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Development Coordination:
A challenge to Japan's development assistance for poor countries

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1. Introduction

Japanese development assistance is now at a cross-road. Within Japan, the budget for ODA (Official Development Assistance) has been rapidly reduced beyond all expectation. In the international community, a reform is under way that may radically change the role of development assistance. The main issue of the current reform is international development coordination. Facing rapid reduction in the ODA budget, Japan is restructuring her development assistance by putting more emphasis on the quality of aid than the quantity. But many hurdles remain in her development coordination efforts. This paper aims to examine issues related to Japan's stance toward international development coordination and their background. The following points will be discussed in detail.

- *Why has Japan's stance toward development coordination been so different from that of other donors, especially the U.K.?*
- *Japan has been slowly and partially changing to catch up with the new trend of aid reform and development coordination. What are those changes?*
- *What are the hurdles and stumbling blocks in the way of Japan's efforts to make ODA more effective?*

“Partnership” has become a key word in the discussion of international aid policies. The “Millennium Development Goals (MDGs),” resolved in 2000, emphasised the importance of establishing a global partnership for poverty reduction. If international development coordination is an effective step toward building such a partnership, there is no choice but for Japan to participate in it. However, the Japanese response to this international reform trend toward development coordination has been reactive and slow. As discussed below, the reasons for such an attitude lie in the historical and structural background of Japan's ODA. Yet the situation has been gradually changing. Recently, Japan has taken new initiatives in development coordination. It is important for us to explore whether these new initiatives may lead to more substantial reform of Japan's ODA for poor countries.

Section 2 of this paper summarises the trends toward aid coordination, examining how reformist donor countries, including the United Kingdom, try to coordinate their aid activities with others. The various problems that Japan faces, due to the difference of her own approach to development assistance, are contrasted with the progress made by those reformist donors.

Section 3 examines the origin of development coordination. The discord between approaches to development assistance between reformist donors and Japan suggests the existence of a huge perception gap between Japanese and Westerners. Looking back to the origin of development coordination, formed by notably European donors, the nature of such a

perception gap is clarified.

Section 4 discusses the background of the perception gap from the Japanese point of view. In particular, it explores how the unique historical background of Japan's development assistance produces such a gap in perception with other donors and makes it difficult to participate in the present coordination of development. These difficulties illustrate why Japan cannot play an appropriate role in development partnership for poor countries.

Lastly, in section 5, progress in Japan's initiative in development coordination and aid reform is briefly explained.

2. 'A traditional Japan': deviation from the reform trend

(1) The new reform trend and country development coordination

Cooperation and coordination among development stakeholders can take place at various levels. In addition to the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC), board meetings of various international organisations can be for coordination. More importantly perhaps, G8 summit meetings are increasingly strengthening their function as policy coordination vehicles among major bilateral aid donors. Furthermore, the US-Japan Common Agenda, the Global Issue Initiative (GII), and the Strategic Partnership with Africa can be listed as initiatives taken by development stakeholders to cooperate in solving global issues.

The most difficult challenge for Japan is not these rather general initiatives among donors, but development coordination which influences donors' concrete activities in the field in each recipient country. (Hereafter we call this 'country development coordination'.) The present paper focuses on this level of development coordination, namely, the coordination among stakeholders in a specific recipient country, including the recipient government and donors¹.

In public administration, "coordination" among different administrative organisations is distinguished from "cooperation"; the former implies more restriction on the independence of each organisation. Development coordination in a recipient country is to be regarded as

¹ *Aid coordination* rather than *development coordination* may be the more common terminology. But in the current movement for coordination in recipient countries, recipient governments are expected to take a leadership role, i.e., to sit in the driver's seat (Harrold et al., 1995). Also, private stakeholders in recipient countries are encouraged to participate in the process. Furthermore, the supreme aim of the coordination in question is not only to change aid relations and thereby improve aid effectiveness, but also to achieve higher development and poverty reduction goals through better institutional settings of recipient governments. In the present paper, *development coordination* is to be used.

“coordination” in the sense that it requires the recipient government and donors to compromise their own ‘interests’, and it also requires concrete changes in the way aid activities are carried out².

In what follows, we describe country development coordination and illustrate how it is becoming a critical issue for Japan’s practice of aid for poor countries.

(2) The objective of the reformist donors’ approach to country development coordination

The strong international trend toward country development coordination has been created and promoted mainly by several northwest European donors (or the so-called like-minded group). What is the new approach to aid promoted by this reformist trend? How does it cause difficulties for Japan’s foreign aid?

Among the so-called reformist donor countries, the Department for International Development (DfID) of the U.K. has been the most vocal in putting forward a typical framework of thoughts and practices related to country development coordination. Its understanding of the country development coordination framework can be summarised as follows (DfID, 2001, pp. 81-83):

- 1) Development assistance by all donors must be provided in accordance with development strategies (in most cases, Poverty Reduction Strategies [PRS]) formulated by recipient governments at both macro- and sectoral level.
- 2) The amount of aid given by all donors must be aligned with the recipient government’s annual budgets and fiscal frameworks in the medium-term. This enables the budgeting agency in each country to capture flows from all aid resources and make them predictable in the long- term.
- 3) Based on 1) and 2), resources must be allocated selectively to the most important sectors. Among the priority sectors are direct poverty reduction, such as basic education and primary healthcare, on which northwest European donors have conventionally placed high importance. Prioritisation of these sectors is also currently legitimised by mainstream economics as practiced by economists of the Bretton Woods institutions.
- 4) The foreign aid of all donors must be harmonised under the same procedures. Donors are recommended to contribute funds to sectoral common pools or, more desirably, directly to the recipient government’s budget.
- 5) As a prerequisite for financial support for common pools or government budgets, macroeconomic management of recipient governments must be stable, and their

² See Rogers et al. (1982).

financing and procurement systems must be transparent and accountable. The process of donor budgetary assistance should also improve these systems.

Behind these ideas, there seems to be a strong concern about resource fungibility. The reformist donors, including the U.K. and the World Bank, have discussed and tried to make better use of fungibility. Fungibility could encourage the dubious use of financial resources but, on the other hand, could facilitate flexibility and traceability. Any resources are fungible. Even if aid is provided in kind, e.g., in the form of equipment or expertise, it could cause fungibility effects by giving recipients the ability to use the freed-up resources for undesigned purposes. Budgetary supports would be superior to aid in kind since they are more flexible and support better resource allocation. It would be also superior in a very different sense. It would enable a donor to have tracing claims on the use of money. Because money is fungible, a donor could claim traceability for every unit of currency, an indivisible portion of which is originally its contribution. The donor could also potentially claim accountability for the utilisation of the entire budget in terms of final development outcomes. This could lead to improvement in the financial and resource management systems of recipient governments at the end of the day if it was associated with action on the procurement side.

If each donor gives aid according to its own aim and motive with its own modalities and procedures, the recipient government would have to bear great managerial (transaction) costs. This often causes *aid proliferation*, discussed later, which undermines ownership by recipient governments. General budgetary supports can reduce transaction costs, as they are, by definition, supposed to be part of government development strategies and the most flexible modality of aid.

In contrast, if donors stick to the conventional way of providing aid in kind and are satisfied with simply verifying the output rather than outcome of projects or procurements, the above-mentioned positive effects of fungibility cannot be expected.

Only under certain conditions, however, could the positive effects of direct budgetary support be brought about. Not even the U.K.'s DfID considers that it can function in every developing country. As stated in 5) above, direct budgetary support must be limited to those recipient governments with sound macroeconomic, especially fiscal management and appropriate development strategies.

(3) Japan's traditional approach to development assistance and its uniqueness

The above-mentioned DfID approach to development coordination has been widely supported. The World Bank and International Monetary Fund (IMF) may have some minor technical differences due to their organisational mandates, but they now share the same basic

conceptions of development coordination with DfID and others³. The approach has great influence on the formation of development coordination and the reform of aid to poor countries in Africa and elsewhere. We can call this the reformist approach.

Unfortunately, such a reformist approach to development coordination is not compatible with Japan's traditional approach to ODA. The following five characteristics of Japan's aid are important to understand:

- 1) Japan's aid is basically project-based and its activities are largely isolated from others. Therefore, Japan's aid projects are self-contained (or output-oriented rather than outcome-oriented), even though much attention is now being paid to macroeconomic policies and the budget of recipient countries.
- 2) Most Japanese assistances are aid in kind. In other words, they are based on the physical transfer of materials and personnel, namely the construction of facilities, donation of equipment, seconding of experts, training of invited people from developing countries, and so on. Japan has rarely provided cash directly to recipient governments, largely because it has believed that aid in kind could prevent the dubious use of aid resources.
- 3) Closely related to 2), Japan's aid has not been aimed at covering recurrent expenditures, e.g., government officials' salary, operational costs, or maintenance costs for facilities. This stance is utterly different from the common pool contributions or the general budgetary supports that aim to support both recurrent and capital budgets indiscriminately.
- 4) Strictly based on the single-year budgeting principle, Japan does not give recipient governments any projection of concrete financial assistance beyond the current year. Therefore, it is very difficult for recipient governments to incorporate details of Japan's assistance into the budget for next year and into medium-term fiscal programs.
- 5) Although there are some exceptions, Japan's grant aid and technical assistance are basically tied to Japanese contractors.

If Japanese aid continues to be provided in this manner while the reformist approach becomes more prevalent, Japan may not be able to carry on development assistance in poor countries. There have been some remarkable efforts within Japan to reform this conventional

³ The World Bank and the IMF are officially supposed to request and assist governments of poor developing countries to formulate Poverty Reduction Strategy Papers (PRSP) and related fiscal programs such as Medium-term Expenditure Frameworks (MTEF) as conditions for debt forgiveness under the HIPC's scheme and for the provision of fresh financial assistance.

position that will be discussed below. Yet those efforts are still patchy and partial and, overall, progress has been slow. The reasons for this lie in the historical and structural background of Japanese foreign aid, which is very different from that of Western donors. A comparison between Japan and Western donors would be valuable for our further discussion and follows in Section 3 and 4.

3. East and West: different backgrounds of foreign aid

(1) Origins of the reformist trend in aid approaches

To build mutually beneficial relationships between Japan and Western donors, an understanding of each other's different backgrounds is essential. It is difficult for Japanese to understand what motivates and facilitates Western donors' current approach of development coordination. We can cite at least five factors behind the rapid progress of reformist development coordination in some poor countries in recent years:

- *The rise of post-neoclassical thought: the New Public Management and outcome-oriented resource management*
- *Aid policy coordination: partly facilitated by Europe's political and economic integration*
- *Enhanced HIPC Initiative: heavy debt crises and debt forgiveness for poor countries*
- *Democratisation in Africa and other poor countries: more accommodative environment for accountable and transparent governance*
- *Failures of aid: including the disappointing results of Structural Adjustment Programmes (SAP)*

In addition, it is important to mention the long history of discussion of the need for program aid and aid coordination in the West. This dates back as early as the 1960s, when Chenery and Strout, the founding fathers of the two-gap theory, stressed the importance of all donors agreeing on the direction of macroeconomic policy and coordinating their aid activities. They also indicated the need for a program approach tightly coupled with macroeconomic policy conditions, such as increased savings. (Chenery and Strout, 1966, pp.726-728). Their idea was materialised as SAP in the 1980s, when other donors gathered to support the World Bank and International Monetary Fund (IMF) in implementing neo-liberal reform policies, though SAP might be a little different from what the two scholars had expected.

(2) Failures of aid and the crisis of the 1990s

Among above-listed origins of contemporary development coordination, failures of aid are most relevant to the comparison of Japan and the reformist donors. The important issue here is that Western donors, especially Europeans, experienced *aid fatigue* since the 1970s. In the case of Japan, such aid fatigue has not taken place or has been far less serious. This difference is due mainly to the identity of the respective recipient countries. The Europeans' major recipients are Sub-Saharan African countries, while Japan has been concentrating substantial amounts of ODA on East Asian recipients (see Table 1).

From the 1970s to the 1990s, Africa had been in a state of grave stagnation. To save Africa, the international community had tried numerous aid approaches, from assistance for government-led industrialisation to a focus on basic human needs (BHN) to SAP. In the 1980s, every effort was largely futile. This triggered a strong suspicion about the effectiveness of foreign aid itself, which was the beginning of aid fatigue.

Let us refer to the argument on development assistance by Hyden. Hyden discussed problems of African aid in the early 1980s in a comprehensive manner. He witnessed many difficulties and failures of development activities in Africa. He criticised both donors and recipients for their failures which made the latter's aid dependencies deeper and undermined aid effectiveness.

According to Hyden, there were four major failures on the donors' side. Firstly, their activities were based on an inappropriate development plan that ignored the peculiar situation in Africa.

Secondly, foreign aid had grown so much that it covered the majority of the recipient countries' development (capital) budget. In order to make effective use of the aid, recipient countries needed to provide sufficient recurrent expenditure. However, because of the imbalance between the development budget and the recurrent expenditure, development assistance did not have much effect. If aid covered recurrent expenditures in order to avoid this situation, the aid dependency of recipient countries would become even higher and result in donors' deeper intervention in the domestic policies of the recipient countries.

Thirdly, there was heavy procedural burden on recipient country who received aid from numerous donors.

Fourthly, there was inconsistency in standards or specification of equipment and facilities because donors with tied aid execute their development assistances in a mutually exclusive manner without coordination among themselves (Hyden, 1983, pp.165-167, pp.172-179).

Moreover, according to Hyden, there were problems on the side of the recipient countries in Africa. African society was pre-capitalistic, a situation in which the influence of each social group was based on ethnicity, blood relations or birth place. The mechanisms of

capitalism and the market were immature, and governments' capacity was feeble. As these governments could not allocate resources, including foreign aid, according to economic rationality, the large amount of aid for the BHN encouraged society to demand various kinds of undue resource distribution from their governments (Hyden, 1983, pp.165-167).

Among Hyden's criticisms of donors mentioned above, the last three were not the failures of individual donors, but were caused inadvertently and indicated the need for some kind of coordination among stakeholders. In a comprehensive research on the effectiveness of foreign aid initiated in the 1980s, Cassen and associates analysed the problems that occurred when numerous donors executed activities without coordination. In Tanzania and elsewhere, there were numerous on-going aid projects, and competition among donors and projects was observed. There was competition for talented local personnel and for the recurrent budget of the recipient government. Compared to the resources available for using and absorbing foreign aid in the recipient countries, too much and too fragmented foreign aid was flowing in. Cassen et al. called this situation 'project proliferation', and called for coordination among donors in order to solve it (Cassen et al, 1994, pp. 174-190). Hyden and Cassen observed the same situation of *aid proliferation* or *aid bombardment*.

As careful readers must already have noticed, the reformist approach to development coordination promoted by the DfID corresponds to the aid failures or aid proliferation that Hyden and Cassen described. An origin of development coordination can be found in the suspicions and criticisms of aid to Africa raised in the midst of the aid fatigue of the 1980s.

Although aid failures in Africa had already become visible in the 1980s, a large amount of aid still flowed into poor countries and was accelerated by the strategic considerations of the Cold War. This only aggravated the situation of aid proliferation. As a result of the sudden decline of strategic importance of aid to poor countries after the Cold War, however, many criticisms and suspicions about aid rose to the surface, especially when donor governments found themselves in acute fiscal situations. In the 1990s, many developed countries like U.S. started to restrain and even to reduce the ODA budget. As the effectiveness and *raison d'être* of aid were heavily debated; the situation became grave to the extent that the U.S. Congress seriously discussed the abolition of the U.S. Agency for International Development (USAID).

OECD-DAC enunciated a 'New Development Strategy'⁴ in 1996. This was a declaration of restructuring of aid by the donors themselves in response to the aid crisis. The document stressed the importance of various kinds of partnership and ownership in aid recipient countries. In the New Development Strategy, aid coordination among donors was mentioned as an important part of partnership. It aimed at obtaining clear results of development through aid. Many goals stated in the 'Millennium Development Goals' (such as

⁴ The official title is 'Shaping the 21st Century: The Contribution of Development Co-operation'.

reducing the ratio of the people living under the poverty line by half by 2015) were already declared in this document. The New Development Strategy demonstrated bilateral donors' determination to restore the *raison d'être* of development assistance by raising the development effectiveness of aid through partnership among donors. Behind the determination, there was grave reflection on the past situation of aid wherein fragmented projects were implemented in a mutually exclusive manner. On the other hand, the document's emphasis on the responsibility of developing countries implied that donors regarded many governments in poor countries as excessively dependent on aid and not equipped with a very strong will for development.

In the latter half of the 1990s, development coordination developed at the sectoral level, such as basic education and primary health care. Since its publication of a monumental research paper on Sector Investment Programs (SIPS) in 1995⁵, the World Bank strengthened its support for development coordination in each sector. Development coordination among donors, which had been limited to the macro-level (i.e., support for SAP) in the 1980s was *raison d'être* then extended down to the sectoral level. This implies that aid coordination started to regulate the concrete activities of donors. One could say that country development coordination was born at this time.

4. Historical Legacies: Japan's unique foreign aid background

(1) Uniqueness of Japan's ODA

As we confirmed above, Japan is faced with difficulties in taking part in development coordination. This is because Japan's conventional approach to foreign aid does not accord with what development coordination requires. To understand the reasons for Japan's different stance in international society, we need to review the background of Japan's ODA.

There are various points on which Japan's ODA history clearly differs from other donors, especially northwest Europeans, including the U.K. Among them are the following:

- *The fragmented decision-making about ODA*
- *The reactive nature of Japanese foreign policy, as inherited from the past*
- *The large role of the private sector and its vested interests*
- *Suffering little of aid fatigue*

It might be beneficial for us to explain each of the four points. Firstly, we will brief the former three points hereinafter.

⁵ See Harrold et al. (1995).

Fragmented decision-making about ODA.

Up to the 1990s, there was increasing reflection inside Japan about the fragmented decision-making of national policies. Foreign policy in general and ODA in particular were no exception.

The origin of fragmentation of national policy-making dates back to the 19th century. The Imperial Constitution proclaimed in 1889 gave each ministry strong autonomy. Ministers (virtually ministries themselves) were supposed to be responsible directly to the Emperor, not the premier or the Diet. It is understood that this ministerial autonomy led to the uncontrollable invasion of the Asian continent by the army.

Even after the dismantling of the militarist state after the Second World War, the ministerial autonomy syndrome persisted. It was said, in a bit of caricature, that Japan was a country of ‘ministries without government.’ In the latter half of the 1990s, this was the most important problem to be solved in the process of administrative reforms. One solution was for the Cabinet Office to absorb various inter-ministerial coordinating functions. For ODA, individual ministries still hold decision-making power in each sector, while the Ministry of Foreign Affairs (MOFA) has struggled to gain superior power. It has not been very successful, partly because its position within the government structure has been undermined by recent scandals.

Inside the ODA machinery, we can point to another kind of fragmentation. MOFA’s ODA administrative systems and implementation agencies (like JICA and JBIC) were set up, so to say, by modality-wise. Organisation on the basis of modality tended to deprive staff of regional or national concerns. It was not incorrect to say that serious incompetence of a part of the ODA machinery was caused by its structure.

The reactive nature of ODA policy.

As Calder pointed out, Japan’s foreign economic policies have been largely reactive, although there have been various efforts to overcome this recently. Japan’s ODA has been all the more reactive and thus the country has been very conservative in its involvement in the policy issues of recipient countries. This also has a historical basis.

Japan’s ODA originated in reparations and related compensation to neighbouring countries for the invasion and colonial rule before and during the Second World War. In other words, Japan’s aid started with the country’s ethical debts to the main recipient countries, such as Indonesia and China.

This is a very important point in thinking about the difference between Japan and Western donors. It is not unusual for Western donors to express their opinions about domestic policies in the recipient countries. In some cases, they require that a recipient country change its domestic policies in exchange for aid. These active attitudes have been gradually

reinforced through trial and error to overcome the failures of development and aid⁶.

However, for Japan, with grave ethical debts to Asian countries, aid relations with main recipients in Asia were thoroughly different. In this sense, Japanese aid activities have tended to be limited to purely economic or technical matters that appeared remote from politics and comprehensive policy issues. It naturally follows that Japan repeatedly emphasised the request-based approach for making aid projects, because Tokyo would like to at least pretend to avoid involvement in the decision-making process of aid recipient countries.

This modest stance in aid relations is not necessarily negative. Ishikawa stressed that Japan's peculiar advantage was to place priority on interactive policy dialogues. Yet the contemporary issue is that the Japanese government lacks readiness and resources to be engaged in in-depth policy dialogue, which is definitely due to the reactive stance to involvement in policy issues in the past (Ishikawa, 2005, pp. 17-23).

The large role of the private sector and its vested interests.

If we applied the request-based approach literally, lack of information and an increase in aid transaction costs could occur. It is not unusual for donors to have insufficient information about domestic affairs in aid recipient countries. The governments of recipient countries, on the other hand, often do not have the technical abilities needed for finding and completing aid projects. The procedures for requesting aid from donors are often complicated and, to make matters worse, they differ from donor to donor. In the conventional style of Japanese aid giving, the lack of information and the cost of clearing procedures were addressed by the activities of Japanese private corporations⁷. It was because there were high possibilities that finding and formulating aid projects by private companies led to their profits after successful bids. As Esho pointed out, the relation between the request-based approach and private companies' involvement under the system of tied aid was two sides of the same coin (Esho, 1994, p. 228)⁸.

⁶ The term 'partnership' perhaps can be regarded as a screen behind which donors become actively involved in the domestic matters of developing countries.

⁷ It is unfortunate that the negative side of private companies' active roles is not yet eliminated; for example, bribery was recently discovered in a project of grant aid to Mongolia. Private companies have many advantages in finding and forming aid projects. On the other hand, there is the possibility that competition, which is not based on fair rule, does damage to the potential effectiveness and efficiency of the aid. It is worse if the governments of development countries have problems of corruption and incompetence.

⁸ The Japanese preference for project aid to program aid might deeply be connected with the vested interest structure. To formulate program aid, which involves comprehensive policy in developing countries, was not an activity private companies could easily undertake, nor did they have any incentives for doing so.

As Esho also pointed out, the turning point for Japanese aid came when the country drastically reduced the tied ratio for yen-denominated development loans in response to criticism from other donors after the 1980s (Esho, 1994, p. 229). In the 1990s, Japan introduced ‘the joint project formulation principle’ in place of the request-based principle, and the necessity of policy dialogue with recipient countries was newly stressed. An assistance strategy for each main recipient has been laid down, and consistency between individual activities/projects which had earlier been executed in an isolated manner has been seriously pursued. Exercises of aid project formulation, which had been undertaken by private companies under the request-based principle, have begun to be carried out mainly by the government’s implementing agencies.

Yet there still remains a vested interest structure underpinned by strong stakeholders of grant aid and technical assistance who would feel the negative impacts of untying aid. Overall, the Japanese government at present looks very vulnerable to pressure from them.

(2) No failures of aid?

As explained above, the main recipients of Japan’s aid were the neighboring countries in Asia. Table 1 is the list of the top five aid recipient countries of Japan and the U.K. in the past. We take the example of the U.K. as a representative case of reformist donors.

Table 1: Top five aid recipient countries of Japan and the U.K.

Ranking	1970	1980	1990	1999*
Japan				
1	Indonesia	Indonesia	Indonesia	Indonesia
2	Korea	Bangladesh	China	China
3	Pakistan	Thailand	Philippines	Thailand
4	India	Burma	Thailand	Vietnam
5	Philippines	Egypt	Bangladesh	India
U.K				
1	India	India	Bangladesh	India
2	Kenya	Bangladesh	India	Bangladesh
3	Nigeria	Zimbabwe	Kenya	Uganda
4	Pakistan	Sri Lanka	Pakistan	Ghana
5	West Indies (British territory)	Tanzania	Malawi	Tanzania

* Latest figures available.

Note: From *White paper on official development assistance*, by Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan, Various years.

Compared to Japan, in which many recipients were neighboring countries in East Asia, the former colonised countries of South Asia and Africa were the majority of U.K. aid recipients⁹. This geographical characteristic has a great influence on Japan's approach to aid and its perception of development coordination.

Broadly speaking, Japan is located in the same area as her main aid recipients, which is a unique experience among donor countries. European donors find their major recipients in Africa. A host of Japanese advanced technologies, such as irrigated agriculture, were applicable in recipient countries in East Asia because these technologies were invented in the common environment characterised by high population density and monsoon weather. This is an advantage for Japan-East Asian aid relations compared to Europe-Africa aid relations. In order to assist the technological progress of Africa's agriculture, for example, Europeans or other donors had to develop new technologies, completely different from their own technology, which was appropriate for a tropical climate.

Secondly, Japan had been the only industrialised nation and thus almost the only ODA donor in East Asia for a long time. This situation is far different from that of European donors. In Europe, all neighboring countries are aid donors and thus are always exerting peer pressure on each other. Among European donors, languages and cultures are so close that they can easily communicate their ideas with each other. Scandinavian countries in particular, which share similar policies for both domestic and foreign affairs, have built very close collaborative relations in activities in developing countries¹⁰. Development coordination has been initiated partly on the basis of such commonalities among European donors.

Japan, however, was practically the only donor in East Asia, except for South Korea, which set about giving aid on a small scale in recent years, and China, which strategically supported other developing countries according to its own logic. There was little competition, collaboration, or close exchange of ideas among them. The concept of aid which Japanese people in general have had for a long time is that, apart from contributions to multilateral organisations, Japan supported each target country on a one-to-one basis¹¹. On the field of aid

⁹ As ranking is based on the amount of receipt in this case, it is necessary to consider the possibility that the target countries with large domestic economies have higher positions. One must be especially careful in the case of Japan, because her main recipient countries for loan aid are not always the same as those for grant aid and technical cooperation.

¹⁰ Moreover, among Western donors, there are many cases in which foreign aid experts create strong personal networks through frequent exchanges. In a situation in which intra-EU international recruitment by public organisations is encouraged, such personal networks among donors may become stronger, not weaker.

¹¹ Japanese communication with other donors tends to rely on official channels, such as OECD-DAC, various committees of the World Bank and the IMF, regular consultations with organisations of every kind, or donors' meetings in the field in developing countries. It should be noted that Japan has a deep relationship with the U.S., as exemplified by the U.S.-Japan Common Agenda, but it cannot be denied that

activities in East Asian countries, there are only the World Bank and the Asian Development Bank contributing amounts comparable to Japan. Japan did not have any chance to have close peer collaboration with and criticism from other bilateral donors.

Thirdly, the fact that most of Japan's main recipient countries were East Asian countries means that they were at the same time the 'successful' countries in development. They experienced high levels of economic growth. Table 2 shows the average growth rate of GDP per capita over 34 years in the main recipient countries of Japanese and U.K. aid (the same countries shown in Table 1), as well as their gross national income per capita in 1999 and, as an indicator of aid dependency, the ratio of the amount of the aid received to gross capital formation (investment). As a benchmark, a weighted average (a simple average in the case of aid dependency) of each index is also shown. From Table 2, we can see that Japan's aid recipient countries are richer, and their past growth rates are higher, than those of U.K.¹².

One can easily imagine that this disparity of economic performance of major recipient countries made a great difference in the two donors' perception of development assistance. The U.K., whose major recipient countries are poor and stagnant, came to doubt many aspects of conventional aid. Japan, on the other hand, had been optimistic about aid because its major recipient countries, like South Korea, China and Thailand, have remarkably reduced poverty.

East Asian countries had been successful in realising a high growth rate, and also in maintaining macroeconomic stability, compared to other developing countries. In addition, one could say that East Asian governments originally had greater capacities of administration and fiscal management (or simply aid-absorbing capacity) than those in Africa. Aid absorbing capacity in East Asian countries had been enhanced year after year as the bases of governments' domestic revenue expanded due to high economic growth and industrial development. Overall, Japan had been endowed with an advantageous environment in making individual aid activities successful and provision of development loans possible. This gave rise to Japan's peculiar inclination to find the main role of foreign aid in supporting industrial development through large-scale loans for infrastructure construction projects.

At the same time, the high economic growth and widening domestic revenue bases in East Asia increasingly mitigated their aid dependencies. As we can see from Table 2, there is a big disparity in aid dependence between the main recipient countries of Japan and the U.K.

there exist large gaps between their commitments to the Agenda. It is desirable to make use of such official channels more effectively and also to make unofficial networks among persons concerned about aid more intimate.

¹² There is a 2% difference between the main aid target countries of Japan and those of the U.K. in terms of weighted average of growth rate of GDP per capita. This difference means that two countries with the same GDP per capita will diverge dramatically over the long run; one of them will have twice the level of GDP per capita than the other after 34 years.

Table 2: Aid dependency ratio in main recipient countries of Japan and the U.K.

	GNI per capita (US\$, 1999)	GDP growth of top five aid recipient countries (%, 1965-1999)	Aid dependency ratio (aid/gross capital formation, %, 2000)
Japan			
Korea	8,490	6.6	-0.2
China	780	6.4	0.4
Thailand	2,010	5.1	2.3
Indonesia	600	4.8	6.3
Egypt	1,380	3.3	5.6
Sri Lanka	820	3.0	6.1
Pakistan	470	2.7	7.3
India	440	2.4	1.4
Myanmar	..	1.5	..
Bangladesh	370	1.3	10.8
Philippines	1,050	0.9	4.3
Vietnam	370	..	19.8
Average	1,188.5	3.3	5.8
U.K.			
Sri Lanka	820	3.0	6.1
Pakistan	470	2.7	7.3
Uganda	320	2.5	73.0
India	440	2.4	1.4
Bangladesh	370	1.3	10.8
Kenya	360	1.2	39.0
Zimbabwe	530	0.9	19.1
Malawi	180	0.6	200.5
Nigeria	260	0.0	2.0
Ghana	400	-0.7	49.5
Tanzania	260	..	65.3
Average	377.2	1.3	43.1

Note: Data for West Indies (British territory) are not available.

GNI per capita and GDP growth per capita use the weighted average by population in 1999, and aid dependency ratio uses arithmetic average. For calculating the weighted average of these two, China and India, whose populations are particularly large, are excluded.

From *World Development Indicators*, by World Bank, 2001 & 2002.

Japan, which dealt with countries whose economic performances were so good, had no chance of suffering the serious aid fatigue European countries did. Being free from aid fatigue, Japan did not notice the full-scale aid failures which motivated aid reforms and commitment to development coordination.

5. Japan's new initiatives and the hurdles ahead

(1) New initiatives

Despite the above-mentioned limitations, Japan has been undertaking several initiatives to catch up with the reformist trend toward development coordination.

Since the latter half of the 1990s, the Japanese government lost self-confidence. The dream of the East Asian Miracle suddenly ceased to attract attention from all over the world after the 1997 financial crises. Japan itself, due largely to the persistent recession, suffered a shrinking of interest in foreign and global issues. Advocates of the 'transfer of experiences of Japan and East Asia' became quiet. Rather than the smaller aid-dependent recipients, China has become a headache for policy makers by being a major aid recipient and a competitor with a certain level of technology (including nuclear weapons) at the same time. ODA is now a political issue in Japan, probably for the first time. Under these circumstances, the ODA budget has been drastically reduced. Given these changes, however, aid fatigue was not an issue in Japan since its main recipients had already reduced their poverty.

Rather, there have been several positive efforts from our point of view.

In 2003, the Cabinet renewed the ODA Charter. It first stressed collaboration with other actors in the international community. Also, it heralded a commitment to 'Human Security', suggesting deeper involvement in the domestic affairs of developing countries in case individuals' livelihood is in danger. In addition, the formulation of Japan's own Country Assistance Programmes was required to overcome modality-wise fragmentation. In March 2005, Japan agreed to the Paris Declaration on Aid Harmonisation.

Also, various initiatives in individual poor recipient countries have been undertaken. In 2004, Japan started to contribute grant money directly to Tanzania's Poverty Reduction Budget Support (PRBS). This is the very first case of 'pure' general budgetary support, though it was provided on trial (or exceptional) basis. In 2005, the second contribution was approved. In 2004, the government decided to co-finance the World Bank's PRSC to Vietnam, which was the first direct budgetary support loan.

In Tanzania, Japan has been taking the position of lead donor in the formulation and implementation of the agricultural SWAP. It has been involved in the formulation of PRS and various SWAPs or in the monitoring and evaluation process in various countries.

Lastly, the Japanese government recently decided to formulate Country Assistance Programmes for Ethiopia and Ghana. In both cases, the core issue is how to align Japan's own programme with recipients' PRS and other policy frameworks.

At a glance, these recent developments look remarkable. In substance, however, Japanese commitment to development coordination is patchy as it has largely relied on certain individuals' pioneering efforts rather than officially organised initiatives.

(2) The hurdles ahead

Frankly speaking, the Japanese government has been unable to consolidate a firm organisational will to cope with development coordination. Inside the Japan's ODA machinery, there are several huge perception gaps between: the younger generation exposed to new thinking, including the New Public Management, and the older generation which is not exposed; people working in Asia and those working in Africa; people working in recipient nations and officials in Tokyo; officials working with multilateral development banks and those in charge of bilateral aid (or simply MOF and MOFA); and perhaps JICA people and MOFA officials.

The new initiatives mentioned above have been materialised due largely to efforts by the younger generation working in or closely connected with recipient countries. This demonstrates that Japan has fortunately succeeded in accumulating people keen to correct the low effectiveness of aid to Africa. Those people have advanced understanding of what the reformist donors have called our attention to. It is they who will overcome the negative legacies of Japan's unique historical background.

First of all, we have to construct an internal consensus within the ODA machinery by overcoming these perception gaps. But more importantly, every effort must be made to form a national consensus about the new direction of aid. This will be no easy task since quite a wide part of Japan's civil society has suffered a loss of interest in affairs in poor countries. This affects the mentality of politicians and government officials who sometimes display the serious syndrome of visibility-philia (or paranoia about 'aid with a Japanese face'). However shallow-thinking this is, it is the political reality which we face.

To convince its own civil society, the Japanese government should clarify the merits and risks of the new direction in aid reform, including general budgetary supports. As the country is delayed in engaging in budgetary supports, it is utterly ignorant in discussing them, especially their risks. Japan must become familiar with monitoring and evaluation systems of budgetary supports in order to be accountable to taxpayers. The country is also totally ignorant about the controversy over the effectiveness of budgetary supports in view of conditionality enforcement. As Hyden warned, budgetary supports risk the perpetuation of aid dependency. Even though Japanese politicians might not say no to the budgetary support, they

might demand the exit strategies be clarified, reflecting people's more suspicious view on aid. Also, Japanese taxpayers might prefer aid which is 'easy to perceive', such as grassroots grant aid rather than budgetary support for governments.

The government should respond to these possible questions to mobilise the taxpayers' money.

6. Conclusion

Japan is a lonely Eastern donor, which is very different from the U.K., another island nation situated at the other side of the Eurasian continent. This is certainly a disadvantage. But it could be a unique asset at the same time. The fact that Japan, as the only non-Western donor, has many things in common with her aid recipients, East Asian countries, is a unique experience that other donors do not have. Japan is in a unique position as an Asian country and at the same time an ODA donor. Because of the ethical debts due to history, Japan be able to interact with her neighboring countries more equally. As emphasised in the old version of Japan's Official Development Assistance Charter, the basic approach of Japan's aid has been to support self-help. What Japan learned from its own development experience and from its experience supporting East Asia was that development cannot be realised without self-reliant endeavours by recipient societies. It is very simple, but is the truth which donors tend to have difficulty respecting.

Western donors might suppose themselves the paragon of aid recipient countries because their society is the core of modern civilisation itself. If such thinking is expressed too straightforwardly, it might lead to strains in donor-recipient relations. This is the very place where Japan can play a role. However, it is regrettable that Japan has neglected to describe, analyse, and elaborate the lessons learned from its own experience and from its relations with East Asia. Therefore, it would be impossible for the country to convince other donors of the historical value of its development experience. The key for Japan in contributing to the development partnership is to dig up the experiences of self-help in Japan and East Asia, digest them, and despatch them as understandable messages to other donors and contemporary poor countries in Africa. The last point is very important. Past arguments for the transfer of experience from Japan and East Asia neglected differences on the side of Africa. The said transfer of experience would be meaningless if Africa had no interest in absorbing it. In this context, we should learn a lot from European struggles in the past.

Finally, the most valuable lesson Japan could learn from the U.K. and other European countries would perhaps be how to change the indifference about development and aid that rooted in the depth of their own civil societies.

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