

GLOBAL TRENDS IN OFFICIAL DEVELOPMENT ASSISTANCE¹

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1. Introduction

The new millennium ushered in a series of events that impinged on policies, strategies and implementation of official development assistance (ODA) as formulated by donor countries and agencies.² The September 11, 2001 attacks in the United States jolted the developed world, particularly American society and government, into seriously considering the plight of underdeveloped societies and the resentment and pain that increasing global inequalities were causing.

The immediate result was a sudden increase in official development assistance from donor countries and institutions. This contrasted sharply with the nineties' decade where the end of the Cold War had resulted in decreasing levels of development assistance. This sudden enlightenment, however, may be short-lived as it has focused mainly on relief and rehabilitation efforts in Iraq and Afghanistan with meager results. Thus sustained and international efforts to end global poverty and social inequalities remain on the development agenda.

Japan, meanwhile, previously the top ODA donor, has been overtaken by the United States as it continued to suffer from a depressed economy and waning public support for its foreign assistance programs. A new ODA Charter in 2003 thus emphasizes Japan's national interests over the previous focus on humanitarian concerns. It had, however, responded to the 9/11 events by also increasing its development assistance contributions but not enough to regain its position as number one donor.

Critics, however, continue to question the effectivity of even increased aid as they raise long-standing issues of dependency, ownership, tied aid, impact on development, donors' geo-political and economic self-interest, corruption and transparency, accountability, wastage and depletion of scarce resources, inefficient implementation, social and environmental consequences, unequal distribution, and lack of popular participation.

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² Although there are certain nuances, this paper uses the terms "official development assistance," "foreign aid," "aid," "foreign assistance," "development assistance," and "development aid" synonymously.

2. Definitions

The Organization for Economic Cooperation and Development (OECD) defines ODA as “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character.” The concessionality provision means that loans should have a grant element of at least 25 percent.³ ODA flows consist of either bilateral contributions from donor government agencies to developing countries or multilateral assistance from international or regional institutions such as the World Bank, the various United Nations agencies, and the Asian Development Bank.

From the above, to qualify as ODA, aid clearly needs to contain three elements: (a) it is undertaken by the official sector, i.e., government bodies; (b) its main objective is the promotion of economic development and the welfare of recipient countries; (c) the aid is granted at concessional financial terms. It is also obvious that military assistance does not qualify as ODA.

ODA is thus an attractive source of development funds in that interest rates for loans are lower than commercial rates, repayment period have longer terms with extended grace periods, and funds are usually geared for projects that would otherwise not attract private capital. The availability of grant assistance (which need not be repaid) also adds to ODA's attraction.

An important body for the formulation of policies on aid and the coordination of its implementation is the Organization for Economic Cooperation and Development (OECD). It is an economic policy coordination club composed of 30 of the world's richest economies. It was formed after World War II and originally was composed of non-socialist European countries. In 1961, it was expanded to include the United States, Canada, Australia, New Zealand, and Japan (Lappe, Collins, and Kinley 1980).⁴ In its website, the OECD identifies itself as a “forum where governments can compare policy experiences, seek answers to common problems, identify good practice and co-ordinate domestic and international policies.”

A precondition for OECD membership is a “commitment to a market economy and a pluralistic democracy.” OECD member countries “produce almost 60% of the world's goods and services.” Its 22-member Development Assistance Committee (DAC) is

³ The “grant element” is an index that indicates the “softness” of a loan. “When a loan is given on a purely commercial basis, the ‘grant element’ is 0 percent, but when it is given in the form of a grant, its ‘grant element’ is 100 percent. The minimum ‘grant element’ required for ODA is 25 percent. For example, a loan with an annual interest rate of 5 percent and repayment period of 10 years including 5 years grace period has a ‘grant element’ of 25 percent” (APIC 1989).

⁴ As of 2007, OECD members are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.

responsible for ODA monitoring and evaluation and is also engaged in “policy formulation, policy co-ordination and information systems for development.” The DAC comprises the world’s major aid donors, accounting for more than 90 percent of ODA worldwide.⁵

3. New Global Trends

The nineties have been characterized by decreasing levels of ODA to developing countries. This development came about immediately after the end of the Cold War and the collapse of the Soviet Union. In a real sense, the ODA downturn reflected a triumphalist confidence among developed capitalist states that their global dominance was now assured and that they no longer had to exert extra efforts to win the allegiance and support of developed countries. Additionally, countries which had previously been regarded as underdeveloped and primary recipients of aid were now showing signs of robust economic growth. This was particularly evident in the East Asian and Southeast Asian regions.

At the level of the various United Nations (UN) organizations, however, concerns were being raised that the growth of the nineties was not reflected in large parts of the world, notably Africa and South Asia, where poverty levels remained unacceptably high. Yearly reports from the United Nations Development Program (UNDP) also showed that the growth patterns were highly skewed and were accompanied by increasing social and economic inequalities within and between countries.

Accordingly, the UN sponsored a major conference in September 2000 to address global problems of poverty and inequality. The conference issued a Millennium Declaration that called on all countries to “spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty” (see next section). In a real sense, the September 11 attacks accelerated the process of seeking socio-economic solutions to global problems “in hopes of reducing poverty in developing countries, which they see as a main factor inflaming Islamic fundamentalism and therefore as the hotbed of terrorism” (Hisane 2004).

At the 2002 Monterrey Conference on Financing for Development (FfD), which was participated in by 51 presidents and prime ministers, as well as finance and foreign ministers, business and civil society leaders, discussions were often punctuated by reference to the September 11 events.⁶ In a press briefing, conference spokesperson Susan Markham reported that “many speakers during the Conference pointed to the link with terrorism, which could not be fought with weapons alone” and that “poverty and inequalities could lead to despair and provide a breeding ground for violence, crime, corruption and terrorism.”

⁵ Based on the above list of OECD members, eight of the 30 countries, namely, the Czech Republic, Hungary, Korea, Iceland, Mexico, Poland, Slovak Republic, and Turkey are not members of DAC.

⁶ However, discussions for organizing the conference began as early as 1997 and the UN General Assembly decision to convene the conference in 2002 was made in December 1999.

Known as the Monterrey Consensus, the FfD conference document acknowledged that "a substantial increase in ODA [official development assistance] and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives."⁷ The Monterrey Consensus launched "new aid commitments by several donors (the European Union, the US, and Canada), (and) also committed UN member states to the Millennium Declaration" which aimed at bringing "greater poverty focus to ODA in efforts to halve the proportion of people living in absolute poverty and hunger (and) achieve several social development goals by 2015" (Padilla and Tomlinson 2006). Furthermore, the Consensus document urged developed countries "to make concrete efforts towards the target of 0.7 percent of gross national income as ODA to developing countries."⁸ In November 2006, the UN General Assembly decided to hold a Follow-up International Conference on Financing for Development in Doha, Qatar in the second half of 2008.

Development assistance from OECD DAC countries generally follow the vision of the Washington Consensus which conditions aid to the adoption by recipient governments of political and economic reforms based on adherence to free market principles and a commitment to trade and investment liberalization, government deregulation, and privatization (Thompson 2005).

3.1 Millennium Development Goals and ODA

The Millennium Development Goals (MDG) is a set of eight objectives outlined in the United Nations Millennium Declaration adopted by 189 world leaders on 8 September 2000. These goals comprise a set of commitments by nations and their governments to reduce poverty, improve health, and promote peace, human rights, gender equality, and environmental sustainability by 2015. The MDGs consist of 8 goals, 18 targets, and 48 monitoring indicators. The eight goals are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental stability
8. Develop a global partnership for development

⁷ The Conference, however, failed to endorse then UN Secretary-General Kofi Annan's call for doubling ODA from \$US50 billion to \$US100 billion per year.

⁸ This target was set as early as 1970 by a unanimous vote of the UN General Assembly.

With respect to ODA, Goal 8 (Develop a global partnership for development), is particularly relevant. The Asian Development Bank (ADB) outlines the role of ODA in addressing this particular goal (ADB: 2006). The ODA-related targets include an “enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.” The indicators include:

1. “Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors’ gross national income.”
2. The “proportion of total bilateral, sector allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water, and sanitation.”⁹
3. The “proportion of bilateral ODA of OECD/DAC donors that is untied.” This is defined as the “percentage of country to country ODA for which the associated goods and services may be fully and freely procured in substantially all countries.”

Four years after the MDG commitments were made, a report from the Millennium Project headed by Jeffrey Sachs finds that the development aid system is not yet up to the task of the MDGs” and “needs to scale up its financial and technical support” (UN Millennium Project 2005). The report identifies “ten central problems with the aid system.”¹⁰ It quotes no less than International Monetary Fund Managing Director Rodrigo de Rato who noted in 2004 that “current aid flows are insufficient, unpredictable, and often uncoordinated among donors” and bewailed that the lack of “better coordination and multiyear commitments” is making development assistance less effective.

3.2 OECD Report on ODA

Ostensibly taking the cue from the above initiatives, developed member countries of the Organization for Economic Cooperation and Development (OECD) increased their aid allotments so that by 2005, a record US\$106.8 billion was provided, thereby exceeding then UN Secretary General Kofi Annan’s pronounced goal of US\$100 billion at the 2002 Monterrey Conference. This was 32 percent higher than the 2004 total of US\$78.6 billion

⁹ This refers to the “percentage of the total country to country ODA to the basic social services such as: a) basic education which is comprised by primary education, basic life skills for youth and adults, and early childhood education; b) basic health that includes basic health care, basic health infrastructure, basic nutrition, infectious disease control, health education, and health personnel development; c) population policies/programmes and reproductive health that covers population policy and administrative management, reproductive health care, family planning, STD control including HIV/AIDS, and personnel development for population and reproductive health; and d) aid to water supply and sanitation that are poverty-focused.”

¹⁰ See section 4. “What else is wrong with ODA?” below.

which was, in turn, higher by 4.6 percent over the 2003 figure. Total ODA had also increased by 4.3 percent from 2002 to 2003.

Continuing the new trend that began in 2001, the United States was the largest donor in 2005 followed by Japan, the United Kingdom, Germany and France. The United States' net ODA in 2005 was US\$27.6 billion, an increase of 36.5 percent in real terms over the 2004 contribution. Japan's net ODA also rose to US\$13.1 billion, an increase in real terms of 51.7 percent over 2004.

In 2006, however, net ODA from OECD DAC member countries fell to US\$103.9 billion or a 5.1 percent decrease in real terms. This decline was expected as the OECD had attributed the hefty 2005 increase to larger-than-usual debt relief operations in Iraq and Nigeria. Most of the increase in aid after 2001 had come from debt relief grants which increased threefold in 2005 alone. In other words, there was not much new money that went for development programs and projects. Total debt relief grants from DAC countries amounted to US\$22.7 billion in 2005, or 21.3 percent of total ODA.¹¹ Humanitarian aid also rose by 15.8 percent in 2005. In 2006, debt relief declined to US\$19.2 billion, or a 15.4 percent drop. Given this, new ODA allotments in 2006, therefore, would only total US\$84.74 billion. This would mean, however, that new ODA funds actually registered a modest increase of 0.76 percent over the 2005 total of US\$84.1 billion.

Though still the biggest donor, the United States aid allotment fell drastically by 20 percent (from US\$27.6 billion in 2005 to US\$22.7 billion in 2006) even as its ODA to GNI ratio also declined from 0.22 percent in 2005 to 0.17 percent in 2006.

ODA patterns reflected the goals of the U.S.-led "War on Terror" as more than two-thirds of the increase in core development programs "was accounted for by only two countries, Afghanistan and Iraq" (OECD 2005). Iraq's annual ODA of US\$12.9 billion in 2004-2005 makes it the world's number one ODA recipient country while Afghanistan ranks fourth overall with US\$1.95 billion for the same period.

The ODA figures, however, are still short of the UN-mandated ratio of 0.7 percent of gross national income (GNI). The 2006 total represented a mere 0.30 percent of the donor countries' combined GNI, a decline over the record 2005 GNI ratio of 0.33 percent (the highest ratio since 1992) though still slightly higher than the 2004 ratio of 0.26 percent. The United States' 2005 ODA/GNI ratio of 0.22 percent, however, was its highest since 1986 while Japan's 2005 ODA/GNI ratio was 0.28 percent. The only countries to exceed the targeted ODA/GNI ratio were Denmark, Luxembourg, the Netherlands, Norway and Sweden.

¹¹ In 2005, war-torn Iraq was a major recipient of debt forgiveness from the 22-member-countries of OECD's Development Assistance Committee (DAC) amounting to US\$13.9 billion, or 61 percent of total debt relief for that year alone. The United States actually accounted for most of this debt relief as it forgave all its debt to Iraq.

**TABLE 1. NET ODA COMMITMENTS FROM OECD
DAC MEMBER COUNTRIES, 2004, 2005 and 2006**

DAC Member	2004		2005		2006		% Change 2005- 2006*
	US\$ million	ODA/ GNI %	US\$ million	ODA/ GNI %	US\$ million	ODA/ GNI %	
Australia	1,460	0.25	1,680	0.25	2,128	0.30	22.8
Austria	678	0.23	1,573	0.52	1,513	0.48	-6.0
Belgium	1,463	0.41	1,963	0.53	1,968	0.50	-2.7
Canada	2,599	0.27	3,756	0.34	3,713	0.30	-9.2
Denmark	2,037	0.85	2,109	0.81	2,234	0.80	2.9
Finland	680	0.37	902	0.46	826	0.39	-9.9
France	8,473	0.41	10,026	0.47	10,448	0.47	1.4
Germany	7,534	0.28	10,082	0.36	10,351	0.36	0.9
Greece	321	0.16	384	0.17	384	0.16	-4.1
Ireland	607	0.39	719	0.42	997	0.53	33.7
Italy	2,462	0.15	5,091	0.29	3,652	0.20	-30.0
Japan	8,922	0.19	13,147	0.28	11,608	0.25	-9.6
Luxembourg	236	0.83	256	0.84	291	0.89	4.9
Netherlands	4,204	0.73	5,115	0.82	5,452	0.81	4.2
New Zealand	212	0.23	274	0.27	257	0.27	0.0
Norway	2,199	0.87	2,786	0.94	2,946	0.89	-2.2
Portugal	1,031	0.63	377	0.21	391	0.21	0.6
Spain	2,437	0.24	3,018	0.27	3,801	0.32	20.3
Sweden	2,722	0.78	3,362	0.94	3,967	1.03	15.0
Switzerland	1,545	0.41	1,767	0.44	1,647	0.39	-7.0
United Kingdom	7,883	0.36	10,767	0.47	12,607	0.52	13.1
United States	19,705	0.17	27,622	0.22	22,739	0.17	-20.0
TOTAL DAC	79,410	0.26	106,777	0.33	103,940	0.30	-5.1

Source of basic data: OECD

Note: % change from 2005-2006 based on 2005 prices and exchange rates

The UN target is not expected to be achieved soon as donor countries have made only modest pledges to improve their respective ODA/GNI ratios. The European Council, for instance has pledged to achieve a ratio of only 0.56 percent by 2010, while five other donors stated their intent to reach 0.7 percent before 2015 with the result that by 2010, the overall ODA/GNI ratio of DAC members is projected to reach only 0.36 percent (Padilla and Tomlinson 2006).

Given the large proportion of ODA going to debt relief and that donors would be unwilling to sustain this trend, the 2006 fall was expected by the OECD with further declines projected for 2007. The growing share of new donors from non-DAC members, such as China and Saudi Arabia, will also result in declining OECD aid allotments. At present, the 22 member countries of the OECD's DAC contribute around 95 percent of total ODA. In 2005 non-DAC development assistance amounted to US\$3.2 billion, with Saudi Arabia contributing US\$1.7 billion and not including China. This figure, however, fell to US\$1.24 billion in 2006, a huge 61 percent decline, again excluding China's ODA.

A confederation of 1,600 European NGOs under the umbrella of CONCORD (European Confederation for Relief and Development) has, meanwhile, denounced what it terms as “aid inflation” or the practice of inflating aid figures with debt cancellations, spending on refugees and foreign students’ education (Concord 2007). Based on OECD figures, the group calculated that in 2006 alone, the above non-aid items amounted to €13.5 billion for European donor governments, or almost one-third of total reported European ODA.

3.3 Japan’s ODA

Japan had started its foreign assistance in 1954 in the form of war reparations for damages it inflicted in World War II. In the seventies and eighties, an economic boom enabled Japan to increase its ODA by “leaps and bounds” (Watanabe 2005). By 1989, it had become the world’s top donor country, a position it kept until 2000. To provide an “aid vision,” an ODA Charter was formulated in 1992 with a set of strategic guiding principles and the inclusion of cross-sectoral issues such as gender and environment. Economic stagnation, however, forced Japan to scale down on ODA contributions and later reorient its aid policy with the adoption of a new ODA Charter in 2003.

3.3.1 Japan’s New ODA Charter

The revision of Japan’s ODA Charter in 2003 took place in the midst of dramatic changes and events that took place in the international and national situation since the 1990s (MOFA Japan: 2004). On the international front, these included (1) the rapid advance of globalization and its impact on developing nations, (2) the adoption of the Millennium Development Goals in 2000, (3) the September 21, 2001 attacks in the United States which gave rise to the realization that widespread poverty and global inequalities “can be a hotbed of terrorism,” and, (4) the subsequent increase in development assistance particularly from the United States and the European community. On Japan’s domestic front, a severe economic and financial downturn and public demands “for improvements in the strategic value, flexibility, transparency and efficiency of ODA” saw a drastic reduction in aid outflows. The Japanese government also had to respond to calls from non-governmental organizations (NGOs) and universities for broader public participation in ODA formulation and implementation.

The 1992 ODA Charter advocated basic principles such “the humanitarian viewpoint, interdependence in the international community, environmental conservation, Japan’s adherence to peace (including avoiding the use of ODA for military purposes), democratization and good governance, and promoting the development of market economies.

The 2003 ODA Charter, on the other hand, declares that the objectives of ODA are “to contribute to the peace and development of the international community, and thereby to help ensure Japan’s own security and prosperity.” Japan’s Ministry of Foreign Affairs explains that the new Charter “recognizes that the basic policies of Japan’s diplomacy are to ensure Japan’s security and prosperity, and that the importance of ODA, which is

provided as an element of diplomacy, can neither be understood nor supported, unless it contributes to Japan's security and prosperity" (MOFA 2004). National interest, therefore, has now become the overriding principle of Japan's ODA.

In line with the primary concern for Japan's "security and prosperity," the new Charter includes the "prevention of terrorism" among its implementation principles (Koshida 2004). Even the goal of "poverty reduction" is seen as "essential for eliminating instability factors in the world such as terrorism." In addition to the concern with "terrorism," the new Charter also looks at other issues "such as humanitarian ones (poverty, hunger, refugees and disasters), global ones (the environment and water)." Consistent with the national interest principle, the resolution of the above issues is seen as satisfying Japan's requirements for resources and energy coming from developing countries.

Japan's initiative in making full use of ODA to resolve these issues will not only benefit Japan in a number of ways, for example through further advancement of friendly relations and promotion of people-to-people exchanges and through improvement of Japan's position in the international arena, but also, it will lead to the stability and development of developing countries, which is vital for Japan as it is heavily dependent on overseas countries for resources and energy (MOFA 2004).

Other concerns in the new charter include "human security," and "the consolidation of peace." ODA is seen as playing an important role in "conflict prevention, emergency humanitarian assistance during conflict, promoting the conclusion of conflict, peace consolidation and nation-building after the conclusion of conflict." The consolidation of peace in Iraq through Japanese ODA is given special mention.

In the post-Cold War era, ODA was seen as an alternative weapon to military power. Under the new Charter, the concept of security is now broadened to include dispatching Japan's Self Defense Forces (SDF) to other countries and providing logistical help (Ota 2006). The use of ODA for "peace construction" is thus underlined. In this context, "ODA" forms a triad together with "negotiations" and "peace keeping operations." SDF and ODA can be viewed as "two wheels of the same cart." Strategic areas and regions identified are Iraq and Afghanistan on one hand and Southeast Asia on the other. According to opinion polls, 50 percent of the Japanese public now support the SDF while another 50 percent are for charter change, i.e., revise Japan's "peace constitution" (Ota 2006).

The new ODA Charter also commits Japan to "strengthening collaboration with NGOs, ... both internal and external, and to increase public participation" as well as "preventing fraud and corruption with a view to ensuring the transparency of ODA, ... and improving the effects of aid (through) ... strengthening third-party evaluations and audits." Lastly, Japan promises to consider "the environmental and social impact (of) aid projects in recipient countries."

In terms of regional shares, Asia remains the top priority with emphasis on the ASEAN group. Japan however is to provide less ODA to China. Accordingly, Japanese ODA to China was halved from US\$1.85 billion in 1999 to US\$925 million in 2003 with 70 percent going for environment-related projects alone.

Japan's new ODA thrusts is also linked to the strategy of building a common economic market as an antidote to the 1997-98 economic crisis (Ota 2006). But since multilateral trade agreements have proven to be problematic, e.g., the WTO impasse, the tactic is to concentrate on bilateral free trade agreements as Japan has done with Mexico, Singapore, Thailand, Malaysia, and the Philippines. At the same time, ODA is also to be utilized for financing initiatives at ASEAN integration, including institution building.

Some observers see Japan being transformed from being "merely an auxiliary state to the US to a leading state given its capital expansion which sometimes compete with US capital" (Ota 2006). Japan, after all, is thought to follow a different economic strategy from the US, that of emphasizing the role of government in economic growth and development. The ODA provided by government can be a vehicle for protecting Japan's capital interests worldwide. Japan's global ambitions in the political sphere, e.g., its long-standing campaign for a permanent seat at the UN Security Council, can also be served by its ODA for countries whose votes at the UN it is trying to court.

3.3.2 Trends in Japanese ODA

In 2001, Japan was overtaken by the U.S. as the world's biggest ODA donor for the first time since 1989, "dealing a significant setback to Japan's influence in the international arena -- and to its national pride" (Hisane 2004). Japan's prolonged economic crisis, following the burst of its bubble economy in the late 1980s, had finally taken its toll on Japan's development assistance program, considered the cornerstone of its foreign policy. A mild and fitful economic recovery at the beginning of the new millennium has not brought relief to the country's fiscal situation which continues to be characterized by austerity measures due to heavy government indebtedness (including a budget deficit in trillions of dollars) and ever increasing social security expenditures for a rapidly aging population. Another factor is waning public support for ODA which, according to opinion surveys, has fallen from 41.1 percent in 1991 to only 19 percent in 2000 (Ota 2006).

From an average ODA allotment of US\$11.6 billion per year from 1991 to 2000, Japan's ODA average fell to US\$10 billion per year from 2001 to 2006. To make matters worse, in 2006, the OECD calculates that Japan will slide down to number three spot as a major ODA donor; overtaken by France. Other observers predict that Japan will fall even further to fifth place in the coming years with Germany and the United Kingdom pushing ahead of it (Hisane 2004). Notwithstanding a pledge in 2005 by then Japanese Prime Minister Junichiro Koizumi to increase Japan's ODA budget by US\$10 billion over the next five years (Kakuchi 2005), the country's foreign assistance is expected by OECD to fall in 2006 by 25 percent compared to its 2005 contributions, from US\$13 billion to US\$9.9 billion. By 2008, Japan will terminate its regular yen loan program.

**TABLE 2. JAPAN'S ODA COMMITMENTS,
1991 TO 2006 (in US\$ million)**

YEAR	AMOUNT	YEAR	AMOUNT
1991	10,952	1999	12,162
1992	11,151	2000	13,508
1993	11,259	2001	9,847
1994	13,239	2002	9,283
1995	14,489	2003	8,880
1996	9,439	2004	8,906
1997	9,358	2005	13,147
1998	10,640	2006	11,608
Yearly average for 1991 to 2000: US\$11,620 million			
Yearly average for 2001 to 2006: US\$ 9,998 million			

Source of basic data: Japan Ministry of Foreign Affairs

In 2005, Japan's net ODA rose to US\$13.1 billion, an increase of 51.7 percent over the 2004 figure of US\$8.9 billion; its ODA/GNI ratio to 0.28 percent. Following the pattern set by the US, this included US\$3.5 billion to Iraq, or 27 percent of Japan's total ODA for the year. In gross terms, Japan's ODA was US\$18.6 billion, an increase of 18.6 percent in real terms. Japan's ODA/GNI ratio also improved to 0.28 percent from 0.19 percent in 2004. The OECD reports that, in 2004, Japan's net ODA declined by 4.8 percent in real terms to US\$8.9 billion or 0.19 percent of its GNI. In gross terms, however, its ODA rose by 24.5 percent to US\$16.1 billion. As in 2005, the bulk of this amount went to aid for reconstruction of Iraq, and "increased debt relief to some of the most heavily indebted countries."¹² The single-year surge was not maintained, however, as Japanese ODA was once again, as expected, reduced in 2006 by 11.7 percent.

Despite its position as a major ODA donor, Japan has also been one of the poorest performers in terms of its ODA/GNI ratio as it has been consistently ranked in the bottom fifth of all DAC members. In 2004, its ODA/GNI ratio of 0.17 percent placed it fourth from the bottom; in 2005, it improved somewhat to sixth from the bottom with 0.28 percent, but in 2006, it fell back to fifth from the bottom with 0.25 percent.

The primary outlet for Japanese loan assistance is the Japan Bank for International Cooperation (JBIC) which was established in October 1999 through the merger of the Export-Import Bank of Japan (JEXIM: established in 1950) and the Overseas Economic Cooperation Fund, Japan (OECF: established in 1961). JBIC's purposes are (1) the promotion of Japan's international trade and other international economic activities, (2) the stabilization of the international financial order, and (3) economic and social

¹² The OECD reports, however, that "this debt relief had little effect on net ODA since the bulk of the forgiven loans were counted as ODA when they were extended" and that "increased repayments of ODA loans, notably by countries that have recovered from the Asian financial crisis, also affected Japan's net ODA."

development and/or stability of developing areas. Grants and technical assistance, on the other hand, are disbursed mainly by the Japan International Cooperation Agency (JICA) and, to a lesser extent by the Ministry of Foreign Affairs (MOFA). By October 2008, however, JICA will be restructured to take over JBIC's loan granting component and MOFA's grants aid program (Ogata 2007). This would make the new JICA the world's largest bilateral development agency with resources amounting to US\$8.8 billion and, for the first time, will place management of Japan's ODA "under one roof."

3.4 The Untying of Aid: An Unfulfilled Project

The tying of aid has been a major issue in the implementing ODA projects. More than any other indicator, tied aid reflects the self-serving character of ODA and leads to charges of false altruism of donor countries. The untying of aid therefore is a primary demand of developing countries who are ODA recipients. "Untied aid" is defined as the "percentage of country to country ODA for which the associated goods and services may be fully and freely procured in substantially all countries" (ADB 2006).

The untying of aid, however, should refer not only to the accessibility of parties outside of the donor countries to provide goods and services related to a particular ODA loan, but also the level of accessibility of parties from the recipient countries themselves, particularly the least developed countries. In this context, the internationally accepted definition of "untied aid" is inadequate and needs to be refined so as to make a distinction between developed and developing countries.

Recipient countries bear a double burden for tied aid (UNDP 2005). For one, they are denied the opportunity to access services and goods at a lower price due to "the absence of open market tendering" and secondly, it can lead to "the transfer of inappropriate technology and skills." As a result of overpricing of goods and services by as much as 40 percent, tied aid "reduces the value of assistance by 11 percent to 30 percent" (UNDP 2005).

An international consulting firm, Euroact Japan, Ltd., lamented in 1999 that while "Japan's ODA represents a multitude of business opportunities" and that "in theory, non-Japanese companies and non-Japanese consultants have almost complete access to Japanese ODA projects, in practice they often fail to take full advantage of these opportunities" (Euroact Japan 1999). The firm traces this situation to ignorance of the business opportunities because the "relevant project-related information is hard to obtain and is often available only in Japanese."

Nevertheless, for Japan, from a tied ODA component of almost 100 percent in the 1980s, the share went down to an average of 26 percent in the early nineties (Ota 2006). But as the share of non-Japanese companies in procurement, engineering and consulting work funded by Japanese ODA gradually decreased, Japanese companies reportedly expressed apprehension about this development. With the support of the Japan Ministry of Trade and Industry (MITI), these firms actively lobbied the central government to reverse the

trend (Euroact Japan 1999). Spurred by Japan's economic woes, this lobby appeared to have gained ground. The 1998 Japanese yen loan became tied again. A 1999 estimate of the shares of contracts (grants and loans) among Japanese and non-Japanese firms show that 45 percent went to Japanese firms and 20 percent to contractors from other OECD countries (Euroact Japan 1999). Contractors from developing countries (where the ODA projects were situated) got only 35 percent.

That the Japanese government would accede to the demands of Japanese business is not surprising as the latter have "traditionally been the strongest and the most cohesive supporter of ODA, and has acted as a catalyst and magnet for concessional aid flows." Aid funds are viewed by Japanese aid officials as "seed money" that would pave the way for future investments by Japanese business in developing countries. The awarding of aid funds to a developing country serves as a signal to Japanese business that a favorable political and economic climate exists for Japanese investments in the said country. For this reason, the Japanese business community "takes an active and coordinated role in shaping and participating in Japan's aid program."

In the nineties, business groups identified with donor countries often had prior access to contracts related to ODA projects. In 1996, the UN Department of Public Information reported that "of the \$396 million in procurements approved by the UN Secretariat in New York in 1995, American companies got 47 per cent of the business, or \$197 million." It was further revealed that "for every dollar that the USA contributed in 1995 to the New York-based United Nations Development Programme, American companies got back more than US\$2 in UNDP procurement orders."

In August 1994, an Australian International Development Assistance Bureau (AIDAB) review of its aid program to Indonesia over the period 1980 - 1993 uncovered the information that "substantial commercial business was generated in Australia from the \$990 million of aid funds for Indonesia." The agency reported that "the Australian economy has already benefited by some \$1,474 million over the review period" and that "this figure is likely to reach \$1,760 million by end 1994" and that "for every \$100 of AIDAB funds spent on the Indonesia program prior to June 1993, about \$178 of business for Australian companies (both private and public) is expected to be generated" (AIDAB 1995).

Under the slogan of "Aid Business - Good Business," the AIDAB sponsored a seminar in April 1995 for Australian business companies on how to "access the \$35 billion international aid market which will orient Australian business companies on the range of procurement and consultancy opportunities available through international aid programs like those of the WB, ADB, Australian and Japanese aid programs" (AIDAB 1995). Speakers came from Japan's OECF, Ministry of Foreign Affairs, and JICA and the Australian Executive Director of the Asian Development Bank.

The clamor for untying aid has been a long sought for reform by developing countries and this subject almost always comes up in international conferences. This desire was given a strong impetus by the adoption of the Millennium Goals where it is a primary indicator for achieving goal number 8 (developing a global partnership for development)

and by the Paris Declaration on Aid Effectiveness. In response the OECD/DAC have taken steps starting in 2001 to get its member countries to untie more of its aid (OECD 2006).

The lifting by DAC in 2006 of an exception concerning small contracts (i.e., less than US\$1 million) as well as agreement on “an approach to reporting contract awards that provides the required degree of transparency, while minimizing reporting burdens” is projected by OECD to result in an additional US\$440 million in ODA funds that will be untied (OECD 2006). The impact of the above initiative on aid effectiveness, however, will be restricted by “its limited geographic and activity coverage.”

As of 2005, the OECD reports that 51 percent of aid was reported by donor countries to be untied in that it is not conditioned on procurement in the donor country. This official figure is still considered low and needs to improve substantially. But this particular statistic is likely to be an overestimate as the tying status is unknown for some 45 percent of all aid (OECD 2006).¹³

The UNDP contends that the “full extent of tied aid is unknown because of unclear or incomplete reporting by donors.” This is reflected in (1) the lack of transparency and bias in procurement policies, (2) incomplete reporting (e.g., the US and Italy do not report fully to OECD; others give incomplete reports), and (3) the exemption of technical assistance from OECD reporting requirements. Thus, as the OECD had indicated in its report on the untying of aid, “the tying status of between one-third to one-half of aid to low income countries is unknown” (UNDP 2005).

What takes place therefore is a form of “aid taxation” or the imposition of additional costs to aid that recipient countries are forced to bear. This is translated into losses for developing countries that the UNDP estimates at between US\$5 billion to US\$7 billion for 2002 and 2003 alone, “enough to finance universal primary education.” The biggest losses are incurred by low income countries (US\$2.6 billion to US\$4 billion). These figures, however, are still understated in that they exclude technical grant assistance.

3.5 The Emergence of China

China’s emergence as a new player in foreign development assistance introduces a new dimension to the global context of ODA. Based on OECD figures, China’s US\$4.5 billion in ODA commitments in 2002 alone would have ranked it sixth globally for that year.¹⁴ Africa is the priority region for Chinese ODA accounting for 30 percent of the total in 2002. In November 2006, the Chinese government pledged to double its assistance to Africa and provide US\$5 billion in soft loans (Legwaila 2006). But since it is not an OECD member,

¹³ Furthermore, the OECD does not make a distinction between “totally tied” aid and “partially tied” aid.

¹⁴ According to OECD statistics, the top ODA donors for 2002 were (1) US with US\$13.3 billion, (2) Japan, US\$9.3 billion, (3) France, US\$5.5 billion, (4) Germany, US\$5.3 billion, (5) UK, US\$4.9 billion, and (6) Netherlands, US\$3.3 billion.

China's ODA contributions are not monitored on a regular basis and the Chinese government itself provides little or no information on its foreign assistance programs.

China's aggressiveness in the ODA game is taking place against the backdrop of its own status as an ODA recipient country and Japan's recent 50 percent cutback in foreign assistance to Beijing. At the same time, its own aid program is backstopped by a booming economy and foreign reserves that are now the largest in the world. As of December 2006, China's foreign reserves in foreign currencies and securities totaled US\$1.1 trillion, 16 percent higher than second ranked Japan's US\$895 billion (Batson 2007). These reserves increase by US\$20 billion monthly brought in mainly by the economy's vibrant export sector.

China's ODA policy is purportedly based on a new donor paradigm known as the "Beijing Consensus" that challenges the framework espoused by the "Washington Consensus" as implemented by OECD members (Thompson 2005). While the imposition of aid conditionalities such as political and economic reforms are inherent in Washington Consensus-type aid programs, the Beijing Consensus adheres to the principle of non-interference in a recipient country's internal affairs and sovereign integrity (Lewaila 2006). In Africa, for example, the Beijing government's "steadfast refusal to criticize or involve itself in the internal affairs of African nations earns it the (support) of leaders and elites who have benefited from poor governance and opaque political systems and are reluctant to implement painful economic or political reforms demanded by the West" (Thompson 2005). China's exercise of "soft power" diplomacy underpins its long history of friendly ties with African governments and is reflected in a "no-strings attached" approach to its development assistance program.

China's development paradigm, therefore, rejects "Western notions of political liberalization or economic reforms as indispensable for long-term, sustained development." It has "effectively exported its notion of economic development with Chinese characteristics to its African trading partners, encouraging them to develop their economy through trade and investment in infrastructure and social institutions, without dictating terms for political or economic reforms" (Thompson 2005).

The Beijing Consensus, however, and its lack of aid conditionalities, has come under fire from OECD circles. The European Investment Bank (EIB) has warned that "the world's development banks may have to water down the social and environmental conditions they attach to loans in Africa and elsewhere because they are being undercut by less scrupulous Chinese lenders" (Parker and Beattie 2006). Bemoaning China's supposedly lack of concern for "social and human rights conditions," EIB President Philippe Maystadt "claims Chinese banks have snatched projects from under the EIB's nose in Asia and Africa, after offering to undercut the conditions it imposed on labor standards and environmental protection." Maystadt called for a "common approach" from the West to meet the Chinese challenge, and suggested a rethinking of what he called "excessive conditions." He added that unless these conditions "are set at a realistic level, project managers in Asia, Africa and elsewhere will turn to other sources of financing without such strings attached."

4. What Else is Wrong with ODA?

This section takes a look at three reports which examined the worldwide experience of official development assistance and enumerated its many shortcomings. These are the **UNDP 2005 Human Development Report** (International Cooperation at a Crossroads), the report of the UN Millennium Project entitled **Investing in Development: A Practical Plan to Achieve the Millennium Development Goals**, and lastly, the OECD's **2006 Development Co-Operation Report**. The critical positions taken by these reports is all the more significant and noteworthy in that they come from or are made under the sponsorship of the donor agencies and creditor countries themselves.

4.1 UNDP Human Development Report 2005 (Summary)

The UNDP HDR Report's section on "international aid" is prefaced by the slogan: "increasing the quantity, improving the quality." While viewing ODA as "one of the most effective weapons against poverty," the report nevertheless concludes that, especially in the context of the Millennium Development Goals, "the weapon is underused, inefficiently targeted, and in need of repair."

Aid is seen as a two-way partnership with "responsibilities and obligations on both sides." Recipient countries are responsible for creating "an environment in which aid can yield optimal results." Donor countries, on the other hand, "have an obligation to act on their commitments." In practice, however, the "partnership has been a one-way street."

The UNDP cites three conditions for development aid to be effective. First, given the financing gap, "it has to be delivered in sufficient quantity to support human development take-off." Second, aid has to be "predictable", of low cost, and commensurate with the amounts delivered. Third, recipient countries must have a sense of "ownership" of aid programs and projects. Sadly, the Report says that "none of these conditions has yet been met."

While there is some progress in increasing aid, a large shortfall of US\$46 billion will still exist for 2006, increasing to US\$52 billion in 2010. Despite public acknowledgments by developed countries on the importance of aid, "their actions so far have not matched their words." Since 1990, per capita income in rich countries has increased by US\$6,070, while per capita aid has fallen by US\$1. Thus those who have gained and have been enriched by globalization have not reached out enough to help those who have been pauperized by the same process. Worse, "for every US\$1 that rich countries spend on aid they allocate another US\$10 to military budgets." And the amount that Europeans spend on perfume and what Americans shell out for cosmetic surgery dwarfs the US\$7 billion needed annually to provide 2.6 billion poor people with access to clean water and "save an estimated 4,000 lives each day."

Notwithstanding periodic donor meetings and agreements on important principles for improving aid effectiveness and its quality, e.g., the March 2005 Paris Declaration on Aid Effectiveness, "aid delivery still falls far short of pledges" and "the specific form that

conditionality takes often weakens national ownership and contributes to disruptions in aid flows.” Furthermore, “donor reluctance to use national systems adds to transaction costs and weakens national capacity.”

The UNDP report is particularly concerned with the issue of “tied aid” (already discussed in sections 3.4 and 4.3 above) calling it “one of the most egregious abuses of poverty-focused development assistance.” Noting that the practice “remains widely prevalent and underreported” the report’s authors “conservatively estimate the costs of tied aid for low income countries at US\$5 – US\$7 billion” with Sub-Saharan Africa alone “paying a ‘tied aid tax’ of \$1.6 billion.”

The old unequal relationships between donor and recipient has simply been “repackaged” with “a continuing imbalance in responsibilities and obligations.” While recipient countries “are required to set targets for achieving the MDGs,” exercise fiscal restraints under IMF supervision, “comply with a bewildering array of conditions set by donors and to deal with donor practices that raise transaction costs and reduce the value of aid,” donors are freed from any obligations apart from “broad, non-binding commitments on aid quantity (most of which are subsequently ignored) and even broader and vaguer commitments to improve aid quality.”

4.2 The UN Millennium Project Report

Created in July 2002, the UN Millennium Project was an independent advisory body to then UN Secretary General Kofi Annan. Its project head was the noted economist Jeffrey D. Sachs. The project report on **Investing in Development: A Practical Plan to Achieve the Millennium Development Goals** was completed in 2005 and co-authored by the coordinators of the project’s 10 task forces and Secretariat, “building on the contributions made by hundreds of scholars, development practitioners, scientists, political leaders, and policy leaders.” The reports’ primary concern is how to achieve the Millennium Development Goals given the problems that stand in its way. Chapter 13, “Fixing the Aid System” deals with the problems of ODA and calls for its realignment to serve MDG goals rather than “political purposes and incremental budgeting.” Ten central problems related to the aid system are identified in the Report.

4.2.1 Aid processes are not MDG-based. Donor countries and multilateral aid agencies have paid merely lip service to the Millennium Development Goals in their assistance programs. For example, the poverty reduction strategies of the Bretton Woods institutions (International Monetary Fund and the World Bank) in their recipient countries ignore MDG-based strategies. Aid documents “refer to the Goals either in passing or as a lofty ambition” and donors sometimes advise recipient countries to abandon scaled-up sector strategies.

4.2.2 Donors do not approach country-level needs systematically. The aid system does not have a “coherent set of operational targets” and therefore “no clear criteria for evaluating the types or amounts of development assistance required by individual

countries.” In the absence of such an operational framework there is no way to differentiate support based on, for example, “governance” indicators.

4.3.3 Most development aid processes are stuck in the short run. While there is widespread agreement that “development is a long-term process,” aid programs are often “short-term in their orientation.” Planning cycles through Consultative Group meetings are held annually while Poverty Reduction Strategy Papers are based on three-year plans. Thus resource flows become unpredictable, precluding long-term planning by recipient countries. The irony is that “they are then chastised for not thinking or behaving with a long-term vision.”

4.3.4 Technical support is inadequate for MDG scale-up. While scaled-up technical support for specific sectors is needed to achieve the Goals, “international agencies that are the global repositories of sector-specific knowledge — such as FAO or IFAD for agriculture, UNICEF for child health, UNIDO for industrial development, or WHO for health systems and disease control” choose instead to “focus on small pilot projects.”

4.3.5 Multilateral agencies are not coordinating their support. Competition for funds from donor governments, rather than coordination, characterize the development assistance programs of the multilateral agencies such as the various UN agencies and the Bretton Woods institutions. Moreover, most funds generated go for small projects, “instead of supporting country-scale plans and budgets.”

4.3.6 Development assistance is not set to meet the Goals. “Assistance levels are generally set more by donor preferences than by developing country needs.” The refusal or inability of donors to support recurrent costs (e.g., salaries and maintenance) as well as long-term pre-service training of social workers undermines “long-term sustainability and capacity building” in the poorest countries. With aid flows growing only at a snail’s pace, developing countries have every reason to question the developed countries’ commitment to the Goals.

4.3.7 Debt relief is not aligned with the Goals. Random and subjective indicators, such as debt-to-export ratios, not MDG-based needs geared towards sustainability, are often used as indicators to determine whether a country is qualified for debt relief. But even after relief, many poor countries “retain excessive debt” - the same situation for middle income countries that are not considered for debt relief programs.

4.3.8 Development finance is of very poor quality. The poor quality of bilateral aid is reflected in its high unpredictability, its emphasis on “technical assistance and emergency aid rather than investments, long-term capacity, and institutional support,” its tied character, its donor driven thrusts, its hostage to geopolitical concerns, and its lack of systematic evaluation and documentation. Low-quality assistance results in only 24 percent of bilateral aid actually financing “real MDG-based development investments on the ground” for low-income countries and only 9 percent for middle-income countries. This is after “one subtracts the money counted as official development assistance that is

actually interest payments on debt, payments to consultants from developed countries, food aid, and debt forgiveness.”

4.3.9 Major MDG priorities are systematically overlooked. Development assistance programs “routinely overlook needed investments in regional integration, environmental conservation, technological upgrading and long-term scientific capacities, efforts to promote gender equality, adequate shelter, disease control, soil nutrients, and sexual and reproductive health and cross-border infrastructure.

4.3.10 Policy incoherence is pervasive. Many developed countries have incoherent and contradictory policies in trade, finance, development and foreign relations as when a government provides “aid to support agriculture in a food-exporting country while also applying market access barriers to the same agricultural exports.” Or when a finance ministry “might collect debt payments that negate the benefits of aid being disbursed by the development ministry.”

4.4 The 2006 OECD Development Co-operation Report

In the Overview to the OECD Report by the DAC Chair, Richard Manning, wrote of the need to “search for practical steps that would enhance aid effectiveness by tackling some of the unnecessary complications and duplication inherent in much aid delivery.” Among the problems he cited were “donor-led approaches that are not really “owned” by the recipient country or institution, lack of alignment of aid to local priorities, inadequate use of local systems and over-reliance on stand-alone donor-led structures and accountability.”

Manning bewails that while donors have agreed on the Millennium Development Goals as the focus for aid programs, the process is still characterized by “sheer inefficiency and waste caused by the large number of donors operating in the same field each with its own “rule-book”, procedures and decision-making systems.”

While acknowledging the need for reducing the transaction costs of ODA programs and projects, the DAC Chair also calls for recipient countries to reform their budget systems as a way of strengthening and making more accountable local institutions. Alluding to corrupt practices, Manning points to “substantial discrepancies between the funds disbursed by donors and the information recorded in the budget.”

Ironically, domestic accountability could be undermined by levels of aid that are larger than domestic taxation “however virtuous the intentions of the donor community.” The absence of such accountability mechanisms serve as breeding grounds for “tyranny and kleptocracy ... even for regimes that start out with strong developmental aims.” Given this, donors must therefore “make a greater collective effort to encourage and support higher levels of domestic revenue collection in aid-dependent countries, particularly those where levels of dependence are high or rising significantly.”

Manning further notes that while “donors spend much time and money on country and sector analytical work, on pre-feasibility and feasibility studies, on appraisal, and on monitoring and evaluation systems, ... what is often missing is an authentic domestic system for assessing policies, programmes and projects against the evidence.”

The DAC Chair identifies four domestic institutions that need donor support but which are often neglected and bypassed for various reasons. These are legislative bodies, an independent judiciary, an independent media, and civil society organizations.

Concluding his report, Manning calls for “not just more aid, but more effective aid.”

In all the areas mentioned above, it is not just a question of donors being willing to do more. At least as important is how they do it. In many cases, one can find donor-financed activities, each of which has some justification, but which add up to less than the sum of their parts. Too seldom does one find activities that are the product of a consistent strategy, supported by the recipient country, and pursued over the medium to long term with collective and cohesive support from the donors.

The OECD report notes that “aid dependency can make governments less responsive to their citizens and less likely to collect taxes” and that

Aid volume is important, but effective distribution and use are equally necessary. Both donor and recipient countries must be held accountable. For example, there is a gap of billions of dollars between what donor countries report as aid and what recipients see and control through their own budgets.

5. Conclusion

A 2006 book by William Easterly¹⁵ concludes that the aid industry is deeply flawed and that there is no correlation between aid levels on one hand and economic growth and development on the other. He shows how developing countries (particularly in Asia) who have had the most success in combating poverty have also been the ones who have received the least foreign aid. In contrast, those with the lowest per capita growth rates had also received the highest aid levels.

The evidence shows that the global aid regime badly needs a major overhaul and reconstruction. Whether this can be undertaken within the context of the existing framework of global governance and the dominant economic paradigm, remains to be seen.

November 2007

¹⁵ **The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good** (Oxford University Press) 2006. Easterly is Professor of Economics at New York University. From 1989- to 2001, he was World Bank Senior Adviser, Macroeconomics and Growth Division, Research Department.

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