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Japan's ODA to Pakistan and Aid Coordination Beyond Aid Modalities

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1. INTRODUCTION

Before the Pakistan Development Forum (PDF) takes place in April this year, we decided to organise this seminar today. There are several reason for doing this. First, 9/11 in 2001, Pakistan as a partner for Japan's ODA has changed in a substantial way. Second, in 2005 Japan resumed its new commitments on yen loans, and it would be appropriate to review our ODA policy to Pakistan before our yen loan operation is put back in full swing. Third, Japan's ODA to Pakistan has mainly been delivered through projects. Facing the growing criticism against the project approach, it would be our responsibility as a major donor to review the effectiveness of our main aid modality. Fourth, aid coordination in Pakistan has entered into a new era after Pakistan and donors including Japan joined in the adoption of the Paris Declaration on Aid Effectiveness in March 2005.

My presentation today consists of two parts with the first part on my views on aid modalities and aid coordination and the second part on the review of Japan's ODA to Pakistan and its future direction.

2. BRIEF HISTORY OF WORLD ODA SINCE THE 1990s

In order to understand the issues that the aid community now faces, it would be helpful to recall the flattening trend of ODA volume during the decade of the 1990s and the responses by the DAC members to this trend. During that decade, the ODA volume of the DAC members once increased from 52.7 billion US dollars in 1990 to 60.5 billion US dollars in 1992, and stagnated afterwards with the bottom of 48.5 billion US dollars in 1997. As the backdrop of this unpromising trend, there was aid fatigue among many donors, resulting mainly from the poor economic performances and the continuing abject poverty in many African countries. In this connection, I would like to stress that although Japan's ODA also experienced fluctuations during that period, the general trend of Japan's ODA was on increase, especially during the first half of the decade. In 1995, Japan's ODA peaked at an amount of 14.5 billion US dollars with the share of quarter of the total amount of the DAC members.

In response to the worrisome trend of their ODA, the DAC members took two major initiatives among others. The first was to adopt in March 1996 the DAC New Development Strategy with a set of tangible targets for achievement within specific time frame. Few people now remember that in the preparatory work of the strategy, Japan made a major contribution, and that these targets were further modified and amplified and developed into the millennium development goals (MDGs).

The second was to make aid more effective in the bleak expectation on the future ODA volume. The DAC members started their discussion on untying of ODA to the least developed countries (LDCs) in 1998 and adopted in 2001 the declaration on untying ODA to LDCs. A more comprehensive approach was taken afterwards, and a declaration on harmonisation was adopted in Rome in February 2003 at the High-Level Forum on Harmonisation organised by the World Bank and DAC, followed by the Paris Declaration on Aid Effectiveness in March 2005 at the High-Level Forum on Aid Effectiveness organised by DAC and the multilateral development banks (MDBs).

3. THREE VICTIMS IN THE 1990s

It is a little exaggeration to say this, but there are three victims during the discussions in the aid community in the 1990s. They are "economic growth", "infrastructure development" and "project approach". The effect of economic growth on poverty reduction was doubted. At one stage, many donors dropped economic growth from the list of their missions to achieve. However, now many aid organisations have started to use the concepts of pro-poor growth, broad-based growth or inclusive development, though not simple economic growth. Some economists are even more straightforward in defending economic growth.[1]

As economic growth recovers its status as a major objective of aid, so does infrastructure development as a major tool for economic growth and poverty reduction. Of course, the planning and coordination with respect to infrastructure development and its benefits for the poor have been gaining more attention. ADB, the Japan Bank for International Cooperation (JBIC) and the World Bank share this view in their joint study published in March 2005, and give us 12 messages regarding coordination, accountability and risk management, and funding.[2]

Now, I will take up the third victim, and assess the verdict against this victim and finally discuss how the project approach should be improved and can be made complementary with budget support[3], a much applauded aid modality.

[1]David Dollar and Lant Pritchett of the World Bank wrote in 1998 that "[g]rowth helps reduce poverty and improve social indicators, which is why the relationship between aid and growth is important". (Assessing Aid, p. 28).

Jeffrey D. Sachs, from the case of India covering the period between 1981 and 2001, concluded in 2005 that "strong economic growth came hand in hand with the decrease in the poverty rate" (The End of Poverty, p. 182). William Easterly (an ex-senior research economist at the World Bank) in 2001 wrote that "fast growth went with fast poverty reduction, and overall economic contraction went with increased poverty". (The Elusive Quest for Growth, p. 13).

[2]ADB, JBIC and World Bank: Connecting East Asia: Framework for Infrastructure.

[3]DAC guidelines define budget support "as a method of financing a partner country's budget through a transfer of resources from an external financial agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures".

4. CRITICISMS AGAINST THE PROJECT APPROACH

The World Bank already pointed out in 1985 that "[s]ince financial resources are fungible, what the lending agencies are really financing through the additional resources they make available are the marginal or lowest-priority projects in a country's investment programme".[4]

The World Development Report 2000-01 states that "[s]tudies show that aid funds allocated to a particular sector tend to free up for other purposes money that the government would otherwise have spend in that sector" and concludes that "[p]roject-level evaluations will not reflect the true impact of aid, since aid is likely to be freeing up resources for other activities".[5]

This argument has become one of the pillars of criticising the project approach and advocating budget support, although the issue of fungibility had been already raised in the 1950s.[6]

The high transaction cost is often quoted as a detriment, when the project approach is criticised. The World Development Report 2000/01 stated: "At one point there were 405 donor-funded projects in the Mozambican Ministry of Health alone. In the early 1990s in Tanzania there were 40 donors and more than 2,000 projects. In Ghana during the same period 64 different government or quasi-government institutions were receiving aid".

The disregard of partners' ownership by donors is also pointed out as a weakness of the project approach. By the way, there is not a consensus on the meaning of ownership. For Japan, ownership often means self-help efforts in view of its own development experience, while European donors under the name of ownership engage all the stakeholders in the decision making process.[7]

In seems to me that the criticism of the project approach and the promotion of budget support are a set or are like two sides of a coin. In other worlds, budget support has become a formidable, effective tool to criticise the project approach, apart from the effectiveness as an aid modality itself.

5. ANALYSIS OF THE CRITICISMS AGAINST THE PROJECT APPROACH

For a practitioner like me, it seems that the reality does not necessarily work in accordance with the pure theory, and the financial resources are not always seen as fungible. In fact, two economists of the World Bank wrote in 1998 that the "magnitude of fungibility depends on a country's budgetary structure, the degree to which governments are able to manage their finances, and the extent of donor involvements."[8]

In my view, the argument of transaction costs is confused in many ways. To mention the number of the project without their sizes is at least misleading. According to Mr. Hiroto Arakawa of JBIC, there are more than 60,000 projects under way in the developing countries and that 85 percent of the these projects cost less than 1 million US

[4] Warren C. Baum and Stokes M. Tolbert: Investing in Investment, p. 9.
[5] The World Development Report 2000-2001 Attacking Poverty, p. 193.
[6] The issue was raised by the World Bank's first Chief Economist, Paul Rodenstein Rodin in the '50s.
[7] GRIPS Development Forum, Aid Modality Workshop.
[8] David Dollar and Lant Pritchett: Assessing Aid, p. 70.

dollar.[9] The transaction cost of a project should be discussed with the size of that particular project.

In this connection, Mr. David Roodman, Research Fellow of Centre for Global Development made an interesting argument. He argues that "greater oversight may also improve the administration of projects, increasing development". He further argues that "projects should be larger in recipients where aid is higher in absolute terms; where recipient resources, which might be proportional to absolute GDP or tax revenue, are scarcer; and where national-level governance is better".[10]

Prof. Jeffrey Sachs sounds a little different, when he argues that the bilateral agencies are much better when it comes to matters that require individual small-scale projects, such as specific kinds of technical assistance (for example, to treat AIDS patients or to mobilise solar power), or small-scale experiments, or people-to-people exchanges".[11]

When discussing transaction costs, it is often not clear whose transaction costs and what types of costs we are talking about.[12] In most of the developing countries, in order to achieve development, capital investment projects are planned and implemented with or without outside assistance, and transaction costs of projects are always required. The differences are whether transaction costs are borne by partners or donors and whether transaction costs are financed by partners' own revenues or the proceeds of budget supports, or through project type assistance. Moreover, as I discuss later, budget support imposes additional reporting and other requirements on partners, while donors also have to allocate additional personnel resources to the planning and operation of budget support. The budget support approach does not create the world free of transaction costs.

6. THE PROJECT APPROACH REAPPRAISED

The authors of the World Bank in the above-mentioned publication in 1985 wrote that "the project approach has proved a flexible, useful tool—regardless of a country's economic system, type of government, or stage of development".[13] However, they did not stop here. Realising the issue of fungibility as I pointed out, the authors defended projects by taking the following three approaches.

First, the authors argue that "the projects that the Bank helps to finance are invariably changed as a result of the Bank's close involvement in their preparation, appraisal, and implementation".[14] This means that the project assistance involves not only the transfer of financial resources, but also the capacity development of the executing agencies.

[9] Hiroto Arakawa: Budget Support and Aid Effectiveness: Experience in East Asia, Budget Support and Aid Effectiveness (Budget Support as More Effective Aid?, p. 431).

[10] David Roodman: Competitive Proliferation of Aid Project: A Model, Working Paper No. 89, Abstract and p. 25.

[11] Jeffrey D. Sachs: The End of Poverty, p. 277.

[12] Tony Killick classifies transaction costs as administrative costs, tying costs and fiscal costs (Politics, Evidence and the New Aid Agenda, Development Policy Review 22 (1).

[13] Warren C. Baum and Stokes M. Tolbert: Investing in Development, p. 6. According to their definition, "a project is taken to be a discrete package of investments, policy measures, and institutional and other actions designed to achieve a specific development objective (or set of objectives) within a designated period". (Investing in Development, p. 8).

[14] Ibid., p. 9.

Second, they make the case of large projects which cannot be undertaken at all without financial and technical assistance from abroad.

Third, they argue that "the Bank's project approach does not focus solely on individual projects but generally extends to a review of the national investment programme as a whole in part to eliminate projects of low return and to assistance in setting investment priorities as the sector level".[15]

These three approaches, I believe, have been taken by many donors. Donors have recently become more interested in sector programmes. The public financial management is now a matter of concern for partners and donors. Aid coordination has become an important mechanism under which partners and donors can discuss and review draft national development strategies including PRS and draft sector programmes, prepared under the ownership of partners.

In my view, all aid modalities have different types of transaction costs and possibilities of suppressing partners' ownership, and all partners and the donors should tackle these issues individually or jointly. For this task, the Paris Declaration will give a good guidance to both partners and donors. Japan has been making efforts to decrease project costs including consultancy costs, and has been trying to utilise more local resources. The merger of JICA and JBIC would further facilitate to decrease in transaction costs through the dispatch of joint missions and joint programmings. We can start these efforts even before the merger in autumn 2008.

7. EVALUATION OF BUDGET SUPPORT

I do not know the origin of budget support. According to "An Evaluation of General Budget Support (1994-2000)" carried out by the University of Birmingham on behalf of more than thirty donors and partners, "[g]eneral budget support (GBS) has become more prominent since the late 1990s, as part of a wider quest to improve the effectiveness of aid". The history is short, and the number of cases is still limited. This evaluation does not necessarily seen complete, and a more comprehensive assessment on budget support has yet to be done.

The OECD press release of March 2006 concerning the evaluation report stated that budget support "can be an effective way to strengthen the management of public financial systems in developing countries, and has helped to improve access to services like healthcare and education".

The evaluation report suggested the following advantages in budget support:

- strengthened relationship between donors and developing countries' governments;
- better coordination among donors;
- strengthened planning and budgetary systems;
- more transparent and accountable planning and budget systems; and
- higher priority on areas of expenditure that target the poor.

On the other hand, the evaluation report pointed out that "[w]hile there were increases in expenditure in areas such as health and education, any increase in the

[15]Ibid., p. 9.

incomes of the very poor is not yet evident". The report also gave a warning about the political risks which are involved in budget support.

The report concludes that "[b]udget support is not a panacea" and that we should not have "unrealistic expectations", and recommends that "[d]onors should continue to pursue a mix of mechanisms to deliver aid, and introduce budget support only gradually".

The Chief Economist and the Economic Adviser of the South Asia Region of the World Bank evaluated the Bank's budget support in South Asia successful in supporting the second-generation public reforms in spite of the issues of decentralisation and weak governance.[16]

I find these evaluations quite reasonable and persuasive. But, I still have several comments.

First, the advantages pointed out by the report can be achieved even through the project approach. For example, donors can assist strengthening public financial management systems through technical assistance, as JICA does in Cambodia, Mongolia and Tanzania.

Second, the better relations between donors and partners and donor coordination are important. Again there are other ways to achieve these two objectives. On the other hand, budget support may not always guarantee the good relations between partners and donors, because the budget is a core of financial sovereignty.

Third, budget support requires fairly large amount of administrative works on both sides, and donors have to allocate personnel to oversee the budget and audit processes of partners, which may result in lesser attention on the management of the projects and the enhancement of the capacities of the line ministries. A good budget itself does not mean anything, if it is not utilised due to a lack of the capacities of the executing agencies in a timely and proper manner.[17]

Fourth, for budget support, the management of fiduciary risk and the accountability of the whole spending programme are required. There will be, as already some donors might have experienced, resistances from partners' governments against the interference in the budget formulation, execution and auditing processes. Moreover, even among donors there will be differences in the view on the allocation of budget.

Fifth, budget support may adversely give macroeconomic effects on the partner's economy. The Executive Director, Research, the Bank of Uganda wrote: "Budget support provides substantial injections of Ugandan shilling liquidity into the economy, and to prevent inflationary pressures arising, the monetary authorities have sought to reduce the shilling injections to levels that are consistent with demand conditions in the economy. But because Uganda's financial markets are thin and the country has only a limited range of monetary policy instruments, the sterilisation efforts put forward upward pressure on the interest and exchange rates. However, large-scale sterilisation in thin financial markets could become detrimental for the competitiveness of an economy, raising fears

[16]Shantayanan Devarajan and Shekhar Shah: Budget Support and Poverty Reduction in South Asia (Budget Support as More Effective Aid?).

[17]According to Tony Killick and Brian Franz, there is little evidence to show that providing greater shares of aid as budget support significantly reduce transaction costs (Izumi Ohno and Yumiko Niiya: Good Donorship and the Choice of Aid Modalities, p. 10).

of Dutch disease".[18] There are conflicting views, and some economists suggest measures to solve the Dutch disease".[19] I hope that further researches and analyses will be done on this issue.

Sixth, concerning the effectiveness of budget support on the reforms of partners, donors assisting projects can be also contribute to the promotion of reforms through projects and aid coordination.

8. COMPLEMENTARITIES BETWEEN BUDGET SUPPORT AND THE PROJECT APPROACH

Now, you have come to understand that each aid modality has its own merits and demerits and that the modalities can complement each other. For example, budget support requires a good public financial management system, and this can be improved through technical assistance. In turn, the budget support can improve a public financial management system. Once a good public financial management system is established, the magnitude of fungibility will become small.

Capital investment projects require recurrent costs. Here, budget support can contribute to projects through financing indirectly recurrent costs of the projects. Moreover, thanks to arguments on aid modalities, we have become more mindful of the burden to partners' governments with respect to recurrent costs of projects. In some cases, we extend budget support in the expectation of its proceeds indirectly being used for our projects. In some cases, Japan directly bears recurrent costs under certain conditions. In other cases, we adopt project designs requiring smaller recurrent costs.

Possible effects by budget support on the macro-economy of the developing countries can be mitigated by projects which will give productivity benefits to the economy for example through improved infrastructure and higher agricultural productivity.

After pointing out the fact that "[t]he current discussion on aid modalities are primarily driven by the experiences with highly aid-dependent and low-income countries", two Japanese scholars suggested that the choice of aid modalities should be done, taking into consideration (1) "the nature of priority development problems in recipient countries" and (2) "the nature of recipient-donor relationships in the aid process and ownership".[20] In addition to the two considerations, we have to think about our own comparative advantages and our own experiences.

For Japan, the project type assistance is and will be the main aid modality in the future. Japan, however, has a long history of programme assistance including loans to African countries co-financed with World Bank structural adjustment loans in the 1980s and 1990s. In Tanzania, Japan started budget support on a trial basis in 2001. In Vietnam, JBIC co-financed with PRSCs III and IV of the World Bank in 2004 and 2005, respectively. Japan has recently introduced a special budgetary programme for budget support on a grant basis.

[18]Michael Atingi-Ego: Budget Support, Aid Dependency, and Dutch Disease: The Case of Uganda (Budget Support as More Effective AID?, p. 353)

[19]Owner Barder: Are the Planned Increase in Aid Too Much of a Good Thing? (Working Paper No. 90 July 2005, the Center for Global Development); and A Policy-makers' Guide to Dutch Disease (Working Paper No. 91, July 2006, the Center for Global Centre). ODI: Does General Budget Support Work? (July 2005).

[20]Izumi Ohno and Yumiko Niiya: Good Donorship and the Choice of Aid Modalities, p. 12 & p. 13.

9. AID COORDINATION AND PAKISTAN

I will start my argument about aid coordination by stressing that the importance of aid coordination cannot be overemphasised for improving aid effectiveness. Through aid coordination, partners and donors discuss partners' development strategies and sector programmes, policy matters, and institutional reforms. They share difficulties relating to implementation of projects, and jointly find out solutions. As I will argue, aid coordination can be a mechanism to implement the Paris Declaration at the country level. Japan has done our best in organising and participating in aid coordination in many African and Asian countries, although Japan's personnel resources are quite limited especially in Africa.

The modality of aid coordination, I believe, will be decided, taking into due consideration the constitutional system, the status of the public sector, the relationship between partners and donors, the importance of foreign aid, the composition of the donors' community, the degree of additional transaction costs, etc.

In Pakistan, unlike in Africa, the composition of the donors' community and diverse interests among the donors may not have strongly necessitated for closer donor coordination. The role that aid plays for development is relatively low in this country as shown by the percentage of aid to the central government expenditure being about 10 percent, as opposed to that of some African countries being more than 70 percent.[21] This fact has also contributed to a relatively lower priority so far being given to aid coordination by the Government and donors. The federal system may have made aid coordination difficult.

There may be, however, several reasons for the Government and donors to make aid coordination more active in this country.

First, the joint works after the earthquake is a good case of aid coordination and may become a model for the future and coordination. The rehabilitation and reconstruction efforts after the earthquake will continue and aid coordination should also continue.

Second, many donors and the Pakistani Government are signatories to the Paris Declaration. In the process of the implementation of the Paris Declaration, it is necessary for the Government of Pakistan and donors to exchange information, and to promote joint works on such issues as harmonisation, alignment, capacity development and monitoring and evaluation.

Third, in view of strong expectations for improvements in the social sector, the Government of Pakistan should place more importance on the social sector development, which involves many donors and may give incentives to closer aid coordination.

Fourth, FATA development and "Support to National Elections in Pakistan" also require joint efforts among the Federal as well as the Provincial Governments, the donors and the NGOs.

In relation to aid coordination in Pakistan, the following points, I believe, should be taken into consideration.

First, ownership of Pakistan should always be respected. Pakistan should take an initiative in the works of aid coordination.

Second, aid coordination is not a mechanism under which certain aid modalities are promoted in disfavour to other modalities.

[21] 2006 World Development Indicators.

Third, as a corollary to the second point, donors' forums should be inclusive, not exclusive in the sense that certain donors committed to certain modalities or signed certain documents are only allowed to participate in the forum and that only the participants in the donors' forum are allowed to extend assistance to the sector concerned.

Fourth, aid coordination should be flexible and consensus based, reflecting the changing needs of Pakistan and diversity in aid programmes of the donors. Aid coordination should be cooperative, not regulative, encouraging new ideas and approaches to solve common issues and difficulties.

Fifth, each donor has its own comparative advantages. Its aid strategies reflect their own development experiences, the overall relations with the partner, the aid experiences in the partner countries, the availability of experts, etc. The decision will be taken by partners, but it is important that a variety of development approaches are made available to partners.

Sixth, in Pakistan, assistance from non DAC member countries, I imagine, is substantial, and is contributing greatly to the development of Pakistan. Dialogues between DAC member countries and non DAC member countries will be of a great help to the aid effectiveness of all assistance to Pakistan. DAC member countries and non DAC member countries can start sharing information about their own works in Pakistan.

Finally, we should always remember that the purpose of aid coordination is to make aid effective. In some African countries, not many donors can afford to allocate aid officers to mushrooming donors' meetings. We have to think about effectiveness of aid coordination.

10. JAPAN'S POSITION ON THE PARIS DECLARATION

Japan participated in the arguments of two meetings which adopted the Rome Declaration and the Paris Declaration. Japan together with DfID, ADB and the World Bank organised "2006 Asian Forum on Aid Effectiveness" in October 2006 in Manila.

Building upon its Action Plan announced at the Rome High-Level Forum, Japan formulated a revised Action Plan to implement the Paris Declaration, and has been reviewing the progress of the revised Action Plan.[22, 23]

In the Action Plan, Japan places importance on ownership of the partner as well as partnership between the partner country and donors, capacity development, alignment with the national development strategies, and domestic reforms for good governance of the partner.

[22]The revised Action plan covers (1) enhancing alignment of Japan's ODA with partner countries' national development strategies, (2) capacity development; public finance management; (3) untying, (4) rationalising aid procedures, (5) management for development results, (6) enhancing planning and implementation framework of Japan's ODA and (7) monitoring and evaluation.

[23]From the viewpoint of public financial management, Kaoru Hayshi made the following observations on the current status of yen loans, which occupies about 70 percent of our total ODA to Pakistan in the recent 5 years. First, generally speaking the yen loans are extended on an on-budget basis. Second, the proceeds of yen loans are usually disbursed during 5 to 7 years. This means that aid predictability is very high. In fact, after the nuclear tests by Pakistan, the commitments to the old projects were honored. Third, in the yen loan, the partners' systems such as procurement procedures and financial management are fully utilised. Fourth, the yen loan is flexible about aid modalities. (Kaoru Hayashi: Public Financial Management and Japan's Development Assistance (Discussion Paper on Development Assistance No. 9 FASID).

I will not go into details on our revised Action Plan. But, I will only add a couple of important points.

First, Japan promotes programme-based approaches (PBAs) as an effective means to facilitate alignment with partner countries' development strategies and budget system with due consideration to existing capacity of respective partner countries, and complementarities of aid modalities.

Second, capacity development should cover all stages of project/programme cycles such as country/sector analysis, planning of country assistance programmes, formulation and designing of projects/programmes, implementation and monitoring and evaluation. In other words, capacity of the executing agencies should be developed in addition to that of planning agencies, finance ministries and aid coordinating organisations of developing countries.

Third, concerning the alignment with procurement system of partners, Japan's view is that the existing partner's procurement system should be modified so that it will become really accountable, before donors rely upon the partner's system. In this connection, I would like to introduce to you a good practice in Vietnam on harmonisation. In May 2002, the World Bank, ADB and JBIC agreed on harmonisation of procurement, financial management and environment and resettlement issues. KfW and AFD joined the agreement in 2003.

Now, I will touch briefly on the implementation of the Paris Declaration in Pakistan. First of all, I welcome the decision by the Government of Pakistan that it will pursue the Sector-Wide Approach (SWAp), capacity development, procurement, and monitoring and evaluation in the follow-up of the Paris Declaration.

The SWAp is, as I understand, an inclusive framework based on ownership of the partner country, common objectives and strategies, and a common monitoring and evaluation system. The SWAps should allow various aid modalities, and a common monitoring and evaluation does not exclude the necessity of evaluation of projects.

There are several difficulties expected in introducing SWAps to Pakistan. Many people think that the education and health sectors are candidates for SWAps in Pakistan, because of the high degree of public expenditure, relatively high donor involvement in terms of the aid amount and the number of donors and the lesser private sector involvement. But, these two sectors are in the domain of the local governments, and these sectors involve a huge number of populations and a great deal of financial resources.

Therefore, it would be a good idea to select certain districts or sub-sectors at the initial stage.

As I said, aid effectiveness first got into limelight in the 1990s when the aid volume stagnated. Fortunately, we are in the new era when the aid volume is increasing with the total ODA amounts from 53.7 billion US dollars in 2000 to 106.8 billion US dollars in 2005. I fully understand the importance of aid effectiveness. At the same time, I personally think that we have to address new issues and tasks which require our attention when aid is increasing.

11. JAPAN'S ODA TO PAKISTAN

History

Now, let me explain Japan's ODA to Pakistan. I will start this part by sharing with you the history of our ODA to Pakistan. Japan started its technical assistance by joining

the Colombo Plan in 1954. The first yen loan was extended to Pakistan in 1961. In the mid 1960s Pakistan's share of Japan's ODA reached as high as 80 percent according to a prominent Pakistani scholar.[24]

Volume

Since 1990 until 2004 except for 2001, Japan was the largest bilateral donor to Pakistan. Its share of the total bilateral ODA ranged from 128 percent to 27 percent.[25] As for the year 2005, Japan's ODA decreased on a net disbursement basis from 134.1 million US dollars in the previous year to 73.8 million US dollars, and Japan may have given its position as the largest bilateral ODA donor to USA or UK. But, last year, because of our rehabilitation and reconstruction works on an urgent basis after the earthquake of October 2005, our ODA on a net disbursement basis, according to my back the envelope calculations, recovered to about 160 million US dollars. The recent decreases in our ODA on a net disbursement basis resulted from the suspension of new commitments from 1998 to 2000 in the case of grant and technical assistances and from 1998 to 2004 in the case of yen loans. Therefore, the figures on a net disbursement basis do not reflect our present ODA policy to Pakistan.

Our present ODA policy to Pakistan was explained by Foreign Minister Taro Aso in January 2006. He said: "Pakistan is a front line state in the fight against terrorism. Since ancient times it has been a strategically important transport juncture, and many people may not realise this, but it shares a land border with Iran. Helping to build the infrastructure of such a country will lead to stability in Afghanistan and central Asia and also has the value of conserving the distribution routes in the surrounding region. As the leading trading nation in Asia, Japan will suffer if Pakistan is not a calm stabilising force. You can understand here too the situation in which assistance for Pakistan is also in line with the interests of Japan". Then, he concluded by saying that while he was in India and Pakistan in January 2006, he kept thinking that Japan's ODA to India and Pakistan would become more and more important in the future.

I am very happy to announce to you that in addition to grant assistance and technical assistance, Japan has committed itself to 5 yen loans in a total amount of 51 billion Japanese yen or 453 million US dollars during the last two years.

Alignment with Pakistan's Development Strategies

Japan prepared its Country Assistance Programme for Pakistan (CAPP) in 2005. In the formulation of strategies, we have fully studied the basic documents of development such as Government's 10 year Perspective Development Plan and the 3-year Development Programme announced in September 2001. The Full-PRSP announced in December 2003 was also a document with which we have aligned our CAPP. Based upon these documents and the intensive discussions with the Government of Pakistan, Japan in the CAPP has made "construction and development of a sustainable society" the uppermost goal of its ODA to Pakistan. The CAPP also identifies as objectives of Japan's

[24]Dr Ahmad Rashid Malik: Pakistan's Vision East Asia, IPRI paper 11, p. 18.

[25]In 1997, because of negative flows of ODA from some bilateral donor(s), the total amount of ODA from the bilateral donors was 73.1 million dollars, while Japan's ODA amounted to 92.2 US dollars.

ODA, (1) ensuring human security and human development, (2) developing a sound market economy, and (3) achieving a balanced regional socio-economic development.

As you may know, the Embassy has established a task force with JICA, JBIC and JETRO. The ODA Task Force discusses on a regular basis various issues such as aid policy for Pakistan, sector issues, cross-cutting issues and implementation problems. It also prepares and revises annually an Action Plan based on PRSP, MTDF (2005-10), national plans, sector plans and other donors' activities. The Action Plan gives us a general direction of our ODA, and, on a sector to sector basis, it describes assistance policies, issues, tasks, and programmes (groups of projects with clear development objectives).

The Action Plan contains a rolling plan—a list of on-going and future projects with their expected outcomes. The rolling plan will, I am sure, contribute to further improving aid predictability of our assistance in the future.

Japan's Contribution through the Project Approach

In Pakistan, Japan has extended its assistance to a wide range of sectors, including social sector, economic infrastructure, agriculture and environmental conservation. Japanese assistance also covers governance with the emphasis on police reforms, election supports and devolution.

According to a study commissioned by the Embassy to the PIDE, infrastructure development has been the largest beneficiary with 75.2 percent of the total during the period of 1977 and 2004, followed by irrigation and agriculture, health, industry and education with the percentages of 9.78 percent, 7.5 percent, 4.29 percent and 2.76 percent, respectively.[26]

Our assistance to the education sector started in the 1980s with grant assistance. Loan assistance and technical assistance started in the second half of the 1990s. In recent years, Japan has placed more emphasis on basic education, particularly literacy and numeracy education.

Our assistance to the health sector has centred on the construction and management of three facilities (Children's Hospital, Maternal and Child Health Care Centre and College of Nursing) of the Pakistan Institute of Medical Sciences (PIMS), the provision of equipment to local medical facilities and prevention of infectious diseases including polio. We have contributed to the supply of safe and clean water by water supply projects in many places.

In the transport sector, the upgrading and rehabilitation of the Indus Highway is a symbol of our assistance. Japan has contributed to the construction of 65 percent or 745 km of the Indus Highway through yen loan assistance. Kohat tunnel was also designed and constructed with similar yen loan assistance. At the design and construction stages, Japanese technologies were transferred. At the operation stage, NHA has introduced the monitoring and rescue systems with our assistance. In the transport sector, JICA completed and submitted to the Government "Pakistan Transport Plan Study".

[26] In the study, the health sector covers health, reproductive health, water supply and sanitation. The infrastructure sector consists of infrastructure, transport, energy and communications.

Japan has helped Pakistan secure the stable supply of electricity. Recent examples are the construction of the Ghazi Barotha Hydroelectric Power Plant, the Load Dispatch System Upgrade Project and the Dadu-Khuzdar Transmission System Project.

Japan has contributed to increases in agricultural productivity by providing agricultural inputs and implements and rehabilitating irrigation systems. In this connection, I would like to point out that only increased agricultural productivity does not necessarily lead to poverty reduction in the rural areas. Japan can assist pilot rural development projects like "Region Specific Products Development" mainly through grant assistance and technical assistance.

The assistance to the environment has been mainly to strengthen the capacity of the Environment Protection Agency (EPA) through technical assistance. However, Japan also assisted EPA establishing an environmental monitoring system that captures the actual status of environmental pollution in Pakistan.

Japan extended emergency assistance, and is assisting reconstruction and rehabilitation works in the earthquake afflicted areas. These assistances are well-known by the Pakistan people.

Japan's ODA to Pakistan has mainly been delivered through projects. The project type loans, as opposed to the non-project type loans, constituted about 70 percent of the total loans to Pakistan. On a global basis, more than one third of grant assistance will be delivered through non-project type grant assistance in the financial year 2007-08. Now, you have a very clear picture on a sector to sector basis about our concrete contribution to the development of Pakistan mainly through projects.

12. CONCLUSION

Pakistan is an important partner for Japan's ODA. In the Financial years 2005-06 and 2006-07, Pakistan already was among the top 10 recipients of yen loans. Japan is now playing an even more important role in Pakistan. Pakistan should enjoy ODA volume from Japan commensurate to Pakistan's importance to Japan and the region.

Japan will participate in aid coordination and the follow-up works of the Paris Declaration in order to make our aid more effective in Pakistan. However, aid effectiveness is only a means to secure value for money. A more important task ahead is to think together with Pakistan about what kind of society Pakistan hopes to achieve and in what ways donors can assist Pakistan in this regard.

I will finish this long speech by raising important questions. How is Japan's ODA to Pakistan seen from outsiders? How should Japan's ODA change? One scholar teaching in the US after the case studies and field interviews in Pakistan wrote that "[t]he main strength of the Japanese lies in designing and managing public infrastructure projects" and that "Japanese technical consultants are considered to be of highest quality".[27]

The same scholar, however, considered Japanese aid conservative. He also stated that Japan has "not been able to establish leadership in setting the terms of debate on governance and development", and has also failed to get the public credit. The scholar further pointed out as another weakness the "little authority" of consultants.

There are some misunderstandings here. If the government-to-government projects are regarded conservative as the author argues, Japan is not conservative in the sense that

[27] Tahir Andrabi: Japanese Aid to Pakistan (Japan's Foreign Aid edited by David Arase, p. 201-202)

it has the Grant Assistance for Grassroots Human Security Projects which is to be extended to international and local NGOs, local governments and institutes.

However, we have to take his findings and recommendations seriously. First, concerning innovative projects, we may have been too cautious to make mistakes. Perhaps we have to strike a balance between the successful completion of projects and potential benefits of replication of innovative projects even by the private sector. We have to be more positive to study new approaches and facilities by strengthening our research function.

Second, after the review of 27 evaluation reports, JBIC recommends that Japan should have stronger interests in policy matters, institutional changes and systems' improvements of its partners.[28] Project sites have always been our main concern. But, we should pay more attention on the policy side of the development. For this change, the aid officers should be released from the micromanagement of the projects. The consultants and other aid workers should have more responsibility in the actual implementation of the projects.

In order to contribute to the development goals set by the UN, Japan continues its efforts towards the goal of providing ODA equivalent to 0.7 percent of our gross national income (GNI). We intend to increase our ODA by 10 billion US dollars over a period of 5 years.

In order to achieve these goals, our ODA in general and ODA to Pakistan in particular should be supported by a wide range of Japanese people. I want to emphasise here that if our assistance is not fully appreciated by the Pakistani people, how can we persuade the Japanese people that our assistance is contributing to the development of Pakistan. We would like to continue our dialogues with the governments and people of Pakistan so that we can help the Pakistani people deepen their understanding on our ODA. I hope this seminar will become the first step.

[28] JICA: Pakistan Study Report 2003, p. 291-293.

Annexure-1

JAPAN AS A TOP DONOR FOR PAKISTAN

Japan initiated its economic assistance towards Pakistan with provision of technical assistance in 1954; loan aid in 1961 and grant aid in 1970, which has continuously played an important role in country's development. The accumulated total of Japan's economic assistance to Pakistan was US$5,237.30 million until CY 2005 on disbursement basis. (Technical Assistance: $329.97 million, Loan Aid: $3,636.47 million, Grant Aid: $1,270.86 million).

In response to the nuclear tests conducted by Pakistan in May 1998, economic measures were imposed and then loan and grant aid to new projects was suspended. However, the Government of Japan continued to provide grant assistance on emergency and humanitarian basis and grant assistance for grassroots projects, technical cooperation and loan aid to ongoing projects (see Box 1).

After the simultaneous terrorist attacks of September 11, 2001, recognising Pakistan's efforts to contribute to strengthening the international coalition against terrorism, and in view of Pakistan's difficult domestic situation, Japan decided to discontinue the economic measures imposed in May 1998 and an announcement to this decision was made on 26th October 2001. Subsequently, Japan pledged a grant of US$300 million on November 2001 that has not only been disbursed but also reached US$30 million over and above the commitment by April 20, 2005. Japan also rescheduled debt worth US$4.5 billion in March 2003 in pursuance of agreed minutes of the Paris Club. Moreover, in April 2005 the Japanese Prime Minister announced the resumption of Yen Loan programme to Pakistan to enhance country's capacity to undertake large-scale infrastructure development projects.

BOX 1
MODES OF JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

The Government of Japan provides ODA based on requests made by the Government of the Islamic Republic of Pakistan, which is classified, into following three types:

Loan Aid is extended on "soft" terms, characterised by a low interest rate and a long maturity. ODA-Loans have been extended towards basic economic and social infrastructure projects that provide indispensable underpinning for Pakistan's national development. The Yen-Loans thereby support poverty reduction through "economic growth" and "capacity-and institution-building". Japan Bank for International Cooperation (JBIC) is an official agency with a statutory mandate to provide Japan's Yen-loans.

Grant Aid is bilateral cooperation extended to support development projects and social sector activities in various sectors, including health, education etc. with an aim to benefit basic human needs. Substantial grant aid is also extended in the form of budgetary support. Grant Assistance for Grassroots Human Security Projects (GGP) is another important component of grant aid through which flexible and timely support is provided to non-profit organisations for small-scale social sector development projects all over Pakistan.

Technical Cooperation contributes directly to the human-resource development through the transfer of technology. The areas covered by technical cooperation are diversified and include such sectors as agriculture, education, health, industry, infrastructure and environment. Some of the ongoing activities are dispatch of Japanese Experts, Senior Volunteers (SV), Japan Overseas Cooperation Volunteers (JOCV) in various fields and so on. Japan International Cooperation Agency (JICA) is an official agency with a statutory mandate to implement the technical cooperation.

Figure

Table 1

Japan as a Top Donor among all Bilateral Donors

(Calendar Year: Net Disbursement: Million US$)

2000		2001		2002		2003		2004	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
Japan	280.4	USA	775.6	Japan	301.1	Japan	266.2	Japan	134.1
USA	88.5	Japan	211.4	USA	209.0	UK	112.1	UK	90.8
UK	23.7	UK	27.4	Germany	76.2	USA	102.3	USA	76.9
France	19.6	Germany	20.1	UK	66.9	Switzerland	13.3	Germany	20.4
Netherlands	19.1	Netherlands	18.0	Netherlands	12.2	Canada	13.3	Canada	15.5
Bilateral Total	475.1	Bilateral Total	1,110.1	Bilateral Total	702.5	Bilateral Total	536.3	Bilateral Total	382.7

Source: OECD/DAC.

Table 2

Position of Pakistan is among the Top Recipients of Japan's ODA

(Calendar Year: Net Disbursement: Million US$: %)

2001			2002			2003			2004		
Country	Amount	Share	Country	Amount	Share	Country	Amount	Share	Country	Amount	Share
Indonesia	860.07	11.54	China	828.71	12.32	Indonesia	1,141.78	18.99	China	964.69	16.20
China	686.13	9.21	Indonesia	538.30	8.00	China	759.72	12.63	Iraq	662.07	11.12
India	528.87	7.10	India	493.64	7.34	Philippines	528.78	8.79	Vietnam	615.33	10.33
Vietnam	459.53	6.17	Vietnam	374.74	5.57	Vietnam	484.24	8.05	Malaysia	256.50	4.31
Philippines	298.22	4.00	Philippines	318.02	4.73	India	325.79	5.42	Philippines	211.38	3.55
Tanzania	260.44	3.49	**Pakistan**	**301.12**	**4.48**	**Pakistan**	**266.22**	**4.43**	Sri Lanka	179.53	3.02
Pakistan	**211.41**	**2.84**	Thailand	222.43	3.31	Sri Lanka	172.26	2.86	Afghanistan	172.52	2.90
Thailand	209.59	2.81	Azerbaijan	141.84	2.11	Kazakhstan	136.27	2.27	**Pakistan**	**134.11**	**2.25**
Sri Lanka	184.72	2.48	Bangladesh	122.72	1.82	Afghanistan	134.42	2.24	Kazakhstan	130.76	2.20
Peru	156.52	2.10	Peru	119.58	1.78	Cambodia	125.88	2.09	Ghana	115.42	1.94

Source: Japan's ODA 2005.