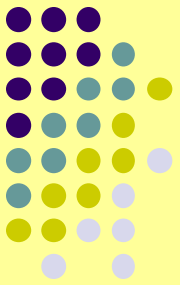


International Development Policy
Lecture #2, February 13, 2017

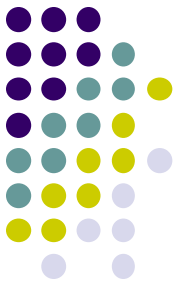


Development Cooperation Policies of Major Donors

Izumi Ohno, GRIPS

i-ohno@grips.ac.jp (Room E-411)

Outline of Today's Lecture



1. Landscape of ODA – who receive and give aid?
2. Development cooperation policies of major traditional donors – US, UK, and Japan
3. Rise of emerging donors – Korea and China
4. Final thought of Japan's development cooperation

Aid Landscape

Int'l Financial Flows to Developing Countries

International Financial Flows

Official Flows (OF)

Official Development Assistance (ODA)

Bilateral ODA

- ODA Loans
- Technical Cooperation
- Grant Aid
- Debt Relief, etc.

Multilateral ODA

Other Official Flows (OOF)

Export credits

Investment loans

Private Flows (PF)

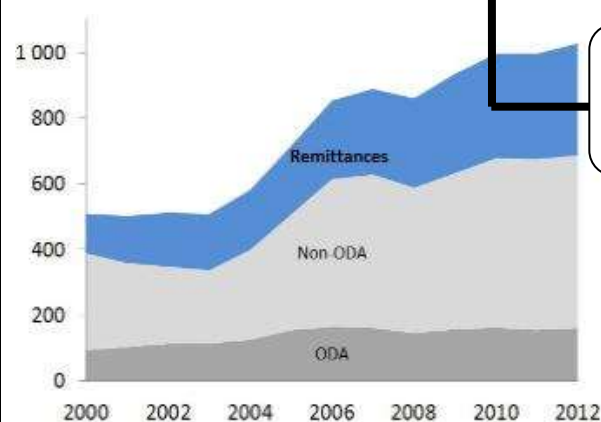
Export credits insurance

FDI

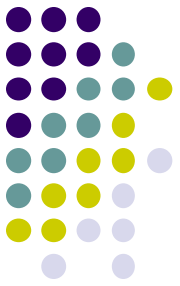
Portfolio investments

Remittances

Grants by Non-profit Organizations



Official Development Assistance (ODA)



Official

~ Grants or loans to developing countries and multilateral institutions, provided by governments or government agencies

Development

~ The promotion of the economic development and welfare of developing countries, as its main objective

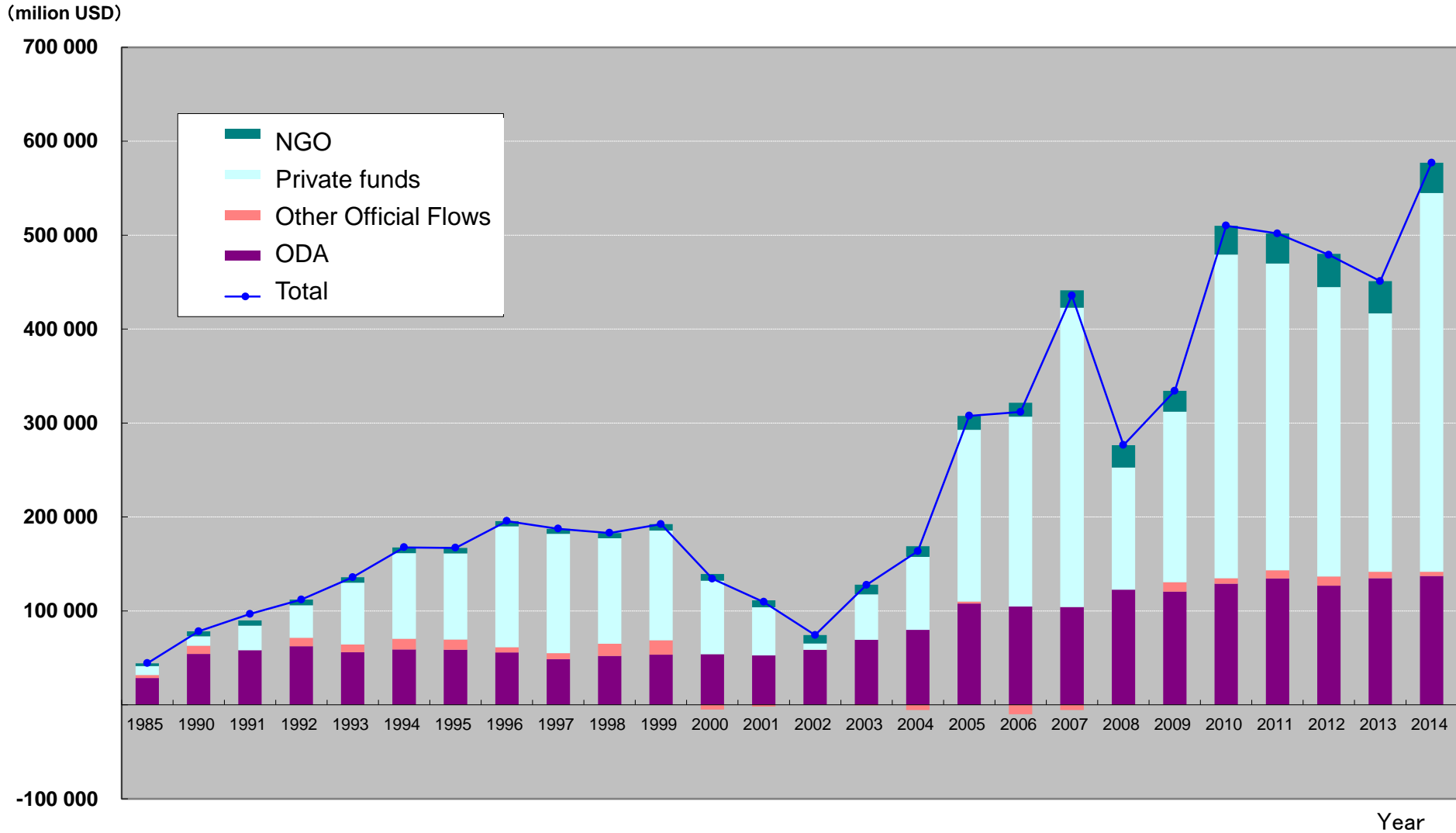
Assistance

~ Concessional terms, having a grant element of at least 25%

Based on OECD, Development Assistance Committee (DAC)

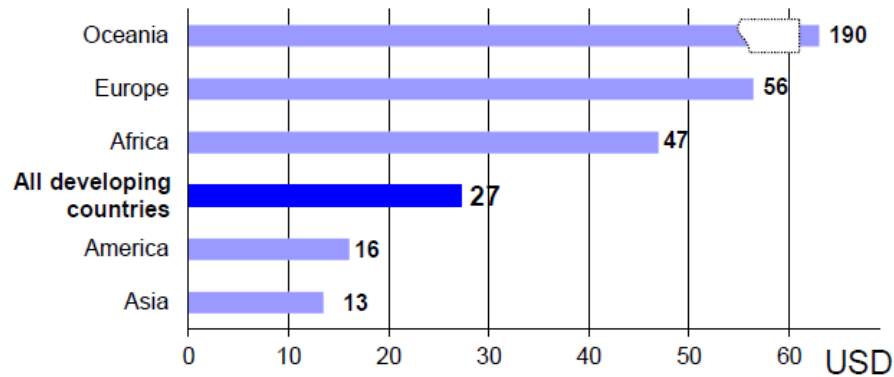
Increased Role of Private Financing in Development

Financial Flows from OECD (DAC) Countries to Developing Countries



(Source) Elaborated by the author, based on the OECD DAC database (StatExtracts)

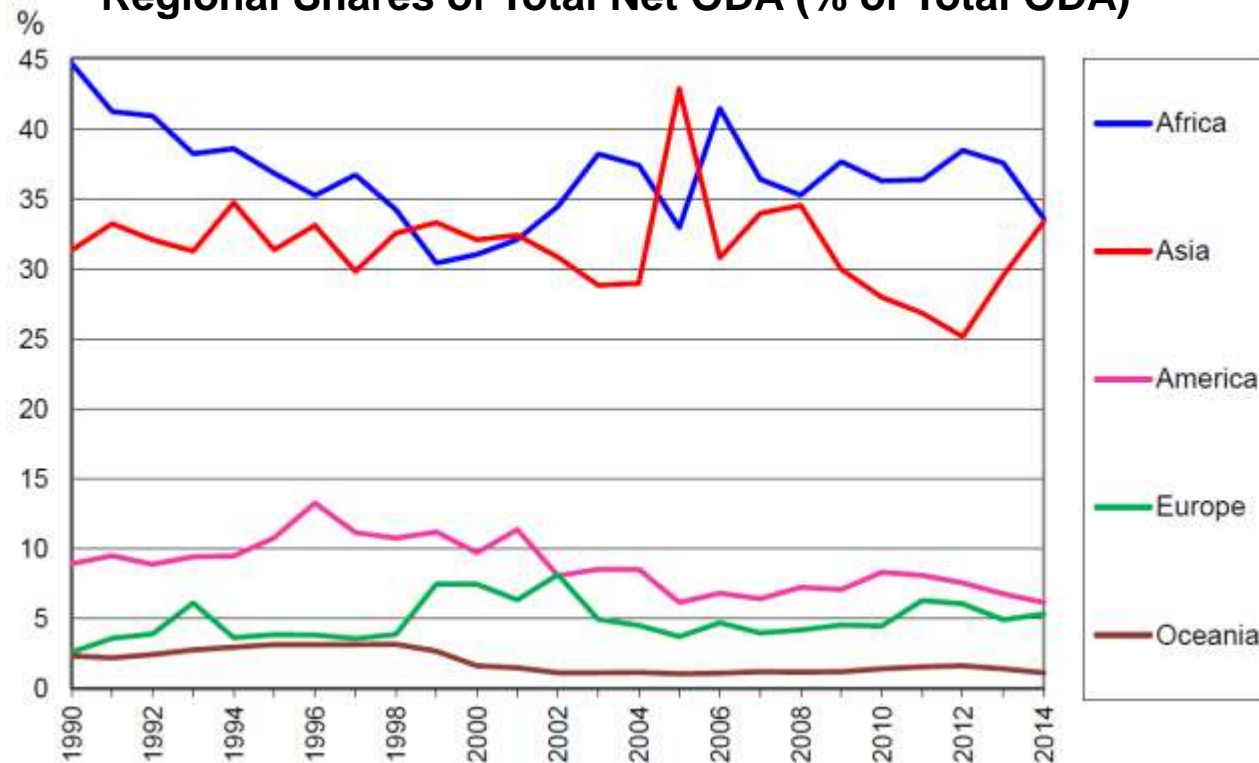
Net ODA Receipts per person in 2014 (USD)



Net ODA and Population of Aid Recipient Countries by Region in 2014

	Net ODA USD million	Population million
Africa	54 193	1 155
Asia	53 785	3 993
America	9 949	620
Europe	8 613	153
Oceania	1 863	10
Aid unspecified by region	32 672	---
All ODA recipients	161 075	5 931

Regional Shares of Total Net ODA (% of Total ODA)



Top 10 ODA Recipients

(USD million, receipts from all donors, net ODA receipts)

	2012	2013	2014	3-year average	% of all recipients
1 Afghanistan	6 667	5 262	4 823	5 584	4%
2 Viet Nam	4 114	4 083	4 218	4 138	3%
3 Egypt	1 807	5 508	3 532	3 616	2%
4 Ethiopia	3 221	3 885	3 585	3 564	2%
5 Syrian Arab Republic	1 672	3 638	4 198	3 169	2%
6 Turkey	3 110	2 843	3 442	3 132	2%
7 Tanzania	2 823	3 431	2 648	2 967	2%
8 Kenya	2 653	3 312	2 665	2 877	2%
9 Democratic Republic of the Congo	2 847	2 583	2 398	2 610	2%
10 Pakistan	2 016	2 191	3 612	2 606	2%
Other recipients	101 809	114 064	125 953	113 942	77%
Total ODA recipients	132 738	150 800	161 075	148 204	100%

Source: OECD DAC

Top 10 DAC Donor Countries

(USD million, net bilateral disbursements)

	2012	2013	2014	3-year average	% of DAC countries
1 United States	25 423	26 360	27 509	26 431	29%
2 United Kingdom	8 665	10 545	11 233	10 148	11%
3 Germany	8 584	9 451	11 589	9 875	11%
4 France	7 929	6 801	6 514	7 081	8%
5 Japan	6 402	8 611	6 012	7 008	8%
6 Australia	4 540	4 149	3 498	4 063	4%
7 Sweden	3 638	3 918	4 343	3 966	4%
8 Norway	3 523	4 316	3 889	3 909	4%
9 Netherlands	3 858	3 647	4 027	3 844	4%
10 Canada	4 027	3 512	3 278	3 606	4%
Other DAC countries	11 847	12 227	12 769	12 281	13%
Total DAC countries	88 437	93 536	94 662	92 212	100%

Source: OECD DAC

Top 10 Multilateral Donors

(USD million, net bilateral disbursements)

	2012	2013	2014	3-year average	% of all multilaterals
1 EU Institutions	17 173	15 645	16 389	16 403	39%
2 IDA	6 840	8 172	10 262	8 425	20%
3 Global Fund	3 307	3 946	2 847	3 367	8%
4 African Dev.Bank	1 902	2 324	2 042	2 089	5%
5 IDB Special Fund	1 413	1 930	1 719	1 687	4%
6 GAVI	1 068	1 544	1 415	1 342	3%
7 UNICEF	1 140	1 230	1 295	1 222	3%
8 AsDB Special Funds	716	1 004	1 477	1 066	3%
9 UNRWA	667	539	680	629	2%
10 GEF	537	573	605	572	1%
Other multilaterals	4 545	5 278	4 418	4 747	11%
Total multilaterals	39 309	42 185	43 151	41 548	100%

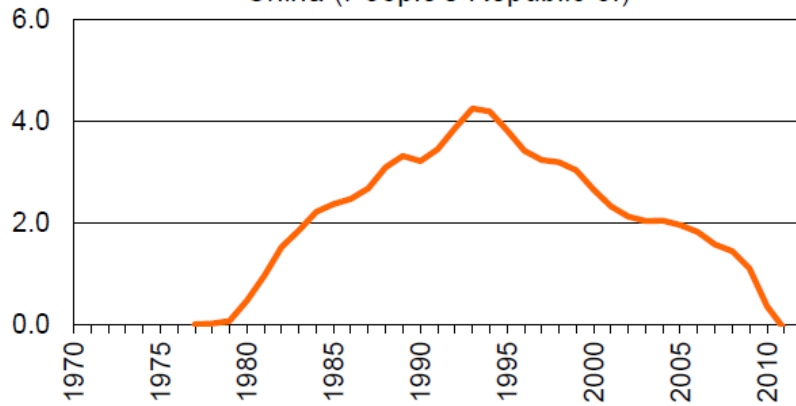
Source: OECD DAC

Trends in Aid to Largest Recipients since 1970

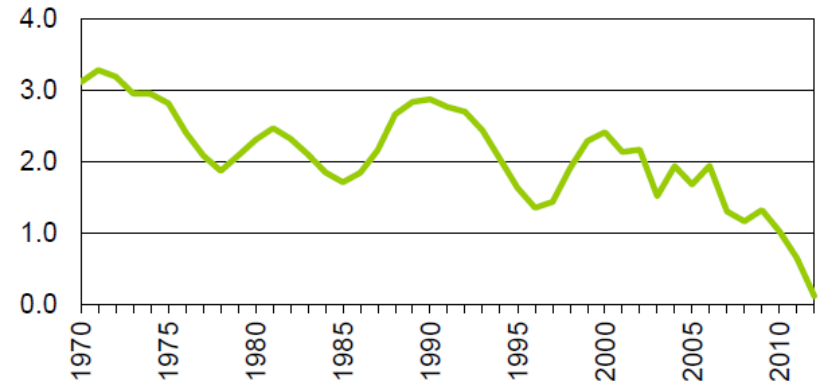
(USD billion, 2013 prices and exchange rates, 3-year average net ODA receipts)

Source: OECD DAC

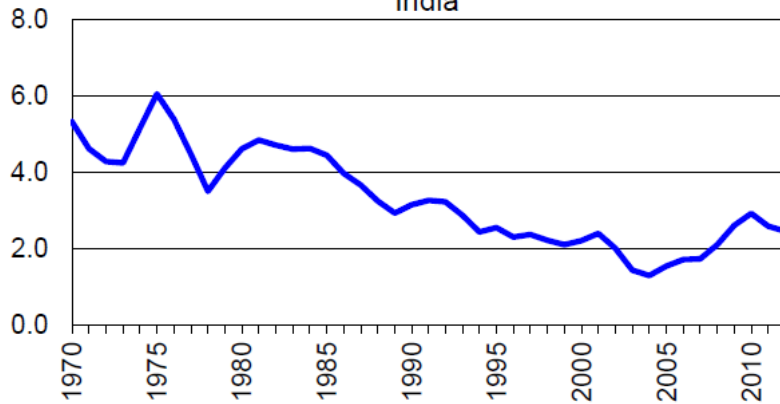
China (People's Republic of)



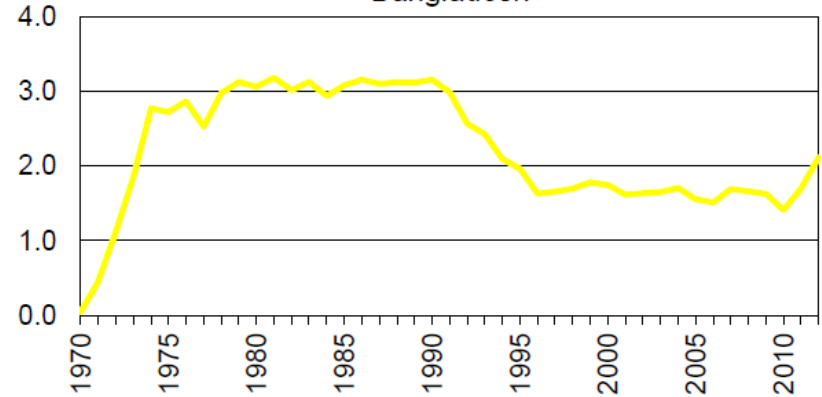
Indonesia



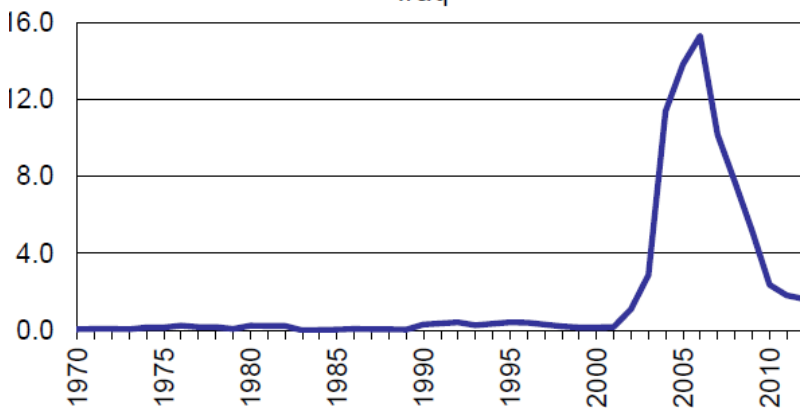
India



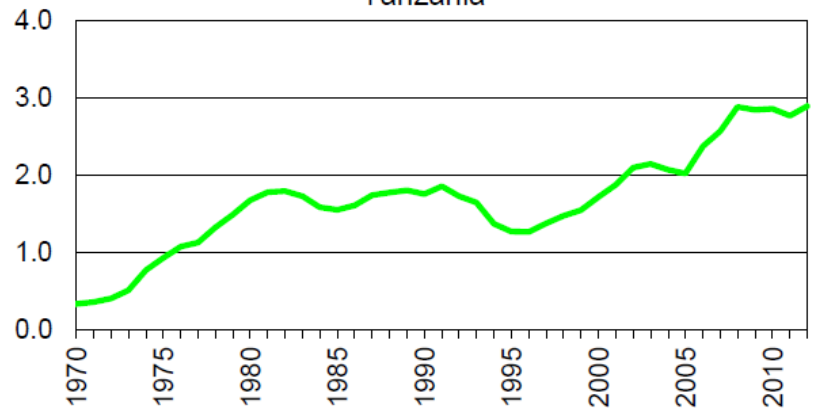
Bangladesh



Iraq

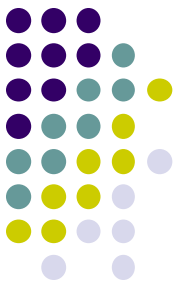


Tanzania



Development Cooperation Policies of Traditional & Emerging Donors

Different Aid Philosophy by Donors

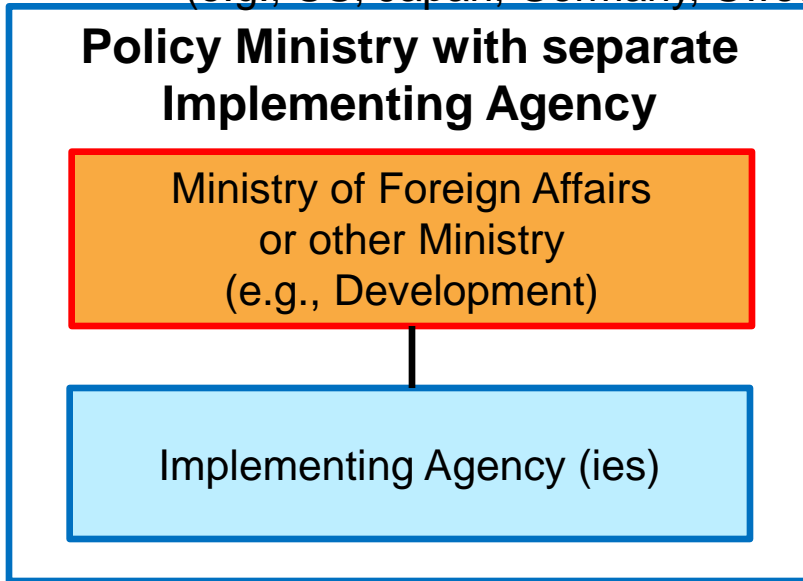


Historical factors affect the philosophy of foreign aid by donors (path dependence).

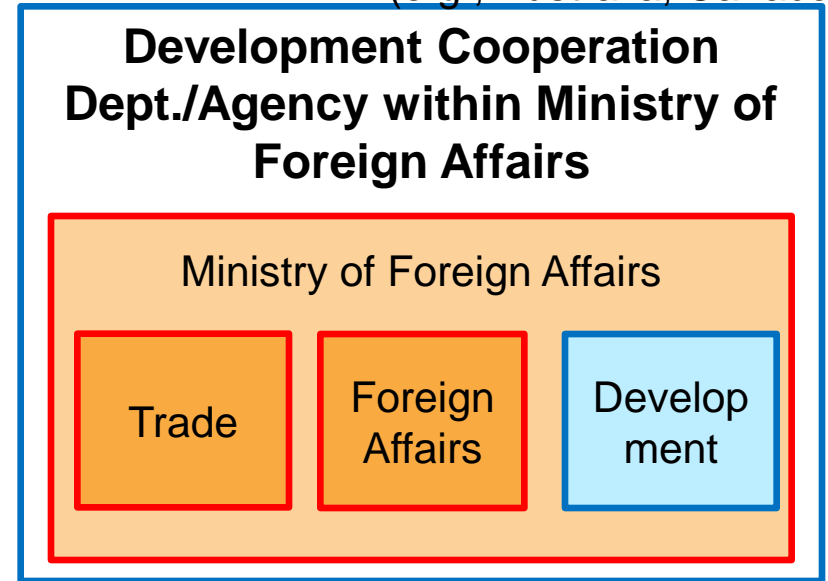
- UK & France: From colonial administration to foreign aid relationship → Charity, poverty reduction
- US: National security → American value such as democracy & market economy
- Germany: Post-war recovery, “Social-Market Economy” & craftsmanship → Vocational education & training, chambers of commerce
- Japan: War reparation & post-war recovery, latecomer perspectives → Self-help efforts, economic development, non-policy interference
- Emerging Asian donors (Korea, China, India, etc.): Bringing new and non-Western perspectives?

Types of ODA Institutional Framework

(e.g., US, Japan, Germany, Sweden)



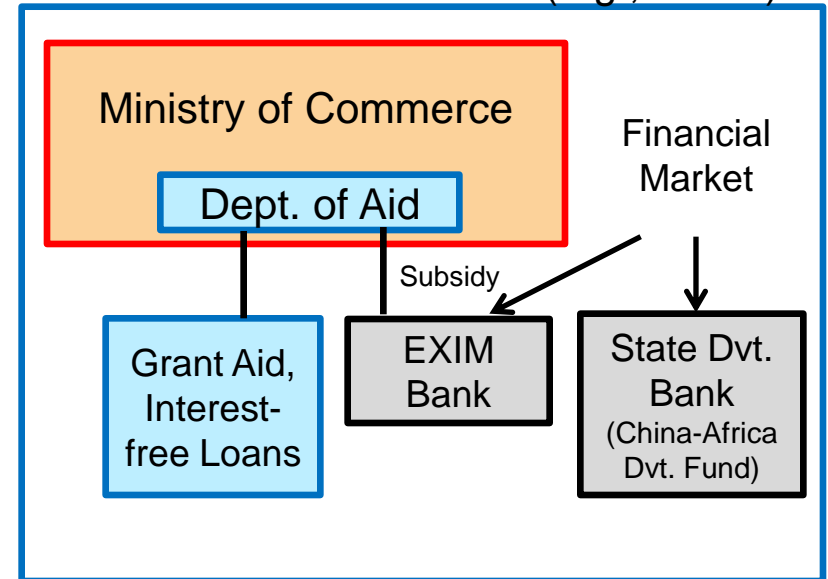
(e.g., Australia, Canada)



(e.g., UK)



(e.g., China)



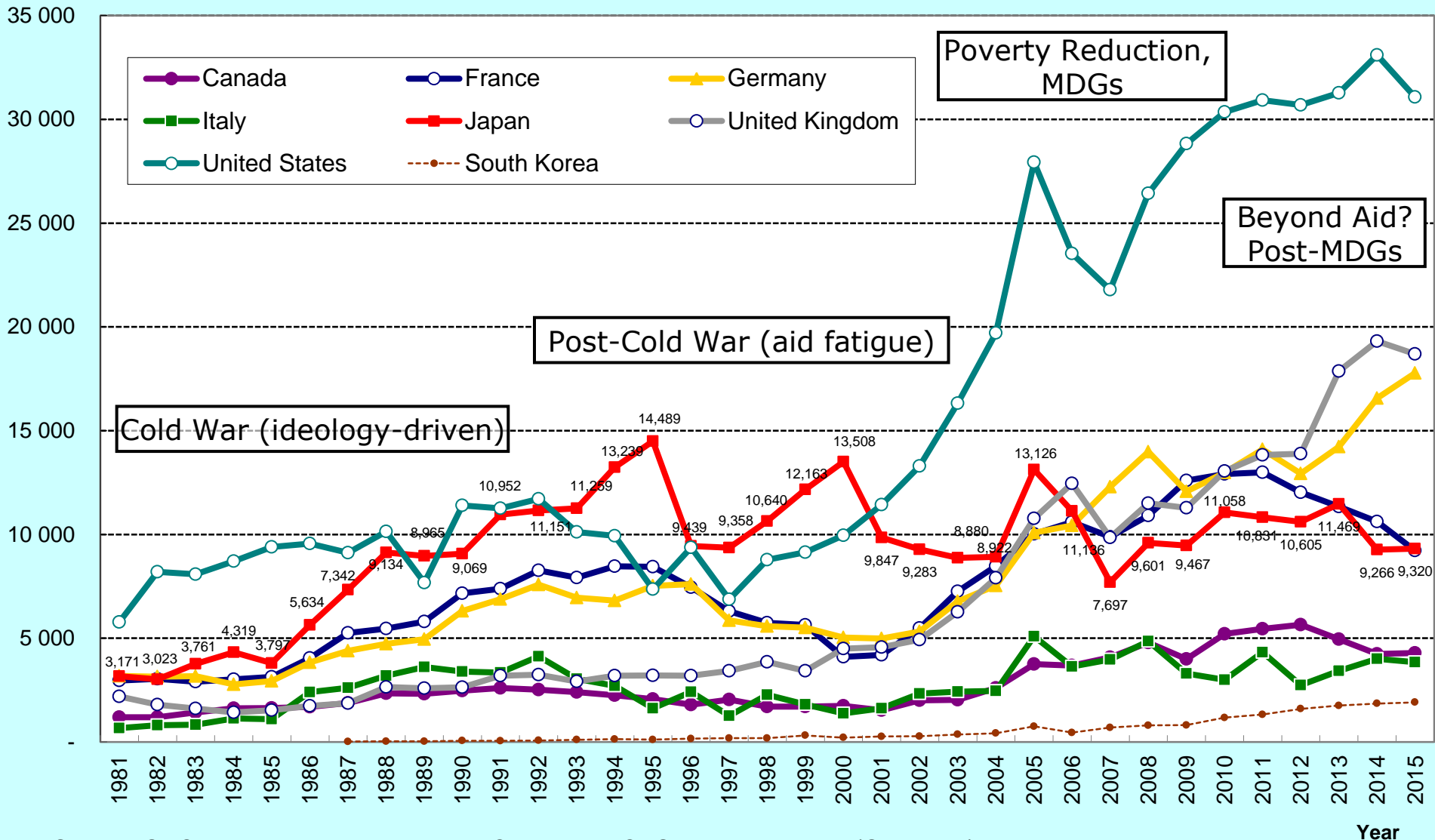
Features of ODA: US, UK, Japan and South Korea

	US	UK	Japan	S. Korea
Volume (ODA/GNI) (2015: net disbursement)	\$30,986 mn (0.17%)	\$18,545 mn (0.70%)	\$9,203 mn (0.21%)	\$1,915 mn (0.14%)
Bi vs. Multi ODA (2015: % of net disb.)	86% vs. 14%	63% vs. 37%	67% vs. 33%	80% vs. 20%
Regional distribution (2014-15: % of total gross disbursement)	<ol style="list-style-type: none"> 1.Sub-Saharan Africa (50.2%) 2.South & Central Asia (24.5%) 	<ol style="list-style-type: none"> 1.Sub-Saharan Africa (50.2%) 2.South & Central Asia (19.2%) 	<ol style="list-style-type: none"> 1.South & Central Asia (46.5%) 2.Sub-Saharan Africa (38.0%) 	<ol style="list-style-type: none"> 1.East Asia & Oceania (31.7%) 2.Sub-Saharan Africa (31.2%)
Major aid use (2014-15: % of total bilateral commitments)	<ol style="list-style-type: none"> 1.Social & admin. infrastructure (48.3%) 2.Humanitarian assistance (23.2%) 	<ol style="list-style-type: none"> 1.Social & admin. Infrastructure (42.4%) 2.Humanitarian assistance (15.0%) 	<ol style="list-style-type: none"> 1.Economic infrastructure (50.9%) 2.Social & admin. Infrastructure (17.9%) 	<ol style="list-style-type: none"> 1.Social & admin. infrastructure (43.9%) 2.Economic infrastructure (33.1%)
Grant share (2014-15: % of total ODA commitments)	100%	96.4%	38.2%	55.6%
NGO/ODA (2014-15:% of total bilateral commitments)	21.6%	12.2%	2.1%	1.9%

Source: OECD Development Assistance Committee (Statistics on Resource Flows to Developing Countries, as of Jan. 26, 2017)

Trends of Net ODA from Selected DAC Countries 1981-2015 (net disbursement basis)

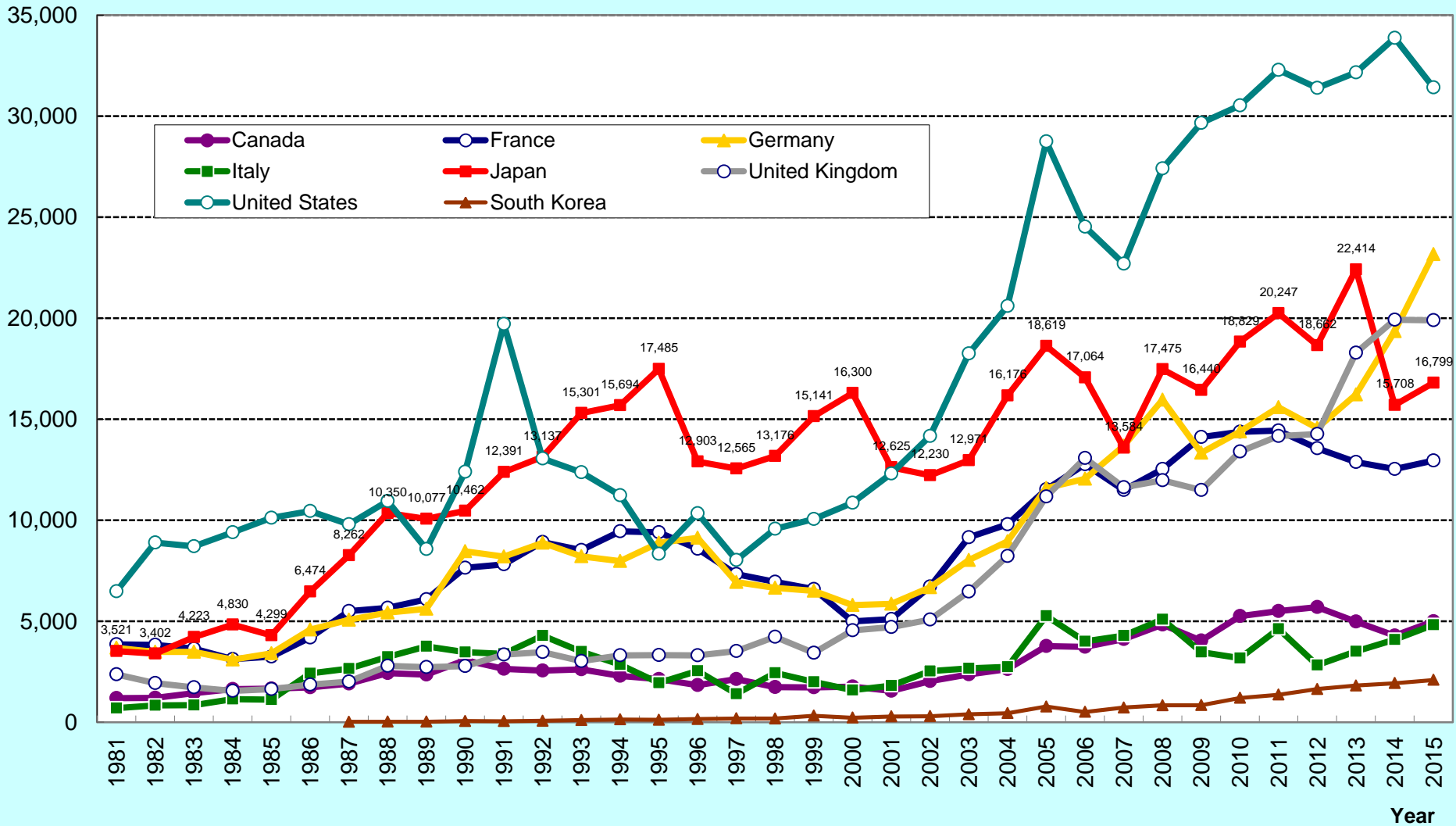
in millions of US dollars



Source: OECD Development Assistance Committee, CRS online database (Oct. 2016)

Trends of Gross ODA from Selected DAC Countries 1981-2015 (gross disbursement basis)

in millions of US dollars



Source: OECD Development Assistance Committee, CRS online database (2017.01.26)

US: Foreign Aid Policy Formulation and Implementation



- Development as integral part of the National Security Strategy (**3Ds**: Defense, Diplomacy & Development); Presidential vision matters
- USAID: established under Foreign Assistance Act (1961); traditionally serving as the core agency for aid implementation, reporting to the State Dept.
- Fragmented aid system
 - Executive branch: implementation assumed by various depts. and agencies (27 agencies, 50 programs)
 - Strong involvement by the Congress on strategy, basic direction, and the volume/programs of ODA
- NGOs: the voice of developmental interests and aid lobby, as main contractors of ODA projects
- Active aid policy debates: civil society and think tanks

Foreign Aid Policy under the Bush Administration (2001/02-08)



- Vision: driven by “War on Terror”
- National Security Strategies (2002, 2006): 3Ds
 - Development was subordinate to other 2Ds
- Mobilizing Congressional and public support, significant ODA budget increase
 - But, the role of USAID undermined (strategic planning functions removed, and absorbed by State Dept.)
 - Creating a new aid agency in 2004 -- “Millennium Challenge Corporation (MCC)”-- to promote core American values
 - Expanding the role of Defense Dept. in ODA
- ➔ *Further fragmentation in aid implementation*
 - Concern about a declining share of USAID in total ODA (50.2%(02) → 38.8%(05)), sacrificing developmental goal



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Global Development Policy under the Obama Administration (2009-16)



- Vision: SMART Power (ODA as soft power)
- New National Security Strategy (2010): 3Ds
 - Development as moral, national security, and economic imperatives
- US Global Development Policy (2010, White House)
 - Broad-based growth, aiming at increasing “capable states”
 - Whole-of-the government approach, focusing on 3 strategic agenda
 - Restoring and reinforcing the functions of USAID
- Recent initiatives
 - New Model of Development -- mobilizing private finance, science & technology, and innovation power
 - Feed the Future (food security)
 - US-Africa Leaders Summit (2014 in Washington DC), Power Africa
 - Promoting peace, stability and democracy





UK (1997-): Int'l Development Policy Formulation and Implementation

- Overarching vision: poverty reduction and MDGs
 - 3-year Public Service Agreement with the Treasury, based on the achievement of MDGs
- Policy coherency and organized approach
 - Creation of DFID as the Cabinet-level Dept., charged with policy formulation and implementation of int'l development (both bilateral and multilateral aid)
 - Clear legislative mandate and organized administrative approach (International Development Act 2002)
- High-level policy commitment shared by Prime Minister, the Chancellor of the Exchequer, and the Secretary of State for Int'l Development
- Active engagement in the int'l community and global debates

Millennium Development Goals (MDGs) :

Eight Goals for 2015 using 1990 as benchmark

(21 targets and 60 indicators)



Eradicate extreme poverty and hunger



Achieve universal primary education



Promote gender equality and empower women



Reduce child mortality



Improve maternal health



Combat HIV/AIDS, malaria and other diseases



Ensure environmental sustainability



Develop a global partnership for development



Int'l Development Policy under Labor Administration (1997-2010)



- Prime Minister (Blair, Brown): attach high priority to development, incl. aid to Africa
- Chancellor of the Exchequer: strongly committed to development, supportive of aid budget increase
- DFID: the voice of developmental interests, standing up for poverty reduction in the faces of diplomatic and commercial interests
 - Abolishing the Aid and Trade Provision in 1997 (tied grant aid)
- Strong civil society sector, active think tanks, Christian concept of charity
- High-level political and public support
 - “Aid for poverty reduction” attracts votes (connected to daily lives – e.g., refugees and asylum seekers, immigrant workers)





Int'l Development Policy under Conservative Admin.(May 2010)



- Commitment to MDG achievement and ODA increase (to raise ODA/GNI ratio to 0.7% by 2013 → **achieved !**)
- Keeping untied aid
- Value for money (VfM); transparency -- Independent Committee for Aid Impact (May 2011), reporting to the International Development Committee of the Parliament
- **Recent change** -- New aid strategy (Nov. 2015)
 - Supporting both (i) poverty eradication and (ii) national interests (security & foreign policy)
 - Greater emphasis on economic development
 - Big increase in aid spending for fragile states & regions, including Conflict, Stability & Security Fund (under NSC)
 - Prosperity Fund to promote global prosperity (under NSC)
 - ODA crisis reserve (for refugees)
- Impact of Brexit?

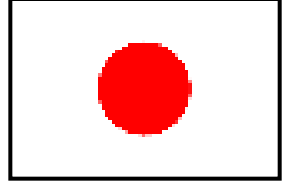


German Development Cooperation



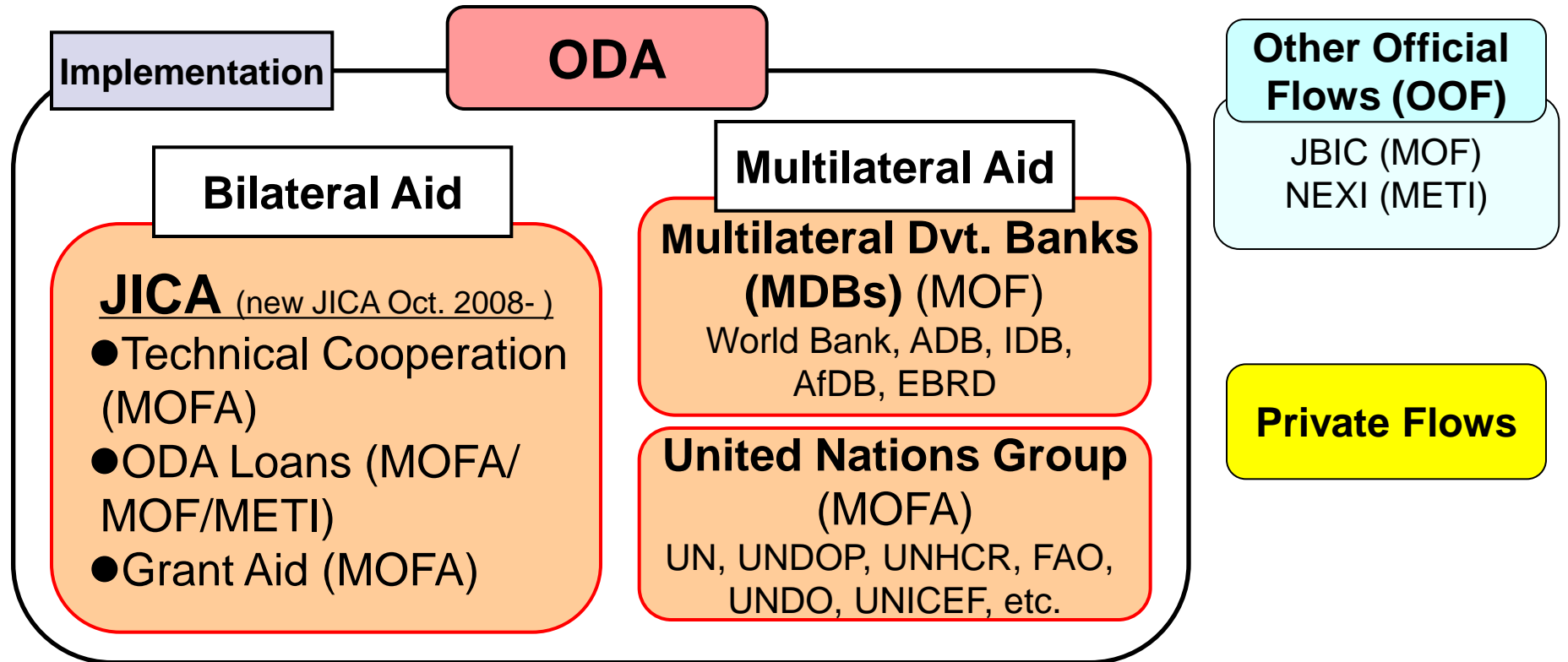
- Policy: Federal Ministry of Economic Cooperation and Development (BMZ) established in 1961
- Implementing agencies: decentralized system
 - Financial cooperation (KfW)
 - Technical and human resource cooperation (GTZ, DED, InWent, etc.)
 - ➔ In 2011, GIZ (German Int'l Cooperation GmbH) created to provide an integral services
 - Party foundations, state-level cooperation, and others
- Building on the concept of “social market economy”, as the German model of development
 - Due consideration to employment and social stability
 - Technical and vocational education & training, the role of intermediary organizations (e.g., chambers of commerce and industry), SMEs
- GIZ: capacity development, delivery on the ground
 - Not just aid, but also offering fee-based consulting services (GIZ International Services to middle-income countries and other organizations)
- Big increase of ODA in 2015 (mainly due to assistance to refugees—accounting for 17% of ODA)

Japan: ODA Policy Formulation and Implementation Coordination



- ODA as essential part of foreign policy; MOFA charge with overall policy coordination, supervising JICA (but, MOF & METI also involved in policy)
- JICA as a single implementing agency – grants, TA & ODA loans (2008: merger of JICA & ex-JBIC)
- Policy framework provided by ODA Charters (1992, 2003) & DC Charter (2015) – Cabinet approval
- Japan became top donor in the 90s (peak 1997); but sharp decline of ODA budget for the past 18 years due to fiscal stringency & the 2011 3.11 earthquake reconstruction, etc.
- Limited involvement by the Legislature on strategy of ODA, leading to inactive policy debates; however, recently, strong political drive for utilizing ODA for quality infrastructure, maritime safety, etc.

Institutional Setting of Japan's ODA

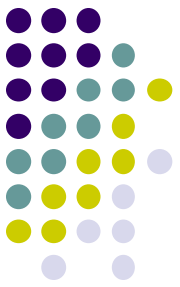


JICA: Japan International Cooperation Agency

ODA Policy

- Ministry of Foreign Affairs (MOFA): Overall policy coordination of bilateral ODA, UN
- Ministry of Finance (MOFA): Budget, MDBs, ODA loans
- Ministry of Economy, Trade and Industry (METI): ODA loans

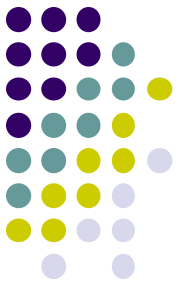
Evolution of Policy Framework From ODA to Development Cooperation



- **First ODA Charter (1992)**
 - ▶ Top donor—articulate Japan’s philosophy of int’l cooperation to the world (i.e., reaction to the criticism of “passive checkbook diplomacy”)
- **Second ODA Charter (2003)**
 - ▶ Declining ODA budget and popular support under the stagnated economy—urge to reaffirm Japan’s determination to int’l contribution and enhance aid effectiveness in the era of MDGs
- **Development Cooperation Charter (2015)**
 - ▶ New landscape of int’l development (SDGs, diverse actors) and continued economic stringency—strategic focus and closer links btw. global & domestic agenda (accelerating globalization)
 - ▶ Building on the assets accumulated through 60 years of Japan’s ODA

Philosophy of Japan's ODA

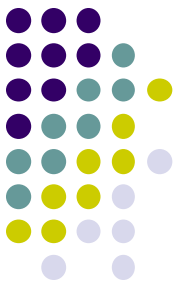
(ODA Charter, Cabinet Decision on June 30, 1992)



- It is an important mission for Japan, as a peace-loving nation, to play a role commensurate with its position in the world to maintain world peace and ensure global prosperity.
- Japan attaches central importance to the support for the self-help efforts of developing countries towards economic take-off. It will therefore implement its ODA to help ensure the efficient and fair distribution of resources and “good governance” in developing countries through developing a wide range of human resources and socioeconomic infrastructure.....

Philosophy of Japan's ODA

(ODA Charter, Cabinet Decision on Aug. 28, 2003)



- The most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building, and economic and social infrastructure building.....
- In order to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional and national perspectives, but also to consider the perspective of human security, which focuses on individuals... Japan will implement ODA to strengthen the capacity of local communities through human resource development.
- Japan will utilize its own experiences in economic and social development as well as in economic cooperation, fully taking into account the development policies and assistance needs of developing countries.

Development Cooperation (DC) Charter: Continuity

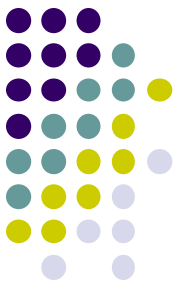


- Keep Japan's basic philosophy
 - ▶ Contribution to peace and prosperity through cooperation for non-military purposes
 - ▶ Promoting human security and fundamental human rights
 - ▶ Cooperation aimed at self-reliant development—through assistance for self-help efforts as well as dialogue and collaboration based on Japan's experience and expertise



DC Charter: Changes (1)

- Rename “ODA” → “Development Cooperation” Charter
 - ▶ Various actors cooperate with each other as equal partners by bringing respective strengths
- Expand the scope of development cooperation
 - ▶ **Quality Growth** – “Inclusive, Sustainable, and Resilient” G
 - ▶ Include MICs —not just LICs—addressing complex challenges (e.g., middle-income trap, urban mgt., inequality ...)
 - ▶ Allow for collaboration with foreign military personnel, for disaster relief and humanitarian assistance (case by case)

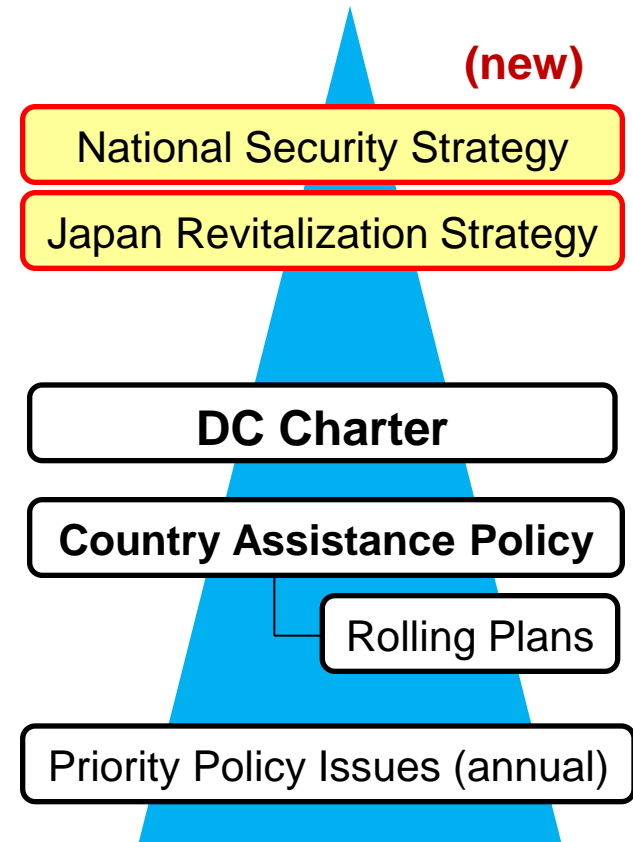


DC Charter: Changes (2)

- Sharpen the strategic focus of ODA, working with diverse actors (domestic & external), by mobilizing their expertise and technology
 - ▶ Business, local govts, civil society, universities, Asian partners, etc.
 - ▶ ODA as a catalyst
 - ▶ “National interests” mentioned clearly for the first time

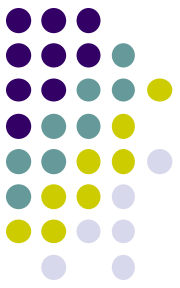


Cf. Japan does not have a legal framework governing ODA/DC. So, these charters are adopted upon the Cabinet approval.



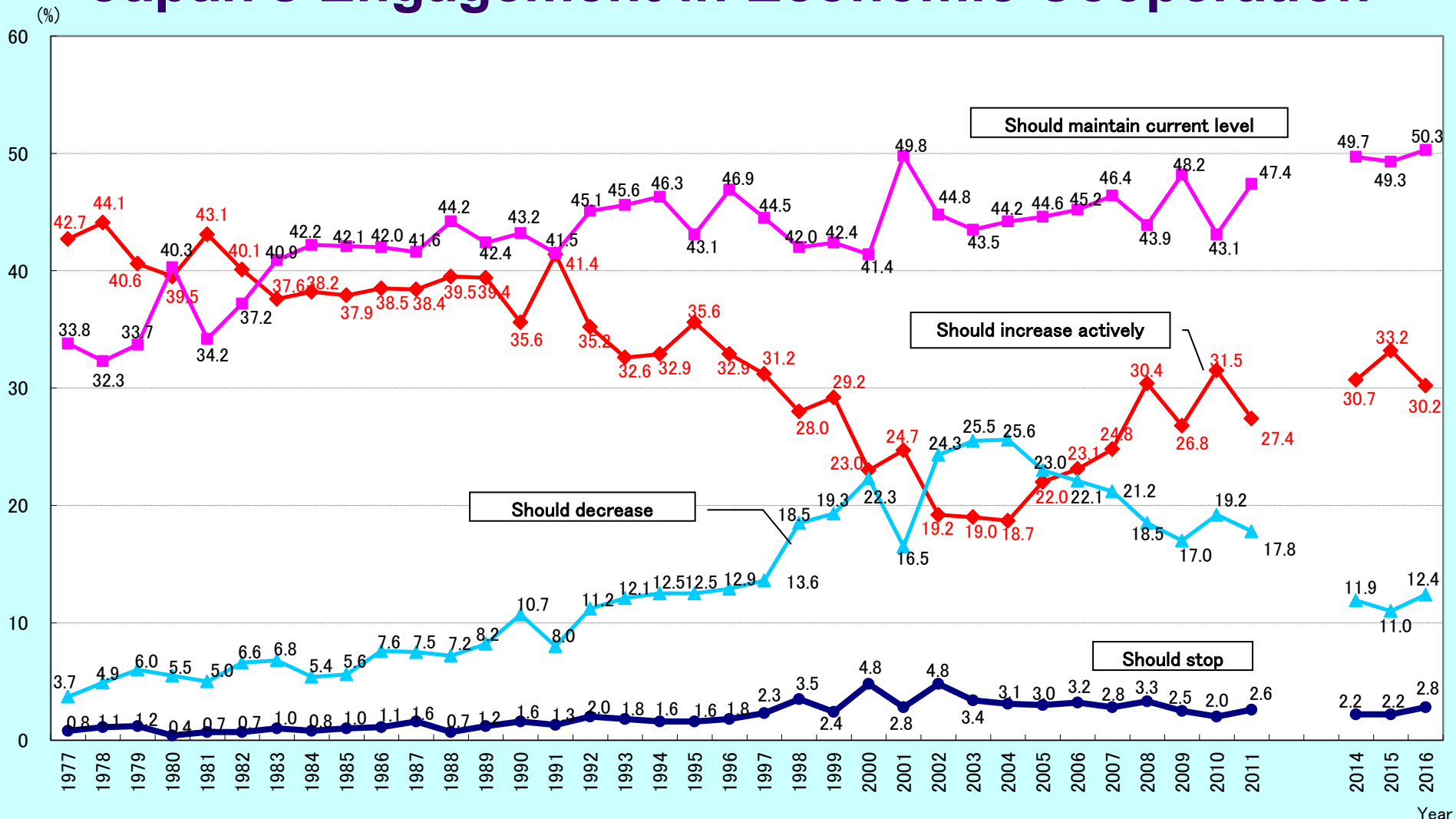
Development Cooperation Charter

(DC Charter, Cabinet Decision on Feb. 10, 2015)



- Japan will provide development cooperation in order to contribute to more proactively to the peace, stability and prosperity of the international community. Such cooperation will also lead to ensuring Japan's national interests such as maintaining its peace and security, achieving further prosperity, realizing an international environment that provides stability, transparency and predictability, and maintaining and protecting an international order based on universal values.
- ODA, as the core of various activities that contribute to development, will serve as a catalyst for mobilizing a wide range of resources in cooperation with various funds and actors...

Popular Perception of ODA: Opinion Polls on Japan's Engagement in Economic Cooperation

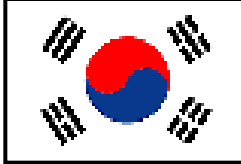


Source: Opinion Polls on foreign policy, the Cabinet Office, October 2016.

Note 1: The polls were conducted in August 1977-79, June 1980-85, October after 1986 (except for November 1998). The 2012-13 polls did not include the questions of economic cooperation.

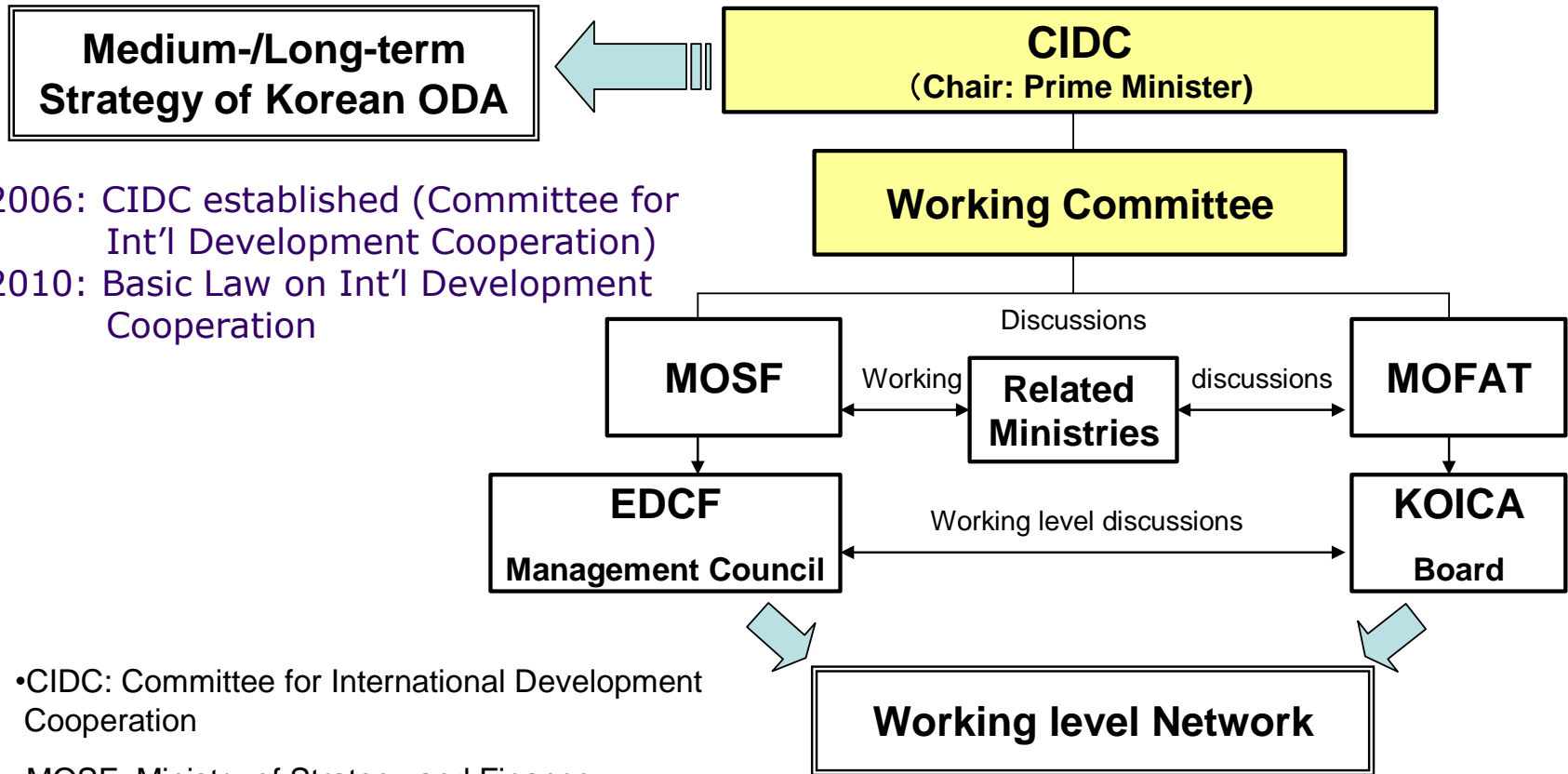
Note 2: The 2014 polls used the terminology of Development Cooperation (instead of Economic Cooperation)

Korea: Dual History of Development Cooperation



Recipient		Donor	
1945-48	<ul style="list-style-type: none"> ●US military government GARIOA and EROA 	1963	<ul style="list-style-type: none"> ●Participated in a USAID project
1950-53	<ul style="list-style-type: none"> ●Korean War 	1982	<ul style="list-style-type: none"> ●KDI's International Development Exchange Program (IDEP)
1950s	<ul style="list-style-type: none"> ●UNKRA - Post-war Reconstruction Aid 	1987	<ul style="list-style-type: none"> ●Economic Development Cooperation Fund (EDCF): concessional loans
1945-60	<ul style="list-style-type: none"> ●70% of Grant aid provided during this period 	1991	<ul style="list-style-type: none"> ●Korea International Cooperation Agency (KOICA): grant aid & TA
1945-95	<ul style="list-style-type: none"> ●Total: \$12.78 billion ●Major donors <ul style="list-style-type: none"> - US:\$5,540 million (43.3%) - Japan: \$5,050 million (39.5%) - UN: \$615 million (4.8%) 	1995	<ul style="list-style-type: none"> ●Graduated from recipient status: WB loans paid off (excluding post-1997 crisis loans)
		2010	<ul style="list-style-type: none"> ●OECD/DAC member ●G20 Seoul Development Consensus for Shared Growth
		2011	<ul style="list-style-type: none"> ●OECD/DAC Busan HLF for Aid Effectiveness
<p>Source: Updated by the author based on Wonhyuk Lim, Korea's Development Cooperation Agenda, presentation in May 2011, Seoul.</p>			

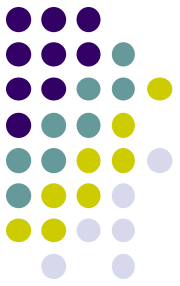
Korea: Coordination Mechanism for Development Cooperation Policy



2006: CIDC established (Committee for Int'l Development Cooperation)
 2010: Basic Law on Int'l Development Cooperation

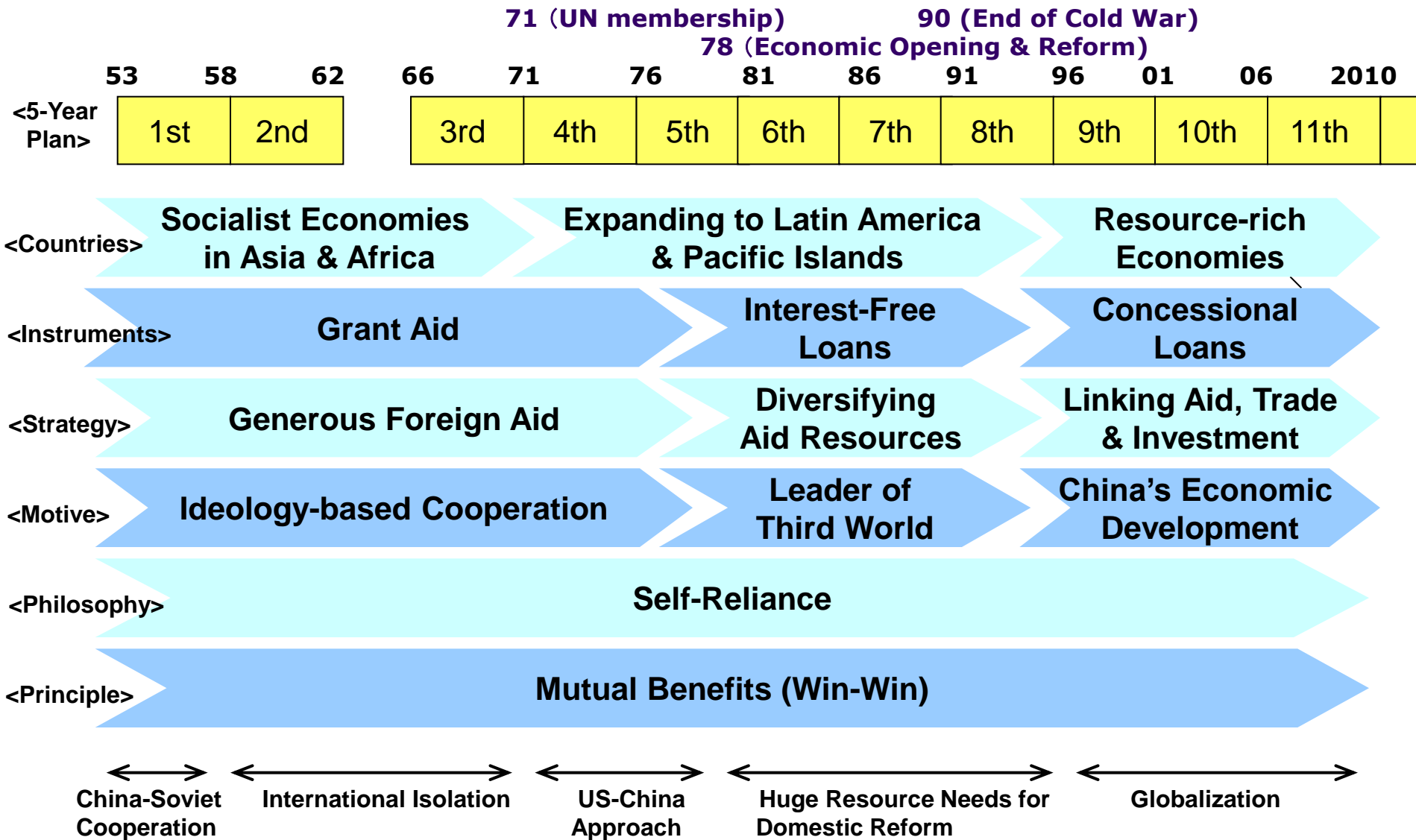
- CIDC: Committee for International Development Cooperation
- MOSF: Ministry of Strategy and Finance
- MOFAT: Ministry of Foreign Affairs and Trade

Korea: Priority Agenda for Development Cooperation



- As a new OECD/DAC member, willing to play a bridging role btw. Developing countries and traditional donors
- Strategic use of ODA for national branding
 - G20 Seoul Development Consensus (Nov. 2010)
 - OECD/DAC Busan HLF for Aid Effectiveness (Nov.-Dec. 2011)
 - Promoting Green ODA
- Launching “Knowledge Sharing Program (KSP)” to disseminate Korean development experiences
 - MOSF & KDI (100 modules under preparation); implementing intellectual cooperation
 - MOFAT & KOICA (integrating intellectual cooperation into Country Partnership Strategy)
- Philosophy: emphasis on economic development, growth, self-reliance (similar to Japan)

China: History of Foreign Aid (1953-)



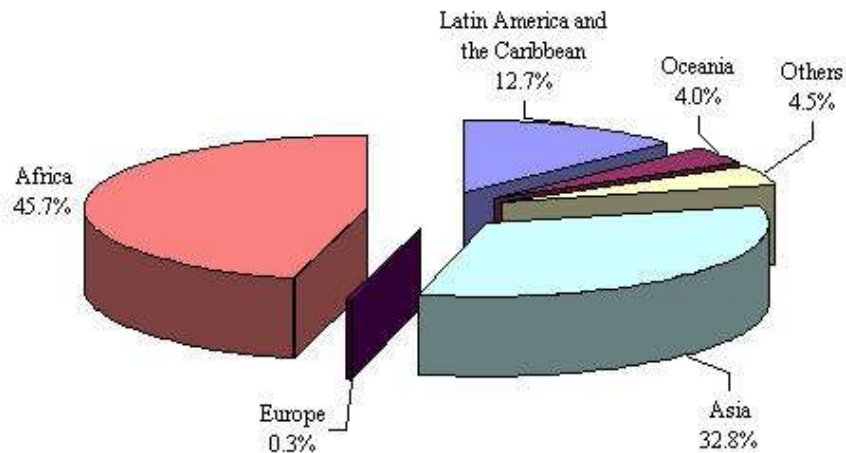
Source: Adapted from Takaaki Kobayashi "China's Foreign Aid Policy", JBIC Research Institute, Oct. 2007.



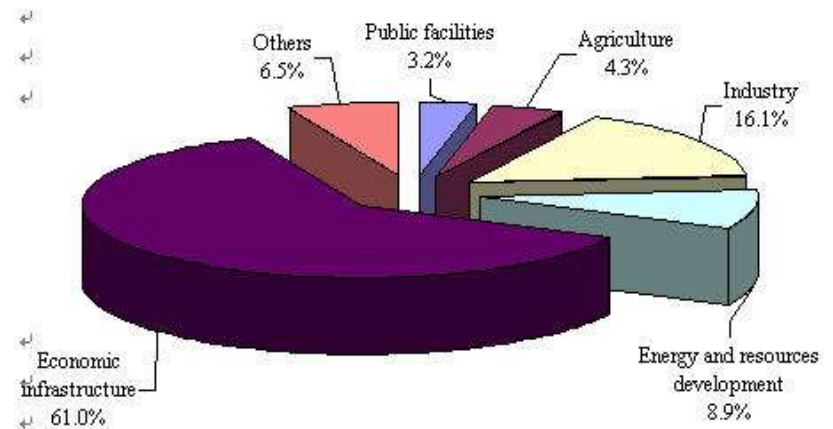
Features of China's Foreign Aid Policy

- Equality and mutual respect (partners, not “donor-recipients”)
- Bilateralism and co-development (mutual benefits)
- No-political strings attached and non-interference of domestic affairs
- Stress on the capability of self-reliance
- More recently, actively engaged in establishing new global framework
 - BRICS Bank (to start operations in 2016)
 - Asian Infrastructure Investment Bank (to start operations in 2015)

Geographical Distribution of China's Foreign Aid Funds (by end-2009)



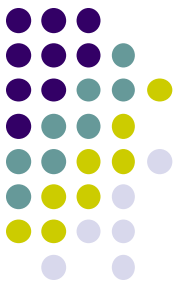
Sectoral Distribution of Concessional Loans from China (by end-2009)



Source: Information Office of the State Council The People's Republic of China, April 2011

- Emphasis on economic infrastructure, and (recently) production capacity
- From late 1990s, major shift to economic cooperation; linking aid, trade & investment
 - “**Going out**” strategy (2001) under the 12th Five-Year Plan
- **Forum for China-Africa Cooperation (FOCAC)**, every 3 year since 2000
 - First multilateral consultative mechanism btw. China and Africa
 - 6th FOCAC (Dec. 2015) promises the expansion of concessional loans, China-Africa Development Fund, special loans to African SMEs, and a **new** China-Africa production capacity cooperation fund (10 bn USD), etc.

Cf. East Asian Donors: Japan, Korea and China (Stallings & Kim 2015)



- **Similarities**

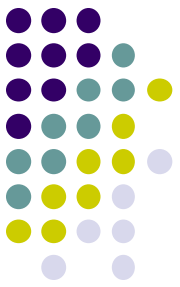
- “Self-reliance or self-help” as central philosophy; demand-driven
- Sectoral allocation: emphasis on infrastructure and productive sectors; Japan & China (economic infrastructure) vs. Korea (social infrastructure)
- Instruments: use of concessional loans (in addition to grants & TA); project aid as main modality

- **Differences**

- Geographical allocation: Japan & Korea (Asia) vs. China (Africa)
- Relationship with OECD/DAC: Japan & Korea (member) vs. China (non-member)

- **Rivals or partners? (case by case...)**

Final Thought and Implications for Japan: The Age of Choice?



1. The rise of Asian emerging donors and growth resurgence among traditional donors are welcome development for Japan, which has tended to be isolated within the int'l development community and the DAC until recently.
2. More diverse and increased development partners imply that developing countries could benefit from the greater choice of development cooperation (Greenhill, Prizzon & Rogerson 2013: ODI WP364).
3. This demands enhanced efforts on Japan to sharpen its own comparative advantage (“nitche”).
4. Japan should **focus on its core competence** and contribute to int'l development in the post-2015 era.

➔ *This is an era of “Cooperation and Competition.”*