

Examining "Softness" in Japan's ODA Program

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Abstract

Until recently, Japan's ODA has been seen as hard oriented, that is centering on economic and industrial infrastructure projects. However, there has been a growing recognition of the need to provide more soft aid, especially to the less developed countries. Soft aid aims to enhance human resources and systems, and includes social sector development. Soft aid is needed more at first because the less developed countries need to prepare their people and social systems before they can make good use of hard aid. In contrast more developed countries can better utilize the economic infrastructures provided by hard aid to grow further economically. With this background, Japan formulated the ODA Charter in 1992 to express its commitment to providing more effective aid by an increased focus on soft aid.

In this thesis, the content of Japan's ODA in the 1983-1985 period and the 1995-1997 period is examined, country by country, to see whether the new policy direction can be observed in the data. A scale to rate the softness of the projects was formulated, and this was used to evaluate the ODA projects conducted in the countries studied. The results of the rating are shown on graphs. The graphs show that there is no strong correlation between a country's development stage and the types of aid it received. It also shows that on the whole Japan gave more soft aid in the latter period across the board, without regard to the recipient country's relative GNP figures. Less developed countries did not receive relatively more soft aid.

1. Introduction

In this thesis, I call aid for the physical infrastructure "hard" aid, Hard aid is for projects such as industrial roads and bridge construction that make up the economic infrastructure. I call assistance programs that develop human resources "soft" aid. Soft aid is for programs that strengthen the social infrastructure. They influence people's welfare directly through poverty alleviation, food production, and health care programs. They also target education, gender equality promotion and other human resource issues. Soft aid also promotes system formation, sound governance, and the improvement of market mechanisms. Thus hard aid and soft aid are at opposite ends of the aid spectrum.

My research begins with the hypothesis that the less developed a country is, the more it needs soft aid. If a country's development is fairly advanced then it can use hard aid effectively. For example it can use construction equipment profitably. But if the country is less developed, hard aid cannot be used so effectively. Just as a computer needs software to work properly, so hard aid cannot be used well without human resource development and sound social structures. The less developed a country is, the more it needs soft aid.

2. Meaning Aid in the Current World Situation

At present in Japan and in the international community, the objectives of aid are being reconsidered.

In the past there have been various objectives in providing aid. Some donor countries have helped former colonies develop. Politics and diplomacy were also important. Countries allocate more to their political allies than to others. Trade was also important. If developed country wanted to strengthen its trade relationship with a developing country, it might emphasize aid to that country.

In recent times, many donor countries have faced financial constraints due to stagnant economic growth. Budgets for overseas aid programs are shrinking, and at best, are maintaining their current level. Also strategic aid linked to cold war objectives is now passed. More effective aid is called for but the difficulty is to define this. Ideally, the objective of aid is to help people attain their reasonable aspirations. But how can this be done?

First, aid needs to be focused on developing people and their livelihood rather than on simply improving

economic indicators. Otherwise a few elite groups may benefit and the statistics improve on average, but most people continue to live in poverty. As compared with economic infrastructure projects such as urban toll roads, more useful projects might include primary education for children, health care centers and rural electrification.

Second, the aid needs to be focused on the socially weakest. As the market mechanism makes the economy more efficient, it may neglect those not required by the market. So social safety nets need to be in place. This is the responsibility of the government of the recipient country but donor countries should also consider how their aid is used. The “trickle down” effect from “hard aid” expected in the decade of the ‘80s often did not happen. So in the 90s, aid moved towards improving access to basic government services by poorer people.

Third, for aid to be relevant, donors need to know what will work in a recipient country and what will not. A country specific analysis and program is needed that can be updated frequently as change occurs rapidly.

Fourthly, infrastructure aid and its technology level needs to be related to the local environment and to be compatible with the local social context. Often highly technical infrastructure projects are not compatible with a developing social environment. For example highly automated equipment eliminates the need for human operators. But there may be under-utilized labor that needs to be exploited. When people are employed, income increases and more people are trained in the use of technical equipment. This leads to further development motivated from within the community.

3. Japan

For the last eight years, the Japanese ODA budget fell year by year, along with the rest of the Main Expenditures. (Ministry of Foreign Affairs, *ODA Annual Report 1998*, p 97) Still, Japan is a major contributor of Official Development Assistance (ODA) funds for developing countries. The amount of money supplied by Japan in 1997 as ODA was the highest amongst the major donors. (Ministry of Foreign Affairs. *ODA Annual Report 1998*, p134)

Despite its size, Japan’s ODA is sometimes viewed as ineffective. Japan has been criticized for seeking its own national interest, such as an increase in exports. It is true that there has been more economic infrastructure aid than social infrastructure aid. Japan’s allotment of assistance to economic infrastructure made up 44.7% in 1997. (Ministry of Foreign Affairs, *ODA Annual Report 1998*, p111)

Japan has been viewed as providing economic, physical infrastructure rather than social infrastructure. This means building toll roads and bridges rather than helping to reform policies through developing human resources. However, in the early 90s, Japan began to review its ODA policy, because Japan could no longer increase its aid fund as she had done from the late 70s to early 80s. Also there was more public interest in international cooperation.

In June, 1992, the cabinet approved Japan’s ODA Charter. This was a major reform, making policy more accountable. The ODA Charter states Japan must be committed to peace, and building societies where freedom, human rights, and democracy are ensured. Japan must emphasize self-help in developing countries. It will use ODA to promote “good governance” in developing countries.

The charter states that “a priority will be placed on assistance to human resource development which, in the long term, is the most significant element of self-help efforts toward socioeconomic development and is a basic factor to nation building”. Also that “a priority will be placed on assisting infrastructure improvement, which is a prerequisite to socioeconomic development.”

The Charter states that full consideration will be given to:

- 1) women participating in development and obtaining its benefits,
- 2) the socially weak: the disadvantaged, children and the elderly,
- 3) reducing the gap between the rich and the poor and between various regions in developing countries,
- 4) avoiding injustice or corruption in the recipient countries.

In 1998, the final report of the *Council on ODA Reform for the 21st Century*, was released. This council was a consultative body to the Ministry of Foreign Affairs. It included members from academia, the press, non-governmental organizations, and the business community. The report from the Council for ODA Reform recommends:

- 1) Formulation of country assistance programs;
- 2) Emphasis on poverty alleviation and social development focusing on people-oriented development;
- 3) Addressing environmental issues;

- 4) Programs for the empowerment of women;
- 5) Assistance for human resources development;
- 6) Broader based expert support;
- 7) Partnerships for collaboration between industrialized countries, middle-income countries, and developing countries;
- 8) Prevention of conflict and postwar reconstruction and development; and
- 9) Strengthened role for the private sector.

As part of the process of developing an ODA policy, Japan is placing greater emphasis on human resource development. The underlying assumption is that empowering people comes ahead of achieving economic growth. According to the above statements, Japan advocates having people at the center of its ODA activities.

As earlier stated, this thesis takes the view that the less developed countries need soft aid rather than hard aid. Japan's intends to go in this direction, as is shown above in the ODA Charter and other initiatives and reports issued by the government. The concerns raised in country specific plans issued in the ODA Annual Reports, JICA Project Reports and OECF Annual Reports also point to this direction. This thesis will assess whether Japan's ODA is really changing to emphasize soft aid over hard aid.

4. Graph Formulation

The research was carried out for two periods, 1983 - 85 and 1995 - 97. The graph was formulated for the years 1983, 1984 and 1985, and 1995, 1996 and 1997 respectively, as well as the overall average graph for the periods 1983 - 1985 and 1995 - 1997. Data was available for 137 countries in 1995-97, and 110 countries in 1983-85 period. These are countries that were recipients of Japan's ODA and at the same time whose GNP per capita information was available. The data for GNP per capita income was taken from World Bank statistics (World Atlas method calculation).

The comparison between 1983-85 and 1995-97 is relevant because there are 12 years in between, a sufficient time for change to take place. It is also an interesting comparison because 83 to 85 is a period when Japan was still a growing economy and could afford to spend. Japan was able to depend on the quantity to give some boost, whereas in the 1995-1997 period Japan was a more mature economy. She could no longer afford yearly increases in ODA funds, but needed to rely on increased quality. 1997 was the most recent year for which full data is available. The comparison allows an evaluation of how much the ODA charter spirit has been implemented.

The graphs are seen on the following pages. On the X-axis of the graph, the countries receiving ODA from Japan are listed from the lowest GNP per capita income to the highest. On the Y-axis there is a score for each country. This score shows on average how hard or soft the ODA was for each country. High points mean that relatively speaking, more ODA for that country was for social sector development. Low points on the Y-axis mean that ODA is more hardware-oriented.

A rough index to evaluate assistance projects for softness was created with the following issues in mind:

1) *Is the project more likely to effect an individual, regardless of his or her social standing?*

The most important element in development is people, and the impact needs to be felt by all, instead of the socially powerful few.

2) *Does the project enhance a person's ability to choose?*

An project should not infringe a person's right to choose. It should increase awareness of the world beyond the present economic levels, and provide more options for people.

3) *Is the project aimed primarily at creating economic infrastructure or improving health, education and community development?*

This was a practical way to evaluate the project.

With this index, each bilateral grant and loan ODA project was reviewed. "Japan's Official Development Assistance: Annual Report" issued by the Ministry of Foreign Affairs was used as a resource. The Annual Report contains report for all of the countries receiving ODA. It lists all the ODA projects conducted within the fiscal year, under the headings Loan Assistance, Grant Aid, and Technical Cooperation. Points were given to each specific project (excluding debt relief) on a scale of 1 to 5 in degrees of how soft or hard it was. Evaluation was done separately for Grant Aid and Loan Assistance, respectively. Examples of how the points were given appear later.

In this research, the quantity of aid in terms of money amount or number of projects conducted is not questioned. For each country, the points for all the projects in a specific year is added up, and then divided by the number of projects conducted in that year. This gives the average point for the country in a specific year. The points for loan assistance and grant aid were calculated separately for all the countries in each year. The country score is shown on the Y-axis of the graph.

The points plotted on this graph are joined by a line, which was used to test the hypothesis that is the subject of this paper. The hypothesis tested is whether Japan has increased the percentage of soft aid and whether a higher percentage of soft aid is given to less materially developed countries. Greater soft aid for less developed countries and an overall trend towards soft aid would be in line with Japan's declared intention and with developing opinion in the international community

The main focus of the study was on the allocation of money, either in grant or loan form. Technical aid is also important. This is soft aid. There has been a great increase in the volume of technical cooperation over the period being researched. This part of Japanese aid handled by JICA is considered highly valuable. It enables the recipient countries to gain knowledge and skills from Japanese experts. People in recipient countries also experience the spirit of development, and the satisfaction of achievement.

Technical cooperation is important for human resource development and is highly evaluated by the recipient country. It gives practical training to individuals in the developing country that they can pass to others. It also promotes friendship between Japanese nationals and citizens of the recipient country. These personal contacts can be effective in achieving development goals in the long term. Trainees tend to become leader, who can help set goals beyond existing norms of comparatively low economic achievement.

To take this into account, technical cooperation was rated on a scale of 1 to 3 depending on the scale of the operation compared with the country's population. This score was added to the loan and grant score to calculate the overall ODA softness for each country. This line is shown on the *graph 83-85 average* and *graph 95-97 average*.

Below are some examples of how the points were given to the loan and grant projects.

Aid that meets basic human needs is rated as the softest type of aid. Emergency relief and food production assistance is also in this category. This scores 5 on the scale. It places the stress on developing individual people as a prerequisite to using infrastructure projects effectively. Water supply and sanitation projects for primary schools, worm eradication projects, comprehensive care projects to improve children's health, and grass roots projects are also given 5 points.

Social infrastructure projects such as projects to establish water pipes are rated 4. Projects such as those to construct marine products markets in metropolitan areas, or to improve hygienic environments also received 4 points.

Projects such as developing telecommunications network in rural areas, or housing projects for low income groups got 3 points. School building scored 3 points, but projects to train teachers received 5 points. Irrigation projects in rural areas received 3 points as did drainage improvement projects and sewage projects.

Power plant projects were given 2 ~ 3 points depending on the type, location and intended usage. Industrial and household uses were differentiated.

Harder types of aid include predominantly economic aid such as physical structures. Building physical structures in an urban area was given 1 point, whereas in a rural area they received 2 or 3 points. International airport construction received 2 points, and the construction of fishing ports received 3 points.

Improvement, maintenance and rehabilitation projects were rated as softer than projects for building of new infrastructure, because they took already existing hardware and made it more adapted to the local residents. This included "downgrading" technology to make it to better suit the local needs. Providing training in proper maintenance an important type of soft aid as it contributes to the development of human resources.

Construction of school buildings received only 3 points, while the training of teachers and developing teaching systems and programs received 5 points. This is because a building alone is only a piece of hardware.

To implement a more comprehensive, soft type of aid requires sociological, anthropological and cultural studies. Programs should be built on practical knowledge of the barriers preventing people from benefiting from development.

5. Observations of the Graph

The graphs are on the last two pages. There are three main observations.

First, for the years 83-85 and 95-97, grant assistance line has some visible slope, whereas the loan assistance line is flat. So for grant assistance, there is some correlation between the country's GNP and softness of the aid, whereas for the loan assistance there are none.

A possible explanation is that loans are not as suitable as grants for softer projects. Loans require that the projects financed by the loan generate funds for repayment. But soft projects such as primary education and basic health care do not usually generate an immediate cash flow.

Another explanation is that many countries do not receive loans at all. Many underdeveloped countries, only get grant assistance. This is reflected in the graph. Many countries have markers on the x-axis for loan assistance, meaning zero loan assistance. There seems to be a policy by the Japanese government to provide loans only when the recipient country seems capable of making repayment. Otherwise, assistance takes the form of grants rather than loans.

The second observation is that the correlation is stronger in the earlier period between 83-85 than in the 95-97 period. In the 83-85 graph, Japan is providing softer aid for lower income countries and harder aid for higher income countries. There is a correlation between GNP per capita income and the degree of softness. For 95-97, although there still is a slight curve in the line, showing some correlation, the correlation is clearly less than for the previous period. It thus seems that Japan is moving away from rather than going towards providing softer aid for lower income countries and harder aid for the more developed countries.

Regarding this point, one possible factor may be that Japan is now providing softer aid for all of the income groups, and not only for the lower income ones. This trend can be observed by comparing the two graphs. The degree of softness (plotted on the graph) is generally higher for the countries in years 1995-97, regardless of GNP, than in the years 1983-85. There are several reasons for this.

First there was a global trend in this direction, as described above. In the social development summit held in Copenhagen in 1995, the "20:20 Agreement" was signed. The 20:20 Agreement states that each government should allocate at least 20% of their public expenditures to the social development sector, and that the donor countries should designate at least 20% of their ODA funds to social sector development. (Social sector includes primary education, primary health care, nutrition, reproductive health, family planning, low cost water works and sewerage, and sanitation) (p33, *Kaihatsu to enjo no keizaigaku*, Masaki Shiratori. Toyo keizai shinposha, Tokyo, 1998.)

Japan also moved towards providing more focused aid for basic human needs, global and environmental issues, gender equality issues and private sector development, as was declared in the ODA charter. Since this move was a general or overall move rather than country or region specific, the overall allocation has been affected.

Second, NGO projects have received increased financing from the government under the ODA budget in the 1990s. The government first allocated funds to NGO projects in 1989. Since then, the amount has grown year by year. Their role has gained more recognition and recipient local communities also evaluate their activities highly. So the 95-97 period graph reflects the number of NGO projects and grassroots activities financed with ODA money, whereas 83-85 graph does not.

Third the graph could be interpreted to show that there are no significant over all correlation between the country's state of development as measured by GNP and the degree of softness in the assistance offered by Japan.

Since the correlation numeral is not that high, it could be interpreted to mean that each country has its own needs, and there is no reason why the type of aid should correspond to the GNP per capita income. Aid can be completely country specific and that is why the graph has not shown a strong correlation.

This is supported by the fact that aid package design and formulation is mostly conducted country by country. So there is no strong correlation between the individual country's aid package and general concepts of what is best for the poorest country or the richest country. It seems ODA is not organised as a whole with specific ODA policy targets at the state level. There is no "chief of ODA", overseeing its overall yearly policy at the national level. ODA Charter declarations do exist, but they are ideas rather than quantifiable targets.

This has both positive and negative implications. On the negative side it there is no top level unity in ODA targets.. If

the approach was a top-down one so that top directors decided the ODA budget allocation in terms of the types of aid to be given, there might be a higher rate of success and efficiency. For example, a policy might be decided on that for each income group, including the least among less developed countries (LLDCs), there must be a fixed percentage of aid allocated to social sector development. If there was such a centrally fixed policy for ODA operation, development of a strategy for Japan's aid could be implemented more positively.

On the positive side the non-coordinated method allows for a greater flexibility for each country's programs. They can be drawn up independently according to the receiving country's own specific needs at the time. If a country needs more physical infrastructure in a certain year, they are free to request that.

A fourth observation is that the GNP numbers have not grown at all for many countries over this period. Why is it that the overseas development cooperation and assistance did nothing for GNP?

There may be several reasons for this.

First, civil wars have caused deprivation in food, water and safe transport. People become refugees and freedom is taken away economic development resources are spent on fighting. This tragic situation has occurred in some African countries such as Rwanda, Nigeria, Togo, Somalia and Ethiopia, where war has stopped economic development.

This is not a failure in ODA policy. The causes of war are not directly related to how ODA funds were allocated. Actually, many countries including Japan suspend the provision of aid (except emergency and humanitarian aid) in cases where governments spend a lot on military expenditures.

Another possible reason for the lack of growth is that the overseas assistance programs were not effectively utilized. Aid money did not lead to measurable economic development because politicians and others sought to advance their personal wealth before the country's development goals.

This affects sound development because wealth is unequally distributed and people without connection to high officials cannot obtain the benefits of economic growth. Corruption amongst government officials de-motives people who should be leading development but the problem is difficult to address directly through the allocation of ODA funds. Changing the allocation of fund from hard aid to soft aid cannot usually stop corruption in the recipient government.

However, in the long run, the provision of soft aid can make a difference as soft aid influences society. A general improvement in living conditions gives people more power over their lives so that they demand fairer practices and social peace. A desire for democracy will get stronger, and this brings legal systems making it more difficult for tyrannical leaders to stay in power. More effective government supports people's economic activity and so leads to economic growth. So eventually, soft aid will contribute to a more effective and sound government.

Another reason for a lack of growth is inefficiencies in government and the public services offered by the government. Social mechanisms such as the social safety net for those who happened to fall out of the market economy and legal systems that protect the individual rights of people are also needed for free and creative activities to take place. Assistance programs giving technical guidance to public services are useful as economic advances require a more complex civic society.

The combination of grant or loan programs with technical assistance is now becoming popular. This is called "Project Type Technical Cooperation". It is conducted under JICA's supervision. This aid is very much the soft type of aid. A number of project type technical cooperation plans is now emerging, tying in with grants aid, so that the hardware provided under the grant will be supplemented with technical assistance.

As the developing countries open their economies and move toward democracy, governments must be able to manage the change making it more bearable for citizens. Aid donors must also be considerate to the local culture so that reform can be achieved in the most natural way. Since Japan herself remained a recipient country until 1968, and had an actively managed economy, Japan has much experience to contribute in the sphere of development apart from the hardware of physical infrastructure.

6. Looking Forward

Japan does not set conditions for aid, as multilateral agencies do. Japan does have some criteria to disburse aid, such as limiting military expenditure, but her basic stance is to respect the sovereignty of the recipient country. So,

Japan has relied on multilateral organizations to provide softer aid, and the conditions needed to reform the recipient country's macro economy and governance. But now Japan is one of the largest donors to these multilateral organizations, and is urged by the international community to play a larger leadership role besides providing money. Japan may need to go a step further to encourage development.

This will require Japan to better understand the complex mechanisms of development. It will also require Japan to understand developing countries more. Hard aid requires the donor to be mainly an instructor, but soft aid requires the donor country to be a learner as well. Social development and social infrastructure projects will need to be in step with the local communities' values, be in the most suitable technological level and be provided with clear social targets. For every grant or loan, target setting should be done with the local people. Besides agreeing on the project with local people agreement on the criteria for success and failure is also needed.

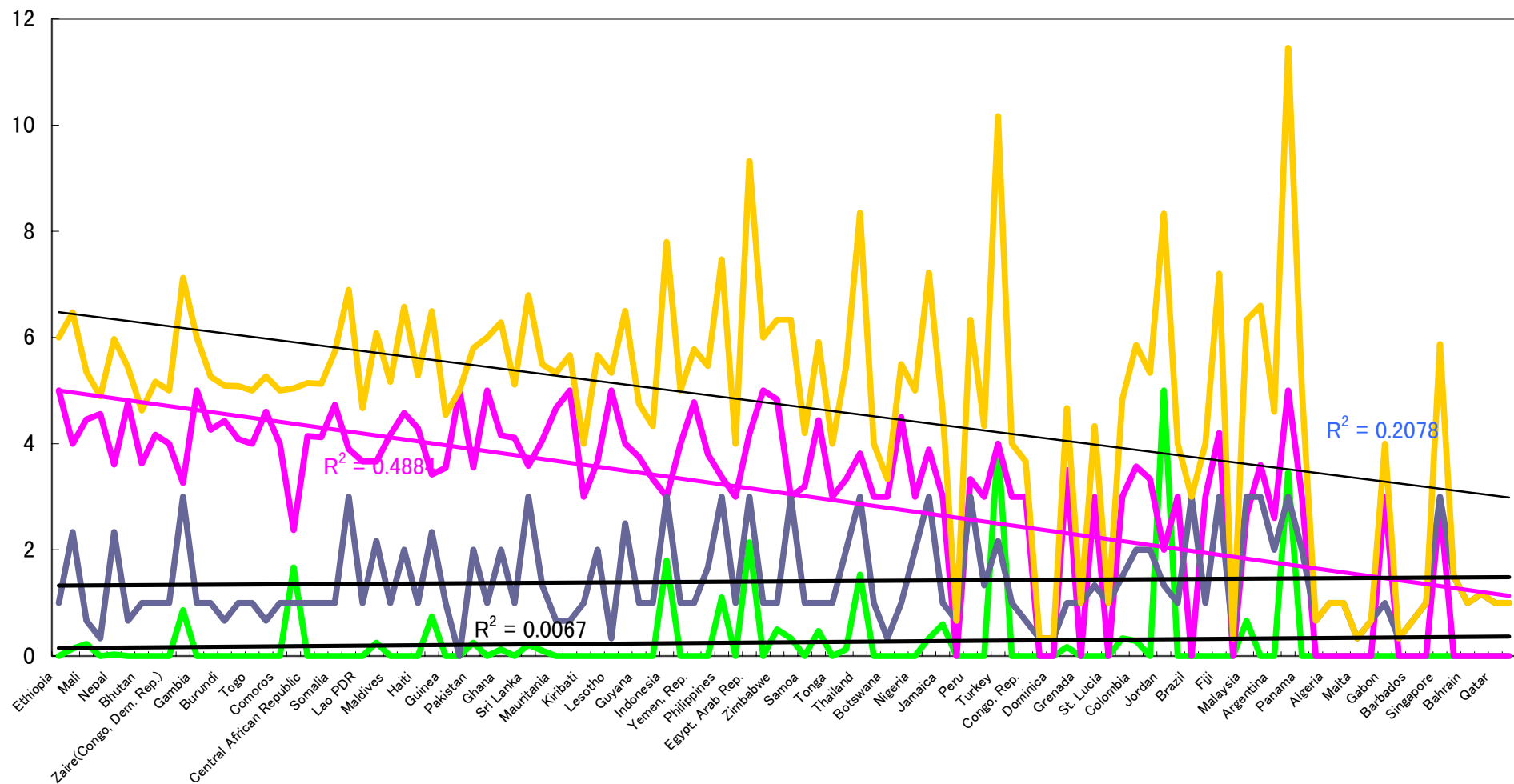
Development assistance, including the ODA must be able to encourage people to participate in their own development and empower them to carry it out. This includes the planning, implementing, revising and sustaining of specific projects. In order to develop as a country, social sector development is vital. Soft aid is thus essential, and giving it priority is the wisest choice a donor can make.

END

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83-85 avg



95-97 avg

