in the international perception of the role of development in peace building. Specifically, this paper will focus on the Report of the Panel on United Nations Peace Operations (so-called Brahimi Report) (UN, 2000) and discuss peace building challenges faced by the UN system and the role of UNDP within the system. Next, we will examine UNDP efforts to strengthen its peace building activities from institutional and operational perspectives. Then we will present some UNDP activities in the area of crisis prevention and recovery. As defined by the UN Security Council, peace building is "aimed at preventing the outbreak, the recurrence or continuation of armed conflict and therefore encompasses a wide range of political, developmental, humanitarian and human rights programs and mechanisms." (UN, 2001, para. 5)

Yuge is director of the United Nations Development Programme Tokyo Office.

Peace building and development — Framework of the UN system and UNDP role

As the number of regional conflicts increased after the Cold War, the importance of development in peace-related activities of the United Nations became apparent. In 1992, UN Secretary-General Boutros Boutros-Ghali submitted a report entitled “Agenda for Peace” to the General Assembly that recognized the importance of preventive diplomacy and acknowledged the role of development assistance, as well as the importance of peacekeeping operations that had been the core of UN peace functions. (UN, 1992) In 1995, Boutros-Ghali published the Supplement to an Agenda for Peace and pointed out that effective coordination among UN agencies is necessary to enhance their peace functions (UN, 1995, para. 47-53).

In addressing the Security Council in 1999, Secretary-General Kofi Annan said that the UN should shift its conflict resolution framework from a ‘culture of reaction’ to a ‘culture of prevention’ (UN, 1999). Indeed, previous responses to conflicts were mainly based on a culture of reaction that focused on dealing with the outcome of conflict. On the other hand, a culture of prevention tries to transcend the military and political framework and reduce the fundamental causes of conflicts through social and economic reconstruction and establishment or expansion of democratic governance. It is an approach that tries to construct a stable social and economic base to promote sustainable peace. In a report, Annan also emphasized the close relationship between conflict prevention and development by saying, “The prevention of conflict begins and ends with the promotion of human security and human development” (UN 1998).

Against such a background, the Brahimi Report of 2000 proposed various reforms to enhance the peace functions of the UN (UN, 2000). The report pointed out that UN peacekeeping operations shifted from traditional activities such as cease-fire monitoring and controlling zones of separation in inter-state wars to include the resolution of domestic conflicts and peace building. It also emphasized the importance of an approach that integrates peacekeeping and peace building. On the other hand, the report recognized that UN peace operations did not respond well to the new challenges and proposed to clarify the UN’s roles and strategies in peacekeeping and peace building, as well as strengthen its institutions. Specific reform proposals included functional enhancement of the Department of Political Affairs and the Department of Peacekeeping Operations in the Secretariat, establishing an administrative structure that can respond to emergency situations effec-

tively, and expansion of financial assistance.

As one of these reform proposals on UN peace functions, the report suggested that UNDP had an untapped potential in implementing peace building operations and that it should cooperate with other UN agencies, the World Bank, and others to play a leading role in this area. Furthermore, the report stated that systematic analyses of the causes of conflicts and promotion of fair and sustainable development — which is also an operational objective of UNDP — were essential to secure the foundation of peace building. These changes in the international perception of peace and development and the movements to enhance peace-related functions of the UN system had a large effect on UNDP peace building policies and strategies.

UNDP peace building efforts

As more and more developing countries faced crises such as armed conflicts and natural disasters, UNDP has expanded its efforts to deal with complex emergency situations. In Central American countries that suffered from civil wars in the late 1980s,¹ UNDP implemented the Development Programme for Displaced Persons and Returnees in Central America (PRODERE). It included community-based reconstruction activities such as peace process assistance and infrastructure building. PRODERE was a success, and it became a model for subsequent post-crisis and post-conflict programs for the social integration of displaced persons, refugees and returnees. The model was used in UNDP programs implemented in the 1990s and thereafter in countries such as Cambodia, Somalia, Bosnia, Croatia, Guatemala, and Mozambique.

To enhance its response in emergency situations, UNDP established the Emergency Response Division (ERD) in 1995 in an effort to centralize its technical assistance, decision making, and information in this area. In the same year, the Executive Board of UNDP decided to allocate \$37.5 million per year, about 5 percent of the core fund, to emergency/reconstruction assistance through a budgetary measure called Target for Resource Assignment from the Core (TRAC) 1.1.3.

Establishment of a dedicated division and the budgetary measure was an important reform for UNDP to meet the increasing need for emergency and reconstruction assistance. While doing so, however, there was a growing recognition that even more comprehensive changes in its organization and

1. They include Nicaragua and El Salvador.

operation were needed. Areas identified for improvement included faster approval of project budgets to allow quicker responses to emergencies, better systems in headquarters to support field offices in developing countries, and reinforcing staff expertise.

As UNDP peace building activities expanded, so did its operational areas. In some cases this led to excessive decentralization and divergent strategies and approaches, which made operations less effective. It was not necessarily clear for the entire organization whether post-conflict development and peace building were its core operations. UNDP needed to clarify the relationship of these activities to other priority areas and establish a consistent operational strategy at the policy level.

Moreover, international society began to realize the problem of a gap or blank period between emergency relief assistance and development reconstruction assistance and therefore recovery and rehabilitation became major issues. This problem stemmed from the post-conflict development process in which emergency/humanitarian donors and development donors tended to stay on their respective turf in the face of complex and rapidly changing needs on the ground. The issue was how to realize a seamless transition from emergency/humanitarian assistance to recovery/reconstruction/development assistance. For UNDP and other development assistance organizations, it was becoming more important to get involved in a peace building process earlier and to coordinate operations and demarcate roles with other organizations.

In response to these internal and external issues, the UNDP Executive Board adopted in January 2001 a policy paper entitled “Role of UNDP in Crisis and Post-Conflict Situations” and decided to systematically define UNDP’s role and strategy in conflict and post-conflict (CPC) situations (UNDP, 2001). Based on the role of UNDP within the UN system suggested by the Brahimi Report, this document placed the recovery assistance in CPC situations and peace building as an important part of the UNDP mission — poverty reduction and promotion of human development. These themes, which were not necessarily included in the traditional definition of development assistance, were now interpreted as an important mission of the organization. This paper was designed to clarify why, when, how, and which issues should be tackled at the policy level and disseminate this information throughout the organization. In the following pages, we will examine the institutional and operational aspects of the comprehensive organizational reform UNDP implemented based on this policy paper.

Institutional reform

Discussed below are five aspects of UNDP's institutional reform toward peace building — funding and budget approval process, human resources and procurement, reorganization, project implementation structure, and coordination and cooperation.

FUNDING AND BUDGET APPROVAL PROCESS. In order to respond effectively to CPC situations, UNDP created a new operational budget approval scheme that is separate from existing rules and procedures and allows more flexible and faster responses to local situations. Specifically, UNDP established a Crisis Committee to manage TRAC 1.1.3, the special budget mentioned above. The committee reviews and approves operation plans and budgets separately from the ordinary budget approval process. The ERD acts as its secretariat. The approval process was simplified and its time requirements shortened. In the review process, the Crisis Committee uses simplified project plans instead of the detailed project documents that are usually required. These simplified project plans are prepared by UNDP field offices in developing countries, and if approved by the committee, details of the projects are determined and approved later at the local level.

Furthermore, UNDP created the Trust Fund for Support to the Prevention and Reduction of the Proliferation of Small Arms in 1999 and Trust Fund for Crisis, Post-Conflict and Recovery Situations in 2000. New administrative systems were introduced for these trust funds, the purposes of which were to clarify UNDP's operational scope in crisis prevention (this will be discussed later) and peace building support, flexible and speedy implementation, and systematic reporting to contributing countries as well as systematic project monitoring and evaluation.

HUMAN RESOURCES AND PROCUREMENT. To secure human resources and procure goods, special schemes were put in place that were different from normal procedures and systems. Examples of human resource improvements include preparation of a guideline for prompt dispatch of personnel to field offices in CPC countries or regions, establishing a flexible personnel reinforcement system at field offices by installing interim posts, delegation of authority to hire short-term specialists at local offices, and human resource cooperation arrangements with Refugee Councils of Denmark and other countries.² for procuring goods, UNDP prepared a special guideline, delegated authority to the local level, and simplified procedures. A system was installed at headquarters so that communication equip-

ment and emergency goods can be procured quickly when emergency situations occur.

In addition, UNDP is also focusing on building the capacity of its employees in CPC countries or regions through emergency/reconstruction support training, which is designed to improve the skills and knowledge that will be necessary on the ground. More importantly, UNDP began providing incentives to employees who have been involved in CPC assistance in terms of promotions and internal transfers. Specifically, it is phasing in a promotion system that requires employees to work in at least one CPC field office before being promoted to a post of P5 (section chief) and above. In order to strengthen and mainstream peace building activities, UNDP needed not only changes in operational procedures and rules, but also a more comprehensive reform of organizational culture, including the promotion system.

REORGANIZATION. In 2001, UNDP had another reorganization by upgrading the Emergency Response Division (ERD) to the Bureau for Crisis Prevention and Recovery (BCPR). The background of this move was the rapid increase of UNDP assistance to CPC countries and recognition of the importance of proactive efforts to prevent crises, in addition to reactive emergency responses. With its main offices in New York, Geneva, and Rome, BCPR is supporting UNDP field offices in more than 50 CPC countries with strategic analyses, policy support, preparation of reconstruction transition programs, staff training, securing personnel in emergencies, and fund-raising (UNDP, 2002b, p. 1). It is also operating the Crisis Prevention and Recovery Practice Network (CPRP Net) so that the latest information, lessons, and successful examples from implemented programs can be shared within UNDP. The enhancement of BCPR functions was quite comprehensive. It included not only adding more personnel, but also improving expertise within the organization, sharing experience and knowledge, and augmenting the headquarters support system for field offices.

PROJECT IMPLEMENTATION STRUCTURE. As UNDP emphasizes ownership and capacity building for governments of developing countries, its projects are mainly implemented by the recipient governments, termed ‘national execution’. In many CPC situations, however, governments cannot be expected to function normally and therefore a new mechanism is needed to implement projects in a timely manner. For this reason, in

2. UNDP has standby agreements with Refugee Councils of Denmark, Norway, and other countries under which it can request a dispatch of emergency personnel within 72 hours through a reimbursable loan scheme.

1998 the Executive Board allowed the use of a 'direct execution' scheme in which UNDP field offices implement the projects directly in CPC situations (UNDP, 1998). With the introduction of this new scheme, the field offices can now choose the most effective scheme — based on the local situation — from a diverse set of options including national execution, the agency execution in which a UN special agency implements a project, and NGO execution. Expanded peace building operations necessitated development of new schemes that were different from those of ordinary development projects.

COORDINATION AND COOPERATION. At the headquarters and local levels, UNDP plays an important role in promoting coordination and cooperation for peace building within the UN system. At the headquarters level, UNDP is a member of the Executive Committee on Peace and Security (ECPS) organized by the UN Department of Political Affairs (DPA) and a member of the Executive Committee on Humanitarian Affairs (ECHA) established by the UN Office for the Coordination of Humanitarian Affairs (UNOCHA). UNDP also promotes cooperation, coordination, and collaborative projects within the UN system as chair of the United Nations Development Group (UNDG). At the local level, UNDP's Resident Representatives double as UN Resident Coordinators (UN, 1979, para. 3), and in most countries, as UN Humanitarian Coordinators (UN, 1991, para. 39). They play an important role in ensuring that the entire UN system will make an effective and comprehensive transition from emergency assistance to recovery and reconstruction.

UNDP is in charge of administering and financing the UN Resident Coordinator system and trying to enhance its efforts at peace building. Requirements for the position of a UN Resident Coordinator, who is in a position to promote cooperation among UN agencies, include not only a high level of expertise but also leadership and cooperative nature. In order to select well-qualified people, recruitment covers the entire UN system. UNDP is also trying to strengthen the support system for UN Resident Coordinators by providing CPC-related training and constructing information and knowledge networks.

As we have seen, UNDP's institutional reform for peace building assistance was multifaceted, encompassing human, material, and financial aspects of the organization. The reform was also comprehensive. It did not stop at simply changing procedures and creating new schemes at the institutional level, but also had an impact on the organizational culture. These

measures were important for the organizational transformation that was necessary to mainstream peace building operations within UNDP.

Restructuring operations

Past experience of implementing projects in CPC situations has shown that crisis prevention and reconstruction should be clearly recognized as a priority area for UNDP. The policy paper of 2001 mentioned above emphasized the coherence of CPC operations and reorganized UNDP's operations and approaches based on its comparative advantages and a perspective of human development and poverty reduction, which are the basic agenda of UNDP. In other words, UNDP adopted a strategy to incorporate CPC operations into the high value-added area of core operations instead of treating them as add-on activities.

From the perspective of poverty reduction, UNDP would focus on the socially disadvantaged as the main target of its CPC operations. The stated priority support areas included capacity development and institution building for which UNDP has a comparative advantage; assistance that combines downstream poverty reduction activities and upstream policy dialogues and policy support; assistance in building and strengthening the system of law and order that involves governance, the judiciary, and public security (which could be difficult without the trust of governments UNDP enjoys and its neutrality as a UN agency); and promotion of area development programs with a comprehensive approach. Another emphasis was support for aid coordination, which is strongly related to the role of UN Representative Coordinators.

BCPR has recategorized UNDP's CPC activities into six operation areas — recovery; natural disaster reduction; land mine mitigation; small arms reduction, disarmament and demobilization; justice and security sector reform; and conflict prevention and peace building (UNDP, 2002b, p. 1). Each of these areas is discussed below.

RECOVERY. UNDP's recovery assistance program aims to help developing countries achieve a smooth transition from humanitarian relief to mid- and long-term reconstruction by meeting post-conflict emergency needs quickly and by building social and economic infrastructure. Currently, BCPR is providing support in recovery assistance to the field offices in 14 countries including Afghanistan. In this country, UNDP is implementing a quick impact project called the Recovery Employment Afghanistan Program (REAP) in Kabul with support from the Japanese gov-

ernment.³ The program was launched in January 2001 immediately after the interim government was formed. This program aims to expedite recovery projects and create employment by hiring local people to repair and rebuild the basic infrastructure destroyed by the conflict. It is being implemented with the Afghanistan Ministry of Housing and Development. Japanese NGOs such as Peace Winds Japan and JEN are participating. In Kabul, so far more than 30,000 people have obtained short-term employment and more than 90 repair projects have been implemented through REAP.⁴ An estimated 45,000 jobs will be created in Jalalabad and Kandahar as well. In order to ensure sustainability of the program, the implementation leadership will be transferred to the government.

NATURAL DISASTER REDUCTION. UNDP has adopted an approach to natural disasters that aims to reduce their occurrence and damages by properly incorporating risk management and reduction measures into development plans and post-disaster recovery processes (UNDP, 2002c). Main activities include assistance in developing disaster reduction strategies and capabilities, training programs in disaster management, and promotion of knowledge networks about disaster responses. When an earthquake hit India's Gujarat province in 2001, UNDP coordinated the activities of emergency humanitarian aid agencies, quickly assessed the local needs, and raised funds. In addition, it worked with the local government and local NGOs, especially women's organizations⁵ and provided materials for rebuilding houses and trauma counseling, distributed survival kits, and disseminated quake-resistant technologies.

LAND MINE MITIGATION. The United Nations Mine Action Service and many other UN agencies are involved in mine-related activities. UNDP's main role is to deal with the socio-economic impact of land mines and to support capacity development at country and regional levels. Examples of UNDP actions include support for the establishment and administration of national Mine Action Centers, implementation of comprehensive mine action programs that include rural development and rehabilitation of mine victims and refugees, and financial support for these activities through establishing trust funds. UNDP is currently running programs in 19

3. The REAP project was formed based on the experience of the Village Employment and Rehabilitation Programme (VERP) and Small Enterprise Development Programme (SED) implemented in Kosovo.

4. http://www.undp.org/erd/pubinfo/news/30-jan-2003_afg.htm.

5. A prolonged drought forced a large portion of the male population of Gujarat to move to other areas in search of jobs. For this reason women's groups played an important role in planning and making decisions about reconstruction after the earthquake.

countries in Asia, Africa, and Eastern Europe.⁶ At the global level, BCPR's Mine Action Unit is providing management training and exchange training programs for administrators of mine projects. It is also involved in the research of socio-economic aspects of mine problems and preparation of guidelines. In addition, the Mine Action Unit is running a mine removal assistance program called Adopt A Minefield together with the United Nations Association of the United States. As of March 2003, this program had collected \$74.4 million through public charities and other campaigns to be used for mine action projects implemented by UNDP.⁷

SMALL ARMS REDUCTION, DISARMAMENT, AND DEMOBILIZATION. These are among the most important issues in post-conflict situations and in the promotion of peace building, conflict prevention, and sustainable development. UNDP provides assistance to more than 20 countries and territories in Africa, Latin America, Eastern Europe, and the Middle East. UNDP activities in small arms reduction include building national capabilities for weapons collection and destruction, helping governments to develop legal frameworks, and supporting public awareness campaigns. In Albania, UNDP implemented the Weapons for Development Program. The program disposed of 14,000 illegal weapons which had been plundered during a riot in 1997 by linking collection to local development incentives. In Kosovo, UNDP supported a campaign to involve youth in small arms reduction programs in order to prevent them from owning weapons and being desensitized about weapons.

In terms of disarming and demobilizing soldiers, UNDP supports the reintegration of former soldiers through vocational training, management of severance payment systems, job development, and community reintegration. In Tajikistan, UNDP implemented the Reconstruction, Rehabilitation, and Development Program and supported creation of jobs and income for discharged soldiers. In Mozambique it implemented a demobilization program that was a part of a reintegration support plan adopted under the peace agreement, and provided severance pay to 92,881 soldiers (UNDP Evaluation Office, 2002, pa. 5). In Afghanistan, UNDP started the Partnership for Peace Program, which supports reintegration of former soldiers with assistance from donor countries, including a contribution of about \$35 million

6. The 19 countries in which UNDP is running mine action programs are Angola, Azerbaijan, Bosnia and Herzegovina, Cambodia, Chad, Croatia, Guinea-Bissau, Laos, Mozambique, Somalia, Yemen, Thailand, Albania, Eritrea, Ethiopia, Lebanon, Iran, Sri Lanka, and Ukraine.

7. http://www.undp.org/erd/mineaction/other_programmes/aam.htm. <http://www.landmines.org/index.asp>.

from Japan.⁸

JUSTICE AND SECURITY REFORM. Reform in this sector requires comprehensive efforts to improve the accountability of related organizations such as law enforcement agencies and the judiciary, and improving civilian control, access, rule of law, and representation. UNDP supports institution building to strengthen democratic control, provides technical assistance for administrative reforms of justice and security agencies, and promotes human rights protection in various organizations(UNDP, 2002d). In Haiti and Rwanda, UNDP worked to improve prison conditions, trained the national and communal police, and supported reform of the justice system. In Afghanistan, UNDP has assisted in the creation of a Judicial Commission, and is administering the Law and Order Trust Fund for Afghanistan (LOTFA), which was established to support police salaries and provision of equipment other than weapons (UNDP Tokyo Office, 2002). In East Timor, the new state had to create the judicial system from the ground up and train necessary personnel because it lacked its own judicial system before independence. UNDP sent experts, provided training, built courts and justice agency buildings, and evaluated East Timor's correctional system together with the International Center for Transitional Justice(Da Costa, 2002).

CONFLICT PREVENTION AND PEACE BUILDING. As the world becomes increasingly aware of the importance of development in conflict prevention, UNDP is trying to incorporate the perspective of sustainable peace building into its main missions of poverty reduction, improved human security, and promotion of good governance. In Guatemala, Nepal, and Tajikistan, its field offices are cooperating with BCPR to analyze the causes of conflict, review existing strategies and activities of UNDP from the perspective of conflict prevention, and coordinate and modify project plans. In terms of direct support for peace building, UNDP aided Panama in national reconciliation and conflict prevention by promoting the peace dialogue process that included various actors. In Kosovo, it is implementing a community-level project that encourages cooperation among different ethnic groups (UNDP, 1999). In Guatemala, UNDP made early prevention of conflicts possible by identifying high risk areas with many returnees, internally displaced persons), discharged soldiers or frequent disputes regarding

8. <http://www.undp.or.jp/news/030220.html>.
http://www.mofa.go.jp/mofaj/gaiko/oda/siryo/siryo_5/h_14/030219_1.html.

land interests, and by cooperating with government agencies to create a framework to resolve land-related problems (UNDP, 1999). UNDP has established early warning systems in Central and East European countries and is providing information on crises and conflict risk to governments and related organizations through analyses of social, economic, and political trends.⁹

As we have seen, BCPR has reorganized operational areas based on the expertise and comparative advantage that UNDP has developed over the years. It is now implementing value-added, effective peace building operations. BCPR has established four specialized units — recovery, natural disaster reduction, land mine mitigation, and small arms reduction, disarmament and demobilization. Cross-sectional issues such as conflict prevention and security sector reform are handled by the Strategic Planning Unit, which also formulates Bureau-wide policies and coordinates with other UN agencies.

Conclusion

UNDP has implemented various organizational reforms and evolved its structures in recent efforts to enhance its peace building functions. Institutionally, it established separate schemes that differ from normal rules and procedures and increased speed and flexibility to effectively meet rapidly changing post-conflict needs. As we have seen in its reorganization, capacity development of employees, and changes in the promotion system, and comprehensive and extensive reform involved human resource development and transformation of organizational culture. At the policy level, UNDP positioned peace building as one of its core missions and clarified its role and strategies in this area. This has been useful not only in mainstreaming peace building within the organization, but also in showing UNDP's orientation and comparative advantage to the outside world, a move that has helped UNDP build effective partnerships with recipient governments, other donors, UN agencies, and NGOs. In terms of operations, UNDP has reorganized its operational areas with an emphasis on coherence and pursued a strategy to focus its operations in six activity areas based on its own comparative advantages and centering on niche areas under CPC situations.

Based on this series of reforms, the UNDP administrator indicated his intention to build on the achievements of 2002 and continue to enhance cri-

9. <http://earlywarning.undp.sk/Home/>.

sis prevention and reconstruction operations, as well as to pursue the MDGs.¹⁰ The entire organization's priorities for 2003 were discussed in a strategy meeting (UNDP, 2002e). In his report on prevention of armed conflict, the Secretary-General advocated that all UN development assistance should be seen through a 'conflict prevention lens' and emphasized the necessity to incorporate a 'conflict prevention lens approach' in Common Country Assessments (CCAs) and the United Nations Development Assistance Framework (UNDAF) (UN, 2002b). In terms of peace building efforts, UNDP has strengthened post-conflict recovery and reconstruction activities more than others in the past. Now facing the new challenges of UN reforms and conflict prevention promoted by the Secretary-General, it has become important for UNDP to shift its focus of development assistance to conflict prevention and conflict analysis.

To deal with the changing international situation and meet the needs for conflict prevention and peace building, UNDP needs to further advance its organizational evolution. UNDP's experience in undertaking comprehensive reforms when it entered a relatively new field of peace building may be useful to Japan (Advisory Group on International Cooperation for Peace, 2002), other countries, and development organizations that are trying to strengthen their international peace cooperation efforts. This paper has outlined the increasingly important efforts in development and peace building from a perspective of organizational reform.

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4

Trends in Development Aid in Major Developed Countries

Japanese Development Aid since the 1990s

Mari Yamauchi

Half a century has passed since Japan began to provide official development assistance (ODA) to countries in need. Japanese aid began as post-war reparation and has been recognized as an effective diplomatic tool. It has assumed a political role in addition to a humanitarian one. Forms of aid are influenced by the culture and history of donor countries, and Japanese ODA is no exception. It has several characteristics that clearly differ from those of Western countries. The first is the large number of yen loans, which support self-help efforts. Second is the large amount of assistance aimed at economic infrastructure, and third is a focus on Asia. Changes in both internal and external environments in the past 10 years, however, have forced major changes in Japanese aid systems and policies.

First, as exemplified by the Millennium Development Goals (MDGs), the global trend is to regard poverty reduction as the most important development goal; efforts are focused on social development in order to achieve that goal. There is also an increasingly active movement to provide more aid to African countries. Within Japan, the burst of the bubble economy in 1990 triggered a long economic slump that created a large fiscal deficit, which in turn created pressure to cut the ODA budget that had formerly been regarded as a ‘sanctuary’. Reflecting these internal and external changes, various proposals for Japan’s ODA were advanced. This chapter focuses on ODA reforms in an attempt to identify the direction in which Japanese aid is moving. It also considers how Japan can use past experience to contribute to international society. In this light, the four following sections examine changes in the volume of Japanese ODA; changes in the aid system; changes in aid policies; and prospects and future issues.

Yamauchi is a junior program officer at the International Development Research Institute, FASID.

Changes in the amount of Japanese development aid

During the first half of the 1990s, there was a steady increase in the amount of Japanese ODA, but during the latter half there were wild fluctuations (Fig. 4-1). ODA began at \$9.069 billion in 1990, and rose to \$10.952 billion in 1991. Increases continued until 1995 when ODA reached \$14.489 billion, but in 1996 there was a 34.9 percent decrease from the previous year to \$9.439 billion, falling below the \$10 billion mark for the first time in the 1990s.¹ Despite this decline, however, Japan maintained its status as the largest donor country because a global recession caused other countries to reduce their aid as well.² Japan's aid volume increased from 1997 to 1999, but this rise was largely a result of the Asian currency and financial crisis in 1997.³

Japanese aid has trended downward since 2000, a trend that is likely to continue. The ODA volume for FY2000 was 1,446.5 billion yen, 17.5 percent less than the previous year. In dollar terms, it declined 22.7 percent to \$3.779 billion (Ministry of Foreign Affairs, Japan, 2002). Aid during FY2001 also declined from the previous year by about 16 percent. At the International Conference on Financing for Development in March 2002 in Monterrey, Mexico, Western donor countries announced their plans to increase their aid, but Japan forecast a reduction in its ODA budget due to the bleak economic and fiscal conditions in the country. In fact, the ODA budget for FY2003 was reduced by 10 percent from the previous year. Planned operational expenses for FY2003 were 9.4 percent less than those of the previous year.⁴ Despite years of efforts by the government, the Japanese economy has not turned around, and early in FY2003, the unemployment rate rose to its worst level since the end of World War II.⁵ Under these conditions, the fiscal condition will likely continue to worsen and the

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1. Reasons for the decrease include depreciation of the yen (the exchange rate rose from 94.07 yen per dollar in 1995 to 108.82 yen per dollar in 1996); repayments for past yen loans increased; and capital subscriptions and contributions to multilateral development banks decreased significantly from the previous year because no major capital increase was implemented in 1996 (Ministry of Foreign Affairs, 1997).
 2. In 1989, Japan spent \$8.87 billion on ODA and ranked first among the member countries of the Development Assistance Committee (DAC), for the first time surpassing the United States. The exchange rate was a factor — for example, the aid in FY1997 was \$9.36 billion, a decline from \$9.44 billion dollars from the previous year, but if measured in yen, ODA increased by 10.2 percent from 1,027 billion to 1,132 billion yen.
 3. Factors include the provision of loans to Asian countries affected by economic crises, positive support for economic structural reforms and the socially disadvantaged, and for 1999, the significant movement of the exchange rate used by DAC in favor of yen (Ministry of Foreign Affairs, 1999 and 2001).
 4. Nihon Keizai Shimbun, February 4, 2003.
 5. Financial Times, February 1, 2003.

volume of Japanese ODA will continue to drop.⁶

Fig. 4-1. Changes in the amount of Japanese ODA, 1980-2001

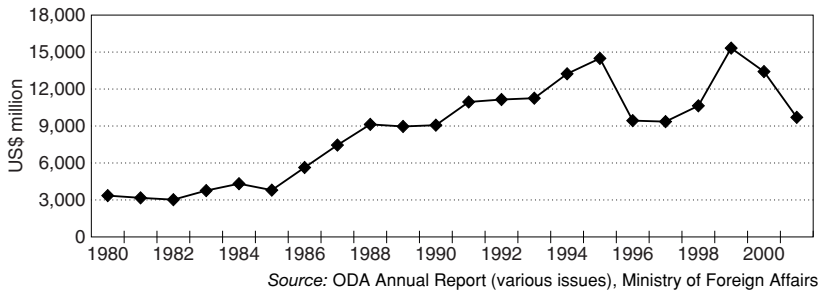
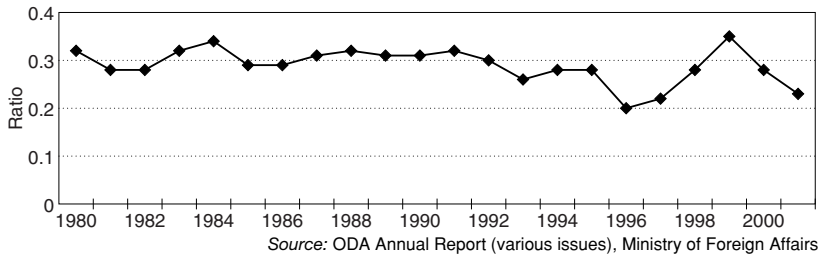


Figure 4-2. Japanese ODA as a percentage of GNP, 1980-2001



ODA was about 0.3 percent of Gross National Product (GNP) from 1980 to 1992, but fell to 0.26 percent by 1993 (Fig. 4-2). In 1996 it dipped to 0.2 percent, the lowest in the 1990s, but rose until 1999. In 1996, the worst record ever, was also the lowest level within the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), placing Japan at 19th among 21 member countries.

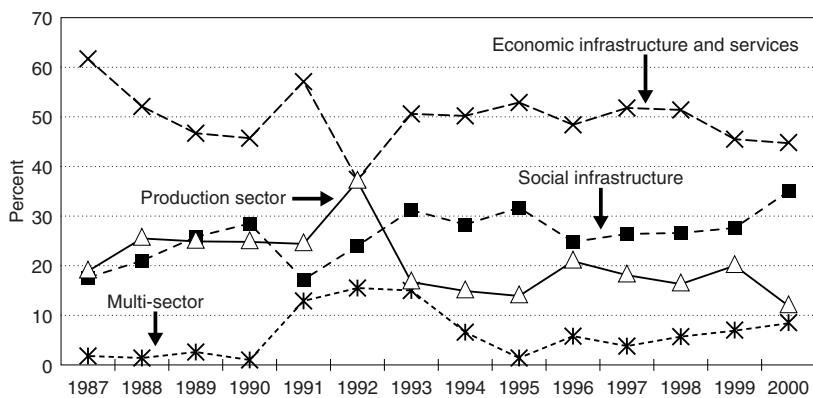
6. Actions by the government to maintain ODA levels include: "[The government will] reduce expenditures from the general account and utilize the repayments for past yen loans and funds collected in the Fiscal Investment and Loan Program (FILP) in order to maintain the operational volume. The assistance framework for developing countries' debt relief will be shifted from the grant aid under MOFA's supervision to debt write-offs by the Japan International Cooperation Bank and other institutions. These are desperate measures which reflect the preference of MOFA, but an important issue is how much money from the FILP will be used for this purpose. FILP is funded by private savings such as postal savings, national pension plans and employees' pension plans. If the amount used for these debt write-offs increases every year and short-term economic growth remains elusive, the Japanese people will have to bear a significant burden on top of the banks' bad loan problems" (Asahi Shimbun, December 16, 2002). "In fiscal year 2003, the Ministry of Economy, Trade and Industry will provide financial support to infrastructure-building projects undertaken by Japanese companies in developing countries with a purpose of promoting infrastructure-building by private firms in developing countries" (Nihon Keizai Shimbun, September 6, 2002).

In 1999, however, an increase improved Japan's ranking to the 7th because the average of the 22 member countries was as low as 0.24 percent. ODA-GNP ratio declined again to 0.28 percent in 2000 and to 0.23 percent in 2001.

Many are pessimistic about whether Japan will join Western donor countries that are trying to gradually increase ODA and ODA-GNP ratio. The reasons for this pessimism are as follows. First, in contrast to Western developed countries that have goals of increasing aid or ODA-GNP ratio, Japan is currently moving in the opposite direction as seen at the Kananaskis summit in June, 2002.⁷ Second, aid-related corruption scandals and the prolonged recession are making it harder to obtain domestic support for increasing ODA. And third, ODA-related discussions are focused on how to shift from 'quantity' to 'quality' rather than on how to increase the amount and the ODA-GNP ratio.⁸

Throughout the 1990s the economic infrastructure and services sector received the largest share of ODA followed by the social infrastructure sector (Fig. 4-3). The share of the economic infrastructure sector was 57.1 percent in 1991 and although the share fell to 34.7 percent in 1992, it hovered

Figure 4-3. Sector distribution Japanese ODA, 1987-2000



Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

7. "With regard to the quantitative target, adopted in the World Summit on Sustainable Development to increase developed countries' ODA to 0.7 percent of GNP, the Japanese government appreciates the fact that a specific time limit was not set and therefore it remained a "soft" target. It means that the Japanese government is very reluctant to set a specific quantitative target and a timeline, which is probably a reflection of its recognition that, considering its fiscal conditions, it is impossible to achieve such a target" (Nihon Keizai Shimbun, August 28, 2002).
8. The discussion of how to shift the focus of ODA from quantity to quality is prominent in these documents: Ministry of Foreign Affairs (2002), JICA (2002), and the report of the Council on ODA Reform.

around 50 percent until 2000. In contrast, the average share of economic infrastructure ODA spending by the United Kingdom, United States, France, and Germany was 9.7 percent in 2000 (OECD/DAC, 2002, p. 241). The share of social infrastructure was 17.2 percent in 1991, but increased to 24 percent in 1992 and 31.2 percent in 1993.⁹ It hovered around 30 percent until 2000.

While the percentage allocated to economic infrastructure and services was consistently larger than other sectors, the allocation to the social infrastructure sector increased steadily. As a result, the difference between the allocation of the two sectors dropped from 39.9 percent in FY1991 to only 9.7 percent in FY2000. It can be projected that Japanese aid is shifting toward social development with more of a balance between economic infrastructure and social infrastructure (Fig. 4-3).

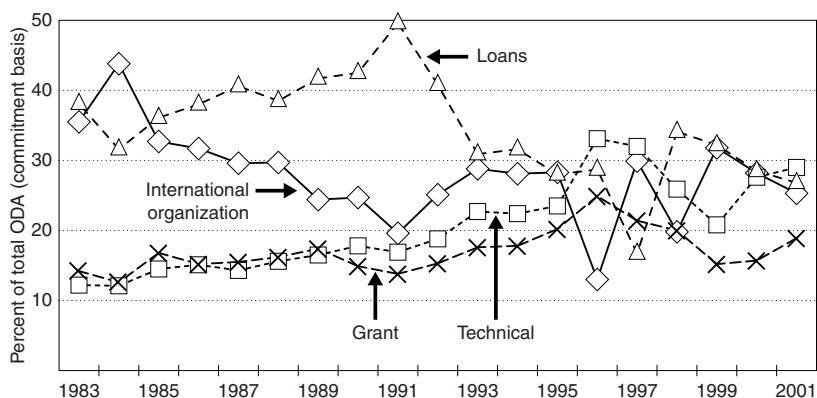
The argument for focusing on social areas gained momentum in the 1990s in Japan. In fact, the government supports the New Development Strategy of DAC and Millennium Development Goals, and the Council on ODA Reform advocated an emphasis on poverty reduction and social development in its report published in 1998.¹⁰ Another recent trend in Japanese ODA emphasizes areas of peace-building and human security. However, there is still persistent thinking within the Japanese aid community that economic infrastructure is an important factor to reduce poverty, based on the experience of Japan and Southeast Asian countries (Economic Cooperation Policy Research Group, 1993, p. 8; Kusano, 1997, pp. 78 & 144; Shimomura & Nishigaki, 1997, p. 266). This is a recognition that even if resources are put into social development in an effort to reduce poverty — by building schools to improve education, for example — it will not reduce

9. 'Social infrastructure' mentioned in the ODA Annual Report is not the same as basic human needs. It also includes higher education, health care services other than primary health care, and construction and maintenance of water supply and sewer systems.

10. Contrary to this posture, Japan lagged behind in the areas of basic human needs such as primary education and primary health care. From 1995 to 2000 (excluding 1997), the average share allocated to primary education was 0.34 percent, while higher education including universities, mainly engineering and technical fields, research institutions, and vocational training was 6.52 percent. The five-year average of primary health care was as low as 0.7 percent. However, the commitment to primary education and health care has become more prominent in recent years (Koizumi Initiative, p. 19). Among the areas categorized as basic human needs, water supply and sanitation had a relatively large five-year average share of 9.9 percent, which accounted for about half of social infrastructure aid because the five-year average share of the latter was 21.4 percent. (OECD/DAC, 2002; 1996). There are several reasons why the water-related sector commands a large share. The Medium-Term Policy states that assistance for water resource use and management has become important, the cost per project is higher than other social infrastructure projects, and Japan tends to focus on large-scale construction of water supply and sewer systems in urban areas.

poverty unless there are jobs for educated people, and in order to create jobs, economic infrastructure needs to improve so that it will be easier to attract foreign investment.¹¹ It would therefore be more realistic to predict that Japan will move to meet the needs of developing countries based on the sequential preparation of Country Assistance Programs, thus achieving a balance through assistance in areas that match Japan's comparative advantages rather than to predict that aid allocated to social infrastructure rises to the level of Western donor countries.¹²

Fig. 4-4. Distribution of Japanese ODA by type, 1983-2001



Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

In contrast to Western donors, loan assistance commands an overwhelming share of Japanese ODA.¹³ One reason is Japan's experience after World

11. "It is extremely rare for private firms to make direct investments in developing countries where social capital such as port facilities, electricity supply and industrial roads is inadequate" (Hashimoto, 1995, p. 63).

12. In agricultural development, some projects in the category of economic infrastructure may actually be close to building social infrastructure, thus we cannot conclude that the large share of economic infrastructure necessarily precludes social development (Shimomura & Nishigaki, 1997, p. 243).

13. Technical cooperation includes transfer of Japanese technology, skill, and knowledge to a developing country in order to build capacity of those who will lead its social and economic development; support to develop and improve technologies that are appropriate for the country; improve technical standards; and establish institutions and organizations.

Grant aid includes construction of facilities such as schools and hospitals; procurement of equipment such as education/training equipment and health care equipment; and provision of funds necessary for disaster relief and reconstruction.

Loan aid used to be dominated by project loans to build or improve economic and social infrastructure such as roads, dams, telecommunication facilities, and agricultural development, but the share of commodity loans to improve balance of payments and loans for 'soft' projects such as education has increased in recent years. (JICA, 2002)

War II (Economic Cooperation Policy Research Group, 1993, p. 14).¹⁴ Japan achieved miraculous economic development with self-help efforts and financial assistance from the World Bank and other donors, and made sure that all debts were paid on schedule. From this experience was born a belief that yen loans motivate recipient countries by imposing repayment obligations. In the 1980s, yen loans commanded a very large share — about twice the share of grant aid and technical cooperation (Fig. 4-4). After reaching a peak at 49.6 percent in 1991, the share of yen loans decreased rapidly to 16.7 percent in 1997. There was a recovery after 1997, but share not to the levels of the 1980s. Grant aid and technical cooperation moved in an opposite direction; technical cooperation increased from 17.8 percent in 1990 to 33.1 percent in 1996. It declined to 20.8 percent in 1999, but increased again to 27.6 percent in 2000 and about 29 percent in 2001. Considering that yen loans were 28.5 percent in 2000 and about 26.8 percent in 2001, the allocation of Japanese aid among different schemes is undergoing a steady change.

One reason for the decrease of yen loans is that in recent years the government has favored social development and technical cooperation. The Asia-Pacific Economic Cooperation (APEC) Heads of State Declaration in October 2001 confirmed that human resource development is and will continue to be a central agenda for that year and beyond (Ministry of Foreign Affairs, 2002, p. 26). The Medium-Term Policy on ODA considers assistance for basic education in developing countries as a priority. Japan is actively working on institution and human capacity building in light of peacebuilding and governance. In a periodic evaluation of Japanese ODA (OECD/DAC, 1999), DAC pointed out a recent trend in which ‘human-centered development’ and increasing the welfare of individuals have become the basics for Japanese ODA. There is broad support for economic growth as only a means to achieve these ends — there is a growing recognition that Japan should emphasize assistance for social and human development, which are the main targets of grant aid and technical cooperation (Kusano, 1997, p. 158; Ministry of Foreign Affairs, 2001, p. 22).

There seems to be little room for the expansion of yen loans. The ODA budget is shrinking, and in light of the international trend that emphasizes debt relief, Japan tends to be strict in its selection of countries that can repay

14. Another factor is that yen loans use the Fiscal Investment and Loan Program, and are therefore an effective scheme to mobilize large amount of aid while containing the burden on taxpayers.

the debt. This is a time-consuming process that makes it difficult to increase the number of yen loan projects. In addition, the number of countries eligible for yen loans is decreasing because of a policy not to provide new loans to countries whose debt has been reduced under the HIPC initiative.

Changes in Japan's aid system

Aid system prior to ODA reform (before 1995)

Japan's ODA implementation system included ministries and aid implementing agencies, the representatives of which were the Japan International Cooperation Agency (JICA) and the Overseas Economic Cooperation Fund (OECF).¹⁵ About 60 percent of the ODA operational budget comes from the General Account budget and the majority of the remainder from the Fiscal Investment and Loan Program (FILP). Before central ministries were reorganized in 1997, each of 19 ministries had its own ODA operational budget.¹⁶ The Ministry of Foreign Affairs used to command 50 percent or more of the entire ODA operational budget.¹⁷

Japanese ODA has three pillars — grant aid, technical cooperation, and yen loans. MOFA is in charge of grant aid including policy making, decision making, and implementation. Project approval includes these steps: after MOFA receives a request from a developing country, an appraisal mission is dispatched. MOFA and the Ministry of Finance (MOF) have an internal discussion based on the appraisal. Then the project is approved by the Cabinet and an Exchange of Notes (E/N) is signed by the two countries (Kusano, 1997, p.104). In the implementation phase, a contractor or con-

15. OECF was merged with the Export-Import Bank of Japan and became Japan Bank for International Cooperation (JBIC). In addition, there are organizations that work with ministries and implement technical cooperation. For example, Japan International Cooperation of Welfare Services handles the reception of administrators involved in health care and welfare, requests for experts to be dispatched to developing countries, and studies about these countries. (Ministry of Foreign Affairs, 2003)

16. In FY2003 after the ministries were reorganized, the proposed budget for the entire government was 857.8 billion yen, about 80 percent of which was shared by the Ministry of Foreign Affairs (516.5 billion yen) and the Ministry of Finance (237.5 billion yen). The increasing or decreasing trend of ODA is mainly reflected in the general account budget. The budget of MOFA was reduced by 4.2 percent and that of MOF by 9.5 percent from the previous year. Allocation to other ministries included 46.4 billion yen for the Ministry of Education, Culture, Sports, Science and Technology; 36.1 billion yen for the Ministry of Economy, Trade and Industry; 1.16 billion yen for the Cabinet Office; 60 million yen for the National Police Agency; 125 million yen for the Financial Services Agency; 979 million yen for the Ministry of Public Management, Home Affairs, Posts and Telecommunications; 11.371 billion yen for the Ministry of Health, Labor and Welfare; 1.177 billion yen for the Ministry of Land, Infrastructure and Transport; 5.796 billion yen for the Ministry of Agriculture, Forestry and Fisheries; and 208 million yen for the Ministry of the Environment. (International Development Journal, 2003, Feb.)

17. The total budget for 1995 was 1,106.1 billion yen, and about half was allocated to MOFA. In 1996 the total budget was 1,145.2 billion yen, and about half was allocated to MOFA.

tractors are selected by bidding. The Japanese government transfers the necessary funds to a bank account opened by the recipient country, and they are then paid to the contractors who provide construction works, materials, and/or equipment (Kusano, 1997, p.104).

For a portion of technical cooperation that is commissioned by MOFA to JICA, MOFA is involved in policy planning, decision making, and to a certain extent, implementation. About 60 percent of technical cooperation projects are implemented by JICA, but the remaining 40 percent includes many programs that are implemented by affiliated organizations of other ministries. Examples include government-financed student exchange programs managed by the Ministry of Education (now the Ministry of Education, Culture, Sports, Science and Technology), international research projects managed by the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry), and tropical agriculture research programs managed by the Ministry of Agriculture, Forestry and Fisheries (Sato, 1997, p. 165). The reception of trainees by local municipal entities and technical cooperation by non-governmental organizations (NGOs) that receive government subsidies are also included in the category of technical cooperation.

Processing yen loans used to begin when MOFA would receive a request from a recipient country, then the government would examine the request and narrow the list of potential projects. Then the former Overseas Economic Cooperation Fund (OECF), the implementing agency, would appraise the project. This would be followed by a discussion by the former Economic Planning Agency (EPA), Ministry of Finance (MOF), former Ministry of International Trade and Industry (MITI), and MOFA to determine if the project was appropriate for a yen loan. This used to be called the 'four-ministry system' in which these four ministries made decisions on basic policies.

Aid system reform

Criticism of the Japanese ODA system existed even when the economy and ODA volume were both expanding,¹⁸ with critics voicing demands for reform and improvements. The driving force for fundamental reform was the collapse of the bubble economy in 1991, the long economic slump and fiscal crisis that followed, and a series of reforms of 'Japanese systems' triggered by these developments. The second Hashimoto Cabinet, which was formed in 1996, advocated 'Six Reforms' and placed a special empha-

sis on administrative reform.¹⁹ These reforms forced a review of ODA volume and streamlining of processes. The debate about ODA reform became more lively than ever and proposals emerged from every corner.

For example, the Council on ODA Reform for the 21st Century (ODA Council), which represented the industrial, public, and private sectors, published its final report in January 1998.²⁰ The Second ODA Council published its final report in March 2002. The latter report was organized around three pillars — ODA as a collective power of the public's heart, knowledge and vitality; focused, effective, and strategic ODA; and fundamental improvement of the ODA implementing system — and proposed specific measures for ODA reform.²¹ In July 1998, Prime Minister Keizo Obuchi instructed the government to “conduct a review of ODA to improve its transparency and efficiency.” In November of the same year, a Director General level meeting of the Ministerial Council on External Economic Cooperation discussed concrete measures to make ODA more transparent and efficient. For this purpose the Council agreed to prepare the Medium-Term Policy on ODA by the middle of 1999 and to institute Country Assistance Programs. In a Diet session in 1999, the Liberal Democratic Party (LDP) proposed “a realization of strategic economic cooperation for the 21st century.” The House of Councilors also adopted a Resolution Regarding Official Development Assistance. In May 2002, the Reform Advisory Board,²² formed in reaction to the reform of MOFA, issued an interim report. Based on this report and the final report of the Second ODA

18. Criticisms included: 1) The flow of aid money is not transparent and there are allegations of corruption involving politicians; 2) Instead of benefiting the poor in recipient countries, Japanese ODA helps local government officials accumulate wealth; 3) Development assistance accompanies forced relocation and destruction of the environment, lacks social and environmental considerations, and may hinder sustainable development; and 4) Japan's aid directs profits to Japanese companies and has a strong commercial inclination (Sumi, 1989, pp. 1-60).

Other criticisms included: 1) The ODA budget, especially that for technical cooperation, is scattered among many ministries, thus some aid projects are redundant and therefore rendered less efficient; 2) There is no unified aid organization, therefore policy decisions tend to take a long time, preventing timely and flexible implementation; and 3) A firm aid philosophy is lacking (Ministry of Foreign Affairs, 1989, 1991).

19. The six reforms are administrative, fiscal, social security, economic structure, financial system, and educational.

20. According to the report, acting in the interest of the entire international community will lead to the realization of Japan's long-term national interest, but at the same time, it proposes to clarify priority areas in light of the ODA budget reduction. For the aid implementation system, it proposes a structural overhaul of policy organizations and implementing agencies such as the delegation of authority to the field and coordination among aid agencies in order to build a system best suited to prepare the Country Assistance Programs. For details, see http://www.mofa.go.jp/mofaj/gaiko/ODA/seisaku/seisaku_1/sei_1?0.html.

21. For details, see http://mofa.go.jp/mofaj/gaiko/ODA/seisaku/seisaku_1/kondan_last.html. A notable point was the decision to establish the Board on Comprehensive ODA Strategy.

Reform Council, a document titled *Fifteen Specific Measures for ODA Reform* was issued.²³ Foreign Minister Yoriko Kawaguchi made it clear that MOFA would implement them.²⁴ The following five sub-sections examine important aid system reforms that have been or are being implemented based on the series of proposals and ideas described above.

MERGER OF OECF AND EXPORT-IMPORT BANK. In March 1995, a decision was made to merge OECF, the implementing agency for yen loans, and the Export-Import Bank of Japan (JEXIM), which provided financial assistance to private Japanese companies. This decision was not so much a measure to rationalize and improve the efficiency of the aid implementing system as it was part of an overhaul of special public corporations (generally referred to as ‘administrative reform’). This reform was promoted by the then-Prime Minister Tomiichi Murayama. The decision invited criticism and doubts both from within and outside of the country about the potential ‘commercialization of aid’ because the flow of ODA and other official flows (OOF) — in other words, aid and business — will be handled by the same organization as a result of this merger. The merger was carried out in October 1999 and the Japan Bank for International Cooperation (JBIC) was born.

JBIC has a dual structure — one for international finance and another for overseas economic cooperation (ODA); their accounts are strictly sepa-

22. In February 2002, Foreign Minister Yoriko Kawaguchi announced *Ten Reform Principles to Ensure an Open Foreign Ministry*, and the Reform Advisory Board was created to consider concrete measures to realize those principles. The board submitted its final report in July of the same year, but it plans to evaluate the progress of MOFA reform periodically.

23. The document proposes specific measures in five areas: audit; evaluation; partnership with NGOs; finding, nurturing and utilizing human resources; and information disclosure and public relations. For details, see http://www.mofa.go.jp/mofaj/gaiko/ODA/seisaku/seisaku_1/senryaku/2_shiryō.

24. There are other policy documents about ODA system reform. For example, an interim report of the Economic Cooperation Policy Research Group of the Economic Planning Agency, published in February 1997 raised an alarm about the declining trend of ODA volume by saying that it is too simplistic to think aid should be reduced when Japan’s economy and fiscal condition deteriorate, and that ODA benefits Japan’s economy in the long-term and contributes to the international target of poverty reduction. “Our Ideas on ODA Reform” published by Keidanren (Japan Federation of Economic Organizations) contained proposals to improve the efficiency of the aid implementation system, such as unifying ministries in charge of aid policies and establishing a ministry that requests all aid-related budgets. For details, see <http://www.keidanren.or.jp/japanese/policy/pol128/index.html>.

In June 1998, the Council for Foreign Economic Cooperation, an advisory body to the Prime Minister, submitted a report entitled “On Future Measures to Promote Economic Cooperation”. In that report, priority implementation items included anti-poverty measures, efforts in social development, human resource development, and assistance for post-conflict reconstruction. In addition, the report stated that economic cooperation brings tangible and intangible benefits to Japan and therefore it must be aggressively implemented with the understanding of the Japanese people and other countries. There are still other documents such as MOFA’s revised “Action Plan” which was published in August 2002 and the “Ten Reform Principles to Ensure an Open Foreign Ministry” published in February 2002.

rated in accordance with the Japan Bank for International Cooperation Law (JBIC, 2002, p. 5). Careful measures were taken so as not to invite concern that the aid may be used to promote Japanese exports, including the separation of departments that undertake the two operations (International Development Journal, 2001, p. 56). Whatever the motive of the merger was, it has produced some benefits. If the ultimate objective of external aid is to reduce poverty in developing countries, then an alignment of aid, investment, and trade is important in addition to the aid itself. The main advantage of this merger is that such an alignment can be achieved in an organic and effective manner (Sato, 1997, p. 221). In fact, a system has been established in which, for example, officers in charge of economic cooperation (ODA) and international finance (OOF) would both attend a study meeting about aid to China and they would consider the matter comprehensively with a long-term vision that encompasses infrastructure building by ODA as well as promotion of business activities that is essential for the development of any country (International Development Journal, 2001, p. 60). Each operation can be implemented more effectively and efficiently by sharing information and networks obtained through or built by both operations (International Development Journal, 2001, p. 56),²⁵ but in reality, there is still much room to improve coordination of the former JEXIM and OECF operations.

THE 1998 BASIC LAW FOR CENTRAL GOVERNMENT REFORM.²⁶ Enactment of the Basic Law for Central Government Reform triggered reform of the complicated ODA administration system of Japan. As one of the most important changes, the law stipulated that MOFA “shall play a central role in coordinating the entire government in the general planning of ODA including the preparation of a comprehensive aid policy for each recipient country and the planning of loan assistance” and “carry out a centralized role of coordinating the entire government with regard to the planning of technical assistance” (Ministry of Foreign Affairs, 1998, p. 7). In addition, the Foreign Minister was put in charge of the overseas economic cooperation operation of JBIC. In other words, MOFA was legally put in charge of planning ODA policies not only for technical assistance (the budget for which used to be allocated to 19 different ministries) but also for

25. For example, in response to the Asian currency crisis in 1997, JEXIM provided emergency assistance to restore the macroeconomic balance of affected countries and cash flow support to Japanese companies working in the region, while OECF provided assistance to the socially disadvantaged who suffered much from the crisis.

26. From one office and 21 ministries to one office and 12 ministries.

yen loans. Furthermore, the ODA-Related Ministry and Agency Liaison Council was created between MOFA and other related ministries.

The objective of this Council, which meets semiannually, is to strengthen cooperation and coordination between related ministries and to exchange opinions about aid policies and implementation.²⁷ However, the coordinating capacity of MOFA tends to be limited in an organization composed entirely of ministry officials. For this reason, the Board on Comprehensive ODA Strategy and its role are drawing attention. Establishment of this board was proposed in the Final Report of the Second ODA Reform Council, which was published in March 2002, so that it can play the 'role of a control tower' for ODA. The board has held eight meetings since June 2002. It is expected that by having participation by the private sector as a third party, the board can break free from various constraints and coordinate the interests of different ministries. More specifically, the board is conducting a review of the ODA Charter and is preparing and reviewing Country Assistance Programs. It is assuming a role similar to that of a control tower.²⁸

REORGANIZING MOFA'S ECONOMIC COOPERATION BUREAU. MOFA's Economic Cooperation Bureau currently includes divisions that represent different aid schemes such as the Loan Aid Division, Grant Aid Division, Technical Cooperation Division, and Development Cooperation Division. Some problems have been pointed out about this system,²⁹ and now there is a movement to reorganize the Economic Cooperation Bureau in line with the broader administrative reform that began in 1997. Specifically, the reorganization is being considered to emphasize a regional approach that is consistent with the policy to prepare Country Assistance Programs. According to MOFA's structural reform plan, the shift from the scheme-centered division structure of the Bureau to a regional structure will begin in FY2004, with some measures implemented earlier. In April 2003, the Country Planning Assistant Division which used to be in the Aid Policy Division, was transferred to the Development Cooperation Division and renamed the Country Planning Division. The supposedly ideal direction is to organize the divisions in terms of regions and

27. The Liaison Conference of Ministries Related to Technical Cooperation was also established in April 1997. It aims to coordinate each project effectively and to avoid redundancy in aid implementation.

28. Interview with Mitsuya Araki, president of The International Development Journal Co., Ltd.

29. "It has been pointed out that diplomats, who are supposed to take the country/regional approach, are trapped in a technical debate of aid schemes. If ODA is an important means of diplomacy, they need to think strategically about an entire region and Japan's relation with each country based on the political and economic issues between different regions". (International Development Journal, 1998, Aug. p. 7)

countries and allocate the budget to each block. A step-by-step reorganization has been proposed to achieve this ideal status.³⁰

REORGANIZING JICA. The operation of JICA used to have two characteristics. One was that the ODA policy planning function was undertaken by MOFA and different divisions of MOFA's Economic Cooperation Bureau were in charge of areas closer to implementation. The other was that JICA's sector-oriented structure created vested interests for the corresponding ministries and they also controlled the transfer of seconded personnel (International Development Journal, 1998a, p. 7). Obviously, these conditions created some problems.

First, authority for development assistance belonged to the relevant parties in Japan and not to field offices. Second, the efficiency and effectiveness of technical assistance were compromised because aid was provided not by looking at the development direction of an entire country and prioritizing different sectors, but instead by examining each country sector by sector (International Development Journal, 1998a, p. 7). It is now possible that this malady of compartmentalized administration will be removed to improve efficiency. The Diet passed the Independent Administrative Institution Japan International Cooperation Agency Bill in its extraordinary session of 2002. Based on this law, JICA was reborn as an independent administrative institution on October 1, 2003. It is expected that this reform will clearly separate the policy planning function from the implementing function and contribute to increasing the effectiveness of aid projects.³¹ In short, MOFA will coordinate the planning activities of related administrative agencies and JICA will assume the implementing function of official technical cooperation.

The next topic is the reorganization within JICA. In 1997, the Council on ODA Reform for the 21st Century pointed out the "importance of implementing ODA, the responsibility for which is distributed to many ministries, in a more unified and coherent manner" and proposed the "preparation of Country Assistance Programs the completion of which shall be the Ministry of Foreign Affairs' responsibility." In its final report published in January 1998, the Council also proposed a "review of internal structures so that the government and implementing agencies such as JICA can enhance the country approach for the purpose of preparing Country Assistance

30. Interview with Mitsuya Araki, president of The International Development Journal Co., Ltd.

31. <http://www.jica.go.jp/about/corporation.html>

Programs.” Following such developments, a task force was created within JICA. This task force played a key role in leading discussions about JICA’s own reorganization and in summarizing the reform issues into five main points with a focus to improve the ‘quality’ of aid. One of the five main issues was the “enhancement of the country- and region-oriented implementing system.”³² From this viewpoint JICA implemented a sweeping reorganization in FY1999, mainly in the operational departments at headquarters. While some sectoral departments remained, regional departments were also created.

As a part of promoting Country Assistance Programs, JICA prepares detailed Country Programs of its own.³³ In a departure from past practices, regional departments are now in charge of everything from making country-specific plans to implementing them. In addition, more authority was delegated to JICA’s field offices because they are better informed about countries, and they now play an important role in drafting operation plans and discussions with the recipient government. Further reorganization is planned to improve the implementation of Country Assistance Programs. As an example, JICA is currently considering integration of five Project-type Technical Cooperation Departments and three Development Study Departments into a Sector Issue Department. However, this organizational reform, which is being implemented to increase the efficiency and focus of aid, cannot achieve objectives by itself. Another important issue is the quality of the JICA Country Programs. With Country Assistance Programs,³⁴ country and regional distribution of experts is uneven, especially with fewer experts for South Asia and Africa. JICA created a Human Resources Assignment Department to recruit experts, but it is apparently not enough. Recruitment of human resources will be a key issue in the future.

STRONGER TIES WITH NGOS. Based on a recognition that work-

32. Other issues are: 1) Enhancing the effort to deal with global issues such as the environment; 2) Enhancing the functions of managing and appraising JICA cooperation projects; 3) Fostering the understanding and participation of the public, securing and educating human resources; and 4) Increasing efficiency by specialization and centralization of operations.

33. A JICA Country Program is prepared in three stages: 1) Sort out and confirm priority areas and issues through policy dialogues at the government level and other means; 2) Sort out development issues of the subject country and clarify JICA’s cooperation policy; and 3) Systematize the deployment plans of operation schemes that are necessary to achieve concrete goals (the plan is results-oriented). This process uses consultations with officials of the recipient government to confirm priority development issues and to reach agreement on specific projects (JICA, 1999, p. 20). Up to now, JICA Country Programs have been prepared for more than 50 countries.

34. In the Board on Comprehensive ODA Strategy, there have been instances where one expert became a leader and covered two ‘similar’ countries.

ing with NGOs is essential to maximize the effectiveness of ODA, the government is actively trying to promote cooperation with NGOs. NGOs are important in ODA because, among other reasons:

- They can respond to diverse needs in a more delicate manner because they are more familiar with local conditions.
- In the face of ODA budget reductions, they may be able to implement ODA more effectively and with lower costs.
- An NGO's comparative advantage often lies in the area of social development, an area that is being emphasized by the international development aid community (The 21st Century Public Policy Institute, 2000).

In addition to MOFA holding regular consultations with NGOs since 1996, MOF, JICA, and JBIC began to have similar meetings in 1997, 1998, and 2001, respectively. In 1999, JICA began the Development Partnership Program in which it consigns entire projects to NGOs, universities, municipalities, or think tanks. In 2000, it began the Small-Scale Partnership Program in which JICA consigns implementation of relatively small projects. One of the five main categories of the Fifteen Specific Measures for ODA Reform announced by Foreign Minister Yoriko Kawaguchi in 2002 was Partnership with NGOs. Policies included a measure to expand the function of regular consultations between NGOs and MOFA and another to start regular consultations between Japanese embassies and NGOs in developing countries; both have been done. In addition, the Board on Comprehensive ODA Strategy, which is a key player in ODA policy making, includes NGO representatives. Efforts to work with NGOs in international cooperation are expanding. It is desirable to create an environment in which NGOs will not only participate in the these meetings, but also make policy proposals about ODA to the government that will actually be reflected in government strategies and policies (The 21st Century Public Policy Institute, 2000, p. 14).

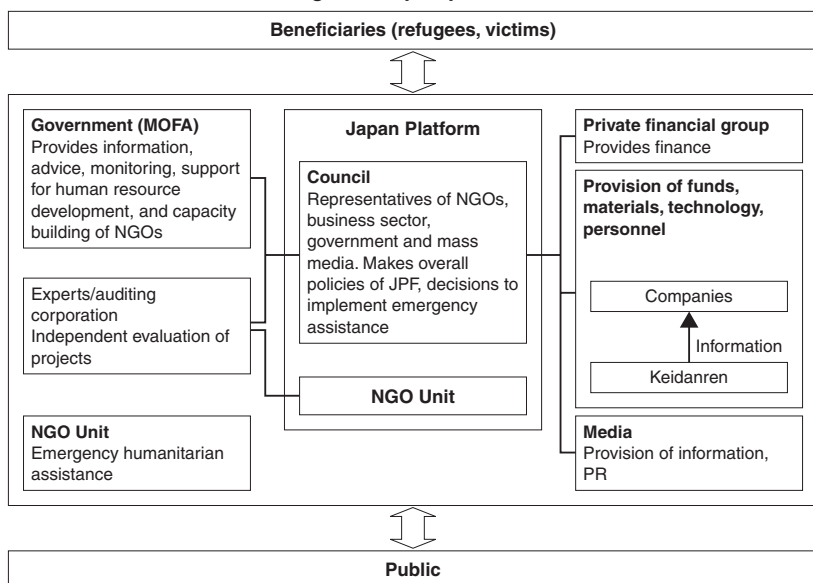
Based on a belief that financial support for Japanese NGOs is necessary to improve the effectiveness of aid, the government has introduced several NGO support schemes.³⁵ Important ones are the NGO Project Subsidy System³⁶ launched in 1989 and the Grant Assistance for Grassroots Project (GAGP) scheme. The latter has received special attention in recent years. While the budget for the NGO Project Subsidy has declined since 1997, the total budget for the GAGP scheme is increasing. It was less than 500 million yen in its first year, 1989, but was more than 6 billion yen in 1999.

Specifically, the GAGP scheme is managed mainly by diplomatic missions abroad and provides funds to social and economic development projects undertaken by NGOs, local governments, and education and medical organizations operating in developing countries.³⁷ The main targets of this scheme are small-scale projects that have a financial requirement of 20 million yen or less per project but bring direct benefits to the poor (Kusano, 1997, p. 178).³⁸ Also, one of the Fifteen Specific Measures for ODA Reform mentioned above was a measure to support capacity building and activities of NGOs.³⁹ The action plan for the reform of the Ministry of Foreign Affairs, which was published in August of the same year, pledged to immediately implement the measures included in the Partnership with NGOs section. However, the DAC's 1999 report pointed out weak NGOs as an issue for Japan and the need to strengthen the partnership with them and enhance their capacity.

After the end of Cold War, humanitarian emergency aid has become more important in dealing with the large number of refugees resulted from conflicts and natural disasters. The Japanese government is trying to strengthen its partnership with NGOs in these areas as well. In August 2000, Japan Platform (JPF) was established (Fig. 4-6). Its objective is to create a system in which NGOs, the business sector, and the government would work together as equals to make full use of their respective abilities and resources to provide emergency aid in a more effective and timely manner. Specific activities include:

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35. Compared to Western NGOs, Japanese NGOs are said to have a weaker financial base and fewer people who have organizational management skills, expert knowledge, and experience. (Ministry of Foreign Affairs, 2000, p. 25) Also, according to JANIC (Japanese NGO Center for International Cooperation), Japanese NGOs involved in international cooperation are smaller than those of other countries, and a typical Japanese NGO has two or three paid staff members and an annual income of 10-30 million yen (The 21st Century Public Policy Institute, 2000).
 36. A scheme to subsidize a part of project cost (50 percent or less of the total project cost and up to 10 million yen per project) in development cooperation activities undertaken by Japanese NGOs that operate mainly in developing countries (Ministry of Foreign Affairs, 2001, p. 43).
 37. In addition, local embassies can make the final decision on basic human needs projects under GAGP scheme with a cost of up to about 4 million yen. This has an advantage in that projects can be implemented more quickly than other grant aid projects.
 38. However, there are criticisms such as: 1) The scheme tends to attach too much importance to hardware whereas it is supposed to focus on social development; and 2) There are many instances in which money is provided without clear reasons and discipline because diplomatic missions lack information on local NGOs, knowledge, and manpower (The 21st Century Public Policy Institute, 2000).
 39. Specifically, it states "To support capacity building and activities of NGOs, the Ministry introduced a new scheme: 'Grant Aid for Japanese NGOs' projects' in June this year. The Ministry will also introduce Grassroots Technical Cooperation as soon as possible."
http://www.mofa.go.jp/mofaj/gaiko/ODA/seisaku/seisaku_1/senryaku/2_shiryo/shi

Fig. 4-6. Japan platform



Source: JPF documents prepared by Keidanren

- Pooling capital contributions by the government and private sectors to use for initial activities of NGOs in the field for unexpected natural disasters or a large number of refugees.
- NGOs can receive necessary technologies, equipment, human resources, and information from private sectors.

The intention is to enhance Japan's aid activities by constructing a large-scale cooperation system. When the use of force against Iraq became imminent as had been feared since the terrorist attacks on 9-11, JFP quickly announced its humanitarian aid plans to help potential refugees. In the background of this timely response was thorough preparation — JPF had dispatched an inquiry team to the region in November 2002 to discuss aid plans with the UN and other organizations.⁴⁰ There are still many challenges such as secretariat administration and securing competent human resources and operations. Also, some NGOs consider JPF as a 'sellout' to the government, which shows an inherent difficulty in the partnership. However, JPF is a significant system that bolsters support for Japanese NGOs that used to play only marginal roles in emergency humanitarian aid. We should watch

40. Nihon Keizai Shimbun, March 15, 2003.

how JPF will be administered and how it will contribute to building capacity in NGOs.

Aid policy trends

Japan's aid policy

Japanese aid has often been described as aid without a philosophy. There is an historical reason for this — there was no need to establish a unique philosophy for Japanese aid because it had a so-called ‘request-basis principle’ that respected the will and intent of recipient countries. As the volume and diplomatic influence of aid increased rapidly beginning in 1980, the ideal form of aid was debated, and it was concluded that an aid philosophy was necessary (Kusano, 1997, p. 57).⁴¹ The Gulf War in 1990 also provided momentum to this movement.⁴² In light of these circumstances, the Cabinet adopted the Official Development Assistance Charter (ODA Charter) on June 20, 1992.⁴³

The Medium-Term Policy on ODA was established in 1999 in line with the basic philosophy of the ODA Charter. This policy paper outlined ODA policy for the next five years or so in order to ensure efficient and effective implementation under restrictive fiscal conditions. Unlike the Medium-Term Targets that were first established in 1977 under the Fukuda Cabinet⁴⁴ and showed specific target amounts of ODA, numerical targets were not set this time in light of the severe fiscal situation.⁴⁵ The Medium-Term Policy expressly states that Japan's aid will be based on the specific development goals in the DAC's New Development Strategy and the concepts of self-

41. While the quantity of ODA had been growing since the 1980s, it looked as though the quantitative expansion was pursued without clear definitions of objectives. This sense of crisis deepened as the reality of ODA-related corruption was demonstrated, for example, by unused equipment identified after the fall of the Marcos administration in the Philippines in 1986.

42. Although Japan provided a huge amount of financial support to the allied forces when Iraq invaded Kuwait, the country failed to express its appreciation to Japan. This cast some doubt on the method of Japan's international contribution, and eventually stirred a debate on the political use of ODA. (Shimomura et al., 1999, p. 81).

43. The ODA Charter is a comprehensive document that contains the basic philosophy, principles, priorities, implementation system, etc. for the provision of ODA to developing countries. The main priority areas are: 1) Environmental conservation; 2) Promotion of self-help efforts; 3) Human resource development; 4) Development of social and economic infrastructure and meeting basic human needs; 5) Ensuring good governance; 6) Realization of economic development; and 7) Promotion of sustainable development. Japan's ODA is to be provided in accordance with the following principles: 1) Environmental conservation and development should be pursued in tandem; 2) Any use of ODA for military purposes or for aggravation of international conflicts should be avoided; 3) Attention should be given to trends in recipient country military expenditures so that developing countries allocate resources for their own economic and social development; and 4) Full attention should be paid to efforts to promote democratization, introduce a market-oriented economy, and secure basic human rights.

help effort and partnership. Since many of the development goals in the DAC's New Development Strategy are focused on social development, it seems that Japanese aid policy is likely to further emphasize this area. The document considers anti-poverty measures and social development (basic education, health care, support for women, etc.) as important items. Assistance toward economic infrastructure is similarly treated as one of the basic efforts, but a change in Japanese aid strategy can be read in the 1999 ODA Annual Report, which said that further emphasis would be placed on cooperation in poverty reduction and social development while paying attention to its balance with economic infrastructure assistance. (Ministry of Foreign Affairs, 1999) The document also lists these measures to realize an effective and efficient aid system:

- Coordination of various forms of cooperation and ODA organizations under the leadership of MOFA
- Support for and partnership with NGOs, local governments, and the private sector; and
- Support for South-South Cooperation.

An important policy change in recent years was the decision to implement aid in accordance with the Country Assistance Programs (CAPs) to be prepared for main recipient countries under the ODA Charter and based on the Medium-Term Policy.⁴⁶ To improve the efficiency and transparency of aid, the preparation of CAPs was finalized based on an agreement at a Director General level meeting of the Ministerial Council on External Economic Cooperation. Since 2000, CAPs for main recipient countries have been prepared in sequence so that Japan can provide effective aid that meets the diverse needs of each country. A CAP is composed of the three sections: political, economic, and social conditions of the country; development issues (development plans of the recipient country and activities of other donors); and orientation and issues of Japan's aid policy toward the country. In FY2000 CAPs for China, Cambodia, and Malaysia were prepared and published as guides for the next five years.⁴⁷

44. The Medium-Term Policy was initiated when Japan began to regard itself as a developed country, after participating in the first World Summit in 1975. For this reason, there is an interpretation that the Medium-Term Policy was prepared as a part of Japan's effort to fulfill its responsibility as such (Sato, 1997, p. 121).

45. In June 1997, the Conference on Fiscal Structural Reform decided not to prepare new medium-term targets that included quantitative targets.

46. For details, see <http://www.mofa.go.jp/mofaj/gaiko/ODA/ODA99/jo/jh1-3.htm>

Japan's unique aid diplomacy

Japan's ODA is implemented under the ODA Charter and within a framework that consists of the Medium-Term Policy on ODA and Country Assistance Programs. In addition, the existence of Japan's unique aid diplomacy should not be forgotten. In addition to the discussion and reform of the ODA system, Japan has begun to adopt and implement an ODA policy which is considered as a 'diplomatic weapon.' The following sub-sections examine four initiatives — infectious diseases; conflict and development; Africa; and development in East Asia.

The government is preparing sector- and issue-specific policy initiatives to respond to specific development issues. At the Kyushu-Okinawa Summit in 2000, the government declared the Okinawa Infectious Diseases Initiative as a unique initiative of Japan. It included a commitment for financial support of \$3 billion over the next five years. In addition, Japan launched the Action from Japan on Conflict and Development. This initiative lists specific assistance measures as being effective in preventing conflicts:

- Assistance to improve governance such as bolstering the foundation of democracy, establishing legal systems, and the transition to a market-oriented economy;
- Emphasis on working with NGOs and the private sector in emergency humanitarian aid that is provided during and immediately after a conflict; and
- Enhancing the assistance for post-conflict reconstruction and development, including support for the social rehabilitation of discharged soldiers, reintegration of refugees and domestic evacuees, demining, and regulation and collection of small arms.

It is a comprehensive approach that employs different measures at different stages of conflict prevention. In May 2002 in Sydney, Prime Minister Junichiro Koizumi announced the Consolidation of Peace and Nation-Building initiative as more extensive assistance and a new orientation for Japanese diplomacy. Following this initiative, the Advisory Group on International Cooperation for Peace was established as a private advisory body to the Chief Cabinet Secretary, with Yasushi Akashi, former UN Under-Secretary-General, as the chairman.⁴⁸ 'Consolidation of peace' diplo-

47. As of March 2003, Country Assistance Programs had been prepared for 15 countries: Bangladesh, Thailand, Vietnam, Egypt, Ghana, Tanzania, the Philippines, Kenya, Peru, China, Malaysia, Cambodia, Tunisia, Zambia, and Nicaragua. Plans for five more countries are planned: Sri Lanka, Mongolia, India, Indonesia, and Pakistan. The Country Assistance Program for Vietnam is currently under review.

macy aims to “provide assistance to make the peace firm” and consists of “promotion of peace processes, ensuring the domestic stability and security, and provision of humanitarian and reconstruction assistance.” (Ministry of Foreign Affairs, 2003) This is an area that will be further emphasized in the future.

Japan has also established an initiative to deal with the problems in Africa based on a belief that the world cannot enjoy peace and prosperity in the 21st century without resolving those problems. Several movements such as democratization and market-oriented economic reform have been growing since the beginning of the 1990s, but poverty in Africa remains a serious problem. Based on this recognition and in contrast to Western donor countries that reduced aid to Africa due to post-Cold War aid fatigue, Japan declared its intention to address the issue and initiated an international conference, the Tokyo International Conference for African Development (TICAD). TICAD I and TICAD II were held in 1993 and 1998, respectively. The first conference produced the Tokyo Declaration and the second adopted the Tokyo Agenda for Action⁴⁹ which contained specific action plans. The Japanese government announced its plan to provide about 90 billion yen of grant aid in social development areas such as education, health and water, and had already provided about 80 billion yen as of February 2003 (Ministry of Foreign Affairs, 2003, p. 195). As a result of these measures, Japan has expanded its ODA — mainly grant aid — to Africa. As a share of total ODA, the African allocation was 27.7 percent in 1987 but grew to 31.5 percent in 2000.⁵⁰ The government designated the year leading up to TICAD III, scheduled to be held in the latter half of 2003, as a ‘leap year for cooperation with Africa,’ aiming to strengthen its cooperative relationship with African countries. While these efforts are laudable, the Japanese government should continue to consider the actual conditions of African countries and assist them in a realistic manner.⁵¹

48. <http://www.kantei.go.jp/jp/singi/kokusai/konkyo.html>

49. As cross-cutting themes, special attention will be paid to capacity building in developing countries, social and economic participation by women, and environmental conservation. In terms of concrete action plans in the three priority areas, specific targets were set in the areas of social development (education, health and population, measures to assist the poor) and economic development (private sector, industrial and agricultural development, external debt). Specific actions were described as basic foundations for development (good governance, conflict prevention, and post-conflict development (Ministry of Foreign Affairs, 2002, p. 103).

50. Tsuneo Sugishita (Senior Advisor, JICA), Notes of an ODA Journalist, July 10, 2002 and later.

51. In a time leading up to TICAD III, MOFA hosted an international conference with the theme of Promoting Investment to Africa, but in reaction to criticism that Africa has not reached a stage to promote investment, the name was changed to the Tokyo International Conference on Investment to Africa.

Finally, the Initiative for Development in East Asia (IDEA) was launched by Prime Minister Koizumi when he visited Southeast Asia in January 2002. This is a new diplomatic initiative based on 'to walk together and advance together' with the Association of Southeast Asian Nations (ASEAN) countries. The IDEA Ministerial Meeting was held in August 2002⁵² and issued a pledge to confirm the significance of the East Asian development experience, to promote intra-ASEAN cooperation, and to share their experience with other countries and regions. Prime Minister Koizumi then proposed the Koizumi Initiative⁵³ at the end of August 2002, immediately before the Johannesburg Summit. This initiative stated that Japan would promote IDEA and share East Asian development experience with other countries. This initiative was important in several aspects. First, it was a declaration of Japanese aid policy (that is growth-oriented) against the PRSP approach promoted by the World Bank and other donors. Second, as a response to a concern about the lack of domestic human resources in preparing Country Assistance Programs, it uses qualified people in ASEAN countries as part of South-South Cooperation.⁵⁴ Since the partnership with ASEAN countries is essential to the security and economic development of Japan, more efforts will be expended to advance IDEA. At the same time, more debates are expected because various problems have surfaced about applying the East Asian experience to other countries, especially in Africa.

New policy discussions

Some new proposals have been put forward recently. One of the more important is from the international community about the concept of 'human security', which is one of the guiding principles of Japanese diplomacy. The Commission on Human Security⁵⁵ published its final report in February

52. The meeting was attended by foreign ministers and ministers in charge of development from 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam), and China and South Korea.

53. Other Japanese initiatives include the following: 1) Proposal for the Decade of Education for Sustainable Development; 2) Commitment to provide at least 250 billion yen in assistance to low-income countries in education, and promotion of the Basic Education for Growth Initiative (BEGIN) which includes assistance for the education for girls, teacher training, and science and mathematics education; 3) Efforts to provide market access for all goods produced in LDCs without tariffs and quantitative restrictions; 4) Implementation of the Infectious Diseases Initiative which includes provision of \$3 billion within five years beginning in 2000; 5) Sharing with Africa and other regions the Japanese experience of suffering and overcoming tragic pollution and successful examples of cooperation between Japan and other Asian nations; and 6) Strengthening the economic partnership with Africa.

54. The government is also considering requesting cooperation from experts in the subject country when preparing Country Assistance Programs in order to solve the understaffing problem.

2003, which focused on the inseparability of conflict and poverty/development issues and emphasized the necessity for a comprehensive approach. In order to expand assistance in the area of human security, Japan established the Trust Fund for Human Security within the United Nations in March 1999. Up to FY2002 this fund received one of the largest contributions to UN trust funds made by Japan, and implemented 72 projects in the area of health care, poverty, and conflict (Ministry of Foreign Affairs, 2003, p. 83). Sadako Ogata, former UN High Commissioner for Refugees, said that Japanese ODA should ideally be ‘human-oriented’, but she pointed out that its realization is difficult under the current ‘request-basis principle’. She advocates a viewpoint that focuses aid on smaller targets than states, for example, an assistance system called Grant Assistance for Grassroots Human Security Projects,⁵⁶ to be introduced in FY2003.

Another important proposal was a report by the Liberal Democratic Party entitled “Concrete Plans for ODA Reform: Gaining Public Acceptance for Japan’s ODA”, which was published in December 2002. It includes eight main items⁵⁷ but the author would like to focus on a proposal to revise the ODA Charter. At the end of 2002, the government began to review the charter that was adopted 10 years ago and has apparently become obsolete due to changes in the domestic and international environment.⁵⁸ In March 2003, the Council of Overseas Economic Cooperation-Related Ministers issued a document entitled Basic Principle for the Review of the ODA Charter.⁵⁹ Notable proposals include:

- Emphasize the concept of partnership in amending the current request-basis principle and promoting policy consultations with recipient

55. The Commission on Human Security was based on a Japanese government proposal at the Millennium Summit in September 2000. Twelve members discussed the issue under the co-chairmanship of Sadako Ogata, former UN High Commissioner for Refugees, and Amartya Sen, Nobel laureate.

56. This financial cooperation scheme of MOFA has been used for relatively small projects such as NGO activities in the area of Human Security. MOFA plans to enhance the scheme by increasing its annual budget to 15 billion yen. (Asahi Shimbun, December 20, 2002)

57. 1) ODA Charter; 2) Function of planning ODA strategies; 3) Organizations and processes of policy making; 4) Implementation system and organizations; 5) ODA human resource development and creation of suitable environment; 6) Evaluation and auditing; 7) Promotion of public participation, improvement of public relations, and information disclosure in ODA; and 8) Other reform measures.

58. Specific changes in the environment include: 1) Deepened interdependence of the international community due to the progress of globalization; 2) Emergence of new concepts such as sustainable development, poverty reduction, and human security and new areas such as peace building; 3) MDGs adopted by the United Nations have become the main pillar of ODA-related discussions; 4) Diversification of ODA players which now include NGOs, volunteers, universities, local governments, and business organizations and the demand for even broader public participation in ODA.

59. http://www.mofa.co.jp/mofaj/gaiko/ODA/seisaku/seisaku_1/t_minaoshi/030314.html

countries;

- Consider, in addition to key areas identified in the current charter, international development goals such as human security, peace building, and poverty reduction;
- Improve coordination between the government and implementing agencies (JBIC and JICA) and among implementing agencies; and
- Enhance the role and organization of the field agents (diplomatic missions and field offices of implementing agencies).

Outlook and future issues

As we have seen so far, there are active discussions about ODA policies and implementing system that are intended to be more suitable for the new domestic and international environment. Some of the easier changes have begun to be implemented. There are, however, still many areas that need to be improved in order to improve effectiveness. The more important ones are discussed below.

Delegation of authority to the field

It is becoming more important to delegate more authority to aid-implementing agencies so that MOFA can concentrate on policies and coordination, and Country Assistance Programs can be more effective. As Saburo Kawai, Chairman of the International Development Center of Japan, points out, implementing agencies in the field do not have much power in the Japanese ODA system (International Development Journal, 1998b, p. 19). Because development assistance is quickly trending in a direction that uses such aid methods as the Sector-Wide Approaches (SWAs) and PRSP, other donors are actively coordinating aid policies in the field by delegating authority to field offices. For the success of Country Assistance Programs that are being prepared in Japan, it is now urgent to increase the authority of field offices of ODA-implementing agencies such as JICA and JBIC, and for MOFA to delegate authority to its embassies.

Reinforcement of ODA staffs

While organizational reforms are in progress at MOFA, JICA, and JBIC, it is also necessary to reinforce their staffs. The DAC report points out that Japan has less ODA manpower than other DAC member countries, and that a continuous and stable supply is necessary (OECD/DAC, 1999, pp. 11 & 25). For example, there are not enough professionals in MOFA's Economic

Cooperation Bureau because the staff is either diplomats or ‘loaned’ officials from other ministries who will be reassigned to different departments or return to original ministries. There is a need to consult with recipient countries when Country Assistance Programs are being prepared, but JICA may not have sufficient manpower in the field to perform this task. Aid policy coordination with other countries is becoming more important, but a lack of manpower in the field is making effective aid coordination difficult for Japan.⁶⁰ Partnering with research institutes and universities is suggested as a solution for this problem. ODA efficiency depends on the capability of ODA staff.

Better collaboration between JICA and JBIC

Operational cooperation between JICA and JBIC is also an important issue in Japan’s development assistance. Previously, the collaboration between JICA and former OECF and JEXIM was not smooth because each organization was supervised by a different ministry (Sato, 1997, p. 220). Even now, after establishment of JBIC and the appointment of the Foreign Minister to oversee yen loans, collaboration can still be improved. Collaboration between JBIC and JICA is better than between former OECF and JICA, but there is still much room for improvement. Improved aid effectiveness cannot be expected without appropriate collaboration between financial assistance and technical assistance. The 2001 ODA Annual Report cites the importance of such collaboration and emphasizes the ‘programming’ of aid, thus collaboration is expected to improve. At the same time, collaboration between JICA and JBIC is more difficult when the recipient country does not have a system to request the coordination within Japan, for example, when the official contact for technical cooperation differs from the one for yen loans (Ministry of Foreign Affairs, 2002). This issue should also be solved.

Overcoming compartmentalized administration

Some measures dealt with the adverse effects of compartmentalized administration, including administrative reform and granting of authority to MOFA’s Economic Cooperation Bureau to coordinate ODA activities. The ODA budget, however, is still prepared by 13 separate ministries. Even under coordination by MOFA, it will not be easy to pursue national interests

60. There is also a problem in the accounting of Japanese expenditures (OECD/DAC, 1999, p. 30.)

over the interests of individual ministries. Establishing an Aid Agency independent from MOFA that would single-handedly deal with ODA has been suggested, but the idea remains shelved for now.⁶¹ As an alternative, we can look to the Board on Comprehensive ODA Strategy, which has third party participation. In an effort to establish effective implementation, the Board is trying to establish a system that handles everything from policy matters — including the ODA Charter, Medium-Term Policy, preparation of Country Assistance Programs, and Operation Plans — to implementation. There is, however, a persistent desire in Japan to establish an independent organization like an Aid Agency. The future of this debate probably depends on how well the current system can suppress the adverse effects of compartmentalized administration.

Dealing with problems in Africa

We have noted that efficient aid implementation has become critical with the cutback of the ODA budget; consequently, the government is planning to further focus its effort in Asia during the upcoming review of the ODA Charter. In the background is a belief that it is quite natural to focus on Asia considering the strength of Japan's geographical, cultural, historical, and economic ties with the region. Aid to Asia has commanded an overwhelming share in Japan's ODA (Fig. 4-7). Even after the reorganization of JICA, there was a plan to assign 39 positions to Regional Department I, which is in charge of Southeast Asia (International Development Journal, 1998a, p. 11). There was a time when it was considered obvious to have donors focus on specific regions, with the EC countries, the US, and Japan in the lead for Africa, Latin America, and Asia, respectively (Kohama, 1992). This geographical demarcation seems to be eroding, but Japan cannot ignore Africa because its aid plays a humanitarian role.

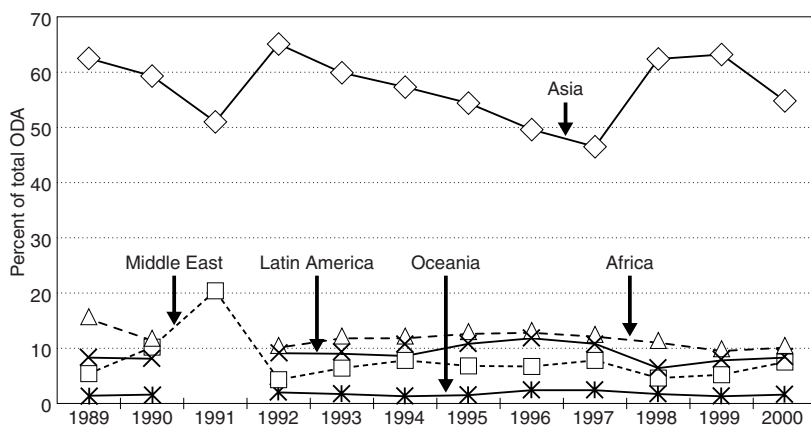
Japan took the initiative and publicly committed to support Africa when Western donor countries deserted the region due to aid fatigue. Japan is building a stronger partnership with Africa through enhanced economic ties in the Koizumi Initiative and hosting TICAD III, but the amount of aid to Africa is still relatively small (Fig. 4-7). In addition, some measures proposed to use these scarce resources effectively are questionable, although legitimate ones such as assistance for social development are among them.

61. In July 2002, the Reform Advisory Board postponed the decision on the Aid Agency concept after failing to reach a consensus.

For example, despite the mention of ‘economic partnership’ in the Koizumi Initiative, the business community does not think that Africa has an environment conducive to private investment. To create such an environment, ODA is expected to alleviate problems in Africa, including internal disorder and deterioration of public security; low quality of labor; lack of physical and non-physical infrastructure; social problems including AIDS; and lack of sizable markets for manufactured products.⁶²

Even if we are to introduce the ‘East Asian experience’ to Africa, a prudent plan must consider agricultural practices and economic, social, and political conditions, to say the least. In light of the small number of Japanese experts on African countries, there is a question of how well Japan can devise high-quality development policies. In aiding Africa (especially sub-Saharan Africa), it is still important to focus on social development. Considering that about 70 percent of the African population depends on agriculture, the next priority should be given to the agricultural sector. With these priorities in mind, Japan can, for example, promote poverty reduction by working together with European countries that have a long history with the region.⁶³ Japan should, through JICA or other organizations, promote a partnership in agricultural commodity processing between Japanese small- and medium-sized businesses and African countries. Moreover, it is important to promote self-motivated development in African countries and South-

Fig 4-7. Geographical distribution of Japanese bilateral ODA, 1989-2000



Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

62. International Cooperation Group of Japan Federation of Economic Organizations, Outline of Afurika Keizai No Mondaiten Ni Tsuite (On the Problems of African Economy).

Fig 4-8. Top five recipient countries of Japanese ODA, 1995-2000

1995	1996	1997	1998	1999	2000
China	Indonesia	China	China	Indonesia	Indonesia
Indonesia	China	Indonesia	Indonesia	China	Vietnam
Thailand	Thailand	India	Thailand	Thailand	China
India	India	Thailand	India	Vietnam	Thailand
Philippines	Philippines	Philippines	Pakistan	India	India

Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

South cooperation by establishing an economic partnership with the relatively developed countries such as South Africa, and at the same time, support programs such as the New Partnership for Africa's Development (NEPAD).⁶⁴ It will interesting to see what kind of initiatives will be put forward at TICAD III and during the 'leap year for cooperation with Africa' leading up to it.

Reconciliation of international aid trends and Japanese aid

Japan took the initiative in preparing DAC's New Development Strategy in 1996, but has not issued specific policies or action plans that are in line with international development goals such as MDGs. Although MOFA and JICA have prepared poverty reduction guidelines and are researching the issue, national consensus has not been reached about the practical definition of poverty and what should be done. Poverty reduction is one priority issues for Japan. For example, while JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations contains a section entitled Strengthening Support for Poverty Reduction, it is one of seven priority areas. This is quite a contrast to the United Kingdom and Germany that consider poverty reduction as the paramount objective of development. One of the reasons for this 'backwardness', is that Japan's strength lies in, or Japan focuses on, areas that are difficult to link with MDGs that emphasize basic human needs (Toda, 2002, p.6). In addition, Japan is currently following an approach to implement ODA in accordance with the Country Assistance Programs, and keeping a distance from an approach that sees a single, uniform goal.

However, Japan cannot ignore world trends in development assistance

63. In fact, DFID and MOFA had a meeting in April 2003. The UK ministry proposed an aid partnership between UK, which has a large presence in Africa but little presence in Asia, and Japan which is in the opposite situation. Japan supports the common basket method in Africa in light of its reduced budget, and both parties are looking for a way to make this partnership work.

64. It is based on the initiative on African development adopted by the OAU Summit in July 2001, which changed its name to NEPAD in October 2001. For details, see Ministry of Foreign Affairs, 2003, p. 59.

and become isolated. It is more desirable for Japan to be actively involved in and contribute to the creation of international trends without losing its unique perspective (Ohno, 2002).⁶⁵ The communiqué issued in April 2003 at the 67th meeting of the World Bank/IMF Joint Development Committee emphasized the link among economic development, investment in infrastructure, provision of social services, and the achievement of MDGs. As the importance of growth is recognized by the international aid community, the growth-oriented Japanese way of assistance is likely to become significant. In this context, Japan should flesh out the Country Assistance Programs it promotes, meet the unique development needs of each country, and provide development assistance aimed at poverty reduction while keeping an eye on economic growth, beginning with countries in which it is possible. The challenge for Japan is to make that assistance a success, and to contribute to world trends of development aid.

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65. For example, Ishikawa (2002, pp. 21 & 22) points out that the PRSP, an aid method created by the World Bank, is not accompanied by efforts to meet the unique development needs of each country and to understand the diverse causes of poverty. He also says that Japan should improve its country assistance policies and make suggestions to the World Bank.

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American Aid Policy under the Bush Administration

Masahiko Kiya

The foreign aid policy of the United States underwent drastic changes when the Bush administration took office in January 2001. Changes were expected when the Republican administration took over after eight years of a Democratic administration, but the 9-11 terrorist attacks, nine months after the inauguration, had a significant impact on American aid policy and led to the launch of many new initiatives, including the Millennium Challenge Account (MCA).

Bush administration policies

Reorganization of USAID

Cabinet members in charge of aid policy, including Secretary of State Collin Powell and Secretary of the Treasury Paul O'Neill, were nominated immediately after the presidential election, but new policies (Kiya, 2001, pp.32-33) under them emerged gradually after the nomination and approval of Andrew Natsios as the new USAID administrator in the spring of 2001.¹

Natsios made it clear that aid would be used to achieve diplomatic objectives. He explained that in the post-Cold War world, globalization trends, and increased conflict, aid could play an effective role in achieving diplomatic objectives — more effective in some cases than even military power or diplomatic efforts. He said the USAID administrator follows instructions from the secretary of state.² This stance was recognized as beneficial in gaining the understanding of Congress and the public toward international aid.

Natsios advocated the idea of 'four pillars' — an aid implementation pillar, the Global Development Alliance (GDA), and three program pillars: Economic Growth and Agriculture; Global Health; and Conflict Prevention

Kiya is the first secretary to the Embassy of Japan in the United States.

1. Before assuming the post on May 1, 2001, Natsios was assistant administrator of USAID's Bureau for Food and Humanitarian Assistance, vice president of World Vision, and a high ranking official of the Commonwealth of Massachusetts. His biography is at: http://www.usaid.gov/about/bio_asn.html
2. http://www.usaid.gov/press/spe_test/testimony/2001/an_conf_stmt.html
Also, Powell stated that Natsios is an essential and inseparable member of the State Department family. <http://www.state.gov/secretary/rm/2001/2810.htm>

and Developmental Relief.³ By formulating priority issues in a manner that was easy to understand, USAID tried to improve the effectiveness of its administration and to make them understandable to Congress and the public. This new policy affected the organization and budget of USAID as well. Departments were reorganized or created in line with these pillars,⁴ and the budget was grouped and explained in a way that transcended existing budget items.

The Global Development Alliance is based on a recognition that the resources of USAID are limited and it cannot achieve desired results by itself.⁵ This initiative was launched to target specific development objectives and work with partners such as non-governmental organizations (NGOs), foundations, universities, and private companies. More specifically, USAID would provide seed money and leverage funds and expertise of the private sector.⁶

More grants from IDA⁷

In a speech at World Bank headquarters in July 2001, President Bush proposed that “up to 50 percent of the funds provided by the development banks to the poorest countries be provided as grants for education, health, nutrition, water supply, sanitation and other human needs.”⁸ The US took a hard-line stance in negotiations for the 13th replenishment of the International Development Association (IDA) and was at odds with European countries. (In the end, the issue was resolved in July 2002 with an agreement to have an overall grant element of 18-21 percent.) For the US, the proposal to increase the share of grant aid in IDA was a cost-effective move to limit additional funding and show a favorable stance (higher grant element, consideration for education and health, etc.) toward developing countries at the same time.

3. http://www.usaid.gov/press/spe_test/testimony/2001/ty010508.html

4. The GDA Secretariat was newly created, and existing functional bureaus were reorganized in line with the three program pillars.

5. From what the author heard from USAID at the time of the announcement, this idea came from the rank-and-file of USAID and came to be emphasized because Powell strongly supported it.

6. As a typical example, USAID pointed to the Global Alliance for Vaccines and Immunization (GAVI) which is an alliance of the US government, United Nations, Gates Foundation, Rockefeller Foundation, and International Federation of Pharmaceutical Manufacturers Associations.

7. See Inada (2002) and Ohno (2002) on this topic.

8. <http://www.whitehouse.gov/news/releases/2001/07/20010717-1.html>

Policies after 9-11

Millennium Challenge Account (MCA)

As a result of the 9-11 terrorist attacks, the US began its fight against terrorism on many fronts. This development had a deep impact on the country's perception and policies toward the issues of poverty and development.

The UN Conference on Financing for Development (FfD) was held in Monterrey, Mexico in March 2002. Considering the close relationship with Mexico, the US government prepared for the participation the president himself. Four days prior to the beginning of the conference, Bush announced a new initiative called 'a new compact for development' in a speech at the headquarters of the Inter-American Development Bank (IDB) (Kiya, 2002).⁹ There were two main points:

- The US will increase its core development assistance by 50 percent over the next three years (from FY2004 to FY2006), resulting in a \$5 billion annual increase over current levels.
- The additional funds will go to a new special account called the Millennium Challenge Account,¹⁰ and will be distributed to developing countries that demonstrate a strong commitment toward good governance, human resource development (health and education), and sound economic policies. The secretary of state and the secretary of the treasury will reach out to the world community to develop a set of clear, concrete, and objective criteria to measure progress.

In November 2002, it was announced that the MCA will be managed by a new government agency (Millennium Challenge Corporation, MCC) which in turn will be supervised by a cabinet-level board chaired by the secretary of state.¹¹ Eligible countries, selection criteria (16 indicators in three policy areas), and the evaluation and selection methods were also announced at the same time.

At the beginning of 2003, a bill to establish the MCC was submitted to Congress. In March, Undersecretary of State Alan Larson, Undersecretary of Treasury John Taylor, and USAID's Natsios testified and provided detailed explanations to Congress about the complementary relation between the MCA and existing aid organizations such as USAID. Natsios said that the number of MCA-eligible countries must be small and that

9. <http://www.whitehouse.gov/news/releases/2002/03/print/20020314-7.html>

10. Related information can be obtained at the MCA website: <http://www.mca.gov/>.

11. A fact sheet can be found on the website of the Center for Global Development: http://www.cgdev.org/nv/MCA_FactSheetNov.doc

USAID would continue to play an important role. On the other hand, he said that the role of USAID would be reviewed with the establishment of MCA, and its future operations would be focused on:

- countries that are close to being eligible for MCA;
- medium-achiever countries that have a will for reform;
- insolvent countries that are emerging from a conflict or need humanitarian assistance; and
- countries that need assistance from a strategic and security point of view.

Eligible countries have not yet been selected because selection criteria and indicators are still changing. Also, Congress is deliberating the bill to create MCC, and some amendments may be made.

It is still unclear what kind of impact MCA will have on development. Supporting countries that commit to implementing policies that are good for development and harness their organization and initiatives to the fullest extent are expected to qualify. There are some concerns, however. Would demanding short-term results in terms of detailed indicators lead to sustainable development or hinder it? When a huge amount of aid is poured into a small number of MCA-eligible countries, will they have sufficient absorptive capacity? The realization of MCA is expected to proceed quickly within a few years and various issues and challenges will emerge.

Sector initiatives

Even after FfD, the development issue was an important theme in international conferences such as the G8 summit, the World Summit on Sustainable Development (WSSD), and the World Water Forum. In these meetings the US launched various sector initiatives and stressed substantive efforts over other issues such as the level of Official Development Assistance (ODA) and debt reduction.

Africa and education were the main development-related topics in the G8 Kananaskis summit held in June 2002. On that occasion the US announced the Mother and Child HIV Prevention Initiative (\$500 million in 16 months)¹² and a doubling of funds for the Africa Education Initiative (to \$200 million in five years). The US also revealed its policy toward Africa.¹³

The US also prepared for the WSSD that was to be held in August of the

12. <http://www.whitehouse.gov/news/releases/2002/06/20020619-3.html>

13. A fact sheet of the G-8 Africa Action Plan can be found on the White House website: <http://www.whitehouse.gov/news/releases/2002/06/20020627-10.html>

same year. On May 23, days before the WSSD ministerial preparatory meeting in Paris, Paula Dobriansky, Undersecretary of State for Global Affairs and the head of the US delegation for the meeting, announced a vision statement for the WSSD. It stressed the importance of political and economic freedom, rule of law, good governance, and investments in the areas of health, education, and the environment. US policy would promote concrete actions in six areas — water, energy, health, education, agriculture, and forests and oceans. Powell said he would stress three points at the WSSD — the US is committed to supporting sustainable development; good policies and good governance in developing countries are the key to successful development by harnessing ODA as well as private trade and investments; and development resources must be mobilized by a partnership among governments, civil societies, and the private sector.

In his State of the Union address in 2003, Bush announced the large-scale Emergency Plan for AIDS Relief, a five-year, \$15 billion initiative.¹⁴ Even more sector initiatives were announced, including an initiative to alleviate world hunger and the Water for the Poor Initiative. Since the US has many experts, consultants, and NGOs in these areas and has a large presence in developing countries, these initiatives are likely to be implemented steadily.

Country and regional initiatives

In parallel with these sector initiatives, the US has been launching aid initiatives aimed at individual countries and regions.

Especially important is assistance for Afghanistan and Iraq, which is closely related to national security. The US provided large-scale humanitarian and reconstruction assistance, involving not only USAID but other divisions of the State Department, Department of Defense, and other departments.¹⁵

In light of the necessity to improve relations with the Middle East, Powell announced the US-Middle East Partnership Initiative in 2002,¹⁶ and was also mentioned in a Bush speech on Middle East policy.¹⁷

The US has provided 58 percent of food assistance to North Korea

14. Details of Bush's HIV/AIDS initiative can be found on the White House website: <http://www.whitehouse.gov/infocus/hiv aids/index.html>

15. Many documents about US assistance for Afghanistan and Iraq can be found on the websites of the White House, State Department, and USAID.

16. <http://www.state.gov/secretary/rm/2002/15920.htm>

17. <http://www.whitehouse.gov/news/releases/2003/05/20030509-11.html>

through the UN World Food Program (WFP) since 1995, but has raised the issue of transparency in the use of food assistance.¹⁸

Strategy building

As the US reviewed its national security strategy after the 9-11 terrorist attacks, development was considered a main pillar of that strategy. The National Security Strategy of the United States of America,¹⁹ announced in September 2002, devoted a chapter to promotion of development. It placed poverty reduction as the top priority of US foreign policy and pledged to strengthen its efforts in MCA, increase aid effectiveness of development banks such as the World Bank, promote free trade, and emphasize the health, education, and agricultural sectors.

At USAID, Natsios had the development strategy reviewed by experts and published a report entitled *Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity*²⁰ in January 2003. This document was prepared as a follow-up to a similar report prepared more than 10 years earlier by the then-USAID Administrator Alan Woods. The new report focuses on democratic governance, economic growth, health, conflicts, humanitarian aid, and private sector assistance. The fact that Natsios has mentioned this report on many occasions indicates its strong influence on USAID's policy formation.

The Department of the Treasury has been involved in development through policies toward multilateral development banks. With the recent surge of interest in development issues and the significant budget increase for MCA, the Treasury Department is deepening its involvement. O'Neill's visit to Africa can be cited as an example. He was replaced by John Snow this year but that replacement apparently did not bring substantial policy changes.²¹

Significance for Japan

What do these changes in the US aid policy mean for Japan? What kind of policy response is required? Three main points are examined below.

18. <http://www.usaid.gov/press/speeches/2003/ty030225.html>

19. White House (2002)

20. USAID (2001) <http://www.usaid.gov/fani/>

21. Secretary of the Treasury John Snow testified before Congress on April 30, 2003, but he adhered to the existing policies (<http://www.treasury.gov/press/releases/js334.htm>)

Part of national security strategy

The 9-11 terrorist attacks had a tremendous effect on aid policy and many other policy areas. Development was positioned as part of the security issue in relation to terrorism. This perspective was reflected in specific actions such as the MCA and confirmed by The National Security Strategy.

In working with the US in its aid policy development, Japan needs to always consider the US concern for its national security strategy; foreign aid can play a significant role in post-conflict reconstruction and consolidation of peace. It is also relatively easy for Japan to produce results in these areas by cooperating with the US in a complementary and synergistic way. In addition, Japan can effectively use the 'human security' approach it is promoting. The Japanese government is expected to keep close contact with the US, especially in its assistance to Afghanistan and Iraq, as well as Sri Lanka and Aceh.

Results orientation and selective provision of aid

The 'results-oriented' approach is an underlying philosophy of new policies under the Bush administration such as MCA and more grants from IDA. This approach is also seen in areas other than development, for example, in domestic education policy. The approach has become one of the trends in the global discussion on development, and the US has been its main advocate.

With MCA, the administration is promoting better policies in developing countries and explicitly tied aid to progress. This approach may provide a good incentive to developing countries, but it may also fail to consider real conditions in developing countries or could be applied arbitrarily. Care must be taken for developing countries that do not have sufficient capacity.

Japan should engage in a constructive dialogue with the US so that its new aid policy will be implemented effectively to further the cause of development. In a results-oriented approach, it is important to ensure the initiative and ownership of developing countries. With selective provision of aid, it is important to ensure that political consideration will not override other factors and pay attention to development of countries deemed ineligible. In addition, Japan will probably be able to learn much from the results-oriented approach of the US in terms of increasing the effectiveness of Japanese aid.

Good governance, human resource development, and sound economic policies

The aid policy declared in the MCA — an emphasis on good governance, human resource development, and sound economic policies — is likely to have broad influence not only on the implementation of MCA but also on aid implementation of various US agencies, including USAID.

Emphasizing these factors to realize economic development is somewhat similar to the aid philosophy of Japan, and this similarity makes it possible for the two countries to align their policies. It is desirable for Japan to promote its partnership with the US in policy coordination and specific cooperation at donor meetings in developing countries.

Appendix: Aid trends of the United States since the 1990s

Mari Yamauchi

The amount of American ODA declined until the mid-1990s, but has been rising since then. After it was surpassed by Japan in 1989 and until 2000, the US was either number two or three in terms of development aid among the member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). The actual ODA amount in 1990 was \$10,194 million (Fig 4-9). In 1997 it fell to the lowest level throughout the 1990s at \$6,168 million. ODA has been increasing steadily since then, and the US again became the largest donor among the DAC member countries by spending \$11,429 million in FY2001. This was an overwhelming figure considering that Japan (second place) allocated \$9,845 million and Germany (third place) \$4,990 million. Moreover, at FfD held at Monterrey, Mexico in 2002, Bush announced that aid would increase by \$5 billion over three years beginning in FY2004 (FASID, 2002). This move was influenced by the 9-11 terrorist attacks. Since then, the US has emphasized poverty reduction as a core of its foreign policy based on the recognition that poverty breeds terrorism. In light of these factors, aid is likely to keep increasing.²²

US development assistance as a percentage of GNP declined markedly

Yamauchi is a junior program officer at the International Development Research Institute, FASID.

22. Both the government and the American public became more supportive of aid increases after 9-11. For example, 64 percent of the public supported the reduction of ODA in 1995, but the figure dropped to 40 percent in 2001. (http://www.socwatch.org.uy/2002/eng/national%20reports/usa2002_eng.htm)

during the 1990s, but then slightly increased toward the end of the decade (Fig. 4-10). ODA was 0.19 percent of GNP in 1990, but declined until 1995 to 0.1 percent. It rose slightly in 1996 (to 0.12 percent) but fell again in 1997 to 0.08 percent. It has been stable at 0.1 percent since then. In comparison to other DAC member countries, the US allocation as a percent of GNP is very low. It ranked 21 among the 22 DAC member countries in 1997 and 1998, and fell to last place in 1999. As discussed earlier, however, the US is moving forcefully to increase its aid allocation since the FfD. If the stated

Fig. 4-9. Changes in US ODA, 1980-2001

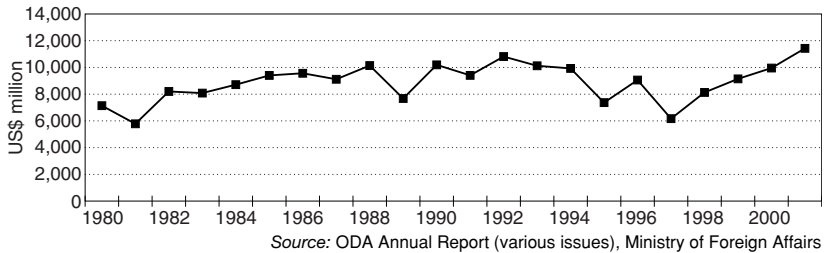


Fig. 4-10. US ODA as a percentage of GNP, 1980-2000

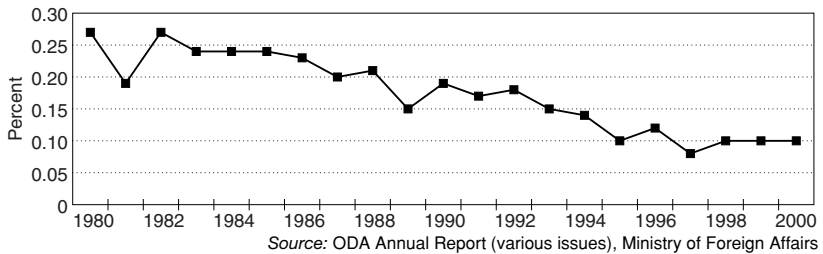
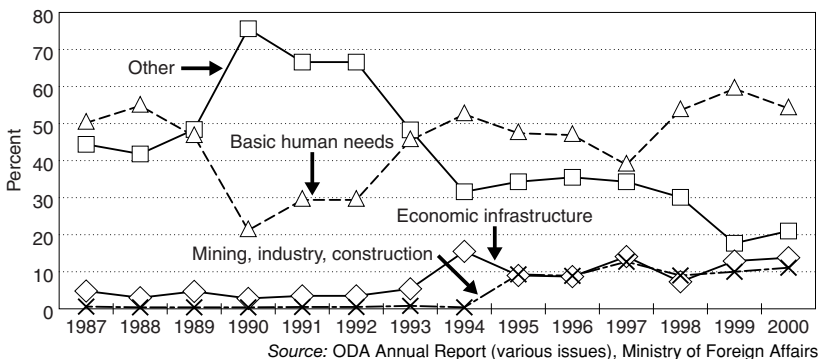


Figure 4-11. Sector distribution of US ODA, 1987-2000



policy is implemented, ODA will rise in stages to about 0.15 percent of GNP (FASID, 2002).

Allocations to basic human needs (BHN) are increasing, while the amount allocated to 'Other'²³ is decreasing (Fig. 4-11). In 1990, the Other category accounted for more than 70 percent and BHN slightly over 20 percent, but in 1993 the positions reversed and the difference between the two categories has widened since 1998 to 33.5, 41.7 and 33.1 percent in 1998, 1999, and 2000, respectively.

One possible reason is a series of US commitments to social development. Under the Clinton administration, Vice President Gore announced the New Partnership Initiative.²⁴ USAID set poverty reduction goals²⁵ in order to act on the DAC's New Development Strategy that was announced in 1996. One of these goals was to enhance assistance for basic and higher education as part of human capacity building. Indeed, 85 percent of all strategic goals in the education area were related to basic education. Also, the US has focused much effort on combating infectious diseases; its activities in this area are said to be the most influential in the world (Kobayakawa, 1998, p. 45). In addition, USAID is an early pioneer in the area of democracy and governance; it began to provide assistance in this area in the 1960s. Under the Clinton administration, one of USAID's six strategic goals²⁶ was related to democracy and governance.²⁷ A possible cause for the decrease of the Other category is debt relief, which declined more than other items in this category. The share allocated to debt relief declined from 57.1 percent in 1990 to 30 percent in 1992 and then to 7 percent in 1993.²⁸ The Bush administration took office in 2001 and announced its intent to provide

23. The 'Other' category includes multi-sector aid (environmental protection and supporting women in developing countries, etc.), structural adjustment assistance with the World Bank and IMF, other program aid, debt relief, and administrative expenses.

24. This initiative aimed to achieve sustainable development by focusing more at the grassroots level, coordinating with central government policies, and enhancing the capacity of civil societies in developing countries (Ministry of Foreign Affairs, 1996).

25. One of the five development strategic goals announced in 1996 was to encourage 'broad-based economic growth', which included poverty reduction. In response to DAC's New Development Strategy, USAID set a target of reducing the poor population in developing countries to one-fourth of the original level by 2007.

26. Six strategic goals: 1. Achieve broad-based economic growth; 2. Establish stable democratic institutions; 3. Stabilize world population and protect human health; 4. Long-term and stable environmental management; 5. Respect for human life and emergency relief; 6. Build human capacity through education and training.

27. USAID is active in areas such as the rule of law and respect for human rights in nearly 90 countries.

28. Statistics are taken from the DAC Journal report of each year. Statistical figures on debt relief are not available for 1994 and thereafter.

strong assistance after the 9-11 terrorist attacks for social development, especially the education, health, and governance sectors.²⁹ Considering these factors, the US is likely to increase its assistance in BHN and related areas.

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29. The National Security Strategy of the USA, Sept. 2002, emphasizes primary education in African countries and improved teacher training and pledges to increase education assistance by at least 20 percent.

Trends in European Development Aid

Mari Yamauchi

Common features of European official development assistance

European countries share two major characteristics in their development assistance, although there are differences in how these commonalities manifest themselves.

The first feature is that European countries are increasingly looking to overhaul their aid policies and systems for two reasons — the end of the Cold War, which was an important factor in aid policies since the end of World War II, and the effects of the prolonged global recession of the late 1990s. With a few exceptions,¹ the amount of Official Development Assistance (ODA) and the percent of Gross National Product (GNP) allocated as ODA are generally declining. In such an environment it is quite natural for European countries to rationalize and streamline their aid. Specific efforts include staff reduction and reorganization of agencies that make and implement foreign assistance policies. Aid trends are shifting from project assistance to a more comprehensive approach that emphasizes ownership of and partnership with recipient countries, as well as employing Poverty Reduction Strategy Papers (PRSPs) and sector programs.² European donor countries are attempting to increase their presence in the field by establishing new field offices and delegating authority. Furthermore, they began to select priority recipient countries to produce more meaningful effects from their generally shrinking ODA.³ European countries are responding to the changing international environment by revamping their aid through these and other measures.⁴

The second common feature is an increasing importance of development assistance goals such as poverty reduction, promotion of democracy and human rights, conflict prevention, and environmental protection. In follow-

Yamauchi is a junior program officer at the International Development Research Institute, FASID.

1. See Kiya (2001), for example.
2. Sector project assistance requires dialogue with and organization of the recipient countries.
3. Sub-Saharan African countries are generally included in the list of priority recipient countries.
4. There are also ambitious plans to reverse the declining trend of development aid. Some plans advocate additional spending of domestic funds as well as some innovative thinking. In UK, a scheme called International Finance Facility (IFF) was proposed in January 2003. It would involve other developed countries and increase the amount of annual development aid from \$50 to 100 billion by 2015.

ing this development aid policy, European countries are trying to meet the basic human needs (BHN) that include primary education, primary health care, safe drinking water, and sanitation. In fact, if we divide development assistance into the sectors of economic infrastructure, social infrastructure, production, and others, the social infrastructure sector gained a large share of European ODA throughout the 1990s. For the 17 European countries that are members of the Development Assistance Committee (DAC), the average share of social infrastructure in total ODA was approximately 37.5 percent in 2000.⁵ In addition, many European countries are devoting a larger share of their aid to reducing poverty following the DAC's adoption of the New Development Strategy in 1996 and the subsequent announcement of the Millennium Development Goals (Ohno, 2000).

We now examine ODA trends in three countries — United Kingdom, France, and Germany.

UK development assistance since 1990

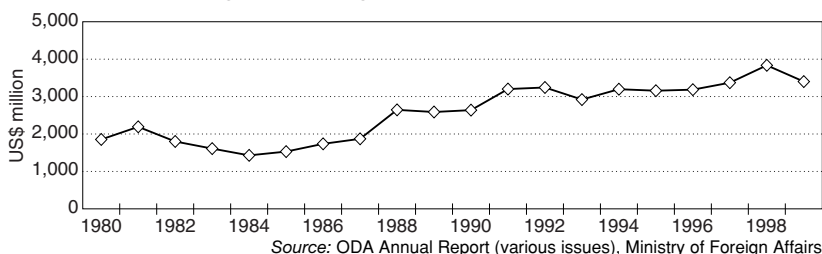
The fall of the Berlin Wall in 1989 and the subsequent end of the Cold War had a tremendous impact on the direction of international development assistance. During the Cold War, the Western and Eastern blocs exploited their aid policies to benefit their respective allies. After the Cold War, countries began to show a willingness to tackle global issues together. The United Kingdom was no exception. As the importance of increasing aid and economic, political, and social development grew, British ODA increased throughout the 1990s, and investments in social infrastructure claimed a consistently large share. Looking at the statistics, UK foreign aid policies seem to have shifted in concert with the international trend of development assistance, but there have been more than superficial, revolutionary changes in the past 10 years. This transformation seems to provide a new perspective for the future of Japanese bilateral ODA. In the 1990s, the Conservative Party led by John Major was replaced by the Labor Party led by Tony Blair. Although both administrations declared that the objective of international development assistance is poverty reduction, they adopted different approaches. Here we examine changes in the volume and sector allocation of UK international aid, aid orientation of the two parties, and future issues and outlook.

5. DAC Development Cooperation Report. In Japan, social infrastructure constitutes 23.6 percent of ODA, while economic infrastructure accounted for about 37.5 percent from 1995 to 2000.

Changes in the volume and sector allocation of UK's international aid

Throughout the 1990s, the volume of British ODA increased consistently (Fig. 4-12). Beginning at \$2,647 million in 1990, it reached a peak at \$3,835 million in 1998. In 1999, UK was fifth among the DAC member countries in aid allocations after Japan, the United States, France, and Germany. Clair Short, Secretary of State for the Department for International Development (DFID), said that the British government would further increase its aid in order to halve the number of the poor in the world by 2015.⁶ It is quite possible that UK will increase the total amount of its aid in the future.

Fig. 4-12. Changes in UK ODA, 1980-1999



On the other hand, ODA as a percent of GNP was on a downward trend after peaking in 1991 at 0.32 percent, and then fell to 0.23 percent in 1999 (Fig. 4-13). This downward trend, despite the increase in aid volume, was probably due to the continued expansion of British the economy that remained relatively healthy during this period (Ohno, 2000). The goal of increasing the percent of ODA may still be achieved in the long run.

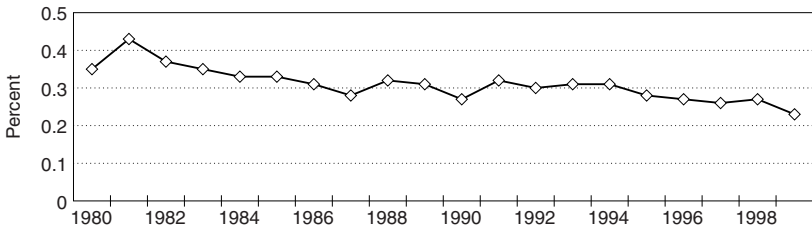
The 1997 White Paper on International Development endorsed the UN target ratio of 0.7 percent as the official target of the UK. In addition, the Labor Party administration said in 1997 that it would be possible to increase the ODA budget beginning in 1999 (OECD/DAC, 1997b, p. 10). In fact, in 2000 ODA increased slightly over the previous year to 0.32 percent. Furthermore, the government has a plan to increase it to 0.33 percent in 2003 and to 0.4 percent in 2006.⁷ Considering these statements and official plans, UK's ODA percent of GNP is likely to increase in incremental steps.

If we divide UK's aid allocation into four broad sectors, basic human

6. <http://www.dfid.gov.uk/News/PressReleases/files/pr15july02.html>

Clair Short resigned in March 2003.

7. UK Department of Trade and Industry (2001), p.17.

Fig. 4-13. UK ODA as a percent of GNP, 1980-2000

Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

needs (BHN),⁸ industry/construction, economic infrastructure services, and 'other', the BHN sector maintained a large share throughout the 1990s (Fig. 4-14). One characteristic of this period is that the BHN sector constantly received a higher share than the economic infrastructure sector. In 1990, economic infrastructure services and BHN had similar shares of 24.1 percent and 26.3 percent, respectively. But the share of economic infrastructure services began to decline, and went as low as 10.9 percent in 1998. On the other hand, the share of BHN began to increase after 1990 to over 50 percent in 1994. Although it has declined moderately since then, the share remained at a high level of 41.6 percent as late as 1998.

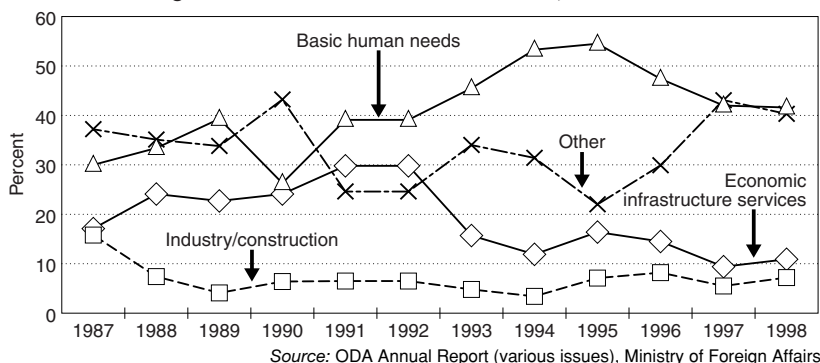
These numbers show that the UK government is emphasizing social development (education, health care, etc.) rather than economic development. The Blair administration that took power in 1997 said that its development assistance policy would be based on the New Development Strategy of DAC.⁹ It also expressed strong support for the UN Millennium Development Goals¹⁰ that reinforced the New Development Strategy. This history indicates that the British government is likely to continue its focus on social development.

Comparing the number of specialists in various areas in an aid agency in 1990 and 1997 (DFID and the Overseas Development Administration [ODA], the forerunner of DFID) also reveals the UK commitment to social

8. Categorization in the ODA White Paper. According to the DAC's categorization, BHN includes education, health care, population planning, public administration, and development planning in the social infrastructure sector, and agriculture, food aid, and emergency aid in the production sector (Utsumi, 2001, p. 39). Note that BHN as defined in the ODA White Paper includes all items in the social and administrative infrastructure category of the DAC Journal. In other words, it includes items other than primary education and primary health care. However, the Aid by Major Purposes section of the DAC Journal reveals that the UK is in fact emphasizing primary education and primary health care.

9. Gender, primary health care, education, good governance, the environment and other issues are considered important.

10. http://www.worldbank.or.jp/03agenda/05mdg/mdg_top.html

Fig. 4-14. Sector distribution of UK ODA, 1987-1998

development. According to Development Cooperation Review Series United Kingdom, 1997 of the DAC, the number of economists increased from 35 in 1990 to 49 in 1997, an increase of 40 percent. Meanwhile, specialists in the social development area increased more than five-fold, from six in 1990 to 32 in 1997. Education specialists more than doubled from seven to 16, and health and population planning specialists increased five-fold from eight to 40.

Another notable feature of Fig. 4-14, the sector allocation of ODA, is the rapid expansion of the Other category. It represented 22 percent of total ODA in 1995 but increased to 40.3 percent in 1998 and has maintained a share similar to the BHN sector since 1997. According to the ODA White Paper, the Other category includes trade and tourism, other program aid, debt relief, administrative expenses, and support for structural adjustment with the World Bank and International Monetary Fund (IMF). The first probable cause of the rapid increase of this miscellaneous category is recent debt relief for the poorest countries. UK has been emphasizing debt write-off and other debt relief measures for heavily indebted countries, and strongly advocated for a related proposal at the 1999 Cologne Summit. Domestically, Short actually pledged an additional £300 million to reduce the debt of African countries.¹¹ These facts suggest that UK financial assistance for debt relief may be increasing rapidly. Moreover, UK is showing a tendency to emphasize aid to support structural adjustments together with the World Bank and IMF, according to *Eliminating World Poverty: A Challenge for the 21st Century*. Considering this tendency and the fact that

11. Pledged in 1998 (DFID website).

the share of program assistance in British bilateral aid has reached 20 percent, it is probably safe to say that this factor is also contributing to the rapid increase of the Other category.

Change of administration shifts aid strategies

ODA UPGRADED TO DFID HEADED BY A SECRETARY OF STATE. Under the Conservative Party until 1997, UK development aid was handled by the Overseas Development Administration (ODA). Under Prime Minister John Major, the objective of aid policy was to “improve the quality of life of those who live in poor countries through the contribution to poverty reduction and sustainable development.” It remains doubtful, however, whether the administration promoted poverty reduction vigorously (Wilmschurst, *et al.*, 1992, p. 1). After coming to power in May 1997, the Labor Party emphasized poverty reduction among many development issues (International Development Journal, 2002, Nov., p. 57). For the first time in 20 years, the administration published a white paper that serves as a development assistance guideline. The white paper began with a commitment to “focus the efforts of development assistance on eradication of poverty and promotion of economic growth that benefits the poor” and declared the government’s intention to enhance its efforts on poverty issues. In addition, the new administration reorganized the ODA, which was affiliated with the Foreign and Commonwealth Office, into the more independent DFID. This upgrade was designed to ensure the coherence of development aid policies and strengthen and improve agency efficiency. The increasing number of DFID employees and foreign offices (Ministry of Foreign Affairs, 1992) suggests that UK’s commitment to developing countries is likely to be maintained.

RAISING THE FLAG. UK is trying hard to introduce a ‘common basket’ approach in Africa and involve other donor countries in the process.¹² This approach abolishes the traditional project aid in which donor countries build schools and hospitals, for example. Instead, donors transfer funds to a common account, and these funds are used as a part of the national budget to implement poverty reduction programs based on the initiative of the recipient country. Because UK is pushing this approach in its former colonial states where it commands a large presence, it is difficult to believe this approach emerged from the urge to cooperate with other donors and pro-

12. Aiichiro Yamamoto, Resident Representative, JICA UK Office.

mote poverty reduction in earnest rather than its desire to pursue its own national interests (increasing the UK presence by ‘raising the flag’).¹³

This approach, however, may be supported by critical reflection on traditional aid methods.¹⁴ The conventional method of project aid tended to bring too many aid organizations and projects to one country, which caused serious problems in Africa such as inefficiency, stretching of the recipient’s resources, and aid dependency. In addition, the aid community could not solve or even mitigate poverty despite the increased amount of aid and began to discuss such issues as the diversion of aid funds and corruption. That is why some donor countries and organizations have decided to coordinate their interests by pooling funds in a common account and using them for activities based on sectoral strategies that are agreed upon by donors and the recipient country. If this sector approach really contributes to poverty reduction, UK may win the trust of developing countries, which could lead to its true national interests.

ABOLITION OF THE AID & TRADE PROVISION (ATP) SYSTEM.¹⁵ In the UK, the long rule of the Conservative Party strengthened the idea that economic aid must benefit its own economy, and a system called ATP was established based on this thinking. The Labor administration abolished this system and fostered a consensus among the public that the objective of aid is to reduce poverty in developing countries.

INCREASE IN UNTIED AID RATIO. In principle, UK provides all of its ODA in the form of grants, but procurement sources were often limited to British companies and products. As a result, UK untied bilateral aid was 35.2 percent, one of the lowest in DAC member countries. Untied aid began to increase under the Labor administration, and reached 79.6 percent in 1998, ninth place among DAC member countries. Thereafter, Short said that tied aid can lead to inefficiency with the proliferation of incompatible technology and administrative systems in developing countries¹⁶ and announced that from April 2000 UK development assistance would be fully

13. <http://www.grips.ac.jp/forum/britain/2.htm> (Aiichiro Yamamoto, Resident Representative, JICA UK Office)

14. Japan International Cooperation Agency Institute for International Cooperation, 2001. Sector programs are also one way to increase ODA.

15. ATP was a fund within the aid budget specially allocated to financial and technical assistance for projects that were expected to benefit British industries. It started in 1977 as financial assistance to British companies for their participation in international bids. Addition of a new facility of soft loans as a part of this system was announced in 1987 (Ministry of Foreign Affairs, Japan, 1992)

16. http://www.dfid.gov.uk/News/PressReleases/files/pr11_1dec00.html. The statement includes an analysis that untied aid would increase the efficiency of British aid by 25 percent.

untied.

PREPARATION OF BASIC POLICY FOR DEVELOPMENT AID.

The International Development Act came into force in June 2002. It replaced the Overseas Development and Cooperation Act of 1980 under the Conservative administration. The latter became inadequate for the new UK aid strategy. The new Act clearly stipulates the objectives and means of UK ODA—the most important objective of development aid is to promote sustainable development or to improve the welfare of mankind, and aid can be provided as far as there is a sufficient possibility that it will contribute to reducing poverty.¹⁷ The objective of ODA is poverty reduction and is clearly distinguished from diplomatic and trade policies. This stipulation made it possible to prevent the distortion of development aid policies by political judgments and to pursue specific objectives with a more coherent approach.

The Act has several other noteworthy features. It gives authority to the secretary of state for international development to use public funds for certain objectives, for example, it is permissible to tie development assistance to the implementation of poverty reduction strategies by the recipient country. The British government seems to have shown its commitment to accomplish development goals by giving great legal authority to the secretary of state and by allowing conditions at the time of aid provision.

How did this series of spirited movements toward poverty reduction become possible?

First, UK seems to have abandoned a narrow framework of development aid in which short-term, direct benefits were pursued, and adopted a wider framework in which long-term, indirect benefits are the goal. The thinking appears to be that promoting development in the medium-term will lead in the long-term to increased sale of British goods to these countries and a better business environment for British firms. Ultimately, this could expand trade and markets (DFID, 1997). In addition, there seems to be an understanding within the government that helping developing countries will contribute to the long-term security of UK.¹⁸ Certainly, the Asylum and Immi-

17. This principle does not apply to humanitarian aid or to aid to multilateral development banks. On the other hand, aid is not allowed even if it has derivative effects on poverty reduction unless it promotes sustainable development or welfare of mankind. For example, assistance to protect gorillas would not be allowed because humans are not the primary target. Similarly, tied aid is not allowed because it is mainly for British companies and does not contribute to poverty reduction. If a program is designed to bring economic benefits to residents of a certain area through promotion of tourism or protection of extremely important resources, it would be allowed under the law. See http://62.189.42.51/DFIDstage/PolicyAndPriorities/ida/ida_funding.htm for details.

18. Information obtained from the British Embassy in Japan.

gration Act of 1999 is evidence that the refugee issue is recognized in UK to be a serious social problem. The growth and stability of developing countries could help mitigate problems associated with refugees from Africa and the Middle East.

Second, British NGOs have likely influenced these movements. As with any other country, UK ODA is financed by its taxpayers. Therefore the goal of poverty reduction must be connected to national interests in order to obtain public support. How did the public accept the national interests we discussed above, those which can be obtained only in the long-term? At this point, there seems to be more ethical thinking rather than the idea of national interests. British NGOs¹⁹ have the knowledge and experience with developing countries based on their longstanding activities. They use the network that grew out of such activities and communicate the miserable conditions of developing countries to British citizens and politicians through their campaigns, which is an important function of NGOs. Through such campaigns, the status of developing countries is entrenched in the awareness of the British people. In a country in which more than 70 percent of the people think that poverty reduction is an ethical issue, perhaps because of Christian traditions and the collective guilt over the past colonial rule,²⁰ the acceptance of the development goal of poverty reduction expands with awareness of the status of developing countries.

A third reason is the Labor Party's compassion for the poor and the enthusiasm of Clair Short. Protection of the weak is a long-standing policy of the Labor Party, and has not changed since the Blair administration adopted the so-called Third Way orientation. In addition, Short has consistently focused her political activities on the issues of human rights, minorities, women, the environment, and development ever since she became a member of Parliament under the Labor Party.²¹ Some even call her the 'conscience of Britain', referring to her passion for poverty reduction.²² We probably cannot ignore the presence of such a passionate, charismatic leader as a factor that made the reform of the development aid system possible.

19. Save the Children, Oxfam, Amnesty International, and many others.

20. Aiichiro Yamamoto, Resident Representative, JICA UK Office. In addition, Prime Minister Blair and the Secretary of State for International Development have stated that assisting the poor is a moral obligation (Slater and Bell, 2002, p. 342).

21. Aiichiro Yamamoto, Resident Representative, JICA UK Office.

22. Aiichiro Yamamoto, Resident Representative, JICA UK Office.

Future issues and outlook

Moving toward a goal of poverty reduction, UK seems to have become a leader of the international development aid community in recent years.²³ The most important change is probably that the independence of DFID from the foreign ministry and the enactment of the International Development Act made it easier to meet aid-related needs.

However, even though the issue of poverty reduction strikes a chord with the British public, it would be difficult to expand ODA unless it actually contributes to reducing poverty. For this reason, UK strategically selects the countries and territories to which aid is provided. First, most of the top 10 aid recipients for the past three years are former British colonies, an indication of a strong association between UK development aid and former colonies.²⁴ Another selection method is the global trend to tackle poverty reduction by using a method called a Poverty Reduction Strategy Paper (PRSP), which is strongly promoted by the World Bank. UK is no exception, and is focusing its support on countries that are likely to show visible results and share Western values such as Tanzania, Ghana, and Uganda.²⁵ In India and China, UK has selected areas that are likely to produce good results such as Kerala in India, and is increasing its leverage by involving other large donors.²⁶

Herein lie the problems for UK. In some cases emphasizing ties with former colonies is incompatible with the goal of poverty reduction. Although UK is helping India with its a large share of the population in poverty, Kerala is famous for its high literacy rate and successful family planning projects. In other words, there is a structure that makes it difficult for UK aid to reach those who need it most. Accountability to the public and the goal of poverty reduction are both important. One of UK's future issues is how to achieve them at the same time.

In addition, there is the issue of partnership. UK has stated its intention to strengthen partnerships with developing countries. Partnership sounds good because it suggests an equal footing, however, as is frequently pointed out, it can also be interpreted that developing countries do not have access to aid unless they accept UK development philosophy and methodologies

23. On the other hand, we should also note that there are some doubts as to whether the UK disregard for infrastructure really leads to a sustainable development of poorer countries.

24. DAC Journal Development Cooperation, 1999/2000a/2001a Report

25. Aiichiro Yamamoto, Resident Representative, JICA UK Office.

26. Aiichiro Yamamoto, Resident Representative, JICA UK Office.

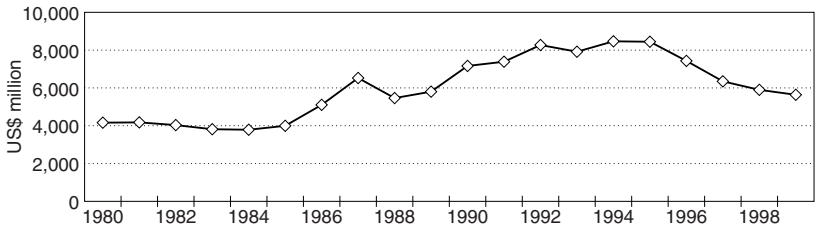
(Slater and Bell, 2002). Furthermore, the International Development Act legalized setting conditions prior to granting aid. The issue of how to incorporate the opinions of developing countries into its poverty reduction plans will become an important challenge for UK.

French development assistance in the 1990s

The French development aid system was created in 1960. Since then, French aid diplomacy has shown two characteristics. Because of its history, France has maintained a sense of community with its former colonies, which are mainly African countries. For this reason its development aid is naturally focused on these countries. The second characteristic is that because French is the official language of its former colonies in Africa, France has been trying to maintain and expand the influence of French language and culture. For a long time, these two lines of French diplomacy remained mostly unchanged through changes in administration. In fact, even after African countries lost their strategic and geopolitical significance due to the end of the Cold War and other donors began to cut back their aid to Africa, France is still advocating its importance and continuing to provide aid to Africa. After the announcement of DAC's New Development Strategy in 1996, the tide of global aid turned toward poverty reduction as the ultimate goal, and the subsequent Millennium Development Goals gave even more momentum to that movement. Against this background, how will France reconcile its long-standing objectives of aid diplomacy with the global trend of aid? And how will France develop its own, new aid diplomacy? Here we examine French aid strategy by looking at changes in the volume and sector allocation of French development aid; the relationship between French aid policies in the 1990s and the goal of poverty reduction; and future issues.

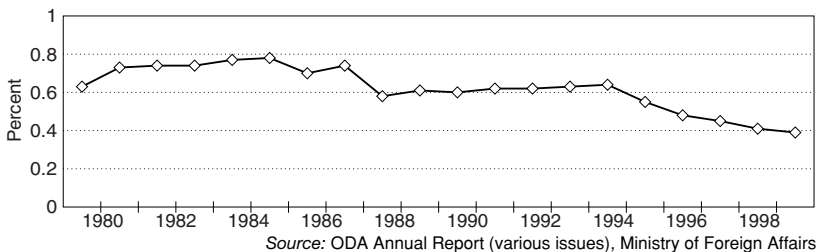
Changes in the volume and sector allocation of French development aid

French aid in the 1990s increased until 1995 when it peaked and then began to decrease somewhat rapidly (Fig. 4-15). The peak was \$8,440 million in 1995; France ranked second among DAC member countries after Japan. However, aid volume began to decrease as a reflection of fiscal difficulties to \$5,637 million in 1999 and \$4,221 million in 2000. Because other DAC member countries cut back their aid in a similar manner, France was still number three in terms of aid volume in 1999, retaining its status as a major donor. World leaders at the 2001 Genoa Summit recognized the important

Fig. 4-15. Changes in French ODA, 1980-2000

role of ODA to reduce poverty, but did not set quantitative goals for specific budgets.²⁷ French President Chirac promised to increase ODA budgets at the UN Conference on Financing for Development.²⁸

As with its aid volume, French ODA as a percent of GNP is also on the decline (Fig. 4-16). In the 1980s France was a model country that firmly maintained the UN target of 0.7 percent. The percentage was still at the high level of 0.63 percent in 1992 and 0.55 percent in 1995. Although below 0.7 percent, these numbers are noteworthy considering that the 1995 average of DAC member countries was 0.27 percent. The percentage began to decline in 1994 until now, despite Mitterand's acceptance of the international target of 0.7 percent by 2000 at the UN Conference on Environment and Development in 1992 (Ministry of Foreign Affairs, 1992). The figure was 0.48 percent in 1996, 0.39 percent in 1999, and fell further to 0.32 percent in 2000. At the Johannesburg Summit in 2002, however, Chirac announced his commitment to "increase the total amount of ODA to 0.7 percent of GNP within the next 10 years" (FASID, 2002). In the same year, the French government planned to increase its ODA to 0.5 percent of the Gross National Income by 2007 and 0.7 percent by 2012. It will be interesting to

Fig. 4-16. French ODA as a percent of GNP, 1980-1999

27. <http://www.diplomatie.gouv.fr/actual/declarations/bukketins/20010725.gb.html>

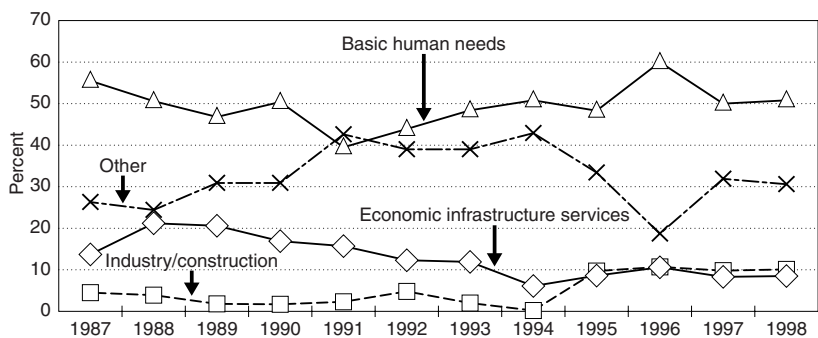
28. http://www.ambarfrance-jp.org/japanese/info_generales_i/decla_office_jp/johannesburg

see if these goals are achieved.

Turning to sector allocations, a large portion of French aid was devoted to BHN during the 1990s (Fig. 4-17). The shares of economic infrastructure services and BHN moved in opposite directions — while the BHN sector rose until 1996, the economic infrastructure sector declined until the same year. In 1996 the share of BHN reached 60 percent, about six times larger than the economic infrastructure sector, declined thereafter, but is still above 50 percent. It is instructive to note that France focuses its bilateral aid on the social sector that includes education and health care, but actual programs are different from those of other donor countries.

Japanese BHN aid for education includes both primary and higher education, but in France higher education is emphasized. According to *Development Cooperation Review of France*, France provides very little aid to the basic social sector including primary education and primary health care, the importance of which is recognized by the MDGs. Most of its educational aid is aimed at high schools and universities, especially at students who study in French universities. Within the health care sector, the emphasis is placed on measures against infectious diseases²⁹ with a special focus on medical studies and treatment. France distances itself from other donors that focus on primary health care and reproductive health (Kobayakawa, 1998, p. 54). Although it is not absolutely clear, these tendencies may be designed to expand the influence of France. They may be an indication of the low priority placed on poverty reduction in its development assistance policies, especially if we consider the French government's belief that its technical

Fig. 4-17. Sector distribution of French ODA, 1987-1998



Source: ODA Annual Report (various issues), Ministry of Foreign Affairs

29. Actions against AIDS receive a special emphasis as well as an increasing budget (Kobayakawa, 1998, p. 55; Ministry of Foreign Affairs, France, 2001, p. 29).

assistance increases its presence (Ministry of Foreign Affairs, France, 2001, p. 41). French BHN assistance is not necessarily devoted to the items touted in the Millennium Development Goals.

Reform of French aid implementing agencies and aid objectives

AID POLICIES. Principles of French aid policies can be found in a 1996 memorandum to the DAC. This document states that “France emphasizes democratic governments, human rights, poverty reduction and sound resource management in the continuously evolving dialogue with developing countries. With regard to ODA, many new priority items have been added to the traditionally emphasized sectors (agriculture, education, health care, culture, etc.). They are the environment, institutional development and poverty reduction. Debt restructuring is also an important issue” (OECD/DAC, 1997a, p. 11). France has gone one step beyond promoting democratic governments, and announced at La Baule Franco-African Summit in 1990 its intention to adjust the level of bilateral cooperation in accordance with progress in the areas of democracy and human rights.³⁰

In 1998, the Jospin left-wing coalition government — which came into power in 1997 — implemented reformed development aid to rationalize its assistance and reduce poverty and inequality within the framework of sustainable development. At that time, the Ministry of Foreign Affairs defined six basic objectives of the development cooperation strategy:³¹

- Exercise of civil rights in democratic organizations through establishment of the rule of law and democratic principles;
- Realization of economic sovereignty through fundamental strengthening of the economy and competitiveness;
- Reduction of poverty through introduction of education systems that conform to the reality of the country and modernization of social assistance systems;
- Support for urban development and decentralized initiatives;
- Management of the human environment and natural resources; and
- Promotion of culture that is central to evolving societies.

In addition, France also pays attention to the importance of ownership and partnership. Judging from the content, these objectives seem like a reconfirmation of the previous statement in 1996. Although some countries

30. <http://www.diplomatie.gouv.fr/france/gb/politiq/06.html> However, there is a double standard because it is difficult to stop aid to the francophone region.

31. http://www.oecd.org/oecd/pages/document/print_template/0,3371,EN-document.

have determined that poverty reduction is the ultimate goal of development assistance, France may continue to have multiple objectives for its aid.

REFORM OF AID IMPLEMENTING AGENCIES

Ensuring the coherence of aid policies. In February 1998, the left-wing coalition government led by Jospin began reforms that aimed to further rationalize aid implementing agencies that had earlier undergone reforms when the Chirac administration came into power in 1995. This newer reforms were based on four principles —reinforce the deployment and integrated coordination of French aid activities; improve the efficiency of aid and modernize its practice; promote partnerships; and foster the understanding of French development aid and increase the participation of civil society.³²

As one of the main changes, development aid was largely divided between the Ministry of Foreign Affairs and the Ministry of Economy, Finance and Industry. These two ministries were charged with defining, managing, monitoring, and evaluating aid policies and projects. Before the reforms, the Ministry for Cooperation and the Ministry of Foreign Affairs were responsible for different regions and projects. To ensure coherence for all diplomatic issues related to international cooperation,³³ the Ministry for Cooperation became a part of the foreign ministry. Services of the Ministry for Cooperation and the Ministry of Foreign Affairs were integrated under the jurisdiction of the Directorate General for International Cooperation and Development (DGCID). The Ministry of Economy, Finance and Industry is mainly in charge of loan assistance. Its aid funds are concentrated mainly in 15 emerging countries³⁴ to promote exports by French companies.

Reinforcing implementing agencies. An important step in this area was the establishment of French Development Agency (AfD) in 1999, which is now a main implementer of development aid and jointly managed by the Ministry of Foreign Affairs and the Ministry of Economy, Finance and Industry. It became a more comprehensive aid implementing agency by taking over some operations from the Ministry for Cooperation such as providing loans for health care, education, and other social infrastructure in addi-

32. La Lettre de L'institut des Sciences Et Des Techniques De L'équipement Et De L'environnement Pour le Développement No. 13, April 1999.

33. Web site of the Ministry of Foreign Affairs of France: Chapter III-Innovating through French cooperation

34. For fiscal year 1998, they were South Africa, Brazil, China, Colombia, Egypt, India, Indonesia, Kazakhstan, Lebanon, Morocco, the Philippines, Thailand, Tunisia, Turkey, and Vietnam.

tion to loans for economic and transportation infrastructure. AfD designs and implements individual projects mainly in the Priority Solidarity Zones (ZSP).³⁵

Coordination of aid policies. Another important change was establishment of the Interministerial Task Force on International Cooperation and Development (CICID). CICID is chaired by the Prime Minister and includes 12 heads of ministries who are closely involved with development issues. It is responsible for setting the direction of development aid policies and coordination, and is considered to reflect the government's resolve to ensure consistency in its aid programs. At its first meeting, CICID decided which countries were to be included in the ZSP.

Encouraging the participation of civil society. This issue was addressed by a decision to establish the High Council for International Cooperation (HCCI), which has 60 members, including representatives of private companies, NGOs, unions, scholars, and experts. It was established as a forum for discussions by various stakeholders who are involved in international development. Its main purpose is to encourage the participation of civil society, promote collaborative work between the government and the private sector, and foster a better understanding of development cooperation by the public.

It is too early to evaluate these reforms because they were just implemented in 1999. However, we are beginning to hear skeptical voices about the government's resolve (Randel and German, 2000, p. 121); it took one year from the declaration to establish CICID until its first meeting. The establishment of HCCI has been delayed.

RATIONALIZATION OF AID. As a part of reforms that began in 1998, France established a policy to distinguish ZSP from other regions. Included in the ZSP are many of the poorest countries that do not have access to capital markets, and some are non-francophone countries. This policy was designed to increase the effectiveness of decreasing ODA and to focus on the poorest countries by being more selective in the provision of

35. In 1999 CICID recognized the following 58 countries: South Africa, Algeria, Angola, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Comoros, Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Equatorial Guinea, Kenya, Liberia, Madagascar, Mali, Morocco, Mauritius, Mauritania, Mozambique, Namibia, Niger, Uganda, Central African Republic, Democratic Republic of Congo, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Tanzania, Chad, Togo, Tunisia, Zimbabwe, Cambodia, Laos, Vietnam, Cuba, Dominica, Grenada, Haiti, Dominican Republic, Saint Christopher Nevis, Saint Lucia, Saint Vincent and the Grenadines, Surinam, Vanuatu, Lebanon, and Palestine.

bilateral aid. Bilateral aid commands an overwhelming share of French development assistance — it accounted for 72.9 percent of all aid in 1998 and 77.32 percent in 1999. Within this framework, countries included in the ZSP enjoy priority status.³⁶

Issues and outlook

According to the Ministry of Foreign Affairs, reforms just described are designed to increase the efficiency of the development cooperation system and to reduce poverty and inequality within the framework of sustainable development.³⁷ There are doubts if these reforms are actually conducive to reducing poverty.

BIAS IN GEOGRAPHICAL ALLOCATION. French aid is focused more on francophone countries and its overseas territories than on the objective of reducing poverty in the poorest countries. France's bilateral aid is not necessarily concentrated on the least-developed countries. Comparison of the top 10 recipient countries of France's bilateral ODA in the years 1998-2000 before and after recognition of the Priority Solidarity Zones reveals that there was no change with the exception of two countries (OECD/DAC, 1998b, 1999, 2000a). There was no change in the top five recipients. Recognition of ZSP was an important aspect of the reform that was designed to articulate the focus on poverty, and recognized countries can be changed every year. In reality, ZSP is composed mostly of former French colonies and other African countries. ZSP includes most of the least-developed countries, but as a whole they receive only about 22 percent of French ODA.³⁸ Considering the number of least-developed countries included and the amount of aid, it is possible that the amount of aid flowing to developing countries for the purpose of poverty reduction may be reduced in relative terms and its effect limited. If France truly believes poverty reduction is the most important objective of its aid, it needs to find a way to help the poorest countries.

LACK OF POLICY COHERENCE. Development assistance policy and international cooperation policy have different goals. The latter has broader objectives. As a permanent member of the UN Security Council and

36. In Côte d'Ivoire, which was once touted as the 'model of the African miracle', France ultimately experienced a major failure. Its traditional, interventionist policies toward its former colonies are losing effectiveness (Kataoka 2001).

37. Chapter III-Innovating through French co-operation.

38. Wheat, p. 12.

a member of the G7, France wants to exert its influence on a global scale.³⁹ For this reason, there are two aid objectives at two different levels (Randel and German, 2000, p. 120). Development assistance policy focuses on improving conditions in developing countries while international cooperation policy tends to emphasize France's own national interests, including expansion of its power and influence. This could lead to an issue of coherence in aid policies. As mentioned earlier with regard to education, for example, France should emphasize primary education from the viewpoint of poverty reduction, but to exert its influence it may be better to invite top performing students to study in France or introduce French education systems in developing countries.

Another factor that hinders the coherence of French aid policies is its aid culture (OECD/DAC, 2000b). In fact, there are several different aid cultures. One is the culture of the Ministry of Economy, Finance and Industry that is fundamentally concerned with macroeconomic balance and commercial penetration. The second is the culture of the Ministry of Foreign Affairs that aims to expand cultural influence and francophone regions. The third is the culture of the French Development Agency that casts development in terms of advancing infrastructure, human resources, and institutional capacity. French development aid policies tend to lack coherence because these contradicting objectives clash with each other. France needs to create a global and coherent aid strategy that looks toward poverty reduction and includes all actors in the aid system.⁴⁰

POVERTY REDUCTION IS NOT THE ONLY PRIORITY AGENDA IN FRENCH DIPLOMACY. Although the importance of poverty reduction is recognized, there is no clear intent or quantitative targets to focus France's aid on specific relevant sectors such as health care and primary education (Randel and German, 2000, p. 120). Similarly, the importance of primary education is recognized, but judging from aid allocations⁴¹ it is not backed by actions (Randel and German, 2000, p. 120). Rather, positive support for poverty reduction seems to be implemented by debt write-off for heavily indebted poor countries (HIPCs) and other means. Such a method is of course effective in reducing poverty, but considering that

39. http://www.oecd.org/oecd/pages/document/print_template/0,3371,EN-document.

40. http://www.oecd.org/oecd/pages/document/print_template/0,3371,EN-document.

41. Fifteen to 20 percent is allocated for primary education, while technical and professional education gets close to 30 percent. Higher education receives 30 to 40 percent and the remainder is allocated for college education, teaching of French and scholarships.

poverty is a result of an entanglement of various factors, its influence may be rather limited. We need to closely monitor potential changes in French aid as a result of future reforms in its implementing agencies and policies.

Germany's development assistance in the 1990s

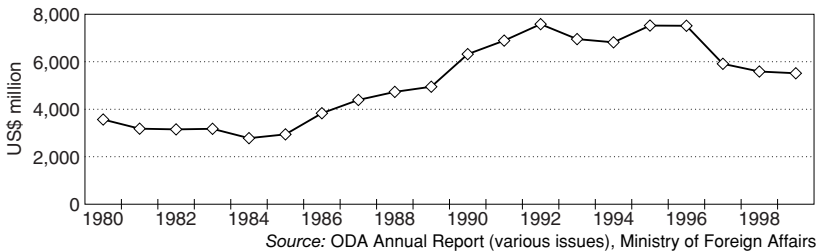
The end of Cold War in 1989 had a great impact on the aid strategy of Germany. The unification of East and West Germany required the latter to invest a huge amount of money for reconstruction of the former. The end of Cold War prompted many nations to leave the Soviet Union. Most were politically, socially, and economically unstable, and their stability was directly related to stability of the unified Germany. The amount of German ODA is declining despite repeated efforts by the government to protect the aid budget, and despite the increasing importance of reconstructing the former East Germany, aid to Eastern and Central European countries, as well as traditional aid for developing countries that used to be provided by the former East and West Germany. The Millennium Development Goals declared poverty reduction as the ultimate goal of development, and the international development community has recognized the necessity to increase aid to achieve that goal. How, then, will Germany reach the globally accepted goal of poverty reduction? Here we attempt to understand the trends of German development assistance by examining changes in the volume and sector allocation of German development aid; the relationship between Germany's aid policies in the late 1990s and the goal of poverty reduction; and future issues.

Changes in the volume and sector allocation of German development aid

The volume of German aid largely trended upward in the first half of the 1990s but turned downward in the second half (Fig. 4-18). The amount of bilateral aid was \$6,320 million in 1990, and reached the peak of the decade at \$7,583 million in 1992. By 1994 it declined to \$6,818 million, increased to \$7,515 million in 1996, but declined 21 percent in 1997 to \$5,913 million, and then to \$5,034 million in 2000. In 2000, Germany was fourth in aid donors among DAC member countries. In addition, the federal budget for the Ministry for Economic Cooperation and Development (BMZ), which handles about 70 percent of German ODA, is decreasing. It accounted for about 2.1 percent of the entire federal budget in 1990, but its share declined to 1.7 percent in 1996 and 1.5 percent in 2000. The German Ministry of Foreign Affairs predicts that the development budget may fall further to

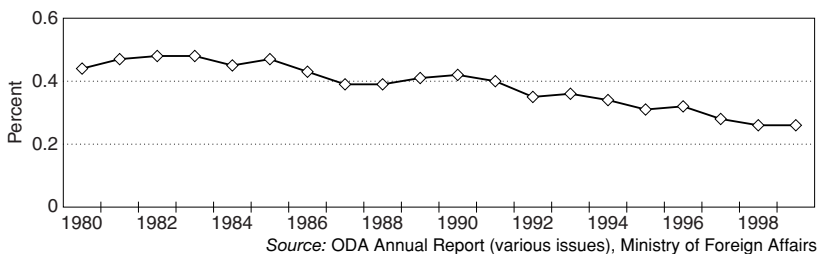
1.41 percent in 2005.⁴² On the other hand, prior to the Monterrey Conference, Chancellor Gerhard Schroeder said he intended to increase aid. It will be interesting to see how at what levels aid is allocated in the future.

Fig. 4-18. Changes in German ODA, 1980-1999



Together with the aid allocations, Germany's percentage of GNP devoted to ODA declined almost constantly — 0.42 percent in 1991 to 0.26 percent in 1999 (Fig. 4-19). The Social Democratic Party's coalition government, which won the general election in 1998, promised to treat poverty reduction as a priority political agenda. Heidemarie Wieczorek-Zeul, Minister for Economic Cooperation and Development, said that the German government is moving strongly toward 0.7 percent,⁴³ but no specific, quantitative target has been set (Randel and German, 2000, p. 123). Given the stagnant economy and persistently high unemployment rate of more than 10 percent, the government may be swept off its feet by domestic problems, which makes the outlook of reaching 0.7 percent bleak. In 2001, BMZ predicted that achieving the 0.7 percent goal would be difficult because of the national target of balancing the federal budget by 2006.⁴⁴ It will be interest-

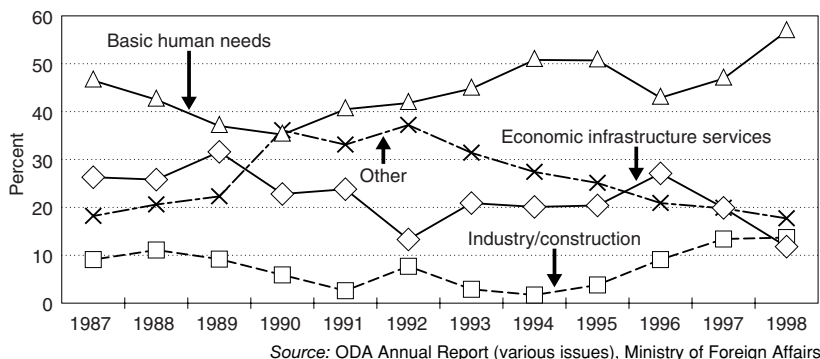
Fig. 4-19. German ODA as a percent of GNP, 1980-1999



42. <http://chasque.apc.org:8081/socwatch/2002/eng/national%20reports/germany2002>

43. <http://www.bmz.de/include/cgibin/druck.pl?default>

44. http://www.oecd.org/pages/document/print_template/0,3371,EN-document

Fig 4-20. Sector distribution of German ODA, 1987-1998

ing to see how the decision made at the Monterrey Conference in 2002 to increase the aid amount will influence Germany's federal budget.

As described in the Japanese ODA White Paper,⁴⁵ the sector allocation of German ODA shows that the characteristic change of the 1990s was that the share devoted to economic infrastructure services declined in contrast to the increasing share of the BHN sector (Fig. 4-20). In 1990, the share of BHN was 35.2 percent while the economic infrastructure services was 22.8 percent — a difference of 12.4 percent. Since then, BHN reached 50.7 percent in 1995. On the other hand, the share of economic infrastructure services declined to 20.4 percent and widened the gap between the two to 30.3 percent. The difference kept increasing after 1996. In 1998, the share of BHN was 56.8 percent and economic infrastructure services was 11.8 percent. The difference reached 45 percent in the same year, the largest in the 1990s.

There is a problem, however. According to *Development Cooperation Review Series, Germany 1998*, there is a substantial difference between the statistics published by BMZ and those provided to DAC. BMZ's statistics show that more than 50 percent of bilateral aid has been devoted to BHN since 1995. Based on the data provided to DAC, little was spent on the important basic social services sector.⁴⁶ In 1995, four percent of bilateral aid was allocated to primary education and 1.4 percent to primary health care.

45. BHN in the ODA White Paper includes both primary and higher education, and more than just primary health care in the health care sector.

46. Basic social services encompass primary education, primary health services including reproductive health, population programs, nutrition programs, securing safe drinking water and sanitation, and institutional capacity building for the delivery of these services.

According to the World Social Summit Committee of the German NGO Forum, the share of assistance for primary health care declined from 5.9 percent in 1998 to 2.1 percent in 2001.⁴⁷ In addition, while the German government recognizes the importance of primary education in development aid, most of its educational aid in 2000 (19 percent of bilateral ODA) was concentrated in higher education.⁴⁸ The share of expenditures for basic social services decreased from 18.9 percent in 1998 to 13.5 percent in 2001. It is difficult to conclude that Germany is clearly devoted to BHN. Officially, the German government has stated that it is following the 20:20 Initiative⁴⁹ that was adopted at the 1995 Social Development Summit in Copenhagen, but its actions may not support that statement.

Germany's aid policies in the late 1990s and the goal of poverty reduction

FORMULATION OF AID POLICIES. Under the government of moderately conservative Chancellor Helmut Kohl during 1982 to 1998, a new development policy reflected the new international and domestic environment. This federal development policy aimed to promote poverty reduction; support respect of human rights and democratic principles; promote equal opportunities for men and women; contribute to the peaceful resolution and management of conflicts; ensure environmental protection and sustainable use of natural resources; and promote economic development of partner countries.⁵⁰

What stood out in the 1990s was assistance related to the environment. The number of environmental projects within German bilateral aid increased and the share reached about 30 percent. The government is committed to poverty reduction and gender issues, at least at the policy level, and BMZ prepared guidelines for evaluation and design of aid programs that considers poverty and gender issues (OECD/DAC, 1998a). Based on a recognition that the key to success of development aid is the political and economic conditions of the recipient country, BMZ cited five conditions related to the domestic political situation of recipient countries.⁵¹ These conditions have power to influence the form and scope of development aid, and are now being applied.

47. <http://chasque.apc.org:8081/socwatch/2002/eng/national%20reports/germany2002>

48. <http://www.bmz.de/include/cgibin/druck.pl?default>

49. An agreement in which developed countries would allocate 20 percent of their ODA to basic social service programs, and developing countries would allocate 20 percent of their national budgets to the same.

50. From the website of the German Embassy in the US.

The Social Democratic administration led by Schroeder that took over the government in 1998 changed German aid policy significantly and moved it toward the globally accepted goal of poverty reduction. Schroeder has shown his enthusiasm in tackling the issues of development and poverty, which became evident immediately after the administration was formed when he placed the development issue as a high priority on the domestic policy agenda.⁵² In order to achieve the Millennium Development Goals, the Cabinet approved the Program of Action 2015 for Poverty Reduction in April 2001, and declared poverty reduction as the most important goal of German development assistance. To achieve the goal of poverty reduction, this program incorporates not only efforts within Germany but also actions to improve coordination with other donor countries, recipient countries, and international organizations including the European Union. For example, it supports reforms and structural changes as well as efforts to write and implement PRSPs in the recipient countries. Furthermore, the German government advocates coordinated policies related to poverty reduction and said that it will ensure that all of its new domestic laws will be tested to see if they are related to development policies, and that it will also push the EU towards poverty reduction (BMZ, 2001, p. 7). It is an important initiative to establish coordinated laws and policies from domestic, regional, and global perspectives. In addition, the program lists 10 specific priority areas⁵³ that extend from improved basic social services to the environment, society, economy, and politics. It shows the effort and will of Germany to implement poverty reduction measures in a comprehensive manner.

Germany's development efforts are covered in BMZ's *Interim Report on the Statues of Implementation of the Program of Action 2015*, published in September 2002. There are several noteworthy items. First is that in 2002 a special line item was created in the BMZ budget for the Program of Action 2015 for Poverty Reduction, with an initial allocation of 90 million euros. Second is that the government supports the Education for All initiative

51. 1. Respect for human rights; 2. Resident participation in the policy making process; 3. Rule of law; 4. Creation of economic order that is based on market economy and takes the society and environment into account; 5. The government's action is geared toward development instead of military build-up.

52. <http://www.bmz.de/include/cgibin/druck.pl?default>

53. 1. Revitalization of economy and increasing active participation by the poor; 2. Realization of the right to food and implementation of agricultural reform; 3. Creation of trade opportunities that are fair to developing countries; 4. Debt reduction; 5. Guarantee of basic social services; 6. Securing access to important resources; 7. Realization of a respect for human rights; 8. Promotion of gender equality; 9. Enhancement of good governance (securing the participation of the poor); 10. Peaceful resolution of conflicts (BMZ, 2001 pp. III-VII).

adopted in 2000 in Dakar, and has a plan to double expenditures for primary education, which especially benefits women and girls, to about 120 million euros by 2007. Third is a plan to establish a dialogue between the government and civil society so that the Program of Action will take root. However, one year after the announcement of the program, the promised dialogue (Dialogue Forum 2015) is not yet realized.⁵⁴ We should closely watch how the program will be realized.

REFORM OF IMPLEMENTING AGENCIES. As the amount of development aid declines, Germany has implemented many reorganization measures in recent years in an effort to rationalize and increase the efficiency of implementing agencies. To summarize the German development aid system, BMZ is in charge of planning aid programs while the German Development Bank (KfW) is the main implementing agency of financial cooperation. The German Corporation for Technical Cooperation (GTZ) plays a central role in technical cooperation.⁵⁵ BMZ has cut jobs and reorganized⁵⁶ in an effort to simplify the overall operation of the aid system. As a result of decentralization, GTZ gained autonomy in programming, administration, and procurement. This means that Germany began to adopt a client orientation that is the key to meet the needs of development partners. KfW has established field offices for the first time and plans to open more of them (OECD/DAC, 1998a). An important point is that these offices will be consolidated with the field offices of GTZ, a move that is expected to promote cooperation and synergy between the two organizations. Since the investment projects implemented by KfW are highly dependent on institutional capacity building which is the domain of GTZ, this change is expected to make their aid more effective (OECD/DAC, 1998a). The two agencies are already holding regular, administration-level meetings to coordinate policies and activities.

Moreover, the Association for Development Policy of German NGOs (VENRO) was established in December 1995 with encouragement from BMZ. German NGOs have long years of experience and practical accomplishments in developing countries, but they did not have a common discus-

54. <http://chasque.apc.org:8-81/socwatch/2002/eng/national%20reports/germany20>

55. The Ministry of Foreign Affairs is also involved and is responsible for overall diplomatic relations as well as designing and managing the framework for individual programs. The ODA budget under its direct control is about 4 percent of the total. German Development Service, German Foundation for International Development, German Development Institute, and other organizations are also involved in aid implementation (Ohno, 2000).

56. See <http://www.bmz.de/include/cgibin/druck.pl?default> for details

sion forum because of their diverse political opinions and ideologies. A discussion forum was created based on the view that NGOs are important partners in the efforts to reduce poverty (BMZ, 2001, p. 34).⁵⁷ VENRO functions as a place for NGOs to exchange information, plan common strategies, and have a dialogue with official aid agencies. Since the establishment of VENRO, NGOs have already discussed new development policies and other important issues with BMZ. The participation of field-experienced NGOs is expected to improve the efficiency of development assistance and to contribute to poverty reduction.

Future issues and outlook

Germany seems to be trying to achieve development goals that have been recognized by the international development community. It also appears that more efforts are needed to achieve these goals.

SECTOR APPROACH. Germany has fallen behind other countries in terms of the sector approach that is gaining popularity as a method to reduce poverty. This is because its development aid policies are made and implemented by different agencies and implementation methods are restricted. Among the 570 employees of BMZ, which is in charge of development aid planning, 90 percent work in the headquarters in Bonn and the remaining 10 percent work in the second office in Berlin.⁵⁸ BMZ's ability to get involved in policy dialogues in the field is very limited because the actual assistance and cooperation is in the hands of implementing agencies. On the other hand, sector program assistance requires dialogues and organization within the recipient country. GTZ is involved in sector programs and beginning to be involved in the associated policy dialogues, but is not authorized to participate in the more important policy dialogues. Germany, therefore, cannot take as active a role as other major donors in countries where the sector program approach is adopted (OECD/DAC, 1998a, p. 9; OECD/DAC, 2001, pp. II-11) (OECD/DAC, 1998a, p. 9; OECD/DAC, 2001, pp. II-11). The German government has expressed its support for sector programs and PRSPs which have been often adopted in recent years as a method to help reduce poverty (BMZ, 2001, p. 32), but it is difficult to contribute to that method with its current aid system. To do so, an overhaul of assistance

57. NGOs are believed to play an important role as the voice of the poor in dialogues with governments and international organizations. Grass roots organizations in developing countries are also believed to play an important role of empowerment in the local-level efforts for poverty reduction.

58. <http://www.bmz.de/include/cgibin/druck.pl?default>

processes and procedures will be needed — either by eliminating the demarcation between planning and implementation or by delegating more authority to the field.

DISCREPANCY BETWEEN PRINCIPLES AND ACTIONS. To improve the coherence of bilateral, multilateral, and EU development policies, Germany specified priority areas for its bilateral ODA.⁵⁹ By this action, Germany reduced the number of beneficiary countries from 118 to 70 in an effort to increase the impact on poverty reduction. Of these 70 countries, 37 are considered as priority countries and eligible for development assistance in three sectors. The remaining 33 countries are called partner countries and eligible for aid in one sector only (OECD/DAC, 2000a, p. 112). In reality, however, some middle-income countries are included in the priority and partner countries. In 1998 and 1999, only 17 percent of ODA was directed to the poorest countries in both categories (OECD/DAC, 2001b, p. 18). BMZ declared its intention to intensify assistance for the poorest countries in the Program of Action 2015 for Poverty Reduction, but its principles and actions are not consistent with each other (Ohno, 2002, p. 4). In addition, if Germany's assistance for basic social services, especially primary education and primary health care is declining, although there are some statistical ambiguities, then its stated goal of poverty reduction is quite unconvincing. The government has set specific and quantitative targets for primary education, and it will be interesting to see what kind of efforts will be made in this area.

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59. Priority countries are: Benin, Burkina Faso, Malawi, Mali, Mozambique, Rwanda, Tanzania, Uganda, Zambia, Bangladesh, Cambodia, Nepal, Cameroon, Ghana, Kenya, China, India, Pakistan, Vietnam, Honduras, Nicaragua, Egypt, Morocco, Namibia, South Africa, Philippines, Palestinian admin. areas, Bolivia, El Salvador, Peru, Turkey, Macedonia, Albania, Bosnia-Herzegovina and Georgia. Partner countries are: Mauritania, Burundi, Chad, Guinea, Lesotho, Madagascar, Niger, Laos, Cote d'Ivoire, Nigeria, Senegal, Mongolia, East Timor, Armenia, Azerbaijan, Kyrgyz Republic, Sri Lanka, Thailand, Algeria, Jordan, Tunisia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Mexico, Paraguay and Costa Rica.

Development”]

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5

Future of Japanese Development Assistance

Takamasa Akiyama
Masanori Kondo

The arrival of a new century has brought significant changes to the ways international development assistance is planned and implemented. Japan cannot escape the influences of the rapid changes in international trends. Indeed, we must be proactive and keep pace with these changes and adopt new strategies and methodologies. Until a few years ago, Japan was a focus of international attention as the largest donor country in the world. But now, in contrast to Western states that have announced increases in their Official Development Assistance (ODA), Japan is moving to reduce its aid. One reason is that public support at the previous level can no longer be expected in Japan. It is no easy task to devise an ODA strategy for Japan when we consider such a difficult situation, but it is even more difficult to keep pace with and respond to rapidly changing international aid trends. A number of issues surround the Japanese aid strategy of recent years:

- Assistance for peace building,
- A strategy that replaces the request-basis principle,
- Collaboration with international organizations and other donors,
- Preparation of Country Assistance Plans,
- Desirable use of yen loans,
- Balance between economic infrastructure and social infrastructure,
- Assistance to institutions and policies that include governance, and
- New forms of aid such as Sector-Wide Approaches (SWAs) and budget support.

The Japanese government and aid agencies often tried to deal with these issues by individual referrals to experts in each field or by forming study

Akiyama is senior advisor to the International Development Research Institute, FASID. Kondo is assistant professor at the International Christian University.

groups. Those issues listed above are strongly correlated with each other, however, and it would be difficult for Japan to deal with them all properly, let alone to take an initiative, without clear, coherent, and holistic ideas.

Under such circumstances, Japan's aid systems are changing, as evidenced by a review of the ODA Charter and the request-basis principle, preparation of Country Assistance Plans, stronger support for social infrastructure, and the rebirth of the Japan International Cooperation Agency (JICA) as an independent administrative institution. Still, many of the problems that have been considered as issues for Japanese aid remain unsolved, and we cannot honestly say that Japan has the esteem in the international community that is commensurate with the amount of its aid. Indeed, Japan is nowhere near the United Kingdom, for example, which actively promotes its aid strategy to the world and influences the international donor community. This chapter examines and proposes the type of research that should be conducted in order to make future Japanese aid more productive. We focus on four main issues: aid coordination, aid with a human face, securing national interests, and reappraisal of research systems.

Aid coordination

The Poverty Reduction Strategy Paper (PRSP) approach of the World Bank is becoming more popular and established, thus the importance of coordination between international organizations and bilateral donors as well as between donors and recipient countries is increasing. At the World Bank-International Monetary Fund (IMF) Annual Meeting in October 2002, World Bank President James Wolfensohn emphasized the importance of this issue. In February 2002, High-Level Forum on Harmonization, an international conference on this issue, was held in Rome and representatives of Japan attended along with those of the other donors and international organizations. Because the importance of aid coordination is recognized, Japan is preparing Country Assistance Plans (Ministry of Foreign Affairs, Japan, 2002) and reorganized JICA in 1999 in an effort to improve its capacity to tailor its assistance for individual countries (Ishikawa, 2002). In contrast to earlier times when buildings and facilities were the focus of aid, the current thinking demands a shift toward social development and 'software' such as policies and institutions. It is essential for Japan to enhance coordination with other aid organizations, and it is also becoming more important to coordinate research on political, economic, and social structures in developing countries.

In reality, however, coordination between Japan and international organizations and other bilateral donors has not always been successful. One reason is Japan's compartmentalized public administration system. Also, we cannot deny that the Japanese lack of English proficiency and expertise makes aid coordination more difficult. Furthermore, we often hear the argument in Japan that co-financing is not only cumbersome but also futile because Japan tends to simply put out the money and give away all other presence-enhancing 'juicy' parts to other donors.

From an international perspective, aid coordination would be particularly effective between the United Nations Development Programme (UNDP) or the UK, which have highly specialized skills but lack financial resources, and Japan, which has opposite strengths and weaknesses. However, such coordination may not serve the national interests of Japan for the reasons just discussed. This is a difficult problem to solve. There is some truth in the criticism that Japan has not thoroughly studied or discussed this problem and has been avoiding aid coordination. However, as we have examined in this volume, we need to think about giving an impression to other donors that Japan is left behind in the rapidly changing trends of international aid will harm Japan's reputation among developed countries, and it will eventually come back to haunt us. There will be pressure from Western countries to increase aid and lower the share of tied aid. Coordination on the 'softer' side of aid in addition to financial contributions is essential in order to avoid leaving the impression that Japanese aid has nothing to offer except its dollar amount. Unfortunately, we cannot deny that Japan is lagging behind in this aspect. Among other developed countries, the UK stands out as almost a mirror opposite of Japan. Even if we accept that Japan will probably not lead world trends of development assistance, we need to be aware of international trends and keep pace with other donors accordingly. It does not mean co-financing — aid coordination from a larger perspective can take various forms, from positive remarks in donor meetings to doing things that other donors cannot.

As the US and other countries advocate for an increased share of aid funding as grants, the distribution of grants and loans as Japanese aid needs to be discussed in the context of this international trend. One major characteristics of Japanese ODA is the large share of yen loans, and hence the lowest amount of grants among major donors. An increase in the number of social development projects would lead to an increase in grants, but a majority of yen loans have been used for infrastructure building. As interna-

tional organizations and major donors shift their focus to social development projects, there is a possibility that investments in infrastructure of developing countries will become insufficient and infrastructure projects financed by yen loans will become more important. To which countries and sectors, and in what circumstances, do we provide grants and yen loans? Are we going to embrace new methods such as the common basket approach and sector-specific budget support? Japan needs to answer these questions about aid methodologies.

“The role of Japan is to provide loan assistance for large-scale infrastructure projects that cannot be picked up by other bilateral donors, and that forms a complementary relationship with other donors.” This has been the traditional, mainstream argument in Japan. The argument itself is certainly correct, but we need to go a little further and study the details of that complementary relationship. For example, the global research community has yet to produce sufficient evidence of the relationship between infrastructure support and poverty reduction or governance. To take the issue of governance as an example, Japan cannot ignore the trend of international society to reduce aid to countries with bad governance. If Japan is to provide yen loans to countries or sectors with bad governance, Japan should prove the validity of such an action and publicize the results widely to the international community. That would surely improve the reputation of Japan among other donor countries.

Aid with a human face

It is often said that Japanese aid does not have a ‘human face’, but we believe this concept can have two ‘faces’ — one of a leader and the other of Japanese field staff. Looking at the organizations and donor countries that are considered to have human faces, the term seems to mean the faces of specific individuals. This is true with the World Bank president, the former US Treasury Secretary Lawrence Summers, and the former UK Secretary of State Clare Short. In Japan, the face of development aid after World War II was probably the late Foreign Minister Saburo Okita. The former Vice-Minister of Finance for International Affairs Eisuke Sakakibara was known in the world as Mr. Yen. This approach leads us to believe that we need an individual (Mr. or Ms. ODA) who can articulate Japanese aid policies in important conferences and other forums, both domestic and international. The work of Ms. Sadako Ogata, who recently served as a co-chair for the International Conference on Reconstruction Assistance to Afghanistan, was

highly appreciated internationally. When we compare this appreciation to the one for the huge amount of money Japan contributed about a decade ago for the Gulf War, we can see that sometimes a presence of one leading individual is appreciated more than a large financial contribution. Also, the existence of such an individual may, as demonstrated by the actions of Short, boost the morale of the aid community within the country.

On the other hand, while there are many interpretations of the 'face' issue, the Japanese interpretation seems to have an aspect that runs counter to the world trend. In order to make its face more visible, the Japanese government has recently emphasized 'flag raising' on its projects. This does not fit well, however, with the recent results-oriented approach — an approach that focuses on the recipient side rather than the donor side. If something is lacking in Japan's aid in terms of showing the face, it is not the money but the supply of labor on the site. Therefore, no matter how many flags we raise, projects with no Japanese present on site will not be appreciated as well as British or American aid projects.

Fortunately, there are many Japanese people now, many of them young, making quiet but serious efforts in the field. As we can see from the competitiveness for joining JBIC and JICA as well as the Japan Overseas Cooperation Volunteers (JOCV) and the United Nations Junior Program Officer (JPO) programs, the number of the Japanese who want to make an international contribution is increasing. However, compared to those from Western countries, it may be more difficult for them to acquire both English proficiency and specialized skills. In order not to waste their goodwill and enthusiasm, we need a serious discussion about an effective use of human resources that includes a critical review of Japanese development education.

There have been many discussions about the lack of strength of aid professionals. Their number is increasing faster than in other fields, but we cannot avoid the actual and overall lack of talent. There have not been sufficient discussions about which areas within the field of international aid should increase personnel, partly due to the inter-ministerial rivalry inherent in the compartmentalized public administration system. We need dynamic and realistic staffing of different sectors after due consideration of the Japanese people's relative advantage to others and the supply of qualified people in Japan.

And when seeking to make effective use of human resources, we should not forget that using local personnel along with Japanese personnel is also important. In recent years, the World Bank and DFID especially are pursu-

ing ‘localization’ of personnel and actively sending talented local people to the field. This has turned out to be even more effective than raising the flag. South-South cooperation, which has been emphasized by Japan in recent years, also seems to be effective in terms of personnel use. Human resources are tied to government budgets that are under the scrutiny of administrative reform. What we need is an all-Japan effort that is free of the infamous ‘ministry interests’.

Securing national interests

‘National interest’ is one of the terms that often appears in recent discussions of Japanese development aid. It has been a while since the tied aid of Japan was criticized both domestically and internationally, and as a result the contracts given to Japanese companies fell to the lowest level among the major donor countries. However, following the prolonged slump of the Japanese economy, public figures began to discuss the necessity to increase contracts with Japanese firms.

It is understandable that the Japanese government must emphasize national interests in official documents in order to secure financial resources during a severe recession. In addition to declaring the importance of national interests, however, it is equally necessary to discuss how ODA leads to their realization. In the discussions about national interests, participants seem to equate them with assisting the countries in which Japanese companies have invested heavily and with increasing contracts for Japanese firms. Certainly this is the most direct national interest, but we need to study how much appreciation and what kind of returns can be gained from an aid recipient country. For example, it is often pointed out that the Chinese people’s sentiment toward Japan, whose country has been receiving the largest amount of yen loans along with Indonesia, has not improved at all. Middle income ASEAN (Association of Southeast Asian Nations) countries such as Thailand seem to have lost their appreciation for yen loans because they can raise funds on the market with lower exchange risks. At the same time, Japanese firms seem to be focusing on direct investments and trading more than ODA projects, at least in Asian countries.

It is possible to conduct a comparative analysis — what kind of national interests can be expected in general, what recipient countries think of Japanese aid, and what national interests Japan can gain from these countries. Every Country Assistance Plan begins with this information — whether or not Japanese companies are active in that country; whether or

not the country is important for Japan's security; how important are the natural resources and/or agricultural products imported from the country; what kind of national interests, except direct imports, can the country bring to Japan; how important is Japanese aid for the country; and how much is it appreciated by the public. This information is rarely compared worldwide. We could compile information on all the countries in the world into one table, and furthermore, we could quantify some data into indices. Through such endeavors, we need to examine how much aid to which countries is most desirable and effective in realizing Japan's national interests.

In this connection, American aid is often considered to be dictated by national interests to a much higher degree than that of other developed nations, but the US government cleverly touts its higher causes by avoiding direct use of the term 'national interests'. President Bush's recent visit to Africa showed the importance of the continent in American diplomatic strategies. For example, active US support for the fight against HIV/AIDS seems to have some exterior motives behind the obvious ones, such as the interests of American corporations and an appeal to liberal voters. In another example, France does not use the term 'national interests' directly in the promotion of French culture often seen in its aid — such as French language education in former colonial states — but it eventually leads there. In contrast, if Japan persists with the term 'national interests' but fails to increase the ODA that eventually leads to national interests, we may end up with a totally opposite result from that of the US and France. To avoid such an outcome, we need to conduct extensive research followed by discussions. We should determine if aid to specific countries will support our national interests, and how. For this purpose, it will be beneficial to expand the studies of other donors' activities in this volume into coherent comparative research about what kind of national interests are being realized by other developed countries, including the US and France, through what kind of aid activities.

Similarly, we need to study what kind of aid is most compatible with Japan's national interests and appreciated by the recipient countries. Needless to say, it is too simplistic to believe that increasing aid to countries important to Japan and increasing contracts to Japanese firms are the only ways that lead to national interests. On the other hand, there has not been much research that tried to identify which, among many forms of aid in many sectors, are compatible with the national interests of both Japan and recipient countries. To take yen loans for infrastructure building as an

example, new ideas are needed beyond the obvious policy of providing more loans to countries in which many Japanese companies are active. It is probably much more conducive to Japanese interests to provide targeted infrastructure support to regions with many factories within a country in which Japanese firms are still struggling to gain a foothold. This area needs to be explored further, together with the flexible application of the request-basis principle. Moreover, instead of trying to increase tied aid, it would be more effective to determine the sectors in which increased support would also increase contracts to Japanese firms. Some countries including Germany have declared their intent to decrease aid to the sectors in which they have comparative advantages, while others are emphasizing their aid to sectors where their industries have international comparative advantages, including the US's emphasis on HIV/AIDS drugs and France's emphasis on the water sector. From this perspective, it would be worthwhile to consider a comparative study of international industries to shed light on the moves of other donors, comparative advantages of Japanese companies, and how to exploit them.

Reappraisal of research systems

The studies proposed above are not revolutionary. Someone must have proposed similar ideas before. Why then have they not been conducted on a sufficiently large scale? What is needed to do so? First, we would like to make an organizational or institutional proposal. We should point out that there is not much recognition within the Japanese government about the necessity for research organizations that continuously analyze important aid issues and make suggestions that affect policy making. Certainly, many ministries and government agencies have departments that deal with such issues, but it is difficult for them to retain the so-called institutional memory because their staffs are replaced frequently for job rotation and external assignments and chronic understaffing makes it difficult to groom expert researchers over the long term. More than a few universities and research institutes study issues related to aid strategy, but there is room to improve communication among them and promote strategic research. If research departments cannot be created within government ministries and agencies for various reasons, then at least we need a small group that coordinates research institutions and researchers and manages an environment where issues can be studied continuously. What such a group should do first is to make a list of experts in each country, sector, and theme. These experts

should be recruited from all over Japan, not only from ministries, government-affiliated organizations, and universities, but also from private research institutes, consulting firms, independent consultants, and NGOs. This system of cooperation will be made sustainable and strong by executing a contract asking them to write and present periodic reports in their own field.

The second issue is that even if such research were conducted, it would not easily reflect on actual aid activities. This can be blamed on both researchers and those involved in aid policy making and implementation. The first problem on the researcher side is that their interest often lies in issues different from those actually needed in the field, and moreover, that there is no mechanism to correct this mismatch. The second problem is that there are few qualified researchers because development economics has not been emphasized in the economics departments of many universities for long. The second problem is that research grants — although ministries and both public and private foundations provide enough of them — are not necessarily distributed based on a careful evaluation of needs in the field and past research findings. Furthermore, the communication of research results by researchers is often problematic. They often fail to make an effort to explain their findings to ministry officials and aid professionals in a simple, easy-to-understand manner.

To be fair, we must mention the problems of those who actually make and implement aid policies in ministries and aid agencies. Considering their tremendous work load, it is understandable that they may not have enough time to closely examine research reports they have commissioned from outside institutions. It is difficult to refute, however, Western donors' view that rapid rotation of aid personnel shows Japan's lack of emphasis on research. This problem may not be totally avoided because the Japanese organizational culture prefers to raise generalists rather than specialists. However, the failure of Japan as a country to accumulate institutional memory and to produce a sufficient number of experts may make Japanese aid even more isolated, especially when the international development assistance community is becoming increasingly reminiscent of a knowledge industry.

The World Bank has recently been promoting itself as a 'knowledge bank', but it has become possible only because the Bank has institutionally accumulated a vast amount of knowledge and lessons using many experts, especially economists. In Japan, there is a strong tendency to believe that research related to development aid should be interdisciplinary. While that

thinking itself is not bad, it also makes it more difficult to understand the results of research using economic and econometric analyses, which is quite common in the World Bank, American and British universities, and research institutions. Fortunately, few people now embrace an extreme belief that all such research methods are an “imposition of Western neoclassical economics on developing countries.” Still, more appreciation and understanding is needed for economic research at an international level, which has recently increased in Japan.

Finally, we would like to add an observation as editors. In putting together this volume, we studied international trends of aid and examined changes in the assistance of major donors and international organizations. In this process we could not help but realize how small Japanese influence is in the formation of international aid trends, how little is written about Japanese aid in the literature on global issues such as poverty, the environment, peace building, and governance, and how little Japan’s aid strategy has changed in comparison to other donors. It is not at all our intention, however, to conclude that the quality of Japanese aid is inferior to that of other donors. In fact, whether financing large-scale infrastructure or down-to-earth technical cooperation by individual experts, Japanese assistance is never poorly valued by developing countries.

Some of the issues we have pointed out — including the lack of competent personnel, English proficiency, and the compartmentalized public administration system — are structural and fundamental problems that affect the entire country. The challenge for us lies in how to improve Japanese aid while accepting these problems as real constraints, how to showcase the merits of our aid, and how to demonstrate to the world our intention to work on development assistance as a member of the international community. Proposals without these actions will probably end up as a ‘pie in the sky’. At the conclusion of this volume, we would like to stress once again that an all-Japan research effort is very important to show the world that Japanese assistance should be appreciated for aspects other than the amount of the aid, and moreover, to make it a reality.

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