

JAPAN'S AID AND THE DEVELOPING COUNTRIES

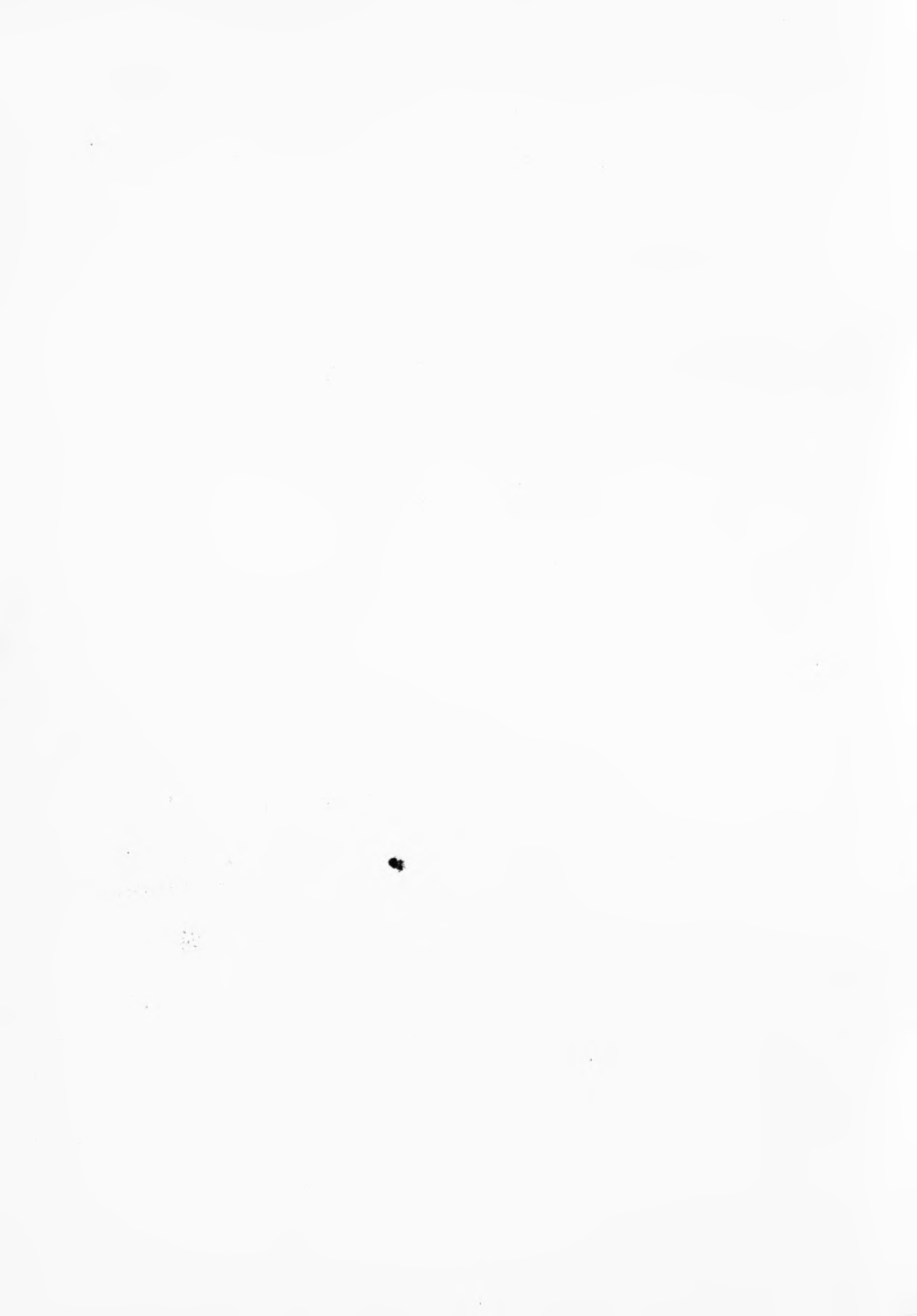
Papers of the 1994 London Conference

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FOREWORD

There is now great interest in the role that Japan is playing, and will play, in international development assistance and in the international institutions established to promote economic development in low-income countries. In recent years, Japan has moved into the position of the world's largest donor and now has a programme covering some 150 countries. This interest in Japan has not, however, always been accompanied by a firm understanding of how its aid programme operates and Japanese officials and scholars have been particularly keen to explain what they believe to be major misconceptions about Japanese aid: that, for example, it is highly tied to Japanese procurement; that it is heavily biased towards the East and South-East Asian region; and that it is primarily loan - rather than grant - based.

The London Seminar on Japanese aid organised by the Overseas Development Institute on March 25th 1994 was primarily designed to address the growing interest in the form, direction, and mechanics of Japanese aid and the domestic policy environment within which such aid operates. However, the seminar was also an opportunity to consider both the Japanese and UK perspectives on two of the major contemporary issues in economic development: how to explain the economic success of East Asia and the role of international assistance in such success; and how to revive the economic prospects for sub-Saharan Africa, particularly via international assistance. This publication, therefore, divides into three parts - Japanese Aid, East Asia and sub-Saharan Africa, with the focus throughout on the role of Japan and, in the case of Africa, the roles of Japan and the UK.

The seminar itself was attended by some fifty people, largely officials and academics with close professional interests in aid policy and, in many cases, in collaboration between Japan and the UK in the fields of overseas development. On the Japanese side, the main bodies concerned were the Ministry of Foreign Affairs, the Overseas Economic Cooperation Fund and the Japanese International Cooperation Agency. On the UK side, the main bodies represented were the Overseas Development Administration, the Crown Agents, the Commonwealth Development Corporation and the British Council. ODI is grateful to all of these for releasing senior officials to speak at the seminar, which included a final panel session on UK-Japanese collaboration. ODI is also grateful to the following for their financial support for the seminar: the Overseas Economic Cooperation Fund of Japan, the Japan International Cooperation Agency and Overseas Development Administration.

John Howell
Director
Overseas Development Institute

SECTION 1

JAPAN'S AID POLICIES AND INSTITUTIONS

Hideaki Ueda

**Deputy Director-General, Economic Cooperation Bureau
Ministry of Foreign Affairs**

In Japan, there are various ministries and agencies which are involved in economic cooperation, but it is the Foreign Ministry which coordinates all the necessary elements and which makes the principal policy. Because Japan sees this economic cooperation as one of the major pillars of its international contribution, we have integrated foreign aid policy into broader perspectives of our overall foreign policy. We have been fortunate enough to be able to garner support and understanding from the Japanese public in conducting our Official Development Assistance (ODA).

Japan started its activity in this field 40 years ago, joining in the framework of the Colombo Plan through which technical cooperation began. Japan also started economic cooperation activities to make reparation to Asian countries after World War II. We have been carrying out a wide variety of aid activities, which are categorized into three schemes, namely: grant assistance for basic human needs such as education and health; technical cooperation for human resources development and so-called 'yen loans' for the construction of economic and social infrastructures.

The total volume of Japan's official development assistance in 1992 was US\$11.15 billion, which was the largest among donor countries. About a quarter of it was distributed through international organizations, about 40% as loan aid, 15% as grant aid and 20% as technical cooperation. (See Figures 1 and 2)

The projects of the yen loan are picked up and decided by the Foreign Ministry, together with the Ministry of Finance and other ministries, and then the loan is provided by OECF, an implementation agency for yen loans. Grant assistance projects are picked up and decided by the Ministry of Foreign Affairs, and implemented directly by the Foreign Ministry. As for technical cooperation, again, projects are picked up by the Ministry of Foreign Affairs, and then the Japan International Cooperation Agency (JICA) implements them.

Recipients of Japan's ODA now include more than 150 countries and territories all over the world (See Figure 3). Of these, the largest recipient at this moment is Indonesia, the second China and the third is the Philippines. I had the chance to visit Indonesia and the Philippines this February, as the Deputy Head of a high-level mission on Economic and Technical Cooperation, to conduct policy dialogue about Japan's assistance. Figure 3 shows some aspects of Japan's cooperation.

Yen loans have contributed to 31% of Indonesia's electric power and 12% of its railways, 20% of Thailand's electric power, including electrification of 12,000 villages, 5% of the Philippines' electric power and drinking water for 8.2 million of its people, 51% of the electric power on the Malaysian peninsula and 20% of its expressways.

Japan's ODA has played no small part in the remarkable economic development that has been demonstrated by most of the ASEAN countries, although the Philippines is a little behind.

We are providing a combination of the three types of assistance to developing countries taking into account the development needs of recipient countries. For example, to those least developed countries, such as most African countries or some of the least developed countries of Asia, like Nepal or Cambodia, we provide grant assistance and technical cooperation more extensively than yen loans, since their basic human needs are enormous and their capacity to repay loans is limited.

To the middle income developing countries, such as India, Indonesia, China and others, we provide all three types of cooperation in combination, while to a comparatively advanced developing country like Thailand, we stop extending grant assistance and focus more on yen loans and technical cooperation as a way of facilitating their further economic development.

FIGURE 1
TYPE OF JAPAN'S ODA

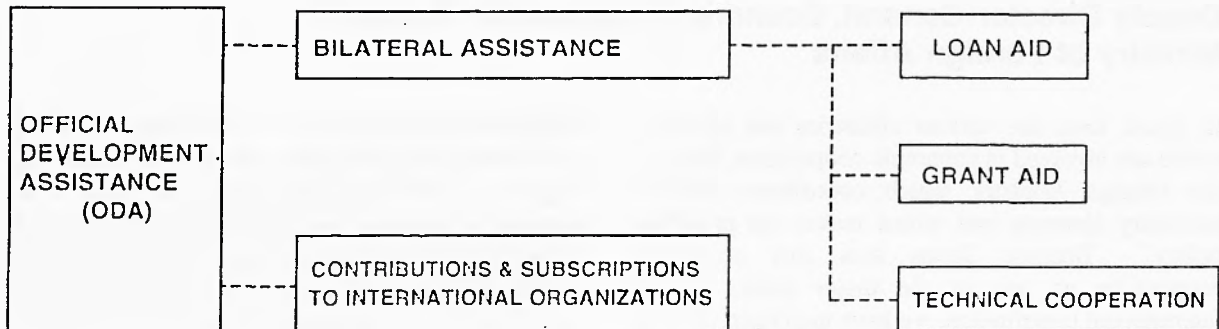


FIGURE 2
JAPAN'S ODA ACCORDING TO TYPE OF AID (1992)

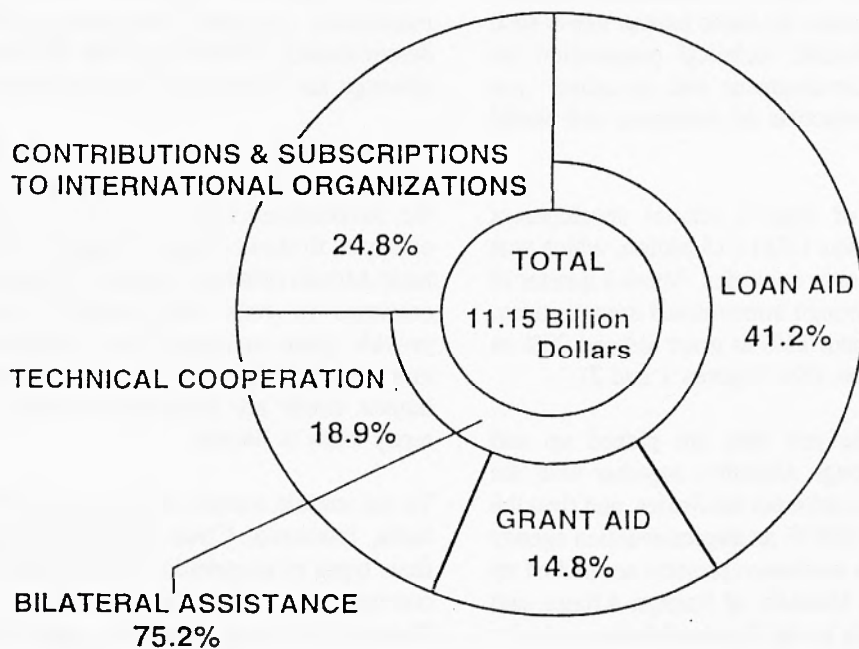


FIGURE 3

DISTRIBUTION OF JAPAN'S BILATERAL ODA BY TYPE & REGION (1992, DISBURSEMENT BASE, UNIT: MILLION US DOLLARS)

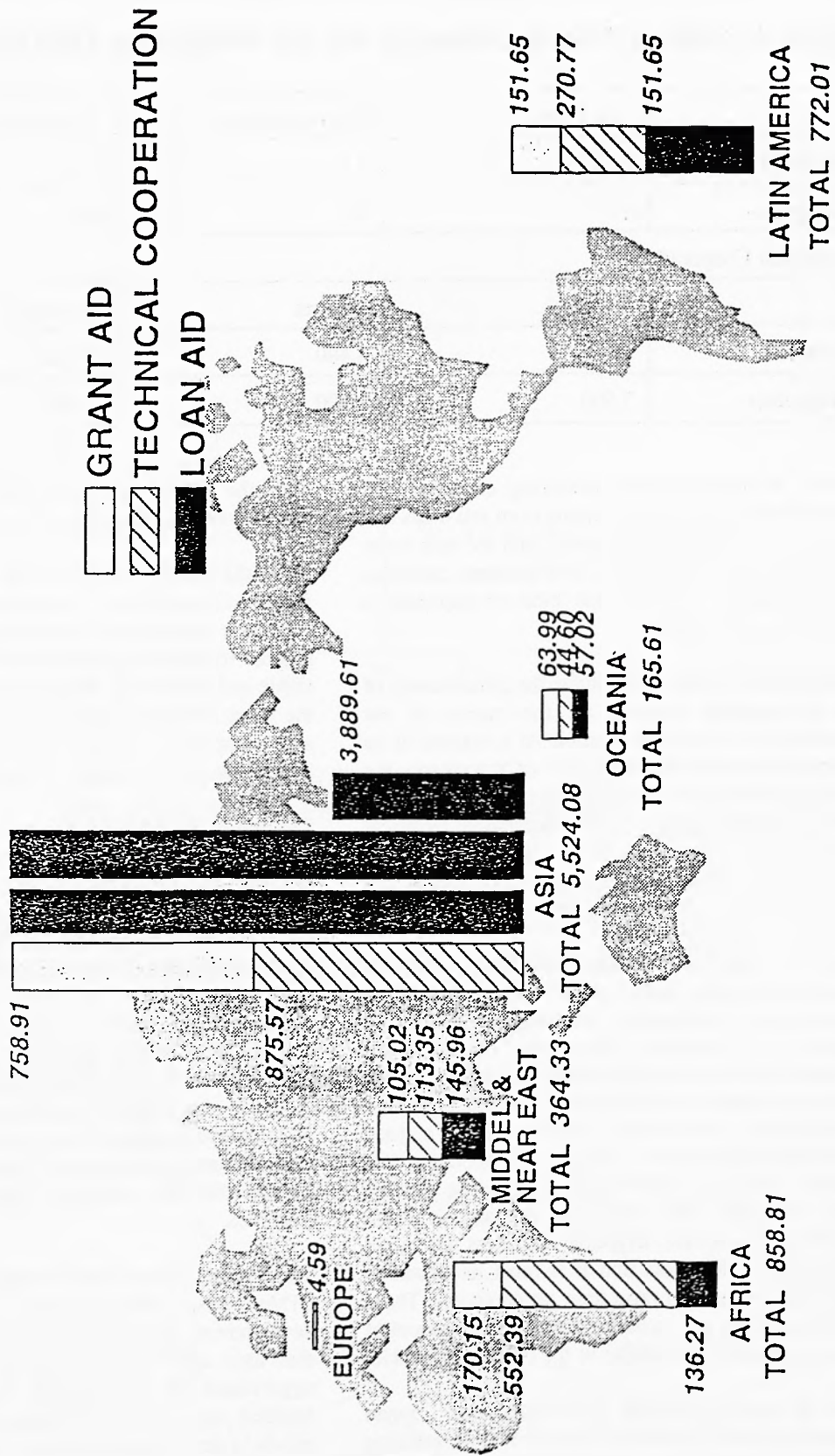


Figure 4: Japan's ODA to Indonesia and the Philippines 1992 (\$US billion)

	Yen Loan	Grant Assistance	Technical Assistance
Indonesia	22.0	1.2	1.3
Philippines	11.1	1.3	0.8
Technical Cooperation			
	Trainees	Experts	Missions
Indonesia	10,300	4,480	10,000+
Philippines	7,500	2,200	7,200+

Finally, to the advanced developing countries like Brazil, we have stopped extending even yen loans and provide only technical assistance, and we will cease to provide any assistance to post-graduate countries like Singapore. We call this kind of approach a 'differentiated approach.'

We have been trying to maximize the effectiveness of our cooperation, utilizing all the merits of our schemes. A very good example of a scheme is in Indonesia, near the ancient capital of Yogyakarta, the 'Mt. Merapi Urgent Volcanic Debris Control Project.' This is a combination of grant assistance, technical cooperation and yen loan (and south-south cooperation). This kind of example convinces us that our differentiated approach is indeed useful.

Some NGOs, and some European countries emphasising only basic human needs and tend to overlook the importance of large infrastructure projects. By contrast, many Asian countries, for example, are anxiously requesting extensions to yen loans to construct infrastructures for their economic development. Our belief is that we need a good combination of the three schemes of cooperation. Of course, when you face hungry people you provide them with food. The more important point is that it is better to provide irrigation facilities for good agricultural cultivation, and it is most important to teach farmers how to raise their productivity. These three categories are necessary for the development of Asia, Africa and other areas in the developing world.

This is based upon our own experience. Japan recovered from the ruin of World War II utilizing material assistance from, and technical cooperation

with, the United States and other countries as well international organizations, notably the World Bank.

As stated earlier, this year is the 40th anniversary of Japan's ODA activity. We have been conducting economic cooperation based upon our Constitution, and our foreign policy objectives. We appreciate that stable and prosperous international circumstances are the most important basis for our own development and prosperity. Japan has been enjoying such international circumstances in the Far East.

The end of the cold war has enabled us to utilize our ODA to create a favourable environment for a more peaceful and prosperous world without putting too much emphasis on ideologies and military considerations. Against this background, the Japanese government announced the Official Development Assistance Charter in June 1992, based on experiences that had evolved in Japan's ODA policy. The Charter defines philosophies, principles and priority areas for our ODA activity. It points out as the basic philosophies, humanitarianism, recognition of interdependence in the international community, environmental conservation, and the importance of support for the self-help efforts of developing countries.

The Charter defines four principles in implementing ODA: first, environmental conservation and development should be pursued in tandem; second that any use of ODA for military purposes or aggravation of international conflicts should be avoided; third, that full attention should be paid to trends in developing countries' military expenditures their development and production of mass destruction

FIGURE 5
THE FIFTH MEDIUM-TERM TARGET OF ODA

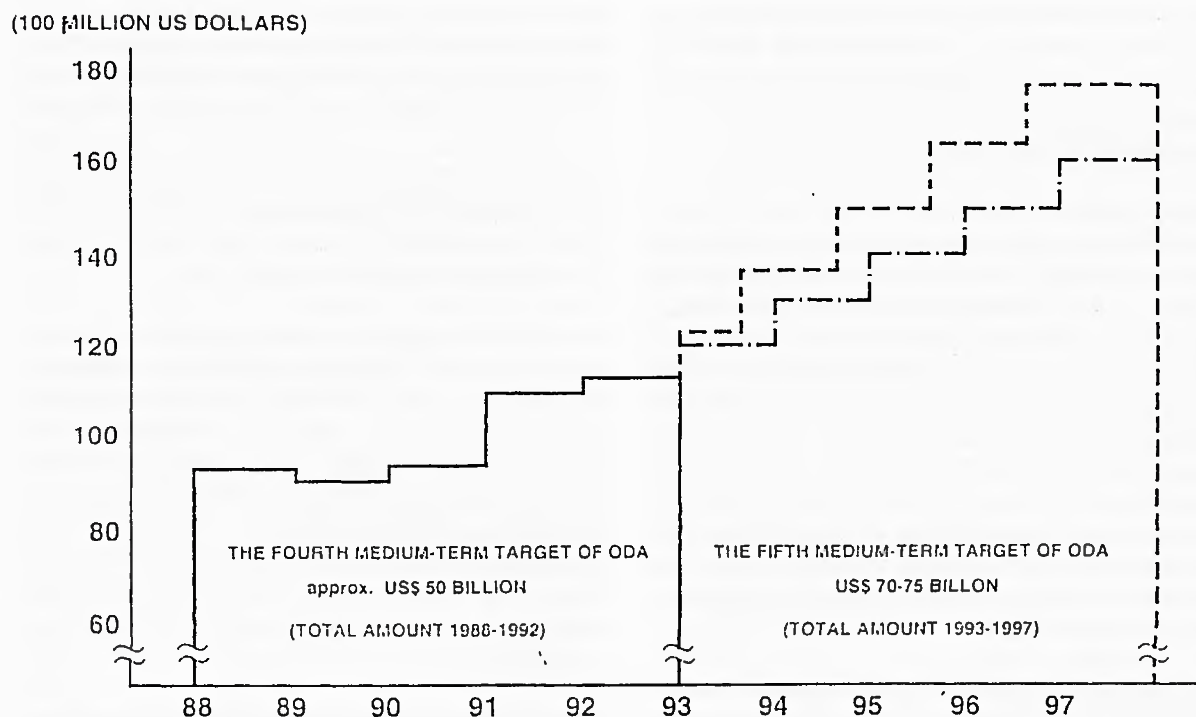
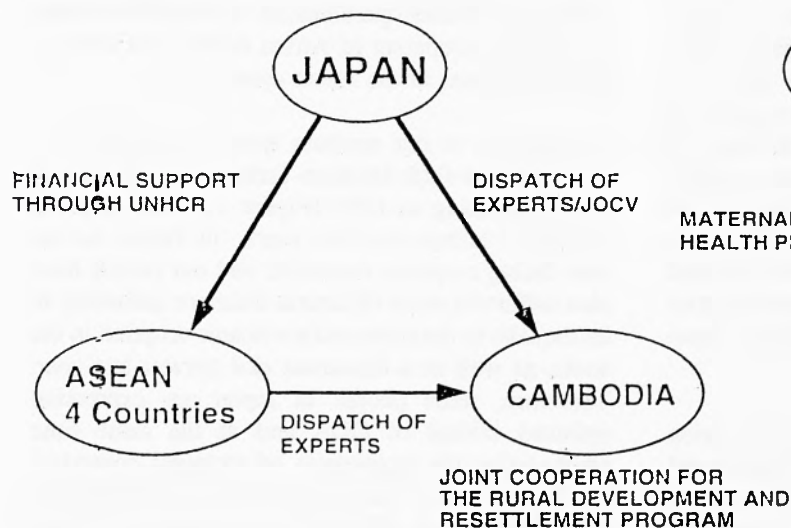
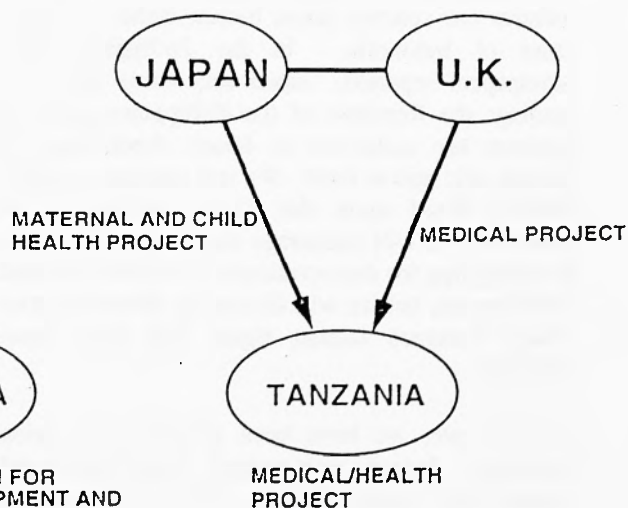


FIGURE 6
TRIPARTITE COOPERATION (EXAMPLE)

**1. JAPAN · ASEAN COOPERATION
IN SUPPORT TO CAMBODIA**



**2. AID COORDINATION AMONG
DONOR COUNTRIES**



weapons and missiles, their export and import of arms, etc; and fourth, full attention should be paid to efforts for promoting democratization and the introduction of a market oriented economy and the situation regarding the securing of basic human rights and freedoms in the recipient country.

These principles are not new to us; in fact we have been conducting our policy based upon them for the last few decades. But since the ODA Charter was decided by the Government, it became much clearer both for us and for recipient countries. On every occasion for policy dialogue between Japan and partner countries, we have taken up these points and deepened our mutual understanding. For example, recently Prime Minister Hosokawa visited China and talked with Chinese leaders about military expenditure and human rights. He made it clear to the Chinese side that Japanese assistance will not be provided automatically, but based upon the principles of the ODA Charter.

As mentioned above, I had the chance to visit Indonesia and the Philippines as the deputy head of missions that were sent to conduct policy dialogue on the mid- and long-term direction of Japan's economic cooperation with the two countries. This type of high-level mission is being sent out to our major recipient countries once every four or five years in addition to annual consultations on each scheme to those countries. When our delegation in Indonesia laid out our ODA policy in the opening speech at the consultation, some Indonesian newspapers reported 'Japanese aid grows, but will be closely watched.' The head of our delegation conveyed to President Suharto our concern about human rights in certain areas of Indonesia. In the Philippines local newspapers reported, 'Japan sets terms for ODA lending: the Republic of the Philippines asked to improve tax collection to lessen dependence on foreign aid,' and so forth. We will execute our ODA policies based upon this ODA Charter for all countries and will encourage those countries which are struggling for democratization and more peaceful development, but we will discourage those countries which disregard human rights and other basic principles.

For example, we have been greatly encouraging Cambodia. Indeed, very recently Japan hosted and chaired the second meeting of the International Committee on the Reconstruction of Cambodia

(ICORC) in Tokyo - I was the Secretary-General to that conference, where Japan and other countries, including the United Kingdom, pledged \$US487 million assistance to Cambodia in 1994. We will continue our efforts to play a leading role in this kind of international cooperation, to facilitate peacekeeping or peace-stabilizing processes in Cambodia. Japan has also pledged US\$200 million towards the Palestinian peace process for the coming two years. We have disbursed about US\$50 million so far.

We recently stopped our assistance to Nigeria, where the military forces had again intervened in the process of democratization. We have also suspended our assistance to Sudan, Haiti and Myanmar. Just recently we provided three small-scale grant assistances to non-governmental organizations, not to the Myanmar Government. But this is also something of a signal to the Myanmar Government that if it makes more progress in facilitating democratization, we are ready to extend our assistance.

When we consider each case in light of the ODA Charter, we take into account various factors ranging from the security environment to the economic and social circumstances of recipient countries. We believe we should also monitor the overall trends, rather than apply a single mechanical benchmark.

Japanese assistance has been going mainly to Asian countries, but not exclusively. We have also extended assistance to Africa and South America. In fact, Japan hosted the Tokyo International Conference on African Development last fall, where almost all African countries participated and discussed the possible development of Africa based upon some of the experiences of the Asian countries.

With regard to our medium term ODA target, last year, we set a Fifth Medium-Term Target for the five years beginning in 1993 (Figure 5). Our target is US\$70-75 billion over five years. In Tokyo, we are now facing a serious recession, and our people have also suffered a series of natural disasters, including an earthquake in the north and a volcanic eruption in the south, as well as a disastrous rice harvest last year. Therefore, some people in Japan are expressing opinions critical of ODA and at the same time emphasizing the importance of recipient countries' good governance, transparency and accountability, and efficient and effective implementation of our

ODA. Moving on to new directions in Japan's ODA in the coming years, we cooperate with other donor countries in formulating essential consensus amongst donor countries in the forum of the Development Assistance Committee (DAC) of OECD.

We are also ready to explore some joint programmes with the United Kingdom and other donor countries. At the same time, we are encouraging so-called South-South cooperation. For example, Indonesia has begun extending some assistance to other developing countries. Japan is ready to help that effort by Indonesia. Another example is Cambodia, where Japan is providing financial support as well as sending experts, and other ASEAN countries - namely, the Philippines, Indonesia, Malaysia and Thailand - have each dispatched teams of experts to Cambodia. We, the five countries are jointly proceeding with the project of rehabilitation and resettlement of Cambodian refugees. This kind of cooperation, which we call 'trilateral cooperation', is another new direction of our ODA (See Figure 6).

Another important direction is in environmental issues. Two years ago, Japan pledged at the UNCED conference in Brazil around 900 billion to one trillion yen (7 to 7.7 billion US dollars) to be extended in the environmental field of ODA. Another important area is global issues like population and AIDS. Japan just recently announced its readiness to extend 3 billion dollars over seven years for this purpose. Here again, we are able to conduct a joint project with other donor countries.

Also, we will further promote support for and coordination with Non-Governmental Organizations

(NGOs) that are engaged in grass-roots activities in developing countries. A particular emphasis on 'Women in Development' is one of the main directions of our ODA policy in the years ahead.

A brief overview on the present situation regarding Japan's ODA and directions for our ODA policy is given here. As stated, the implementation aspect is covered by colleagues from the OECF and JICA, but just one point I would like to emphasize is the question of commercialism versus

Japanese ODA. It is often said that Japanese assistance is just the pilot for a Japanese commercial invasion. I do not deny that when we provide infrastructure and good irrigation systems and good water supply systems, that will help those recipient countries to invite private investment from Japan or from other countries. However, it is not the main purpose of our ODA. When you take a look at the tying status of Japan's ODA, you might be surprised by the fact that more than 95% of Japanese yen loans are now untied. Even if you include grants, our record is more than 74% untied. There has been a great myth about this; the fact is, 95% of Japanese yen loans are untied, so the recipient countries have to tender international bids, and any companies of any countries can make bids. In fact, only 33-34% of those loan projects were contracted by Japanese companies. Moreover, those contractors are free to purchase materials from any other countries. We will continue our support to developing countries' self-help efforts while utilizing effective combination of our assistance schemes as well as maintaining our general untying principle.

Kazumi Goto
Chief Representative, Overseas Economic Cooperation Fund,
London Office

For some minutes Alice stood without speaking, looking out in all directions over the country - and a most curious country it was.

"I declare it's marked out just like a large chess-board!" Alice said at last, and her heart began to beat quick with excitement as she went on.

"It's a great huge game of chess that's being played - all over the world - if this is the world at all, you know. Oh, what fun it is! How I wish I was one of them! I wouldn't mind being a Pawn if only I might join - though of course I should like to be a Queen, best."

A foreign scholar, in answer to the question 'Why aid?' identified pragmatism and idealism as the basis, and sees the following five points as historically relevant:

- * because it is there;
- * because it works;
- * because it improves Japan's national prestige;
- * because it is popular; and
- * because it provides the Japanese with a glimpse of a desired future.

One important pillar of Japan's policy on international contributions is the promotion of 'comprehensive economic cooperation' - not just aid, but trade, investment, finance, and science and technology in a broad approach. This is really the case for Japan's contribution to economic and social development, in particular in Asian countries.

There can be no doubt that Japan's Asian role is central to its enormous aid programme. The question remains, however, as to whether Japan's consistent approach to its role in Asian development is typical of its wider aid policy. The 'intermediary', 'model role for development', or 'regional representative' roles remain the reliable fallback slogans for Japan's Asian policy.

In line with Japan's policy of economic cooperation, the Overseas Economic Cooperation Fund (OECF), in charge of bilateral ODA loans, has both expanded the scale and improved the quality of its ODA in order to respond to the changing needs and priorities of international development cooperation. Total OECF ODA volume during the five years of the Fourth Medium Term accounted for 46% of the total

volume, or 9% of the DAC countries' total volume during that period. OECF-administered ODA alone comes fourth in ODA volume, after the United States, France and Germany, exceeding that of the UK. The outstanding balance of loans provided by OECF is approximately one third of that of the World Bank Group, and equal to the combined total for the three regional development banks (AsDB, IDB and AfDB). In this sense, the OECF can be regarded as one of the most efficient aid agencies, with the smallest number of staff (having a staff of about 300) for one of the largest operations in the world aid community.

Over the 30 years of OECF's existence, it is believed that the main reason for the increase is that OECF loans have been seen to be suited to particular needs of developing countries, especially to the needs of developing the infrastructure facilities in Asian countries, effectively filling a gap between grants, on one hand, and private-sector commercial loans, on the other. In addition, it should not be forgotten that the fact that the recipient has to pay interest and repay the principal serves to enhance recipients' 'self-help efforts', which are essential for sustainable development.

The OECF also strives to respond to new trends in world development efforts. In recent years for example, the OECF has been committed to integrating environmental considerations into aid programmes and operations, and also to improving the status of women by ensuring women's participation in development. Moreover, in view of the importance of donor-side dialogue and aid coordination in order that they may assist developing countries more efficiently, the OECF is actively endeavouring to strengthen its ties with multilateral development institutions, and also with other bilateral agencies. In the light of this, the macro and country-sector studies have been strengthened. In order to further strengthen research activities with such intellectual contributions in mind, the OECF established the Research Institute of Development Assistance (RIDA) in October 1993.

With the accelerating pace of change in the field of interdependence in international relations, the aims of, and approaches to, development assistance are becoming increasingly diversified. The OECF is

keenly aware that this calls for a professional knowledge-based aid agency.

In particular, we will continue to further improve our development assistance activities by strengthening our planning and administrative capabilities in order to meet the changing needs and priorities of developing countries, by working for attainment of targets set in the Fifth ODA Medium-Term Target and in line with the principles and measures set forth in Japan's ODA Charter.

A brief introduction to the recent activities of the OECF is included in my separate paper entitled *Japan Loan Aid in Perspective* in which one of the most important and practical messages that I have tried to convey is that companies from countries other than Japan and recipient countries are eligible as suppliers of OECF-financed projects, and there is no reason why UK companies should not also benefit from it!. With a growing consciousness of both the Japan and UK sides, with regard to what we can do together to help the developing world, a strong political will and a pragmatic approach exist in both our countries.

In response to the sorts of expectations arising from recent demands on aid policy and implementation, and also to new trends of international development cooperation in the 90s, how should Japan respond in the future? For a full assessment, we must appreciate at least the following three features of the structure and process of Japan's aid administrative mechanisms.

First, alongside the deepening of interdependent relations, the widening of the target areas of policy is similar to the specialisation in individual policies, and in terms of institutional arrangement is increasing the participation of ministries in the foreign aid policy-making process, and the need for functional coordination of overall programmes and operations between ministries and agencies. In this situation, we can see administrative trends such as: 1) specialisation of aid administration; 2) multiplication of aid-related organisations; and 3) politicisation of aid ministries and agencies (including changes in the balance of power between ministries and agencies alongside changes in policy and methods of aid).

Second, the systematic conditions that developed over a long time through adjustment to change, and the organisational process that developed in relation to

changes in development needs, has a major effect on the content of the types of policy that are created, not as a selective approach to aid priorities, but as an approach to selecting aid types.

Third, in Japan's aid administrative system, we see the two trends of a widening of the policy field and the specialisation of individual policies. In the direction that seeks to improve the policy effectiveness of planning at the middle level (ex., the formulation of country and sectoral aid policies, etc) linking micro and macro, we can see the development of incremental attempts indicating the complexity of aid functions across the aid mechanism as a whole.

With the aid mechanism having these features as a focus, as Japanese responses open up, the problems we now have to study can be brought down to these three points: 1) the challenge to develop aid policy (including quantitative increase and qualitative improvement); 2) the challenge of aid management (involving both functional and systematic improvement); and 3) the challenge of making a total system of aid administration (the interaction of both the domestic system and the international system). These issues for study are ones that are involved in regular day-to-day matters. They point to the importance of Japan's aid role in international society. Through an effective link between management and research, we can move to develop the cutting edge of a 'comprehensive policy study of overseas aid' by combining the value of the aid approach with theory and practice. This is even more important for the future.

The Challenge to Develop Aid Policy

This covers the following:

- Strategic response to multi-faced development of international cooperation.
- Aid approach in response to development stages and phases, and diversification of aid types and areas in response to development needs.
- Promotion of globalisation in geographical and country distribution of aid.
- Changes from request-first to consultation.
- Strengthening of assistance for self-help efforts for sustainable development (including methodological studies).
- Broad response to the debt problem (including problem of reduction in public debt).

- New development problems (environment, women in development, social and cultural dimensions of development, soft support).
- Activation of experience and lessons from Japanese economic development and that of NIEs (including promotion of linkage-type assistance).
- Development of comprehensive economic cooperation using approach of aid, investment and trade (active linkage of ODA, OOF and PF).
- Promotion of domestic internationalisation (a strengthening and widening of domestic aid base).

The Challenge of Aid Management

This covers:

- Building national consensus on aid philosophy (including setting political guidelines for aid giving).
- Relations between legislative and administrative arms of government in aid policy-making (including means for political instruments for goal setting).
- Relations between government and implementing agencies in planning and administration of aid programs (including delegation of autonomy from the former to the latter).
- Linkage between planning and research functions in longer term aid strategy (including examination of possibility for establishing a comprehensive research institute on aid problems).
- Systematic application of country economic and sector analysis, and establishing country sector-specific aid programs (including examination of the methods of setting conditionality for aid giving).
- Strengthening country aid management systems (including effective links between capital and technical assistance).
- Strengthening facilities for identification, preparation and formation of development programs and projects (including the diversification of consulting services).
- Operational improvements in appraisal, supervision, evaluation and follow-up.
- Improvement and expansion of efficient implementation systems.
- Development, preservation and activation of professional personnel for international development cooperation.

The Challenge in Making a Total System of Aid Administration.

Within the domestic system this covers:

- Relations between aid administration and political parties (both government and opposition).
- Relations between aid administration and interest groups (including NGOs).
- Relations between aid administration and interest groups (including NGOs).
- Relations between central and local governments in aid administration.
- Relations between aid administration and the education system (education for international understanding: peace; development; and environment).

Within the international system this covers:

- Relations between the aid administration of donor and the development of recipient.
- Relations between bilateral and multilateral aid administrations.
- Relations between international system in bilateral aid administrations, especially donor aid issues in DAC.
- Relations between policy dialogue and aid coordination (including problems of setting conditionality of aid, and the domestic political situation of the recipient).
- Relations between the aid sub-system and international political and economic system.

From the point of view of improved system management of aid administration, an important issue is whether the establishment of a comprehensive aid administrative mechanism can be set up with the following three things: 1) proper understanding of development cooperation; 2) necessary specialist skills in development cooperation; and 3) the political will to bring about development cooperation objectives.

The prospects for international cooperation including Japan's aid response, lie in the long and multi-sided challenge in the 'historical enterprise' of the trinity of politics, administration and the people in the new age of international interdependence.

"Now! Now!" cried the Queen. "Faster! Faster!" Alice found herself sitting on the ground, breathless and giddy, and she looked round her in great surprise. "Why I do believe we've been under this tree the whole time! Everything's just as it was!"

"Of course it is," said the Queen. "What would you have it?" "Well, in our country," said Alice, still panting a little, "you'd generally get to somewhere else - if you ran very fast for a long time as we've been doing."

"A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

COMMENTARY

Adrian Hewitt
Overseas Development Institute

The traditional perceptions of the Japanese aid programme are mentioned earlier. There are ten really distinctive features of Japan's aid:

First, the philosophy and approach is very much based on self-help, of the Samuel Smiles genre, not on subsidies to the 'deserving poor'. It is modelled on East Asian, particularly Japan's own, performance, which proves that aid works. Secondly, Japanese aid is resistant to conditionality or interference, especially regarding politics and human rights, preferring instead a 'policy dialogue', rather like the French. Despite the declarations in the ODA Charter, Japan is not really keen on linkages between aid and democratization or the curtailment of military expenditure. The Charter merely states that Japan should "pay full attention" to this.

Japan uses targeting and public planning. Nearly all the past four five-year ODA doubling targets have been achieved on time, and the current one is to reach \$70-80 billion dollars over 1993-98, giving an annual ODA of \$17-20 billion at the end. A state-business mix is preferred (as in the East Asian Miracle, and comparable to early Thatcherism here in the UK) to the magic-of-marketplace development philosophy favoured by western donors.

There is a firm belief in *trickle-down*, in good time, rather than a poverty-focus or basic human needs approach. This belief can justify the heavy infrastructure type of aid that is such a major component of Japanese aid.

There is a reluctance to 'graduate out' successful aid recipients. This has generated some healthy controversy with the DAC. For example, Singapore, which will continue to receive aid counting as ODA

until 1996. South Korea and others are next to be resisted.

There is a large number of countries covered by the aid programme, 150, not unlike the UK's 167. This is perhaps because aid is a surrogate for the maintenance of a global foreign policy (the UK's declining, that of Japan emerging).

There is a four-Ministry system (MOFA, MOF, MITI and EPA), or even 18 ministries involved in aid administration, rather than one single agency or body. Yet agencies such as JICA and OECF are bigger alone than many bilateral donors. This lack of a single agency controlling the programme and the policy is not, however, unique, and exists for example in France and Germany.

Japan is reluctant to accord official debt relief, even for the poorest African countries. There is a preference for re-financing and Japan has no difficulty in finding new soft credits or even grants, but outstanding credits will not be extinguished because of the 'moral hazard.' Japan is almost isolated within the OECD on this policy.

There is massive popular interest in aid/ODA in Japan. Newspapers lead on aid stories and aid books are best sellers. Top Japanese economics graduates are opting for careers in ODA. A decade ago they would not have even wanted to work abroad. There are some early signs of aid fatigue, but maybe this at least indicates that Japan is becoming a mature donor and will soon take on a bigger institutional role in DAC, the UN and the World Bank.

SECTION 2

JAPAN'S AID TO EAST ASIA AND ITS IMPACT ON DEVELOPMENT

Yoshihiko Kono

Managing Director, Research Institute of Development Assistance, Overseas Economic Cooperation Fund

In general, the role of foreign aid in a country's development process is relatively small in terms of quantity, and thus is essentially a secondary factor. The East Asian countries have strong historical and cultural links with Japan and are politically and economically of great importance for Japan. Moreover, these countries have a relatively high need for development assistance as well as a large absorptive capacity. Japan, therefore, has made considerable efforts towards, and provided financial assistance to those countries for a long period of time. Since East Asia shows the most dynamic record of economic development in the world, the region drew the attention of international aid organizations and developing countries in other regions. A good example of this phenomenon is the World Bank's research study entitled *The East Asian Miracle*. As a result of this development, some argue about the effectiveness of Japanese ODA, taking East Asia's success as evidence. This success, however, should primarily be attributed to the particular efforts of both the governments and private sectors of these countries rather than to any assistance from abroad; for the economic performance of the recipients differs significantly, despite the same efforts of assistance exerted by OECF. This is the case even among those countries to which OECF has extended a considerable amount of assistance on an annual basis. Not all countries in East Asia are successful.

Japan's ODA Loans (Yen Credits) and East Asian Economic Development

What, then, is the role of Yen Credits in East Asian economic development? Here, the following three points are important. Firstly, the provision of a stable flow of development capital. Since a development plan itself has a long-term perspective, it requires a long-term flow of capital for its implementation, and private capital supply alone cannot satisfy this long-

term capital demand. And, if the amount and priority sectors of assistance often change, even the ODA cannot be considered as a stable source of capital.

The Japanese government has steadily increased its ODA by setting its mid-term goals and adding a certain percentage of increase to the previous year's record. About 30 to 50% of capital flows to ASEAN countries in the 1980s were ODA flows. If we look at the corresponding figure of Japanese ODA alone in this total, it accounted for about 15% in Indonesia and Malaysia and about 25% in the Philippines and Thailand, most of which were Yen Credits. During this period, those countries were able to obtain a steady flow of capital at low interest rates, which made their economic development less burdensome.

The second point is the provision of capital in a flexible enough way (in quantity and form) to meet the changing conditions of the developing countries. The flexible provision of assistance to countries faced with political difficulties and unfavourable change in the international economy, such as fluctuating prices of primary products, was effective in reducing political and economic uncertainties, with which their private sectors could not deal. If the donor side sticks to predetermined specific forms and sectors in dealing with ODA, the recipient cannot make good use of the ODA it receives. ODA therefore can contribute to the smooth flow of capital to developing countries, and also to reducing their uncertainties.

The third point is the role of providing an adequate environment for private sector activities to flourish. Economic development depends primarily on the power of the private sector. To promote private investment, it is necessary to provide socioeconomic stability and a necessary infrastructure. Development assistance not only directly contributes to raising the efficiency of private investment by developing infrastructure with concessional funds, but also it is a signal of the donor's strong commitment and support. Yen Credits have contributed a great deal to the infrastructure development of the East Asian

countries, especially in sectors such as power, transportation, telecommunications, agriculture, fisheries and water supplies, such as Indonesia, 27% of power supply and 54% of water supply facilities in Jakarta city, and in the Philippines, 70% of pumping stations for flood control in the Manila district and water supply facilities covering 13% of total population were constructed using OECF loans.

I have mentioned only three aspects of the role which so-called Yen Credits played in promoting East Asian economic development. Looking back to the time when we started our operations, these East Asian countries were not in the category of 'better-offs' according to international standards, and they were lacking physical and human capital as well as solid economic policies, necessary institutions and organisations. Nevertheless, OECF continued its support of these countries, and we believe our continued assistance undoubtedly contributed a great deal to facilitating their economic development.

The Style of OECF's Development Assistance.

The characteristics of Yen Credits are, in general, their concentration on both Asia and infrastructure. In terms of regional distribution, Asia holds the highest share and accounts for 80% of total commitments, and in terms of sector distribution, more than half of the total commitments goes to economic infrastructure. Another feature of Yen Credits is a high rate of untied procurement: in fiscal 1992, the rate of general untieing exceeded more than 90%, or 91.2% to be precise.

Let me discuss how Yen Credits are extended in support of particular development needs at various development stages of recipient countries.

On stable capital supply and assisting long-term development plans, the Japanese Yen Credits to major recipient countries like East Asia formed a pattern of gradual increment. With the exception of China, to which the Japanese government pledged loans for 5 years *en masse*, the government normally increased the commitments steadily by adding a certain percentage to the record of the previous year. This practice facilitated recipients' successful formulation and implementation of development plans.

Secondly, on flexibility; a good example is our assistance to Indonesia to cope with her then-worsening balance of payment problems: from 1987 to 1990, we extended, despite our general preference for project assistance, a large amount of commodity loans and, since 1988, sector program loans have been extended.

Thirdly, on the operational side: various measures and facilities, designs and procedures in the project cycle have been introduced in order to meet the needs of developing countries. To cite a few, our loans at first covered only the foreign currency cost of the project, but we have introduced Priorated Local Cost Financing, which finances a certain percentage of the total project cost including both foreign and local currency costs, thus enabling us to finance projects with high local currency requirements such as those in the social sector and for rural development. In order to meet the needs in higher education and technical transfer according to the different stages of development in ASEAN countries, fellowship programs have been introduced for Indonesia and Malaysia. By the introduction of the Special Assistance Facility and Disbursement Review, operations at each stage of the project cycle, i.e., project formation, implementation and monitoring after completion, have been reinforced.

The basic philosophy behind the conduct of OECF's operations is the promotion of recipients' self-help efforts along the lines of the basic policy orientations of the Japanese government. Professor Robert Cassen of Oxford University said in his speech 'Improving Aid Effectiveness' that "one feature that should be high on the list for improving aid effectiveness is recipient ownership and commitment to the aid activities in question." Major international aid institutions like the World Bank evaluate their assistance, especially in the context of structural adjustment programs, according to the following criteria: 1) who took the initiative in formulation and implementation of structural adjustment programs, 2) to what extent did policy makers recognize the necessity of economic reform, 3) whether the political leaders explained the necessity of reform to the nationals, and 4) to what extent did policy makers try to achieve consensus related organizations and interest groups.

The notion of this 'recipient ownership' seems to be in common with our greatest concern: the importance

of self-help efforts. It implies that developing countries themselves formulate and implement development plans as their 'own.' Self-help efforts of developing countries include a recognition of the need to build organizational and institutional frameworks, which can take an overall view of a country's challenge, to ensure macroeconomic stability, higher educational attainment, industrial infrastructure development and market building.

In Japan, it is believed that ODA assistance in the form of loans has positive effects on promoting self-help efforts of developing countries because loans require discipline in the form of their repayment. One of the reasons that Yen Credits have been deemed of great importance in Japan's ODA is this aspect of loan type assistance. Of course, there is also the practical consideration that, in order to meet the vast demands of the East Asian countries, ODA assistance in grant form is not sufficient. We would like to enhance the dynamism in which a part of the fruit, in the form of repayment, borne by the self-help efforts and economic development of a developing country promoted by Yen Credits, be recycled to other developing countries: a recipient country repaying Yen Credits is indeed supporting the development of the third countries.

Then, what are the practical implications of assistance based on the promotion of self-help efforts? First, by giving preferential assistance to the countries promoting self-help efforts, the Yen Credits give them incentives. Increasing commitment to the countries putting a great deal of effort into efficient and effective utilization of Yen Credits, and timely extension of these credits help recipient countries' political stability and implementation of vigorous economic policies. Countries with people exerting all possible efforts for economic development can best use our Yen Credits. On the other hand, it assumes that the recipient has an adequate level of institutional capability.

Since many of those countries in East Asia basically had such capability and strengthened this in the course of economic development, we believe the basic frameworks of development policies and priorities for OECF loans were adequate. There were occasions, however, when the World Bank and other aid institutions questioned the development strategies and project selections of those countries; for example, loans for the construction of a steel plant in Korea in

1971, and the Eastern Seaboard Development Program in Thailand in 1983. As I mentioned earlier, not all countries in East Asia have succeeded in Economic development. Furthermore, even in those countries which have been relatively successful, it is not always true that each country has enough capability to solve the problems of their own. In this regard, although we shall respect the recipients' direction as a basic principle, we need, in future, to go a step further from the traditional stance.

Common Factors for Successful Development

Let me now discuss the common factors for successful development, to which the promotion of self-help efforts was attributed in the East Asian countries, and why these countries were able to have sound policies, an important factor for economic growth.

The Research Institute of Development Assistance of OECF is at present conducting a preliminary study on this matter using Korea and Thailand as examples. The outcome of this study seems to give us some hints. As you all know, Korea had very strong government-led industrial policies, while private sector initiatives led the economic development of Thailand. Although the patterns and policies in these two countries differ significantly, I think there are nine common conditions in their economic development.

- strong development will of the administration, which obtained legitimacy by setting economic development as a national goal and, furthermore, by attaining actual economic development records.
- strengthening of the civil service system to support economic development and the development of socio-economic infrastructures.
- clear rules governing economic activities and monitoring capability: Korea had a contest-based competition scheme while Thailand had stringent budget and debt management.
- efficiency generated through competition.
- mechanisms for supplementing imperfect information: Korea created a government-private

sector coordination system and Thailand developed information flows through voluntary activities of the banks, distributors and exporters and development of personal networks.

- nurturing or strengthening of industrial competitiveness; Korean government supported the development of Chaebol, while, in Thailand, the entrepreneurial role was filled largely by foreign firms and local capitalists originating from dealers of those foreign products.
- social equity in the form of opportunities to participate in economic activities and people's incentives for upward mobility in the society; the existence of a meritocracy in which ordinary people have the opportunity to rise to the level of their ability.
- social cohesion, which was created by strong leadership (e.g. in Korea) and monarchy (e.g. in Thailand) and
- political stability.

It could be argued either that there are other important factors or that these can be summarized by fewer essential factors such as Good Governance, Participation and Entrepreneurship. I would say that these are still preliminary findings and we shall continue to study further. What should be emphasized from these findings, however, is that understanding the roles of government and private sector in a wider perspective including non-economic factors such as political leadership, nationality and social organisation, and how their coordination should be carried out are important issues for effective development assistance.

Lessons from East Asian Experiences and Issues for Future Consideration.

Although Asia holds the largest share in OECF's operations, the shares of other regions have increased over time; Africa's share accounts for 8.3% of total accumulated commitments, Latin America 6.3% and the Middle East 4.7%, and the number of the recipients are also increasing. Within Asia, the share of South Asia is increasing, and there are newcomers such as Mongolia, Central Asian countries and Vietnam. The recipient countries of the Yen Credits

have been thus quite diversified by now in terms of the development stages, histories and economic systems.

When we look at those countries in a wider perspective, in most cases, the fundamental differences from the East Asian countries become all the more clear, for instance, political instability, government incapability, an underdeveloped market economy and the absence of entrepreneurs.

Although it is not easy to draw useful lessons from our experiences in East Asia for countries in other regions, I would like to make three points. First, on the leading role of the government in economic development. There are those who deny even the essential role of governments because of the importance they give to the market economy. This is very dangerous. In some transitional economies, for example, the governments' withdrawal from certain economic activities has not been replaced by the private sector, which is to be nurtured. We believe that government should play a leading role in economic development in those countries with a low level of market activity. Of course government does make mistakes. Yet I think it is a *sine qua non* for government, especially at the early stage of development, to lead the process of self-reform in order to remove the bottlenecks in human resource and institutions as well as macroeconomic management and development of physical infrastructure.

Secondly, an important point is the role of the private sector, especially of foreign direct investment. There is no room for argument on the importance of developing countries to enhance the environment for local and foreign private investment. The experiences of Thailand, Malaysia and Indonesia show that timely inflows of foreign direct investment contributed a great deal to their success. Recently the OECF increased its loans to China and India, and we expect here a virtuous circle of activating foreign direct investment by developing infrastructure and yielding policy reforms through Yen Credits. The foreign direct investment is not necessarily from Japan. As is happening in East Asia, it is important that new investing countries emerge after the forerunners. We hope such a wave of investment will reach South West Asia and even Euro-Asia and Africa in the future.

The third point is the effectivity of South-South cooperation, or in other words, the importance of a selection of policy measures suitable to the situation of each country, taking into consideration the experiences of the forerunners. In the case of East Asia, Korea followed Japan and ASEAN countries are influenced by NICs. Furthermore, it appears that a mutual learning process has continued among neighbouring countries within, for instance, the ASEAN region.

From the late 1980s, Korea and Taiwan established aid organizations and introduced themselves as new donors, and Singapore, India, Thailand and Turkey have also become new donors. Amongst these new donors, Thailand and Turkey have clear aid policies which include their expanding cooperation with Indochina and Euro-Asia respectively. If we perceive that these new donors have more 'adequate' technologies, or organizational and institutional forms which correspond more appropriately to the needs of other less developed countries than industrialized countries, we can be more effective by backing up their development assistance. Should new donors support a particular development strategy based on their experiences, such efforts would bear more effective fruit. Moreover a mutual learning process among the developing countries themselves, based on each other's experiences should be actively promoted.

Now, what is required of the Research Institute of Development Assistance of the OECF in this context? First, to examine which recipient country among those various countries in the Middle East, Africa and transitional economies, whose conditions for development differ so much from those in East Asia, can make good use of Yen Credits and how. In contrast with the East Asian countries which are capable and made good use of Yen Credits, we need to, generally speaking, put in considerable time and manpower in order to ensure effective aid to the countries in other regions. Since the budget and manpower are limited, a possible approach for OECF is to support countries where our assistance can be most effective, ie. the countries which are capable and who strive for development where a favourable flow of direct investment can be envisaged. What is hoped is that those countries thus supported by the Yen Credits will form growth poles for the surrounding countries, as we currently see in East Asia. What is important here for RIDA, is how we understand and evaluate their self-help effort, which is an important criterion.

Secondly, how we can promote self-help effort to the countries which are lacking? Here, increasing the amount of assistance does not work, and we should look for more effective means need to be found to strengthen their capability. Having in mind how we can help improve and reform their institutions and mentality, we would like to work on this issue together with other donors and institutions, including local research institutions.

Thirdly, to identify new needs of traditional recipient countries on which we have concentrated Yen Credits in the past. The countries on the right track of economic development need, because of their development, our continued assistance, but not in the same way as in the past. In the sectors such as environmental protection, education and rural development, emerging needs and priorities can be observed. Our ideal picture is to help them to ensure sustainable development until they become future new donors.

In conclusion, I would like to touch upon the aspirations of the Research Institute of Development Assistance (RIDA). The primary objective of RIDA is to conduct practical research studies in order to improve the quality of OECF operations. Drawing on the experiences of assistance to the East Asian countries, it is important to discern the recipient's capability. In other words, we may have to be involved in the process of the formulation of a development plan, and sector policies of the recipient, which necessitates us to advance a step further than our traditional operations. I think this is an important task of RIDA. By so doing so, we should avoid preparing stereotyped prescriptions. We hope to identify more diversified measures, taking into account the recipient's initial conditions of economic development, present stage of development, and institutional frameworks, as well as the roles of government and private sector.

In tackling this difficult task, we intend to review, together with the people of recipient countries, the experiences of Japanese economic development and OECF's 30 years of operations to put in more fresh views. Moreover, we think it useful to exchange views and share knowledge with the experts in Britain's ODA, ODI and other aid organizations and institutions.

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At present, the government of Japan is under the Fifth Medium-Term Target of ODA which is based on the ODA Charter adopted in 1992. In accordance with the Target, JICA is trying to improve both the scale and the quality of its activities with the improvement of its own administration and staffing. With regard to priority areas, emphasis is placed on aid for basic human needs, for human resources development and for 'social' infrastructure build-up. Furthermore, JICA is endeavouring to tackle emerging development issues such as environmental conservation (it was recently announced that Japan will spend approximately US\$8 billion), gender, population, AIDS, democratization, market-friendly economy, south-south cooperation, and so on. JICA's technical cooperation activities are extended in more than 130 countries across a wide range of areas. This discussion focusses on the examples of the Asian countries, especially in the context of human resources development, environmental conservation and south-south cooperation.

This paper will briefly outline JICA's activities, covering the importance of human resources development, JICA's experience in human resources development and the recent approaches to some of the major issues which have comparatively recently moved to the centre-stage of the world's attention.

JICA's Activities.

JICA is a governmental agency which was established to implement technical assistance to developing countries. The activities are totally funded by the government of Japan. JICA's budget for FY1993 was approximately US\$1.40 billion. JICA's activities have been rapidly expanding. Since JICA was established twenty years ago, the budget for the operation has increased almost ten times.

JICA is also engaged in the capital grant aid cooperation of the government of Japan. The Ministry of Foreign Affairs is responsible for spending most of the budget for this programme. However, JICA is entrusted to promote the capital grant aid by conducting basic design studies and providing necessary technical services at the implementation stage. In this way, in FY1993 JICA

was involved in implementing capital grant aid with a total budget of approximately US\$1.42 billion.

Below is an outline of JICA's major technical cooperation activities.

- JICA invites trainees from developing countries. The primary aim of the training programme is to transfer specialized knowledge and technology.
- JICA dispatches Japanese experts and young volunteers to developing countries. The latter programme is called the Japan Overseas Cooperation Volunteers, and is similar to the British Voluntary Service Overseas (VSO).
- JICA supplies necessary equipment for technical cooperation. The total amount of this cooperation for FY1992 was approximately US\$200 million and 46% of this equipment was supplied to countries in the Asian region.
- JICA is also engaged in project-type technical cooperation as one of its major activities. This form of cooperation integrates the three programmes I have just mentioned, namely the acceptance of trainees, the dispatch of experts and the supply of equipment to carry out a project to be completed, in principle, within five years.
- JICA conducts development studies as another form of technical cooperation, where we provide consulting services by dispatching study teams to help in formulating developments plans and projects. In FY1992 276 studies were undertaken, and out of these 153 were conducted in the Asian region.
- Emergency Disaster Relief. Japan has a great deal of expertise in this area, because it has frequently suffered from natural disasters such as earthquakes and typhoons. JICA is in charge of dispatching the Japan Disaster Relief Team, to extend emergency relief upon request from disaster-stricken countries or international organisations.

Importance of Human Resources Development

The ultimate goal of technical cooperation is to achieve sustained and self-reliant development. Developing countries themselves have to play the central role in the social and economic development of their own nations. It is the people of developing countries that make development possible. Donors should focus on supporting the efforts of developing countries to enhance and utilize their own people. In this context, the fundamental objective of all of JICA's technical cooperation activities can be determined as human resources development in developing countries.

At the time when JICA started technical cooperation, nearly forty years ago, cooperation in human resources development rather concentrated on improvement of levels of basic knowledge and technical skills and know-how of technical people in various fields. However, once a certain number of skilled technicians was ensured, the emphasis gradually shifted to fostering those higher level engineers who are expected to play a leading role in innovation and dissemination of technology.

On the other hand, if there is no mechanism to utilize these qualified personnel in the developing country, it is useless to train people. The importance should be stressed of improving the managerial and administrative capacity of government officials, the capability for research and development researchers, and attitude towards improving productivity of people at all levels.

Thus the concept of human resources development has been broadened. JICA always keeps in mind these various needs for human resources development in implementing its technical cooperation activities.

JICA's Activities in Human Resources Development

I would like to outline JICA's activities in human resources development, and introduce some of the examples among them that took place in the Asian countries.

Training Programmes

JICA invites more than 8,000 trainees every year in various fields. In FY 1992, 8,363 people participated in JICA's training programmes, and out of these 4,589 were from Asia. In relation to human resources development, I would like to select three key areas.

The first is training courses in education and vocational training, based on the recognition that an increase in the number of middle-level engineers and administrators would promote broad-based development. There are training courses such as training for vocational training instructors and development of teaching materials, whose long-term objective is to enable developing countries to teach and train their own human resources by themselves.

Secondly, training courses concerned with macro-economics such as economic development policies and development economics. In order to achieve sustainable development, the decision makers of recipient governments should form well focused macro policies and strategies.

Then, these policies and strategies need to be realized in proper ways. The third one is, therefore, concerned with government administrative systems such as national and local government administration. To be more specific, administration in the areas of health and sanitation, employment, law enforcement, taxation, and so on.

Dispatch of Experts and Volunteers

JICA also dispatches experts and volunteers of a variety of expertise to developing countries. In FY1992, 2,727 experts and 939 volunteers were dispatched. The numbers dispatched to the Asian countries were 1,542 and 274 respectively. The experts work in the public sector. Many of them are focusing on the improvement of the government administration, engaged in fields such as urban development and tourism, promotion of small and medium scale industries, investment promotion, environmental conservation, and so on. The volunteers, as compared with the experts, can be said to contribute to human resources development at the grass roots level, especially in rural areas.

One example of the activities of the volunteers is The Rural Village Development Project in the Sabah Region of Malaysia. It aimed at the comprehensive development of the selected four rural villages through the dispatch of volunteers specialized in food plants, livestock, public health, civil engineering and village development services. They lived in the villages, learned the local languages, and ate the same food as the villagers, in order to understand their real problems and needs. The project started in 1984 and terminated in 1992, and forty-one volunteers were dispatched in total. As a result of the project, people's attitudes towards health, sanitation, clean water and clean food has been improved to a great extent. Even after the volunteers left, their counterparts in the villages continue to diffuse knowledge and techniques obtained from the Japanese volunteers. It is essential to foster these village leaders, so that the projects sustain and contribute to the betterment of life in rural areas.

Project-Type Technical Cooperation

JICA is implementing project-type technical cooperation in a very wide range of fields. In FY1992, 207 projects were under implementation, out of which 114, or more than half, were in the Asian region. There are a number of examples of projects which directly concern education and training such as the Trade Training Centre in the Philippines, Sabah Reafforestation Technical Development and Training Project in Malaysia, the China-Japan Medical Education Centre Project in China, and so on.

Below are details of two projects. King Mongkut Institute of Technology in Thailand, and the ASEAN Human Resources Development Project.

King Mongkut Institute of Technology in Thailand.

The project started as JICA's technical cooperation to the Nonthaburi Training Centre on Telecommunications at the time of its establishment in 1960. This training centre was strengthened gradually, and on the occasion of the establishment of the King Mongkut Institute of Technology, it was raised to the status of the Faculty of Telecommunications of the Institute. At present, this Faculty enjoys the reputation of having one of the highest academic levels in Thailand. The number of graduates from the Institute was about 700, or 18% of the total graduates in engineering in Thailand in 1990.

These graduates have played an important role in the field of telecommunications since the time when any other university level education was scarcely available in telecommunications in Thailand. Certainly, they have been the driving power for the promotion of telecommunications in Thailand.

Through technical cooperation towards not only education for engineers, but also bringing up teaching and administrative staff, management and administration was fully handed over to Thai staff. Thus, a small training centre increased its capacity step by step and finally became a part of the university level institute. This project is a good example of institutional strengthening based on human resources development.

ASEAN Human Resources Development Project

The ASEAN Human Resources Development Plan was suggested by the Prime Minister of Japan, Mr Suzuki when he visited ASEAN countries in 1981. At that time Brunei was not a member of ASEAN. The Plan was welcomed by all the ASEAN governments, and realized as five projects in each member country, Indonesia, Malaysia, Philippines, Singapore and Thailand. The projects are combinations of technical cooperation and grant aid carried by JICA and designed taking into account the level of each member country. Each project plays an important role in not only development of its own country, but also development of ASEAN countries so as to promote close regional cooperation in this region. I would like to give brief outlines of these five projects.

Centre for Vocational and Extension Service Training (CEVEST) in Indonesia aims to educate teachers of the main Centre, so that they will train the trainers of local vocational training centres and the extension workers for small and medium scale industries. The policy of the government of Indonesia to promote outward-oriented industrialization was considered in the project design. The Centre accepts approximately 500 trainees annually from Indonesia and other countries, about 60 are from ASEAN countries.

As compared to Indonesia, Malaysia was industrialized to a certain extent, but lacking a number of qualified instructors for advanced skill training. Considering this situation, the Centre for Instructor and Advanced Skill Training (CIASST) in

Malaysia was to educate instructors of the Centre and develop training methods and materials. Then the Centre provides training in machine tools, automobile repairing, electronics, etc. for the trainers of both public vocational training centres and private firms. More than 1,000 people from Malaysia and other countries participate in the training at the Centre, about 60% of them are from the ASEAN region.

The primary objectives of the Philippines Human Resources Development (PHRDC) in the Philippines are rural/regional development in the areas of fisheries and aquaculture and cottage industries, and employment promotion in construction through provision of training for young people in the Centre. At the same time, a model system of information on human resources development has been developed. The number of trainees from the Philippines and other countries is increasing, less than 500 in FY1988 and at present approximately 1,400 annually. In addition to the regular training courses, local training and ASEAN regional seminars are being held.

Singaporean industries were at quite a high level and highly dependent on technological innovation. Therefore, the Productivity Development Programme (PDP) in Singapore aimed at contributing to the improvement of productivity rather than simply training workers. Training and education are provided for the officials of the related ministries, so as to change the attitude of people towards productivity in the long run. According to the spirit of the ASEAN Human Resources Development Plan, the Centre holds seminars and workshops to which approximately 5,000 people from ASEAN countries are invited every year.

The key objective of the ASEAN Training Centre for Primary Health Care (ATC/PHC) in Thailand is promotion of primary health care activities in rural areas through improved coordination between the Centre and local training centres for primary health care. Education for staff of the Centre, research and survey on health care, and development of appropriate methods for primary health care in the model areas are the major activities of the Centre. This Centre was the first among the five Centres that started training programmes. Annually around 500 people are participating in seminars and workshops organized by the Centre.

When the role of Japanese development cooperation in the development of Asian countries is discussed, attention has often focused on the amount of financial cooperation and the size of projects, especially 'physical' infrastructure development projects. However, Japan recognises the importance of human resources development as well, and from the first stage of its cooperation extending technical cooperation activities and financial cooperation activities have contributed complementing each other to the development of Asian countries and will continue to contribute significantly in the future.

Recent Approaches Taken by JICA to Major Issues

Below are examples of some recent approaches towards the emerging development issues; namely environmental conservation and south-south cooperation.

Environmental Conservation

In the past, Economic development was the first priority of developing countries and environmental conservation tended to be neglected. However, it is obvious that environmental considerations are indispensable for achieving sustainable development. At the same time it cannot be forgotten that environmental problems are inter-related with many other issues such as poverty, energy, population, etc. It is, as widely recognized, not an easy task to tackle these issues, but has to be achieved to promote development in harmony with the environment.

JICA has been cooperating with developing countries in their efforts to tackle such a broad range of environmental problems through human resources development taking the long term point of view. For example, environment-related projects include the Environmental Research and Training Centre in Thailand, Japan-China Friendship Environmental Protection Centre in China and the Environmental Management Centre in Indonesia. They aim to establish and operate in the centres, and to develop the skills and techniques of the researchers and engineers in the field of environment. JICA carries out these projects by combining project-type technical cooperation and grant assistance.

At the same time, JICA cooperates in the field of prevention of deforestation. In Thailand, The Reforestation and Extension Project in the Northeast of Thailand is carried out, that aims at promotion of reforestation activities by local people through growing and distributing young plants and teaching the meaning as well as techniques of the reforestation to the local people. Another example is the Master Plan Study on the Agricultural Development Project of Control Slash and Burn Cultivation in Laos. This is to conduct a study to prepare a plan to reduce slash and burn cultivation which is thought to be a major reason for the deforestation.

Japan has gained a great deal of experience through struggling with its own environmental problems, especially pollution control caused by over rapid industrialisation. We recognise that our expertise accumulated in this field will be useful for many developing countries. JICA has been and will be trying hard to fully convey the lessons we learned through our experiences to the partners of developing countries.

South-South Cooperation

South-south cooperation is defined as cooperation among developing countries. More advanced developing countries, such as Korea, Singapore and Thailand have already systematically started their own development cooperation activities to other less developed countries. In particular, the East Asian countries are said to be the fastest growing nations in the world and the Asian region is in a better position than any other region for promoting south-south cooperation. The role of south-south cooperation has come to be increasingly recognized, reflecting the fact that ODA flows from the traditional donors might not be expected as before.

The central role in south-south cooperation should be played by developing countries themselves. South-south cooperation is cooperation among developing countries, and industrialized countries can only assist their efforts. Taking this point into account, JICA cooperates through the following activities.

Third Country Training

Participating trainees in third-country training come to the host country from the neighbouring countries for training. Training courses are usually provided at

local research or educational institutions of the host country, most of which are developed by JICA's technical cooperation. JICA supports third-country training by sending Japanese advisors and financing training costs.

In FY1992, with the support of JICA, 1,079 participants from 101 countries took part in training courses in 22 host countries. Out of 1,079 participants 586, or more than half, were from Asian countries.

Third country training has such advantages that in certain areas training undertaken by local instructors can more easily and appropriately meet the local needs than training in Japan, and research or educational institutions of the host countries where the third-country training programmes are implemented can strengthen their own capacity by providing training.

Cooperation for New Donors

JICA actively supports the more advanced developing countries in their process of transition from recipients of ODA to donors.

JICA invites staff of the Korean International Cooperation Agency (KOICA) to the JICA headquarters in order to give them opportunities to learn how JICA carries out its technical cooperation programmes.

Similar programmes are now under consideration with Singapore and Thailand. In addition to acceptance of the officials of the governments of Singapore and Thailand, the possibility of dispatch of JICA's staff to these countries and joint technical cooperation activities for other developing countries is also sought.

In addition, with regard to the issue of coordination between JICA and OECF, JICA undertakes feasibility studies as a part of its technical cooperation, and many of them are followed by OECF loans. The Increased Food Production Projects and Urban Transportation Development Project in Manila are good examples of successful coordination.

COMMENTARY

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The two papers presented by OECF (Yoshihiko Kono) and JICA (Akira Kasai) illustrate the strengths of Japanese government aid. There is a high volume and a full range of aid instruments through technical co-operation (JICA) and capital (OECF and JICA), giving a wide span to aid activities. There is a willingness to make long-term commitments, eight or ten years in the examples given by JICA, allowing ambitious objectives to be tackled, and an emphasis on economic development and technology, with through pre-project appraisal in order to avoid white elephants. The emphasis is on market-based development and infrastructure to support the private sector, on arrangements which allow flexibility in the rate of the aid flow, in order to compensate for fluctuations in export revenues of aid recipients, and on strong central principles as set out in the 1992 Charter.

These strengths underlie the success of the Japanese aid programme in East Asia. There are, however, some questions relating to four areas.

- **Overall coherence.** The question here is about projects versus policy, the underlying model of development and the relevance of macro-economic conditionality. There is a general acceptance that projects have a lower probability of success if the sector and macro economic environment is poor. We also accept the finding of the World Bank's East Asian Miracle report that the East Asian economies got the fundamentals right. But they followed different policies and development models, so what was the process which brought the fundamentals to the correct balance? Open economies, competitive exchange rates, relatively high savings and investment rates, balanced budgets and relatively low inflation.

One possibility is a variation of the 'flying geese' model of development. They observed the success of Japan and therefore followed the example of the mother goose without overt pressure. But this implies that the key elements in the development process did not really result from Japanese aid - it was good fortune. An alternative thesis is that Japan, the major donor, did in fact exert pressure behind the scenes - conditionality - which pushed these countries in the right direction.

This may seem not to matter, correct policies and correct aid forms found a happy coincidence and rapid development ensued. But it becomes more important when one considers the wider range of countries to which Japanese aid is not extended. These countries do not have the same history and culture of East Asia and certainly do not take the same view on the economic fundamentals. How will Japan manage its aid flows to countries where the domestic economic environment does not seem so friendly?

A second aspect of coherence is industrial policy. Japanese aid is directed towards promotion of the private sector but the Anglo-Saxon view on this is that private sector development should be based on the market. Any aid should avoid distorting market signals. But aid to promote industrial policy runs the risk of doing just this. Directed credits, subsidised interest rates and protective tariffs do distort market signals. How did Japanese aid succeed in industrial policy despite these apparent conflicts?

- **Poverty reduction.** This is a conspicuous omission from the 1992 Charter and the general impression gained from the two papers above is that poverty reduction was addressed principally through trickle-down mechanisms. A first problem with this is that trickle-down takes a long time. Did the Japanese aid programme therefore contain activities which addressed poverty in the medium-term or did it wait for trickle-down to work? A second problem is that there is a large number of people who can never be economically active and therefore cannot participate in economic growth. For example, invalids and other incapacitated people, the old, etc. Were they targeted through aid programmes?

A further aspect of poverty is that the country concentration of the Japanese aid programme is a victim of its own success. Many of the countries in which it has large aid programmes are graduating out of the ranks of the low income countries so that the proportion of Japanese aid which goes to the poorest countries is reducing. The concentration on low income countries used to

be around 75% but is now falling towards 60%. How will this be tackled through aid allocations?

- **Social sector development.** Most Japanese aid seems to have been focused on economic infrastructure and higher level skills, tertiary education. But development of the social sectors needs to keep in step with economic development. Education, health and family planning contribute importantly to economic development as well as being goals in their own right. Recurrent costs are the larger part of costs in these sectors although the outcome is investment - a better educated and fitter workforce is a valuable asset.

Many poorer countries cannot afford the necessary expansion in these services because the recurrent cost burden is too heavy. Did Japanese aid support recurrent costs in the social sectors in the East Asian countries in the early days? This question is important for future aid activities by Japan in a wider group of low income countries.

- **Good government and institutional development.** We have heard how Japan has been prepared to respond to negative developments in

terms of good government: how assistance to Nigeria was stopped last year when there was a military takeover, and about the cessation of aid to Sudan, Haiti and Myanmar. These are interesting developments but it would also be interesting to know how Japanese aid addresses the positive aspects of good government. We need to learn from each other here. How can we encourage pluralistic forms of government, more attention to human rights and more effectiveness in government administration?

Institutional development also has dimensions beyond the project. The UK has been heavily involved in civil service reform in a number of countries and we find it necessary to work with the institutions managing complete sectors if, for example, we find that a new generating plant cannot operate properly because of poor sector management. These issues are not explored in the two papers on East Asia and it would be interesting to hear more about the Japanese approach to such challenges.

COMMENTARY

Akira Hirata OECD Development Centre

The accounts in the above papers on new features and developments of Japan's ODA are most useful. I use the words new 'features and developments' because the presentations appear to be based on their belief in, or conviction for, a degree of 'continuity' in Japan's aid principle. The belief centres on the role of aid to support self-help efforts in developing countries. Both papers state the argument very clearly and, to my mind, very rightly. I would like to pick up the discussion at that issue, and try to expand it a little further, for I believe the issue has a lot of relevance in thinking the future of Japan's ODA.

My question on this issue of self-help support centres on its universality. Can self-help support be effective outside the areas in which Japanese ODA generally operates? In other words, can it be effective where basic development institutions are very weak, or even non-existent?

Nine common conditions in Korea's and Thailand's economic development are discussed. Basically I agree with these, and even extend the scope of the diagnosis to other East and Southeast Asian developing countries. My point is whether Japan's aid effectiveness is based on these conditions. If we think they are essential preconditions for development, it would follow that we cannot hope our aid to be very effective in many a developing country with weak development institutions. On the other hand, if we take a position that these institutions would develop hand in hand with income growth, perhaps concentration of ODA on economic infrastructure projects may have to be revised so that aid can contribute more to nurture these institutions.

Mr.Kasai gives a slightly different emphasis on the issue. The ultimate goal is basically the same: to achieve sustained and self reliant development. But he also talks of an evolution process of JICA's technical co-operation to foster human resources development. It started with 'improvement of levels of basic knowledge and technical skills and know-how', but later shifted to 'higher level engineers who are expected to play a leading role in innovation and dissemination of technology' on the one hand, and 'improving the managerial and administrative capacity of government officials, the capability of research and development of researchers...' on the other. Perhaps

the difference comes from the JICA's mandate of handling technical aid and grants, which are geared to lower income countries with, generally speaking, much weaker development institutions.

To be fair, Mr.Kono also hints at the possible expansion of OECF activities to the 'institution building.' He alludes that 'we may have to be involved in the process of formulation of development plan, and sector policies of the recipient ... a step further than our traditional operations'. The further step is often described as the 'differentiated approach according to local conditions', and may be indicative of the fluctuating view regarding the preconditions for development and the role of ODA among the Japanese aid implementation agencies.

The regional concentration of Japan's ODA, geographically in Asia and typically on economic infrastructure projects, has been a convenient practice in this context. Because of the relatively strong development institution there, Japanese aid has been fairly successful in supporting their self-help. The success has had a feedback on the conviction for self-help support through the provision of economic infrastructure.

The regional situation in trade and foreign investment also reinforced the self-help efforts in broad agreement with the ODA practice. As a result Japan has a degree of 'policy coherence' vis-a-vis East and Southeast developing countries. This is no mean achievement, and we can be rightly happy about it. Still the question arises whether the policy coherence can be extended to other developing regions.

The rapid rise in incomes in East and Southeast Asian countries is an outcome of their self-help efforts, to which Japan's policy coherence contributed in one way or another. Their success is rapidly shifting them out of aid eligibility. For example, new loans to South Korea as well as other Asian NIEs were already terminated some years ago. Malaysia and even Thailand will be likely to follow in the not so distant future. Although China, Indonesia, and the Philippines will continue to be major recipients, and there are new recipients such as Vietnam and Mongolia, the relative importance of East and Southeast Asia in Japan's ODA will have to decrease

in the medium to long term. Attention to South Asia and Africa has actually been increasing in Japan. In view of this prospect, the 'self-help' question should be addressed very soon.

A former colleague of mine summed up the Japanese idea on development as the 'ingredient approach', to be contrasted with the 'framework approach.' The ingredient approach appears to be the basis of self-help support through economic infrastructure building, and emphasises such directly and indirectly productive assets as roads, port facilities, and above all factories and plants. The approach maintains that the premature markets for goods and production resources have to be supplemented and nurtured by other means, including government interventions.

Japan's aid people generally feel uncomfortable towards the framework approach with its clear-cut view that removal of distortion from the markets would more or less automatically induce growth. I am not prepared here to go into the full discussion on

the relative merits of the two views, but I am inclined to think that the framework approach has at least the partial truth. It follows that the approach can be expanded to incorporate institution building, and then it may be even more effective in poorer countries with less production facilities. This implies a possible successful expansion of Japan's ODA practice to South Asia and African developing countries.

A 'further step' in this context would entail a sizeable effort. Formulation of development plans and sector policies alone may not be sufficient, and would have to be more closely co-ordinated with human resources development. In retrospect, however, East and Southeast Asian countries at their initial development stages, did not possess an ample amount of such capabilities. Only three decades ago, they were characterised as 'soft states.' The difference in initial conditions between the high performers and the slow growers may not be, hopefully, forbiddingly wide.

SECTION 3

STRUCTURAL ADJUSTMENT AND EXTERNAL ASSISTANCE IN AFRICA

Robert Ainscow

Deputy Secretary, Overseas Development Administration

I would like to start with a broader view of Africa's post-independency development experience so that the issues of structural adjustment and external aid to Africa are considered in context. Structural adjustment and agreement on economic reform form only part of a much larger consensus on African development which has emerged in recent years.

It taking a broad view it is important to keep in mind two points:

- Africa has enormous diversity; there are some common factors but close attention must be paid to the differences between countries and regions and;
- Africa's statistics are startlingly poor with often large gaps in countries' data for even the most basic indicators.

Generalisations, including those made here, must be treated with caution.

Africa's Record

Africa entered the post-independence period with high expectations and believed that rapid progress would be made in raising incomes and improving living standards. Much was achieved in the 1960s and 70s; life expectancy rose, health care and education expanded; major investments were made in infrastructure, such as roads, ports and railways and between 1961 and 1972 per capita incomes grew. By the mid-1970s, however, countries began to falter. Incomes stagnated in the period 1973-80 and fell between 1981-87.

There were several reasons for this: bad choices were made about economic and social policies, there were some particularly difficult obstacles to modernisation and increasing productive capacity including a number in the natural resource base, and the external economic environment was difficult.

Until the early 1980s many sub-Saharan African governments financed unsustainable levels of spending by domestic borrowing and printing money, which led to domestic inflation, exchange rate over-valuation and distorted incentive schemes. This discouraged exports and required rationing and administrative allocation of foreign exchange. Add to this a relative neglect of agriculture, the expansion of the economic role of the state well beyond its capacity to deliver with the consequential growth in parastatals which, for the most part, were run inefficiently and, like other parts of the public sector dominated approach provided too much scope for corruption, poor social development policies with the emphasis on the provision of 'elitist' education and health services to the detriment of basic services for most of the people and devastatingly high population growth rates and a growing debt burden.

These factors alone were enough to create a crisis. There are different views on the extent to which the adverse world economic factors, particularly deterioration in the terms of trade and higher world interest rates intensified the crisis. Undoubtedly low-income oil importing countries were badly hit. But a major underlying fundamental reason for the regions' poor performance was the low output from new investments. Debt was incurred ostensibly to finance investment. There was a growing debt burden - the total external debt burden of sub-Saharan Africa grew from less than \$US6 billion in 1970, to US\$56 billion in 1980, representing a rise in the ratio of debt to exports from 70% to almost 100%. Most of this borrowing was on hard terms requiring high subsequent levels of debt service. But the rates of return on investments were very low and much borrowing was financing consumption.

The Challenge

The economic crisis was so deep in the 1980s that most countries were driven to adjustment. Their choice was to make an effort at orderly adjustment with the help of external aid finance or disorderly

adjustment - a spiralling down of the economy and society.

But structural adjustment was only part of the search for sustainable growth and development with equity. Short and medium term adjustment measures must be accompanied by measures aimed at mobilising each country's resources for sustainable development:

- generate sustainable labour intensive growth
- raise health standards
- reduce population pressure
- protect the environment
- improve the educational base
- increase agricultural productivity
- absorb large numbers entering the labour market
alleviate the poverty in which most of Africa's people live
- promote better governance through increased accountability transparency, respect for rule of law, and popular participation in the development process.

It is an ambitious and challenging agenda for African governments. If Africa is to avert hunger and provide a growing population with productive jobs and rising incomes, its economy must grow by at least by 5% per year. The potential is there - Africa is rich in natural resources of minerals, oil and gas and people whose potential is underused.

African economies must increase the level of investment and make it more productive. The keys are better leadership, policies, institutions and management with the primary source of income growth being agriculture. Africa must confront two major trends; excessively high population growth rates combined with exceptionally low agricultural productivity which together threaten the environment - trees are being cut down 30 times as fast as they are being replanted. Agricultural experts rightly warn of a number of factors which must be carefully taken into account. These are variable and unpredictable rainfall, which is an unavoidable risk, low inherent fertility, a very old problem which has not benefitted from recent alluvial or volcanic renewal and a dependence on non-indigenous species, which are specially vulnerable to indigenous pests and diseases. These are not insurmountable obstacles but must be understood if the challenge is to be met successfully.

Can they succeed?

Most countries have embarked on an economic reform agenda. The World Bank's latest evaluation of the adjustment process found strong evidence that adjustment measures, when implemented and accompanied by reasonable levels of aid, had boosted economic growth. However, no African country has fully completed a comprehensive reform programme. Ghana has achieved much in the way of stabilisation and liberalisation. But even Ghana has some way to go on public sector reform. Despite this Ghana has managed to get growth back into the economy.

Moreover, excluding the CFA countries where the overvalued exchange rate dragged down performance, 11 from 19 SPA countries raised per capita incomes in 1987-91, 8 of them by more than 1% per annum. As the recent Bank study shows, the best performances were concentrated in the countries with the strongest reform programmes.

Publicly African governments seem convinced about the need to stay the adjustment course; they have developed a sense of confidence that they are on the right course and beginning to see results (demonstrated in the Global Coalition for Africa discussion and by African interventions at the Tokyo Conference.)

Overall those countries which have pursued the strongest reform programmes, even if incomplete, have performed best and have seen some restoration of growth. The essential element has been a sense of national ownership of the reform programme.

Many African governments have also demonstrated a capacity to take on a difficult agenda of political reform. Political and economic reforms reinforce each other, and liberal economic reforms need to be matched by parallel developments and the political front. Now is a turning point in African history, with almost all countries in various stages of political transformation.

Does The Reform Agenda Need to Change?

Our views on adjustment have matured with experience over the past decade, which is, of course, only right and proper. We were all too optimistic in

the early days, requiring stabilisation first then adjustment, but it is not a 'quick fix', and cannot be tackled hesitantly or piecemeal, and it is a long haul. The reform agenda must be alongside actions aimed at the wider sustainable development issues and poverty reduction. Indeed the critical factor in reform for the 1990s is the position of the poorest. It must be recognised that the social costs of not adjusting are much higher than the costs of adjusting and affects many more people. In most cases poverty was increasing before adjustment. Was social spending falling and the effectiveness of spending decreasing. African governments are now focusing on the quality of public expenditure to re-focus resources on social services for the benefit of the majority of the population. There is also now a growing appreciation of the positive role that government must play in establishing a framework for the private sector and providing services where markets fail. Government needs to be smaller and more efficient.

The Role of Donors

In the first half of the 1980s, African countries - adjusters and others, were forced to cut spending as they ran into budget and payment problems. Poverty increased in countries which were already poor and getting poorer. The donors recognised that policy reform which did not produce an early return to economic growth was unlikely to be sustained. This eventually led to the establishment in 1987 of the SPA.

The initial objective of the SPA is simple: to ensure that low income African countries who try to implement economic reforms receive enough donor support to permit adjustment with growth. It has been very successful: since 1980 the share of Africa in total donor flows has increased from just under one-quarter to over one-third. The SPA itself has, since 1987, mobilised over \$20 billion in pledges of quick disbursing balance of payments support, the most useful way to assist the reform process.

Japan has been the most generous donor to the SPA, committing \$975 million to SPA II, which was raised to \$1.1 billion for SPA III.

The SPA has not only mobilised increased resources: it has also increased the quality of aid. In the 1970s and early 1980s, aid was largely in project form, that

is new investments in public infrastructures. It was often tied to goods bought in the donor country. Many of the projects failed because the policy environment did not permit them to succeed, or because countries had more project aid offers than they could implement or afford to operate and maintain.

Adjustment support through the SPA was linked to policy reforms agreed with the donors. It was provided as a general balance of payments or budget support, creating resources which could be used where most needed, balancing continued project aid with extra resources for operation and maintenance. The proportion of untied aid through the SPA has continually increased, reaching over 90% of pledges to SPA III.

The SPA also contributed to an improved quality of donor support in other ways. As countries moved away from administratively allocating resources towards more use of market mechanisms, the donors moved in the same direction. Guidelines produced in the SPA encouraged donors to disburse their payments support through competitive foreign exchange markets. Donor willingness to move in this direction enabled countries such as Ghana and Uganda to unify their exchange rates. The recent African adjustment study by the World Bank shows a realistic exchange rate to be the most significant single policy instrument for improved growth performance. The SPA donors have played a major role in the significant progress of recent years in creating efficient forex markets.

Another area of focus by the SPA has been the improvement of public expenditure planning and management. Adjustment finance supports Government budgets, either directly, or as a result of the revenues created when the foreign exchange is sold to private importers. The donor community has therefore given increased attention to working with our African partners to improve the content and management of public expenditures.

An early subject for attention was the donor control over the counterpart funds created as a result of balance of payments support. Donors understandably want to be sure that these resources are sensibly spent. However, by the mid 1980s, donor restrictions were making the task of African finance ministries impossible: large sums were accumulating in donor

accounts, each with their own restrictions on use, leading to fragmentation of the budget and dangers of loss of budget control as donors attempted to finance spending on programmes outside the Government budget.

The SPA has therefore agreed guidelines which limit the earmarking of counterpart funds: the funds should be used to support expenditures within the consolidated Government budget, should be spent in the year in which they are created, and the number of different accounts limited.

Accepting that control of counterpart funds was not the best way to improve public spending management, the donor community under World Bank leadership has participated with our African partners in an enhanced program of public expenditure reviews. These have been undertaken in most African countries, and are an accepted and regular part of the donor dialogue. Detailed analysis of spending priorities has led to agreement on increasing allocations to critical social sector and infrastructure programmes. Defence expenditures are being reduced. Agreements on spending shares are often included in the conditionality of structural adjustment credits, as in a recent Zambian case.

Public expenditure reviews also lead to recommendations aimed at the donors. Recent reviews in Uganda and Tanzania have addressed the problem that there are still simply too many donor projects: we need to agree with Government on cutting out projects, reducing to a core which can be managed and financed.

The way forward in our view is for donors and Governments to jointly agree on priorities within each sector, and finance an agreed sector programme. Too often in the past, the public investment programmes of African countries have been an aggregation of donor projects, often using inconsistent approaches and standards.

All this relates closely to the issue of the ownership of reform programmes. This is rightly receiving increased attention from donors. The approach to sector investment programmes which is not being developed under World Bank leadership stresses the need for sector policy and spending priorities to be developed by Governments, rather than in Washington, London or Tokyo. This means giving

Government the time to develop ideas and form a consensus around them. It means using donor expertise to facilitate rather than to try to lead or dominate. It means helping to build local institutional capacity, rather than bypassing it with donor financed experts and it means donors working together with Government to finance a coherent sector program. Some promising examples of the approach are already in place, for example the Tanzania roads programme, and support to agricultural research in Kenya. This is the exciting challenge for the future, and provides a way to marry the policy reforms and institutional strengthening which are the core of adjustment to the longer term agenda of developing infrastructure and human capital.

The Next Steps

Now is not the time to give up. There is a need to focus support on countries which have real commitment to reform and within them on deeper policy and institutional reforms at the level of individual sectors; and the protection of social sectors.

We need to understand the needs of the poorest more in order to design successful adjustment measures. The poor will not respond as economic models predict if they are constrained in their participation in the markets for labour, capital, land or goods, and policy measures to overcome these constraints must be founded on a comprehension of the nature of the problem, enhancing the poverty reduction impact of reform policies in SPA III. There is also a need to find ways of encouraging the private sector, and the Japanese experience of East Asia can be important here, although of course the East Asian model can simply be transferred to Africa. So far the private sector response to reform is more limited than we had hoped. We need to find answers to two main questions: what is needed to achieve the major increase which Africa needs in non-traditional exports and how can private investment, both local and foreign, be increased?

Further ahead, we will need to explore how Africa can diversify beyond natural resource based sectors - again the Asian experience has relevance. This is possible, as the political climate is improving, there are positive economic signs, and a raised consciousness about environmental and population

issues. Problems do remain, not least civil conflict in certain countries, but the overall trend is positive.

The reality is that the agenda is long and challenging. It demands commitment on the part of donors and recipients, and requires vision, flexibility and understanding. It also requires continued high levels of external assistance, including debt relief to tackle the agenda. For SPA III, the World Bank has called

for donor pledges of \$12.1bn, including IDA and IMF ESAF funds. The CFA devaluation may add to these needs. Japan has responded very positively with a bigger pledge in SPA III than in SPA II. Africa will also continue to be a priority for Britain's aid programme. We hope other donors will take the same view.

COMMENTARY

Izumi Arai

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The purpose of this commentary is to explain how I see the formidable problems which underly African countries and how to support those countries towards take-off for self-sustained growth through the adjustment process. First, I will give an overview of OECF's SALs to Africa and comment on the performance differences with SALs in Asia and Latin America. Second, I will analyse the causes of under-performance in Africa, and the evolution of our thinking in this area. Third, I will present the difficult but challenging tasks which lie ahead and the policy implications for our SAL operations.

OECFs SALs

OECF has extended SALs co-financing with Multilateral Development Banks such as the World Bank, IDB and AfDB since 1986, amounting to around US\$6.5 billion (Yen 699 billion). Particularly in the case of African countries, OECF's SALs constantly increased in volume in the latter half of the 1980s and is still significant in the 1990s under the international framework of both the Special Joint Finance for African (SJF) and the Special Program of Assistance (SPA). Around US\$1.8 billion has been extended to African countries for structural adjustment, accounting for 28% of total SALs.

With the exception of Ghana and Uganda, structural adjustment in African countries has achieved less in comparison with other regions. In Asian countries, the structural adjustment launched in the early 1980s had achieved substantial results by the latter half of the 1980s. Korea, Thailand, and Indonesia experienced a relatively short period of recession accompanied by structural adjustment, but returned to the growth track smoothly. In Latin America the adjustment process was prolonged but several countries achieved the first stage of adjustment, stabilization, the elimination of the most distorting trade interventions, and a reduction in the economic size of the state. These moved, then, on to the second stage of adjustment, of strengthening privatization strategies, favouring export promotion, reinforcing macroeconomic equilibria and of giving

greater attention to the social sector. But in Africa, many countries have not achieved macro economic stability and have suffered from heavy indebtedness.

Anatomy of under-performance in Africa

Why was performance in Africa unsatisfactory? In a recent lecture, Professor Shigeru Ishikawa reviewed three World Bank reports on the performance of countries which undertook structural adjustment (1988, 1990, 1992). The reports show, through differing methodologies, that the middle income countries have recorded relatively good performances, whereas the low income countries, in World Bank terms, have not. Professor Ishikawa observed that the effectiveness of structural adjustment depended mainly on the degree of development of the market economy. Structural adjustment policies are based on the assumption that 'policy-based distortion' - or excessive government intervention - distorts market function, and that the elimination of such distortion restores market function and optimal resource allocation. But in reality, in many low income countries, there are 'natural distortions,' where the under-development of the market economy sits side by side with the traditional economy. Therefore, even if 'policy-based distortion' is eliminated, 'natural distortion' remains and the economy does not back to the growth track. Professor Ishikawa suggested the necessity of designing policy measures to form and strengthen the framework for a market economy taking into account the pre-condition and the stage of development of each country.

Evolution of thinking

So how is it possible to form or make markets in low income countries. The discussion of structural adjustment policies in the 1980s centred on the design policy for both product and factor markets. Well-designed policy was expected to bring favourable results. Unsatisfactory results were partly due to the

lack of commitment to the policy by the recipient government and partly due to the adverse international economic conditions.

In 1991, OECF published its first public reflections regarding structural adjustment, based on the experience of the rather uniform application of structural adjustment policies in the 1980s. Our perspective does not deny the usefulness of a market economy, but suggests that too-rapid marketization and liberalization can cause major problems.

Four points are mentioned. First, simply introducing market mechanisms and eliminating restrictions on the private sector would not necessarily lead to increased investment. Investment promotion such as preferential tax treatment and lending by public sector development banks might be necessary additional measures.

Second, excessive reliance on trade liberalization is risky. There needs to be a balance in policy between trade liberalization and industrial development, and the need for a longer term strategy to develop export industries.

Third, the financial policy element of structural adjustment stresses the market mechanism too much. When the market does not function properly, government intervention might be used.

Fourth, privatization is not always the solution for improving the efficiency of the public sector. These four points are closely related to the issues of role of government, the role of the market in low income countries and interaction of these.

These issues are revisited in the *East Asian Miracle* report published last September, which has aroused a lot of interest around the world. A number of symposiums and seminars were held to identify the factors underlying East Asia's success and its implications for other developing countries. The OECF cosponsored a symposium with the World Bank on the report last December and a seminar on 'Policies for Growth in Africa' was held last week to discuss the lessons from the *East Asian Miracle* for African development.

Before going on to the main issue of how to form or make markets in low income countries, I will briefly

assess the *East Asian Miracle* report and its implications for African development.

There are two major findings from the report. First, High Performing Asian Economies have sustained rapid growth with equity primarily because the governments adhered to policy fundamentals, such as macroeconomic stability and a high level of investment in human capital. Getting the fundamentals right is equally necessary for other countries as well.

Second, with respect to selective interventions, an 'export-push' strategy is the most promising strategy for other developing countries with a weak institutional capacity. Industrial policies are not recommendable to others. The report introduced the 'functional approach' to growth. This pragmatic approach views various government policies according to how they contribute to the attainment of the three central functions of growth, i.e. accumulation, allocation, and productivity. With respect to competitive discipline, the 'functional approach' complements 'contest based competition.'

Replicability of the Asian experience

Are the lessons from the East Asian experience applicable to Africa or not?

First, low income African countries lack the well-developed organized markets which enabled Asian countries to grow. In the early stages of development, market failure is so prevalent and the institutional framework for the market economy is so incomplete that a strong response from the private sector is unlikely, even if policy distortions are removed. Many low income countries lack the minimum social and institutional conditions for the development of a market economy. In such a case, development will not start unless the government provides for these minimum conditions.

Second, policies were successfully implemented in Asia by strong governments together with a cooperative private sector. This condition prevails less in many African countries. 'Market failure' is so large in many low income African countries that it needs to be redressed by the government. The effectiveness of the government, especially in selective intervention, depends on institutional conditions especially the capabilities of the public and

private sectors. However, these vary. The replicability of some successful selective interventions in East Asia should be assessed case by case, rather than generally. A country-specific approach is needed by taking into account the circumstances and history of the developing country concerned. Therefore, the task of donor agencies is to assess the degree to which the appropriate institutional framework is in place and then to prescribe a concrete and country-specific set of selective interventions to promote growth.

Lessons for policy design

I suggested the two preconditions which enabled the East Asian countries to grow. These are the minimum level of social and institutional conditions for a market economy, and a capable and efficient government, which many countries in Africa lack. These conditions and impediments might be overcome partly through the recipient countries' own initiative - especially through effective investment in human capital - and the diligent pursuit of good governance, particularly the practice of accountability, transparency, openness, predictability and the rule of law.

It is the responsibility of both the recipient countries and the donors to design structural adjustment programs which are politically and economically sustainable, taking into account the condition of each country. We conducted a comparative study of Korea and Thailand's success to assess why both governments adopted appropriate economic policies and why their private sectors could respond to the policies effectively. The report depicts 9 conditions conducive to economic development. These are: for the government; leadership, strengthening of the civil service system, and clearly defined rules governing economic activities. For the private sector; efficiency generated through competition, dynamism in the private sector, and mechanisms for compensating for imperfect information. For society; social equity, social cohesion and political stability. It is not an easy task to design policies which integrate these conditions at once, but ultimately they will be better rewarded.

Some policies also need to be reviewed and opened for discussion. Our operational department has learned interesting lessons for both the design and implementation of structural adjustment programmes. The operational department in charge of Africa reviewed SAL operations and made constructive comments on the World Bank 'Adjustment in Sub-Saharan Africa'. Another operational department in charge of the sub-continent reviewed the operation of the Economic Restructuring Credit in Sri Lanka. Both studies suggest the importance of the following issues: first, the importance of improving infrastructure to increase the supply response. Second, the importance of the role of government and of its intervention. Third, the necessity of an industrial development policy at micro-level, related to the skills and know-how or organizational reform and efficient management. Fourth, to stress the cost and effectiveness of privatisation process rather than just the issue of ownership.

We collaborated closely with recipient governments and other donors and the MDBs on these policy measures. We have also collaborated with the UK through cofinancing and the harmonizing of operations under both the bilateral and international aid programs and have achieved a good level of success.

Conclusions

Summing up, I draw three main conclusions:

- Many African countries lack the two preconditions which enabled East Asian countries to grow rapidly: an organized market, and a capable and efficient government.
- *East Asian Miracle* and other reports have helped to develop our thinking, containing useful suggestions for designing structural adjustment policies.
- The impediments which lay ahead in Africa will be overcome only by sincere collaboration between recipients and donors.

