

# **Rethinking Poverty Reduction: PRSP and JICA**

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**Institute for International Cooperation  
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This report is based on the discussions and findings of the Study Committee on Poverty Reduction Strategy organized by the Japan International Cooperation Agency (JICA). The views expressed in the report are those of the members of the Study Committee and do not necessarily reflect those of JICA.

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## Preface

The problem of poverty has remained unsolved in recent years, and interest in provision of aid funds has tended to wane. Under these circumstances, development assistance has focused on poverty reduction that is based on a commitment to utilize limited development resources more effectively. Moreover, it has also become important to more efficiently employ funds aimed at debt reduction that are obtained through the Heavily Indebted Poor Country (HIPC) Initiative.

At the Joint General Meeting of the World Bank and the International Monetary Fund (IMF) held in September 1999, it was decided that each developing country would be requested to prepare a national Poverty Reduction Strategy Paper (PRSP), which would serve as means to obtain information needed for decisions concerning application of the HIPC Initiative and IDA loans. The PRSP is a three-year socioeconomic development strategy that focuses on poverty reduction, and it is prepared based on the ownership of the recipient country with the participation of a variety of development partners. Most donors have indicated their approval of the PRSP process, and have been making greater efforts to coordinate their activities with it. Countries eligible for the HIPC Initiative and IDA loans have been requested to prepare PRSPs, among them many to which Japan has been providing assistance. It has therefore become increasingly important for Japan to consider its response to international collaborative efforts towards poverty reduction, such as the PRSPs.

This study discusses how Japan should deal with these international collaborative trends, including the preparation of PRSPs. This specifically includes the following three areas:

- (1) Active participation in the preparation, monitoring, and evaluation of PRSP, and provision of assistance to developing countries in the preparation and implementation of their PRSPs.
- (2) Identification of the relationship between the PRSP and Japan's ODA country policies, JICA's country programs, and project request surveys in order to reflect Japan's aid policy on the PRSP.
- (3) The greatest possible response to new aid modalities, such as program aid.

The new aid modalities are based on the concept that donors should be able to provide assistance more effectively through coordination. These modalities include program aid, Common Funds, improvement of the predictability of aid, and harmonization of procedures. Japan has opposed the introduction of a unified aid modality. It has instead proposed that donors should provide developing countries with various means, from which they can select the ones the most suitable to their situation. Through close coordination with concerned donors, it is necessary to discuss future measures for providing more efficient and effective assistance.

Needless to say, the situation surrounding poverty as well as its causes vary among developing countries. Thus, poverty must be tackled according to the conditions in each country. For this purpose, it is important to improve Japan's ODA country policies and JICA's country programs, enhance the country-specific approach, and clearly explain Japan's philosophy regarding PRSPs. It is also necessary to further develop a theoretical basis through comprehensive analysis of the process, content, and problems of PRSPs, and to establish Japan's own strategy and method.

In conducting this study and preparing this report, a task force chaired by Mr. Takeshi Nakano, a JICA senior advisor, was established. It consisted of JICA staff members, JICA senior advisors, and consultants. Moreover, a number of scholars contributed by offering their valuable suggestions. I would therefore like to take this opportunity to acknowledge the contributions of all these individuals.

April 2001

Keiichi Kato  
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## Introduction

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### 1. Background and objectives of the study

In January 1999, World Bank President Wolfensohn launched his proposal for the Comprehensive Development Framework (CDF), which calls for the formulation of comprehensive development strategies for developing countries on a country-by-country basis. These strategies should adopt a holistic approach to all the essential aspects of development, including macroeconomics, finance, politics, social structural adjustment and human resources development. They are to be country-led, with ownership by the national government itself working closely with the development partners involved so that the difficulties of the developing country can be overcome. Furthermore, at the Joint General Meeting with the International Monetary Fund (IMF) held in September 1999, it was decided to request developing countries to prepare a national Poverty Reduction Strategy Paper (PRSP) to provide information to be used for making decisions concerning the application of the Heavily Indebted Poor Country (HIPC) Initiative and IDA loans. The PRSP is a three-year socioeconomic development strategy focusing on the reduction of poverty. It is prepared by the national government concerned along with the participation of a variety of development partners. The PRSP is a results-based poverty reduction strategy, in which targets are to be established for each issue. Based on the PRSP, the developing country prepares a Medium Term Expenditure Framework (MTEF), which is a medium-term government fiscal and fund procurement plan. Once the PRSP is prepared by the developing country with the participation of its development partners, such as donors, it is used to clarify the comparative advantage of the donor agencies involved and to propose how they should be supporting the developing country in the poverty reduction.

Besides the World Bank and the IMF, financial institutions for development assistance in each re-

gion, the Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) and United Nations aid agencies, have been making progress with the systematic coordination of their activities in relation to PRSPs. There are 72 developing countries preparing a PRSP respectively, including countries classified as HIPC and suffering from extreme poverty, and low-income countries eligible for IDA loans. The operations of JICA are expected to be substantially influenced by these moves, and the need for JICA to consider its response to poverty reduction efforts, such as the PRSPs, has become increasingly urgent. By taking advantage of this opportunity, JICA can improve and strengthen its operations, so that it can enhance the effectiveness of its contribution to the improvement of international collaborative activities. Thus JICA decided to establish a Poverty Reduction Strategy Study Committee. This group has conducted a study to review JICA's activities in order to seek the ways to ensure that they contribute more effectively to such coordinated international development initiatives, with a particular emphasis on the analysis of developments in the preparation of PRSPs and the implementation of activities responding to them.

### 2. Composition of the study report

In the first place, Chapter 1 covers the relationship between the PRSPs, Japan's ODA Country Policies, JICA Country Program and Project Request Surveys. This clarifies how the PRSPs should be taken into account in Japan's aid, especially JICA's operations.

An important aspect of the PRSP is that developing countries and their development partners, such as aid agencies and NGOs, should establish a collaborative approach (Partnership) to the reduction of poverty. Based on the recognition that assistance and collaboration have been extremely important elements, Chapter 2, on the PRSP and aid coordina-

tion, summarizes recent related trends, major discussions on the aid modalities, and the ways to deal with these issues.

Chapter 3 on project assistance and program assistance addresses the definition and characteristics of “program aid,” which is attracting more attention in relation to PRSPs. This also discusses the relationship with “project aid,” as well as the possibilities for JICA’s activities.

The actual basis of poverty differs among countries, so poverty reduction efforts need to be promoted on a country-by-country basis. From this aspect, Chapter 4 examines the important characteristics of each country.

### **3. Future activities**

In respect of moves towards further international collaboration, such as through the PRSPs, it is essential to respond on a country-by-country basis by seeking the most desirable form of development, taking account of the developmental stage and initial requirements of each country. This should also be considered in the context of the position of each country in Japan’s assistance, aid trends of other donors, and local systems for implementation. It is therefore necessary to liaise closely with the local partners and other donor agencies concerned.

The PRSP must be prepared by each developing country itself. At the same time, this is global program led by the World Bank and the IMF. Both the World Bank and the IMF have been conducting general and theoretical analyses of the PRSPs over specific countries and regions. Other donors such as the UK Department for International Development (DFID) have also been carrying out similar work. JICA needs to establish its own analyses and concepts for both theoretical and strategic purposes, as well as its own approaches to issues such as poverty reduction, and to convey the results from time to time to developing countries.

## Chapter 1 Relationship between PRSPs and Japan's ODA Country Policies, JICA Country Programs and Project Request Surveys

This chapter focuses on the relationship between the PRSPs and Japanese ODA Country Policies, JICA Country Programs and Project Request Surveys, and clarifies the position of PRSPs in Japanese development cooperation.

### 1. The position of PRSPs in relation to Japan's ODA Country Policies, JICA Country Programs and Project Request Surveys

#### 1.1. Relationship between Japan's ODA Country Policies, JICA Country Programs and Project Request Surveys

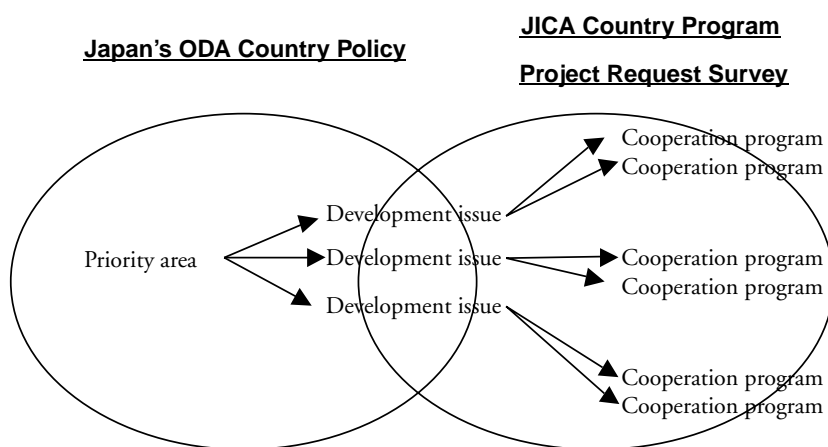
A Japan's ODA Country Policy, based on the Japan's ODA Charter and ODA Medium-Term Policy, indicates the direction of Japanese aid to each recipient country over a five-year period. Thus, it can be regarded as the official document guiding development assistance to the country. More specifically, each Japan's ODA Country Policy identifies issues and problems in the recipient country through

an analysis of political and socioeconomic conditions as well as the situation of each sector, and specifies Japanese aid policy and considerations as a donor country. One of the most important items for each Japan's ODA Country Policy, which is prepared mainly from a macroscopic viewpoint, is the identification of priority areas for assistance.

A JICA Country Program, based on the respective Japanese Country Policy, serves as an in-house JICA document, from which the basic principles for JICA's country-specific projects are drawn. Each JICA Country Program is prepared based on the priority areas identified in the Japan's ODA Country Policy, which is principally designed to help identify development issues, cooperation programs, and inputs (projects). For recipient countries where a Japan ODA Country Policy has not been prepared, a JICA Country Program is prepared based on inputs from official missions, such as a Policy Consultation and Program Designing Mission or a High Level Mission on Economic Cooperation.

A Project Request Survey is, in principle, a system that is the responsibility of the Ministry of Foreign Affairs. JICA provides substantial support for the

**Fig. 1 Relationship between Japanese ODA Country Policy, JICA Country Program and Project Request Survey**



*This paper was prepared by Koji Makino, Deputy Director of First Research and Development Division, Institute for International Cooperation, Japan International Cooperation Agency (JICA).*



implementation of Project Request Surveys, which are a means of compiling requests made by the recipient government for new projects in the forthcoming year. The JICA Country Program and Project Request Survey share the same basic concept and structure. For example, both deal with a stream of “development issues, cooperation programs, and projects for each scheme,” all based on the same logic. The JICA Country Program serves as a framework for the Project Request Survey. The former deals with medium-term programs for the next three years, while the latter selects those for the following year and deals with them in detail.

Fig. 1 shows the relationship between these three processes or documents, focusing on the area covered by each.

**1.2. Relationship between the PRSP and Japan’s ODA Country Policy, JICA Country Program and Project Request Survey**

In the relationship between the PRSP and Japan’s ODA Country Policy, the priority areas of each should be looked at. On the other hand, in the relationship between the PRSP and the other two policies, the emphasis is on the relative importance or position of development issues and cooperation programs in each. Conventionally, Japan’s aid policy, expressed in these three policies or documents, has been prepared based on development programs such as three-year development programs and public investment programs in each recipient country. Recently, it has been decided that each recipient country should prepare a PRSP. The following discussion concerns the relationship between the

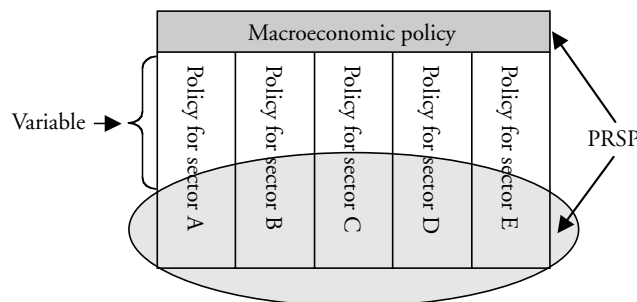
PRSP and conventional development programs in developing countries.

Judging from some examples of PRSPs, it is clear that the PRSP does not refer to the whole development program in a developing country. Rather, among the development policies related to each sector or issue, it strategically integrates sub-sectors that directly contribute to poverty reduction. In this regard, the content of the policy for each sector or issue should be consistent with the PRSP. Uganda’s PRSP (issued on 24 March 2000), for example, states that besides the PRSP, there are many development programs in Uganda, such as a 25-year long-term development program, a road sector development program, an educational strategy investment program, a health sector development program, an agricultural modernization program, and an energy development program. Mozambique’s Interim PRSP distinguishes the areas that directly contribute to poverty reduction and those that do not, using the expression: “immediately relevant to absolute poverty reduction.”

The PRSP describes a detailed framework for sound macroeconomic management, which is an essential requisite for poverty reduction (i.e. the conventional Policy Framework Paper is subsumed into the PRSP). It identifies specific policies that contribute to poverty reduction in terms of the economic growth rate, allocation of financial expenditures, and the tax system.

Fig. 2 provides a diagrammatic outline of the relationship between the PRSP and the overall development policy in a developing country. To what extent the PRSP covers the whole development policy in a recipient country varies depending on the direction of the development strategy and the

**Fig.2 Relationship between the PRSP and the overall development policy in a developing country (image)**



amount of development funds.

(For example, the larger the amount of development funds and the stronger the orientation toward economic development, the more weight that will be given to the PRSP.)

In Japan's Medium-Term Policy on ODA, poverty reduction has been regarded as a priority issue. DAC's New Development Strategy, which Japan took a lead in its formulation, aims at fifty-percent poverty reduction by 2015 worldwide. Therefore, when preparing a Japan's ODA Country Policy, it is necessary to ensure consistency with the contents of the PRSP, which has a key role in the poverty reduction strategy of the related country.

More specifically, it is important to know whether the overall framework of the Japan's ODA Country Policy agrees substantially with the corresponding basic PRSP framework, and whether the priority areas for assistance identified in the Japan's ODA Country Policy also correspond to those in the PRSP (sector policies), as shown in Fig. 2. As for the JICA Country Program and Project Request Survey, it is important to know which development issues and cooperation programs are included in the PRSP framework (the shaded parts in Fig. 2).

## **2. Key factors in the preparation of the Japan's ODA Country Policy, JICA Country Program and Project Request Survey**

### **2.1. Japanese ODA Country Policy**

Since the year 2000, in addition to the conventional development programs and socioeconomic issues, each Japan's ODA Country Policy has been required to include poverty reduction measures through analysis of a new development approach, such as the PRSP. By its nature, a Japan's ODA Country Policy is not limited to coming within the PRSP framework of the recipient country. However, it should maintain consistency with the content of the PRSP, and cover independent assistance areas. Therefore, some priority areas for assistance identified by a Japan's ODA Country Policy do not correspond to those contained in the PRSP. In some cases the sub-sector areas are not the same, though priority areas generally are.

Such inconsistency should not be a result of comparison. It is important to prepare each Japan's ODA Country Policy based on an independent sector analysis and development assistance philosophy. Thus, the Policy is required to clearly show the reason and background for any inconsistency. As the PRSP is a strategy developed under the ownership of the recipient country, it is desirable that the Japan's ODA Country Policy is in harmony with the PRSP as far as possible. An effective means of improving the content of the Policy is to carry out country-specific assistance studies and sector (or program) development studies, while utilizing project formulation advisors and project formulation studies.

### **2.2. JICA Country Program**

In the relationship between a Japan's ODA Country Policy and the related PRSP, consistency with priority areas for assistance is essential. On the other hand, consistency with operational levels, such as dealing with development issues, cooperation programs, and projects for each scheme, are important in a JICA Country Program. A matrix consisting of development objectives including specific targets (hereinafter referred to as "development objectives") and development indices for each priority area is attached to the PRSP or included in the text. In particular, development objectives should be consistent with development issues and cooperation programs in the matrix of a JICA Country Program.

Like a Japan's ODA Country Policy, a JICA Country Program would not be provided only within the PRSP framework, but have its own direction. When its contents do not coincide with the areas covered by the PRSP, it is necessary to clearly express the reason in the matrix why the direction has been chosen according to the results of sector analysis and specific viewpoints. In particular, when the JICA country program assists the contents of other development programs or sector development policies, which exist outside the PRSP framework, this should be mentioned.

For example, when both the PRSP and the JICA Country Program set "the promotion of the agricultural sector" as a priority area for assistance, sometimes each focuses on different issues. If the main development objective of the PRSP is tailored to-

**Box 1 Structure of a JICA Country Program**

Chapter 1 Direction of development in the recipient country

1. Direction of development and priority areas for assistance in the recipient country
2. Basic principles of JICA cooperation

Chapter 2 Development issues and project plans

1. Matrix of development issues
2. Project rolling plans
3. Scheme-specific input plans (JICA program tree)

Chapter 3 Important points for JICA cooperation

1. Considerations for project implementation
  - (1) Important points in project planning
  - (2) Important points regarding the implementation system of the recipient country
2. Lessons from the evaluation of past achievements
3. Important points for the approach to each issue
  - (1) Poverty
  - (2) WID/Gender
  - (3) Environmental issues
  - (4) Other issues or the cooperation agenda (initiatives)
4. Trends among major international organizations, donors, and NGOs

wards assistance to small farmers, while an agricultural sector development policy focuses on the promotion of horticultural crops as part of export promotion in accordance with the comparative advantage of the recipient country, the JICA Country Program should take into account the aspect of export promotion as well as past achievements in assistance. In this case, “assistance to small farmers” and “the promotion of horticultural crops” can be incorporated into a development issue and a cooperation program in the JICA Country Program.

JICA Country Programs have been prepared since FY1999. Although the content has gradually become more substantial, there is plenty of room for improvement in the quality. Conventionally, the content has been influenced by progress and past achievements. However, in the current trend towards greater worldwide donor coordination, including PRSPs, international concern for the effectiveness of assistance becomes increasingly important. Thus, in the future, it is necessary for the content to be based on sound sectoral or issue analysis.

The structure of a JICA Country Program is shown in Box 1. When writing each chapter, the following matters regarding the relationship between the PRSP should be taken into account. In Chapter 1, the direction of development and priority ar-

reas for assistance should be mentioned, based on the relationship with the PRSP and the analysis provided in the Japan’s ODA Country Policy. In Chapter 2, when describing the matrix of development issues, particular attention should be paid to the PRSP. In Chapter 3, relevant matters should be written in the section “1. Considerations for project implementation” when necessary. The outline, progress, and evaluation of the PRSP should be written frankly in “3. Important points for the approach to each issue (1) Poverty.” Each donor’s approach toward the PRSP should be described in detail in “4. Trends among major international organizations, donors, and NGOs.”

### 2.3. Project Request Survey

As Project Request Surveys share the same basic concept and logic as JICA Country Programs, important points regarding their relationship with the PRSP are also similar to those of JICA Country Programs. A major difference between these two is that the Project Request Survey should cover the details of each project. This section focuses on each project, though there is some overlap with issues covered by the “JICA Country Program”.

The PRSP lists development objectives in the

form of a matrix, but it tends not to specifically identify projects. Therefore, even though a development issue in a JICA Country Program or Project Request Survey corresponds to a development objective in the PRSP, the combination of projects, which form the detailed items of cooperation programs established for the achievement of progress on the development issue, are not directly affected by the PRSP. On the other hand, even though a JICA Country Program has been prepared, when preparing a Project Request Survey, the recipient government often makes a request for a new project that has not been listed in the Program.

Therefore, in overseas operations, it is necessary to clarify the meaning of each development objective through participation in the PRSP preparation process, confirm where each project proposed by the recipient government is to be placed in the PRSP, and fill out the "Request Background" in the Project Request Survey form.

The basic philosophy of the PRSP is the promotion of a sector program approach in order to properly identify the place of each project in the PRSP through strong sector coordination. Considering that even various agencies, such as donors and government organizations, are making greater efforts toward coordination, it is essential for Japanese ODA projects to improve coordination and consistency.

An effective way to achieve this is systematic support for the concept of "a cooperation program" started in 1998. The cooperation program system was established in order to improve the situation where there was little coordination among schemes of donors that were being implemented side by side sometimes even in the same country or the same area. It aims to implement a program consisting of a combination of multiple schemes or projects (or a single scheme or project in some cases) over a 3 to 5 year period. Currently, there is no specific international agreement for this, but as a comprehensive and long-term commitment, Japan must consider the conclusion of a medium-term international agreement with each recipient government, similar to the Record of Discussions (R/D) in project-type technical cooperation.

It is necessary to consider that the cooperation program system should be applied not only to tech-

nical cooperation and grant aid but also to yen loans. Moreover, coordination with direct investment and other loan aid, including untied aid, should be taken into account. In the past, projects were implemented separately without consistency. However, the cooperation program system makes it possible to implement a project through the concentration and coordination of aid resources (i.e. the reinforcement of "selection" and "concentration") based on a specific development issue. This enhances the effectiveness of aid and the efficiency of implementation, and corresponds to the concept of the program approach, which is to ensure the predictability of aid.

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## Chapter 2 PRSP and aid coordination

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In order to implement poverty reduction activities, including the HIPC Initiatives, developing countries should utilize their limited development funds efficiently and effectively. The significance of the PRSP lies in helping to accomplish this. First of all, it is necessary for each donor to coordinate aid activities under the ownership of the developing countries. In the past, donors implemented activities without coordination, which created a burden on developing countries. One example can be found in Tanzania where donors implemented 1,000 activities without coordination, and dispatched 2,500 survey missions a year. As a result of structural adjustment, the Tanzanian government was streamlined. Therefore, it became almost impossible for a government with a small number of staff to coordinate activities implemented separately by a multiplicity of donors, thus improving effectiveness.<sup>1</sup>

Moreover, cooperation among related donors is essential for aid coordination. In general, it takes more time and effort for the coordination of aid cooperation than to implement development programs independently. Therefore, it is necessary to improve work efficiency in coordination. In the PRSP, each activity carried out by the parties concerned in development, including donors, should contribute to poverty reduction under the ownership of the government of the developing country. Thus, each donor should regard the PRSP as an issue of aid cooperation.

For various reasons mentioned below, Japan was not very active in terms of aid coordination in the past. With progress in the preparation of PRSPs, it has become difficult to provide cooperation without participating in coordination at the sectoral level in

the PRSP in some countries. In other words, active participation in coordination with other parties concerned, is imperatively required in the PRSP preparation process. The Ministry of Foreign Affairs of Japan, too, emphasizes active participation as follows: “We must pay more attention to the PRSPs. It is desirable that the PRSP should serve as development guidelines shared by all donors. Japan must make an all-out effort to participate in and actively contribute to the PRSP preparation, implementation, and monitoring processes, including the government, JICA, JBIC and other related organization in a unified way. Thus, our aid policy can be reflected in the PRSP, and our aid can in effect be provided in accordance with the PRSP.”<sup>2</sup>

This section presents the ideals of aid cooperation and the problems that can occur with global changes in aid (including the PRSP and sector programs), and is especially targeted at JICA staff, project formulation advisors, and experts who implement Japan’s development cooperation in developing countries. As the hypotheses used in this section is the current trends of JICA Headquarters, some have not yet been consistently established. It is necessary to conduct further systematic research and improve our knowledge of the issues.

### 1. The significance of aid coordination and trends in its implementation

#### 1.1. Traditional aid cooperation

##### *Coordination at the project level*

When considering development in developing countries, aid cooperation can be regarded as efforts towards the utilization of limited resources. By

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<sup>1</sup> World Bank, Press Briefing: James D. Wolfensohn and the Utstein Group, September 2000. According to Helleiner et al. (the so-called Helleiner Report 1995), 40 donors implemented 2,000 projects separately.

<sup>2</sup> Country Planning Division, Economic Cooperation Bureau, the Ministry of Foreign Affairs, “Japan’s Aid Cooperation and Modality,” 10 January 2001.

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*This paper was prepared by Satoru Watanabe, Deputy Director of Donor Coordination Division, Planning and Evaluation Department, Japan International Cooperation Agency (JICA).*

avoiding overlap in projects at various levels, the comparative advantage of each donor can be taken advantage of, thereby enhancing effectiveness.

However, past efforts at aid coordination were limited in scope in that they were carried out between advanced donor countries or certain international organizations. Consequently, coordination remained at the project level in most cases. For example, in one project, one party may have provided staff training, while the other party constructed the facilities. Until the mid-1990s, except at Consultative Group (CG) Meetings, which are effectively pledging meetings for the whole country,<sup>3</sup> coordination among multiple donors at the sectoral level was carried out only in certain African countries. Coordination in other regions has been limited and carried out on an ad-hoc basis.

#### ***Diplomatic means for maintaining relationships with other developed countries***

Aid coordination among bilateral donors can be regarded as a means of strengthening the cooperative relationship with a partner, that is, another developed country. For example, the Japan-US Common Agenda for Cooperation in Global Perspective is regarded as a means of improving a bilateral relationship suffering from diplomatic problems, such as those concerning the WTO and military bases. Thus, aid coordination with other developed countries can be considered as a diplomatic achievement for these developed countries.

#### ***Lack of ownership***

In traditional aid coordination, ownership by the recipient government was often limited though it was supported in principle.<sup>4</sup> It is unfortunate that too much emphasis on coordination among donors regarding input can result in neglect of the authentic role of the recipient government. However, effectively donors may coordinate among themselves, the impact of the aid will be reduced if the recipient government is not involved. In some cases it will be impossible to implement the aid project it-

self. For some donor countries, such as the United States, this is not a matter of overriding concern, since they can provide development assistance directly through NGOs, not via the recipient government. However, it is difficult for Japan to provide development assistance without the involvement of the recipient government. More importantly, as DAC's New Development Strategy proposes, it is only natural that a recipient government should be centrally involved in its own development.

### **1.2. Characteristics of aid coordination in Japan**

In past aid coordination, western countries were interested in drawing on Japan's funding capacity, while Japan focused on absorbing their experience and know-how.

For western donors, such as USAID and CIDA, aid coordination was mainly aimed at upgrading their development programs by supplementing implementation with aid funds from other donors, thereby achieving the better results of the program. This approach is quite natural in providing results-based development assistance.

However, Japan, having placed importance on processes and inputs, not necessarily on results, has tended to misinterpret the approach of western donors as a means of using Japanese money to accomplish their own objectives. Reflecting the past experiences, Japan must develop its results-based approach, and send recipient countries a clear message indicating what Japan is aiming at and what Japan wants to do. Japan's aid coordination in the past, on the other hand, attached too much importance to dealing with offers from other donors, without expressing a clear viewpoint on its development principles to them (with a few exceptions). In future, it is necessary to switch from process- and input-based programs to results-based programs. In order to achieve concrete results, aid coordination thus becomes more important.

<sup>3</sup> Traditionally, CG Meetings have been regarded as pledging conferences rather than aid coordination meetings.

<sup>4</sup> The UNDP defines aid coordination as follows: The recipient government itself plans and procures aid from donor countries, in order to incorporate it into targets and strategies for the development of the nation (Aid Coordination and Aid Management by Government: A Role for UNDP).

### 1.3. Recent changes in aid coordination

In recent years, aid coordination at the project level has extended to coordination at the sectoral level and at the national level.

#### *Global aid coordination in specific sectors*

In recent years, multiple donors, including private foundations and development funds, have implemented development programs, such as the Polio Eradication Initiative, through coordination, as it is difficult for a single donor to achieve such a development objective. The World Health Organization (WHO) has taken the lead in aid coordination regarding Polio Eradication along with multiple donors, such as UNICEF, the United States, Rotary Clubs, and Japan. An Inter-agency Coordinating Committee (ICC) has been established for each coordination level; the global level, regional level, and national level.

#### *Coordination in specific sectors in particular countries*

After the collapse of the Cold War structure, some donors in the DAC have lost the strategic significance of aid to developing countries, as it is no longer necessary to support anticommunist forces. Moreover, along with a decline in economic vitality, the phenomenon of “aid fatigue” has emerged. Consequently, it has become necessary to more effectively utilize the lower levels of funding. In developing countries, where the number of public officials has been reduced due to structural adjustment, a smaller number of personnel in each ministry have to coordinate various projects implemented by multiple donors. In order to deal with this situation, the Sector Investment Program (SIP) has been launched.<sup>5</sup>

The SIP refers to a means of coordinating investment by multiple donors for a whole specific sector. Historically, the SIP started in 1995 as a road sector investment program in Tanzania, followed by social sector investment programs, such as the health sector and the education sector, in Ethiopia, Zambia, and Ghana. Under the circumstances in which total aid funding is decreasing due to economic dif-

iculties in the donor countries, aid coordination at the sector level aims to utilize the lower levels of aid funds more efficiently by unifying the development objectives of each donor to achieve a greater impact. In recent years, the SIP has changed its name to the Sector Program (SP), and it has been extended not only throughout Africa but also to Asian countries, such as Cambodia and Nepal.

#### *Coordination of all development issues in a specific country*

The World Bank launched the Comprehensive Development Framework (CDF) at its Annual Meeting in 1998. The CDF is an approach involving all partners in development, such as the government of a developing country, communities, donors, and NGOs, to discuss all development issues in the country and work together on the development process. The CDF is now being implemented in 13 countries, including Bolivia, Kyrgyz, Ghana, and Vietnam. Moreover, the World Bank and IMF proposed the preparation of PRSPs at their Annual Meetings in 1999. Both the CDF and the PRSP processes contribute to the coordination of all development issues in a developing country by all participants in development.

## 2. Discussion on aid modality

In order to reduce debt through HIPC Initiatives, developing countries must prepare development programs on their own. The PRSP process was initiated to help achieve this. At present, the PRSP serves as a prerequisite not only for HIPC Initiatives but also for the World Bank's International Development Association (IDA) loans and the IMF's Poverty Reduction and Growth Facility (PRGF). In developing countries with few funds for development programs, the important issue for poverty reduction is how to increase cost effectiveness. Thus, it has become necessary to discuss and coordinate in advance not only the input plans for poverty reduction but also the means of obtaining the aid to implement such plans.

As mentioned above, coordination at the sectoral level is aimed at the efficient utilization of an

<sup>5</sup> World Bank, World Development Report 2000.

amount of development aid that on the whole has been diminishing. This has required some agreement through discussions, which has led to arguments for the program approach, Common Funds, Direct Budget Support, the greater effectiveness of technical cooperation, untied aid, the predictability of aid, and the harmonization of procedures.

The coordination of activities within a sector is indispensable for the efficient provision of aid. With the progress in implementing sector programs, it has also been proposed that financial support that does not require the coordination of its disbursement should be a means of increasing aid efficiency. The effectiveness of technical cooperation has also been questioned. Consequently, the argument for untied aid has emerged, proposing that only the most suitable input, including technical cooperation, should be provided. For overall coordination, it is crucial that aid organizations should know what kind of cooperation can be or will be provided over the next few years. Furthermore, to increase efficiency, the harmonization of procedures needs to be promoted.

Some donor countries, including Japan, find it difficult to adopt its uniforming aid modality. Japan's participation in the sector programs is significant in that its involvement is essential to the efficient provision of aid, and that it must maintain a presence in the new aid modality by clearly presenting its position.

Some of these arguments will be explained below in order to consider the measures to be taken in developing countries.

### **2.1. "Projects are to be coordinated at the sectoral level."**

The argument over projects or programs, the core mode of implementation of sector programs, will be discussed in detail in Chapter 3 on project aid and program aid. Here, the important points will be briefly explained. First of all, projects and programs do not conflict with each other. Projects, in any case, are activities in a certain sector. Thus, the implementation of a project is expected to be compatible with coordination at the sectoral level. On

the other hand, programs are an aggregate of activities (projects) together with policies. From this viewpoint, the Japanese government considers that projects placed properly in overall development coordination would work effectively.

Therefore, it is not appropriate to discuss the most suitable combination of projects and programs. The most important point is whether the individual activity is fully coordinated within the whole sector, and whether the means of coordination is suited to the recipient government's capacity.

The development study for supporting a sector program budgeted for since 2001 is an attempt to establish a scheme of Development Studies that will help implement the whole sector program. The implementation of sector program development studies for regional development in Tanzania and the education sector in Vietnam are now under consideration.

### **2.2. Common Funds and Direct Budget Support**

A Common Fund is an account consisting of part of the development aid funds of each donor that are to be contributed to a certain sector. This has often been taken up as a subject of discussions along with the sectoral approach for the coordination of aid to sectors. The Ministry of Foreign Affairs of Japan does not deny the usefulness of the Common Fund itself, as it recognizes that a Common Fund is one of the means of mobilizing aid funds for sector programs.<sup>7</sup> The Ministry of Foreign Affairs will consider providing aid funds if it is confirmed that Common Funds work effectively and their necessity is recognized.

There is another argument that all aid should be provided through financial assistance. The Japanese government opposes this, saying that the modality of individual activities must ensure the best mix of finance and other means. Actually, it is difficult to decide whether the most efficient coordination method is through the coordination of individual activities implemented by separate donors, or whether it can be affirmed that the most effective

<sup>7</sup> Country Planning Division, Economic Cooperation Bureau, the Ministry of Foreign Affairs, "Japan's Aid Cooperation and Modality," 10 January 2001.



coordination method (the method for deciding the best mix) is not provided through Direct Budget Support. A conclusion can be drawn only through substantive verification in the recipient country. The advantages and disadvantages of Common Funds will be discussed below.

For the Japanese cooperation mechanism, one of the advantages of a Common Fund is that the effect of cooperation as a whole can increase if funds from the Common Fund can cover any shortfall in fund input planning for the whole sector (e.g. securing consumables, repairing buildings, and employing coordinators).

Another advantage of a Common Fund, in general, is that the manpower in the recipient country required for the preparation of a financial report for each donor country can be saved.

However, the current Japanese cooperation mechanism does not create a burden for the recipient country in terms of the preparation of a financial report for general grant aid and technical cooperation. Thus, in this respect, developing countries are not likely to benefit from a Common Fund as far as Japanese aid is concerned.

One of the disadvantages of Common Funds is that donors cannot identify the effect of the aid funds that they have provided because the usage of funds contributed to the Common Fund cannot be specified. Therefore, donors may be unable to give a satisfactory explanation of the effect of aid funds to taxpayers in their countries. If the taxpayers are not satisfied with the impact of aid, it is most likely that the amount of aid will decrease.<sup>8</sup>

There is another disadvantage as well. In Zambia's health sector, District Baskets serving as a Common Fund were temporarily suspended, as the government allegedly manoeuvred over the procurement of essential medicinal drugs. Needless to say, the government's capacity is critical for the management of Common Funds.

As long as the objective of aid is that the developing country becomes independent from the aid, a Common Fund should be regarded as an invest-

ment. The time frame must also be always kept in mind.

If all aid funds are converted into Direct Budget Support as proposed by some donors,<sup>9</sup> ownership by the recipient government should certainly be reinforced. However, if all Direct Budget Support is suspended due to corruption over support funds, all aid funds from overseas will also be stopped. In order to avoid such a situation, the aid modality requires a certain amount of diversity.

### **2.3. "Technical cooperation is not useful."**

Some argue that technical cooperation is not useful. The World Development Report 2000 states as follows: "technical assistance, the obvious choice for building capacity, has a spotty record at best, particularly in countries where capacity is already weak."<sup>10</sup> The main reason for this limited effect is because technical cooperation is not generally based on real needs in the developing country. Instead, it is provided as "tied aid" linked with aid funds from the donor. According to the Helleiner Report, some technical cooperation contributes to increasing dependency, thereby hindering the ownership of the recipient country. As a result, a recipient government becomes dependent on certain donors. Moreover, it has been pointed out that the cost effectiveness of long-term experts is questionable. In fact, the recipient government comes to depend on overseas personnel, such as consultants and experts, which does not lead to capacity building. For this reason, some donors have switched from assigning long-term experts to dispatching short-term experts who give technical guidance as part of a monitoring process. As Japanese technical cooperation always requires counterparts, there is concern that the limited number of qualified personnel in the recipient country will be assigned to act as counterparts.

However, the objective of Japanese technical cooperation is capacity building in the recipient country, including the training of counterparts. As men-

<sup>8</sup> Pointed out in the report by a Ghana Project Formulation Advisor (Shunichiro Honda), January 2000.

<sup>9</sup> As the implementation of a Common Fund requires significant manpower for coordination, the Department for International Development (DFID) in the United Kingdom has proposed Direct Budget Support as a means to reduce the manpower requirements for coordination.

<sup>10</sup> World Bank, World Development Report 2000/2001, P.200

tioned previously, in order to implement sector programs effectively, the recipient government must have a certain level of capacity. Therefore, Japanese technical cooperation can be useful if it is well coordinated, so in this respect the above concerns can be unfounded. At donor meetings where discussions on this issue are held, it is necessary to emphasize that JICA does not provide technical cooperation without personnel training in the recipient country. It supports capacity building regarding priority issues in whole sectors and has been consistently doing this.

#### **2.4. “Provide aid without displaying the national flag.”**

The arguments related to “displaying the national flag” have two aspects. Firstly, there is criticism of the use of the donor country’s resources (personnel and products) merely to show its presence in the recipient country, even though the aid could be more effective by using other resources. Secondly, there is criticism of ad-hoc individual projects implemented in accordance with the donor’s circumstances, without any basis in a consistent aid policy.

The latter criticism can be solved by active involvement in aid coordination at the sectoral and national levels, thus placing projects appropriately within the development objectives of the recipient country. However, the former criticism implies some problematic issues. If we look at only the untied rate, according to the DAC Chairman’s Report in 1998, the proportion of Japan’s untied aid remains at a high level (98.9% in 1996). But recent discussions at DAC meetings over the issue of the association of aid with the donor country have focused on the harmonization of procedures and the untying of technical cooperation.

In terms of the effectiveness and efficiency of aid, it is necessary to provide assistance that accurately reflects the needs and conditions of the recipient country. This forms the basis of JICA’s concept of providing appropriate technology. As long as the public know that their national taxes are being used for ODA, it is impossible to provide aid without

informing recipients of the source. The fact that Japan provides the largest amount of ODA in the world indicates that there is a national consensus to support this.

Japan should therefore cooperate in areas where it has a comparative advantage. In order to maintain it in the development area, it is important to ascertain the comparative advantage of Japanese technology. For areas where Japan has less comparative advantage, it is necessary to establish networks with experts in other aid organizations to share common knowledge and trends, and continually catch up with them through information exchange. Moreover, it is important to systematize past cooperation experience, and to accumulate and utilize it in the form of a knowledge base. Otherwise, Japan will not be able to emulate other aid organizations. Moreover, the misleading impression may be given that Japanese personnel cannot be of any help, which may enforce argument to reduce the national profile of the donor. This is applicable to the provision of Japanese equipment as well. It is important to develop appropriate technology through expanding the areas of research, and keep aid personnel informed as to global trends and the latest knowledge.

#### **2.5. From Off-budget to On-budget**

Aid funds have not been indicated as being in the government budget (Off-budget funds). “On-budget” refers to the incorporation of aid funds into the government budget. Strictly speaking, this may not be applicable to the discussion of aid modality in this section. However, as it relates to the following section on the discussion of the predictability of aid, a brief explanation will be given below.

The incorporation of aid funds from a donor into the recipient government’s budget has the following four objectives: (1) to deal with the problem of “fungibility”,<sup>11</sup> (2) to ensure transparency in the usage of development funds, (3) to promote good governance, and (4) to improve aid efficiency. In the case of Off-budget funds, double tracking may occur, as aid funds are not budgeted for in the government

<sup>11</sup> This means using aid funds provided from a donor for purposes other than the original ones. It also means that the total amount of public investment does not show an increase by the amount equivalent to that of the aid funds due to its substitution by these aid funds.

public expenditures. As a result, aid funds (Off-budget funds) become “fungible” to be used for unintended or unknown purposes. This has also led to the problem that public investment has not increased as expected.<sup>12</sup> Therefore, aid funds must be incorporated appropriately into the recipient country’s budget (On-budget funds).

JICA’s cooperation, in general, has not been planned and implemented with it being incorporated into the recipient government’s budget (Off-budget). In the case of general grant aid and JICA’s technical cooperation, the aid funds have not been entrusted to the recipient government since the equipment or personnel have been provided directly instead. Thus, JICA has avoided being a target of criticism over transparency in the usage of funds.

Public investment may not show an increase equivalent to the amount of aid provided through the provision of physical products and personnel cooperation. (The intended public investment is likely to be used for other purposes, as the aid funds substitute for some part of this public investment.) In this sense, even JICA’s cooperation cannot be absolved from scrutiny over the question of “fungibility.” Changing aid to an “On-budget” form will enhance the schematic aspects as well as awareness of the level of the recipient country’s ownership. Accordingly, JICA’s cooperation will be incorporated into the recipient government’s budget from the request stage, and the recipient country’s input into activities implemented through JICA’s cooperation will be clearer, thereby ultimately enhancing “sustainability.”

## **2.6. “The predictability of aid is important.”**

In order to implement coordination at the sectoral level, donors are required to clearly indicate their intentions for future support. According to Japan’s accounting law, the budget covers a single fiscal year.

This makes it difficult for Japan to coordinate with other donors to consider assistance over the long term. However, Japan needs to indicate its programs three years ahead and incorporate them into the Medium-Term Expenditure Framework (MTEF). Unless Japan can do this, coordination at the sectoral level is difficult for Japan, and the best mix theory will become a mere concept. The Ministry of Foreign Affairs is now considering how to enhance predictability in Japan’s cooperation. It is also desirable to consider the delegation of authority to the recipient country. As for JICA, it is possible to utilize the rolling plans of JICA Country Programs while continuing consultations through the Japanese embassy in the recipient country.

## **2.7. Harmonization of procedures**

As part of the recent trend towards greater aid coordination, the harmonization of procedures has been proposed.<sup>13</sup> The aim of this is to reduce the burden on the recipient government by harmonizing procedures among the donors. A DAC workshop on the harmonization of procedures was held in October 2000. Further details will be discussed at future DAC meetings. A situation in which Japan alone has independent procedures is not desirable, so it is important to participate in these future meetings.

In fact, due to differences in the accounting laws in donor countries, it is extremely difficult to harmonize procedures in the implementation of assistance, including procurement. The harmonization of procedures is relatively easy in sector evaluations and strategic planning based on such evaluations, which is directly related to the preparation of PRSPs. Monitoring and evaluation of the impact of cooperation can also be harmonized jointly. In any case, it is necessary to investigate problems concerning procedures in developing countries before harmonizing them.

<sup>12</sup> World Bank (1998) *Assessing Aid – What Works, What Doesn’t, and Why*.

<sup>13</sup> Peter Harrold (The Broad Sector Approach to Investment Lending – Sector Investment Programs (World Bank, 1995)) states that the harmonization of procedures has become one of the essential aspects of implementing sector programs. In addition, Helleiner et al. (Report of the Group of Independent Advisers on Development Cooperation Issues between Tanzania and its Aid Donors (1995)) recommend the harmonization of procurement procedures.

### 3. The nature of aid coordination in the future

Other donors have criticized Japan's contribution to aid coordination with such remarks as: "Japan does not attend donor meetings even when they are invited," "Japanese officials do not make a contribution to meetings," and "A similar survey mission visited from Japan last week, and requested similar documents, which they can easily find from a website." Such remarks indicate that the situation is far from the intention of the JICA Headquarters for Japan to play an active role in sector coordination with various donors. There are several factors intertwined in this background. This section discusses why this situation has occurred and how to improve it. Suggestions made here are essential not only for the preparation of PRSPs and their implementation, but also for coordination with other development partners.

#### 3.1. Preparation and implementation of JICA Country Programs beyond schemes

In order to reinforce a country-specific approach beyond schemes, JICA established regional departments in January 2000. Accordingly, Project Request Surveys and discussion on projects for the next year in each priority area have started. Now, projects based on each scheme are being changed to country-specific projects. This solves the problem of implementing projects separately based on the schemes. However, insufficient know-how has been accumulated for each sector, and the related networks have not been fully established. Therefore, in order to have a discussion on equal terms with other donors, JICA is required to prepare a sector strategy related to each issue.

The usage of so-called JICA terminology requires some consideration. In general, other donors find it difficult to understand the meaning of "project-type technical cooperation" and "input of grants," and most JICA terminology is incomprehensible to them. For example, a "Development Study" should be expressed as a "Study for the development of a master plan and/or a feasibility study," and "Grant Aid" may give a misleading impression to other do-

ners. Therefore, it is necessary to explain strategies and activities for priority issues using terms that are more easily understood.

Other donors and governments in developing countries often complain that Japanese missions request similar information. This problem occurs because Japanese staff do not have enough time for data collection beforehand. Moreover, information has not been properly shared among departments concerned. Therefore, it is necessary to change the scheme-specific survey into an issue-specific survey, and accumulate and share issue-specific information within JICA.

#### 3.2. Transfer of authority to JICA offices in developing countries

One of the reasons why JICA staff do not contribute directly to donor meetings is that the vital decisions are mainly made in Tokyo. JICA staff in developing countries cannot comment on anything until the Headquarters decides on the implementation of a project. However, as local information plays a significant role in such decision-making mechanisms, it is desirable to delegate authority to some degree to the JICA overseas office to make decisions on their own.

Another reason for their silence at donor meetings is that JICA staff are mainly devoted to data and information collection, and they do not want recipient governments to have excessive expectations toward future cooperation. Regrettably, other donors and recipient governments do not understand this situation. Unless JICA staff actively participate in a donor meeting, they may not be invited to the next meeting. Therefore, it is important to delegate authority to the local embassy and local JICA office, in order to enable them to make decisions in relation to the recipient country. More importantly, based on the Japanese ODA Country Policy and JICA Country Program, Japanese policy should be clearly expressed in donor meetings. It is very important to improve JICA Country Programs and to present them at donor meetings. Even when there is no JICA Country Program (or it is unofficial), it is desirable to explain Japan's policy on the sector and the future prospects for assistance to the extent possible, even if, by indicating that remarks are personal opin-

ions or made without commitment.

### 3.3. Explaining Japan's viewpoint

Japan's contribution to most aid coordination has been to discuss requests from other donors. Only occasionally Japanese representatives have offered suggestions or taken the lead. This situation can be improved if Japan utilizes its own capacity to provide well-coordinated cooperation in sub-sectors or regions where Japan has a comparative advantage. Currently, in some countries, including Tanzania, Ghana, and Bolivia, JICA staff and project formulation advisors actively participate in aid coordination, and utilize sector development studies. Thus, aid coordination at the local level is being actively pursued.

Some concern has emerged about the recipient government's ownership if a donor takes the lead. Ideally, the recipient government should take the lead. But it is quite natural that donors should express their opinions. The most important issue in the discussion of ownership is who should predominate in the development process. If the capacity of the recipient country is insufficient to take into account donor views and coordinate them, this lack of capacity will hinder the recipient country from displaying ownership.

### 3.4. Procurement and utilization of human resources

Another reason why Japanese staff do not contribute sufficiently to donor meetings is the shortage of human resources, which is one of the problems of Japanese development cooperation, as discussed in the next chapter. More specifically, it refers to a shortage in the numbers of staff, limitations in knowledge, a lack of consciousness, and the language barrier.

In some countries and some areas, Japan has sufficient human resources at the local level. Japan has tended to consider that a country receiving a large amount of aid from Japan can achieve a concrete result entirely through Japanese cooperation. Due to such conceit, coordination with other donors has been neglected in some cases. In some areas where donor coordination is indispensable, Japan some-

times provides cooperation based on its own views regardless of the global trend. Besides, there is a major language barrier in communicating its views.

As discussed in Chapter 3, personnel training and hiring is extremely important in solving these problems. In particular, it should be noted that the promotion of aid coordination largely depends on the consciousness of local staff. A joint opinion poll conducted in 1997 concerning the Japan-US Common Agenda for Cooperation in Global Perspective shows that, even in a recipient country where coordination is a priority, the consciousness of local staff significantly affects the level of coordination.

To deal with the lack of knowledge, it is crucial to make available the substantial amount of know-how that JICA has accumulated. Moreover, it is extremely important to prepare substantial issue-specific guidelines of JICA so that JICA staff even unfamiliar with a certain area can contribute to donor meetings.

In order to make up for the lack of knowledge, it is also necessary to establish issue-specific and region-specific personnel networks both at the headquarters and local offices. Moreover, it is important to promote personnel exchanges, and involve experienced personnel in these exchanges.

Under the present situation where the number of personnel is not expected to increase, in order to conduct more elaborate forms of cooperation, an effective approach is to switch from "broad and superficial" cooperation to "targeted and substantial" cooperation by identifying priority countries and priority areas. Through "targeted and substantial" cooperation, Japan would provide aid more effectively, thus maintaining its presence.

### 3.5. Preliminary discussions and close contact with other donors

Even if the above problems could be solved, Japan still might face situations in which Japanese staff find it difficult to attend donor meetings or contribute little. For example, when personnel from Anglo-Saxon cultures are discussing in English, it is difficult for Japanese to actively participate in the discussions. In some cases, the Japanese staff ask a locally employed clerk or an overseas survey specialist to attend the meeting. However, in the case of impor-

tant coordination meetings, the attendance of Japanese staff is required.

In preparation for donor meetings, preliminary discussions with other donors are recommended. Preliminary discussions help Japanese staff to attend meetings with greater confidence. Moreover, by getting along well with other leading members through closer contact, coordination at donor meetings will be more successfully accomplished. Local experts and office staff are strongly recommended to establish good relationships with other donors through closer contact.

An example can be found in a 1998 joint survey mission on project formulation established under the Japan-US Common Agenda that successfully formulated several joint projects in Zambia's health sector according to the Zambia health sector program. This success was attributable to good relations between the JICA office, the Japanese embassy, and the USAID office at the local level.

#### **4. Future directions**

As Japanese development cooperation is valued throughout the world, it has become difficult for Japan to determine the direction of cooperation on its own without coordination with other donors. The framework for aid coordination has changed from bilateral coordination to multinational coordination, or even integrated coordination with all stakeholders in development, including donor countries, local communities, and NGOs. Thus, it has become more essential for Japan's development cooperation to be provided with a keener awareness of its position in the world.

Considering that other donors are rarely uninvolved in any country or any sector, information sharing and coordination between donors while respecting ownership of the developing country is a minimum requirement. That is a responsibility to the recipient country as well as to the Japanese taxpayers whose national taxes are being used for development assistance.

As aid funds have been declining, it is necessary to utilize the limited funds available more effectively for poverty reduction. The PRSP process was started in order to examine and correct the factors causing inefficiency in aid provision. As mentioned

in Chapter 2, there is a growing interest in providing "program aid" which selects important issues from a certain sector, instead of providing separate projects without any coordination. In the PRSP process, each sector prepares development programs with the major objective of poverty reduction. Cooperation based on such development programs is therefore required. Through coordination with the recipient government and other donors, Japan's development cooperation should be placed appropriately in these development programs.

It must be noted, first of all, that growing support for program aid does not necessarily mean denial of the effectiveness of project aid. Program aid is attracting attention as a means of correcting the problems of aid provided in the past. Through this correction, the project aid that constitutes a program can also be improved.

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## Chapter 3 Project aid and program aid – Considerations regarding the implementation of “program aid” by JICA

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This chapter presents the related issues and characteristics of program aid that will be important in supporting the PRSP. The methods of implementing program aid are also discussed.

### 1. Issues in project aid

There are still lots of poor people throughout the world despite aid over the past 50 years. A drop in aid funds from donors<sup>1</sup>, which has been attributed to so-called “aid fatigue,” has triggered a review of conventional aid methods and their impacts (aid efficiency).

Conventional project aid, dealing with specific issues in developing countries, can provide carefully targeted and elaborately managed assistance. However, usually only a limited area can be benefited. In accordance with an increase in the number of projects, the time and effort to implement individual projects (e.g. negotiations, procurement procedures, etc.) has increased as well. When multiple donors implement a project in the same country, both the country and donors are forced to duplicate procedures and expenditures.

Another problem in project aid is “fungibility.” Project aid in a certain sector or a region of the recipient country is incorporated into part of the national income. This contribution to national income creates a surplus in the budget for that particular sector or region. This surplus can then be used for other sectors or regions that the donors did not intend to support, which complicates measurement of the effect of the project aid.

These problems in project aid can be solved to a certain extent when ownership is established in the recipient country and donors are coordinating with each other. However, donors tend to be input-

oriented, which is indicated by the amount of aid provided, while for some recipient governments there is a lack of ownership and capacity. As a result, many donor-led projects costing a lot of time and money have been formulated and implemented at the same time. Projects that are not based on the sector development programs and public expenditure plans of the recipient country have also been formulated, which has weakened ownership. This has caused other problems, such as the continuity of projects and the burden of recurrent costs.

The drop in aid funds is impelling donors and recipients to increase the impact of aid. Under these circumstances, program aid has been attracting attention, as it can enable whole sectors to be managed by reinforcing coordination among donors under the ownership of the recipient country, thus solving the problem of weakened ownership.

### 2. What is “program aid”?

#### 2.1. Definition of program aid

“Program aid” is not a recent discovery, and has been designed and implemented traditionally in development assistance worldwide.

Traditional “program aid (non-project aid)” has referred to financial assistance to support the international balance of payments, not the implementation of specific projects. On the other hand, the USAID and some UN organizations (UNICEF, UNDP, etc.) have regarded achievement-oriented technical cooperation or broad technical cooperation as “a program.” In other words, “a program” covers a wider range of activities than “a project.”

The DAC defines program aid as follows: “Programme assistance consists of all contributions

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<sup>1</sup> Net concessionary aid funds to developing countries amounted to \$32.7 billion in 1998, decreasing by \$12 billion from 1990. (World Bank, Global Development Finance 1999, p. 69)

made available to a recipient country for general development purposes, i.e. budget and balance-of-payments support and the financing of capital goods and commodities, not linked to specific project activities<sup>2</sup>.” Examples of program aid are as follows: Program Loans and Commodity Loans provided by the Japan Bank for International Cooperation (JBIC), non-project grant aid provided by the Ministry of Foreign Affairs of Japan, and structural adjustment lending offered by international financial organizations, such as the World Bank and the IMF. However, adjustment lending to the Sub-Saharan African countries in the 1990s resulted in failure (low economic growth and an increase in poverty). This stimulated controversy in the World Bank over aid methods, and as a result, weakness in “governance” and “ownership” has come to be regarded as a factor contributing to failure.<sup>3</sup>

This trend has led to the introduction of Sector Investment Programs (SIPs) in Africa since the mid-1990s. The SIP is an approach to collecting aid funds from donors into a common account (Common Basket) for each sector, based on a sector strategy prepared jointly between donors and the recipient. Then, under the ownership of the recipient country, these funds are invested according to a multi-year public expenditure program. If it works well through the initiative of the recipient country, coordination among donors can be achieved, thus avoiding overlap in the procedures for the implementation of each project.<sup>4</sup>

As a result of the review of structural adjustment lending and criticism of project aid since the late 1990s, discussions over aid efficiency (at DAC meetings, SPA (Strategic Partnership with Africa) meetings, and in the process of preparing the World De-

velopment Report 2000/2001 by the World Bank) has focused on program aid. Program aid has attracted attention not as a brand new method, but as a method that includes all the above-mentioned aid modalities. Program aid aims to prepare detailed programs for the development of a certain sector, and harmonize aid procedures, through coordination among donors and recipients.

At present, “program aid” can be defined as “the aggregate of various aid modalities that include projects, Common Funds, Direct Budget Support, and NGO assistance, based on a development strategy for each sector or issue prepared through coordination among donors and recipients.”<sup>5</sup>

This definition shows that “project aid” and “program aid” do not conflict with each other in terms of concept and method, but complement each other.

The definition of program aid is rather ambiguous, because it is difficult to reach a consensus over its concept and methods. Each donor has their own concept and method of considering program aid, depending on the various situations (international organizations or bilateral donors, loan aid or grant aid, ample funds or limited funds).<sup>6</sup>

## 2.2. Characteristics of program aid and problems in its implementation

The first step in the implementation of program aid is “agreement on aid coordination among donors.” In order to intensify efforts for poverty reduction regardless of a steady drop in aid funds, donors must continuously emphasize the improvement of aid efficiency within a limited budget. Under these circumstances, if donors strengthen the part-

<sup>2</sup> DAC (1991) Principles for Programme Assistance. Shinji Asanuma also compared project aid and program aid (with an example of assistance by USAID) in “Kokusai Kaihatsu Enjo [*International Development Assistance*],” Toyo Keizai, 1974.

<sup>3</sup> Refer to documents published by the World Bank, such as “Adjustment in Africa,” and “Assessing Aid.”

<sup>4</sup> Harrold (World Bank, 1995) states that the SIP implementation requires the following: (1) Local stakeholders (meaning government, direct beneficiaries and private sector representatives) are fully in charge of the SIP process, (2) All main donors sign on to the approach and participate in financing the SIP ideally in a process led by government, (3) So far as possible, common implementation arrangements are established for all donors participating in the SIP.

<sup>5</sup> At the SPA meeting, it was agreed that sector programs should consist of the following four elements: (1) projects, (2) Common Funds, (3) Direct Budget Support, and (4) NGO assistance.

<sup>6</sup> For example, as for the concept of the program approach by donors, the Netherlands “provides support to an entire sector based on a viewpoint that grasps it comprehensively, rather than scattered projects.” It defines the sectoral approach as “aid tailored to the policy framework of the sector as drawn up by the recipient country’s government,” and continues as follows: “Ideally, sectoral budget support is coordinated among several donors.”



nership (aid coordination) that enables donors to improve the efficiency of aid resources, they can obtain support for “program aid.”

The next step for the implementation of program aid is “discussion on specific measures and agreement on implementation.” But it is difficult to reach agreement. In general, from their past experience, donors are skeptical about the organizational competence and transparency of many recipients. Moreover, as each donor has distinct policies, regulations, and cultural and historical backgrounds, as well as differing levels of accountability to the public, it is difficult to establish partnerships with other donors.<sup>7</sup> Input-oriented donors may disrupt the process of coordination. Strong ownership by the recipient country and a partnership among donors are indispensable factors for program aid planning and implementation. However, the hesitancy of donors to participate in program aid is based precisely on these two factors of “ownership” and “partnership.”

It must be noted that the program aid method has been the focus of the discussions on aid for African countries. Basically, due to the shortage of human resources, African countries are different from other countries that are expected to have strong ownership. Accordingly, the method for aid implementation should differ. In some countries in East Asia, Latin America and East Europe, which may have strong ownership, conventional project aid is sufficiently effective. In short, the differences in the situation between countries should be fully taken into account when implementing program aid.

### 3. JICA cooperation and program aid

Program aid should be provided under the own-

ership of the recipient government with coordination among the donors. For this, macroeconomic stability and a framework of sound government expenditure are required. In this case, what measures should be taken in order for JICA to cooperate effectively in sector programs? The relationship between program aid and JICA cooperation (mainly technical cooperation) are discussed below.

#### 3.1. Technical cooperation and program aid

As technical cooperation aims to transfer knowledge and experience through people, not through funds, it is provided as assistance in the form of human skills or in kind. From this viewpoint, technical cooperation can contribute to providing technical transfer and the transfer of knowledge.<sup>8</sup>

More specifically, technical cooperation includes advice on sector-specific policymaking, long- and medium-term public expenditure planning and monitoring, which is a prerequisite to program aid, various preliminary surveys on the present socio-economic conditions in developing countries (i.e. household survey)<sup>9</sup>, and the transfer of methods for undertaking these. Technical cooperation should also deal with the basic problem of how to provide personnel training (particularly at the local level).

In any case, in order to lead a sector program, the “aspiration and ability” to manage the related sector is required. Moreover “trust” on the part of the recipient country and other donors and “coordinating ability” to persuade the stakeholders are also necessary. There still remains the problem of how to provide cooperation while complying with the principle that “ownership by the recipient country should be respected.”<sup>10</sup>

<sup>7</sup> It is difficult for donors to participate in Common Funds, where donors are not assured of a say in the usage of their funds. In fact, even in African countries where program aid started earlier than in others, Common Funds rarely play a central role within the framework of sector programs. Instead, project aid managed at the sector or issue level is predominant in sector programs, where Common Funds coexist to a limited extent.

<sup>8</sup> “Until a country commits seriously to reform, the best donors can do is to provide technical assistance and policy dialogue, without large-scale budget or balance of payments support.” (Attacking Poverty – World Development Report 2000/2001, p199)

<sup>9</sup> For example, the World Bank and Western bilateral donors have conducted various surveys. The results should be made available to anyone as “international public goods.”

<sup>10</sup> A staff member of the World Bank stated that, “When we try to comply with the principle that ‘the PRSP should be prepared by the country government,’ the PRSP preparation is behind schedule, or the submitted PRSP does not satisfy the required standard, due to limited competence and experience.”

On the other hand, it is possible to propose that whole sector programs can be implemented through technical cooperation. However, this is not practical as the required inputs (time, money, human resources) exceed the normally available level. Technical cooperation has been criticized as its effectiveness is insufficiently recognized. However, some take the view that “financial cooperation becomes effective when it is implemented along with technical cooperation.”<sup>11</sup> Thus, in the case of long-term capacity building, effective implementation of a program with a long-term perspective can be achieved flexibly through a mixture of financial cooperation and technical cooperation.

### 3.2. The implementation of program aid by Japan

When Japan provides aid for the preparation of the sector programs of a recipient country and implements them together with other donors, Japan has the following two options: (a) to utilize aid resources effectively by strengthening its traditional presence, and (b) to develop sector programs in order to display a new presence.

In the case of (a), Japan can take initiatives in a sector where it has provided cooperation as the top donor (e.g. the agricultural sector in Indonesia). However, such a country, to which Japan has provided extensive cooperation, is likely to have other donors, without sufficient coordination among these donors. Moreover, as there may be inhibitions due to the record of past projects, coordination costs could become high. The advantage in the case of (a) is the accumulation of past experience and knowledge.

As for (b), it would be possible for Japan to target specific countries or sectors where other donors have not been involved (e.g. the agricultural sector in Tanzania). In these countries or sectors, information and experience is limited and troublesome factors might exist. However, as long as Japan is willing to invest in the initial work (i.e. information gathering,

surveys, the establishment of human networks), a significant impact could be expected.

Another option is that Japan can participate in joint programs with other donors. In such cases, Japan can provide development cooperation taking into consideration its available resources, while paying attention to the moves of other donors. Activities utilizing the resources of other donors<sup>12</sup> will be worthwhile both for aid effectiveness and enhancing Japan’s presence.

#### Implementation of program aid by Japan

Implementing body	Method
Japan takes the initiative	Strengthening fields and regions in which Japan has been traditionally successful
	Tackling new fields and regions
Joint cooperation with other donors	Practical use of the resources of other donors

### 3.3. JICA’s approach to sector programs

Currently, JICA faces the following problems when taking a sectoral approach, as mentioned in Chapter 2:

- \* Difficulty of formulating strategies with a comprehensive view of the whole sector, since the planning of projects and their implementation have been conducted based on various different schemes
- \* Impossibility of long-term commitment due to a single year budget system
- \* The excessive amount of time taken in decision-making due to insufficient delegation of authority to the local level
- \* Lack of regular (daily) dialogue between JICA staff and the recipients and other donors
- \* Barriers of language and thinking
- \* Insufficient human resources and specialized personnel
- \* Insufficient networks of personal contacts both at the headquarters and local offices

In the past, JICA provided program-type coopera-

<sup>11</sup> Stiglitz et al. Here, “technical cooperation” refers to the provision of “knowledge” as international public goods.

<sup>12</sup> This refers to the Japan Fund provided to international organizations, such as UNDP and the World Bank, and consultants specialized in local situations employed by other donors. At present, it is quite likely that Japanese resources are utilized by other donors. However, if aid programs work well with Japanese resources, Japan’s contribution should be evaluated appropriately, aside from any concern over Japan’s presence.

**Box 2 Development Study for Supporting the Transition to a Market Economy in Vietnam (implemented from FY1995 to FY2000) - An example of JICA's program cooperation**

In this Development Study, Japan and Vietnam worked jointly to establish the policy support required for the smooth transition to a market economy in Vietnam. In order to ensure a high level of involvement in the work as a joint effort on the part of the counterparts in Vietnam, this Study was carried out at considerable expense.

More specifically, several workshops were held both in Vietnam and Japan (Tokyo). In the preparation of the research planning, the Japanese side had to wait until proposals were submitted from the Vietnamese side. Moreover, in order to incorporate Vietnamese opinions as much as possible in the Study, the Japanese side arranged for each side to write separate papers on the same subject.

Such procedures should be carried out for ordinary projects as well. However, in most cases, due to the constraints of time and money, donors tend to make decisions and recipients then make no objection.

Initially, the Vietnamese counterparts put up some resistance to this project due to a lack of awareness of the participation process. In addition, this project required more time and money than ordinary projects to establish a preparation system, pursue dialogues, and negotiate. However, eventually, this study contributed to raising the confidence of the counterparts, thus serving as one of the means of developing policy options in Vietnam. The objective of this joint study was therefore substantially achieved.

It must be noted that the Ministry of Planning and Investment, the counterpart agency in Vietnam, utilized this Development Study politically as a form of external pressure with a view to countering conservative opposition to the transition to a market economy, and to reinforce the Ministry's viewpoint. The fact that Professor Shigeru Ishikawa, the leader of this project, gained the confidence of the then Secretary-General Do Muoi was a favorable factor in accomplishing the support role that Japan played. At the same time, this meant that the project was used as a means of exerting influence in Vietnam. However, this also indicates that program-type cooperation will not always be sufficiently persuasive or compelling unless it is incorporated into the political or policy process in the recipient country.

In the implementation of sector programs, it is necessary to collect and analyze information on political trends. Decisions on how to operate aid programs need to be based on such analysis.

tion through intensive inputs to specific sectors or regions.<sup>13</sup> However, the problems mentioned above and insufficient coordination both in the recipient countries and in Japan have hindered the smooth implementation of these programs.

In order to deal with these problems, steady efforts have been made towards improvement by preparing Japan's ODA Country Policies and JICA Country Programs, reorganizing the system to be more area specific, conducting project request surveys, promoting active participation in donor meetings, and increasing the number of project formulation advisors. However, there are still many issues that must be dealt with as a precondition for progress. Above all, the approach to take in dealing with program aid is a matter of urgency. The following is a discussion of how JICA should deal with sector-specific issues utilizing the existing means of providing development assistance.

***Preparatory stage***

Unlike conventional aid, the premise of program aid is that it should be provided to support independent and sustainable development of the related sector from a long-term perspective. Moreover, it requires coordination with other donors, while respecting ownership by the developing countries.

For this purpose, first of all, the local staff (including experts, project formulation advisors, consultants, and JICA staff) must be fully knowledgeable about the Japanese aid system and its limitations, and be well informed with regard to the related sector in the recipient country. Local staff who are able to present an overview of the related sector need to exchange views with the local ministries concerned, and then gather data in order to decide whether the preparation and implementation of the program will succeed.

Moreover, the local staff must attend various meetings with the recipient government and donors on the preparation of a program, investigate the pro-

<sup>13</sup> This includes umbrella cooperation for the agricultural sector in Indonesia, package cooperation for science and mathematics education in the Philippines, and a series of development studies on eastern coastal area development in Thailand.

**Box 3 Development Studies for Supporting a Sector Program - A new approach to sector programs**

The expression "Development Studies for Supporting a Sector Program" refers to a new form of Development Study to be budgeted for from FY2001. The following costs are included: (1) Sector Studies, (2) Donor meetings, (3) Expenses for counterparts to attend workshops, (4) Expenses for dispatching Japanese consultants for program implementation and monitoring, (5) Expenses for establishing secretariats both in Japan and abroad. A Development Study for Supporting a Sector Program is conducted over three years for each program.

In cooperation with the regional departments and overseas offices, it is necessary to provide sufficient resources and review a program flexibly, based on the results of monitoring as well as discussions with the recipient country and other donors.

It is assumed that regional development in Tanzania and the primary education sector in Vietnam will both be surveyed in the form of a Development Study for Supporting a Sector Program.

posals thoroughly, and make comments on these proposals if necessary. At the same time, they should find and select for JICA the feasible means of cooperation. Through consultations with their counterparts in Japan, they have to commit to the implementation of such development cooperation by incorporating it into a project request survey.

However, in practice, it seems to be difficult for some JICA staff, who have rarely attended donor meetings or hardly made contributions to these meetings, to establish good relationships with other donors. Besides, it is difficult to develop local activities without sufficient budgetary allocations. In order to overcome these difficulties, it is necessary to consult local authorities and engage consultants who are familiar with the situation of other donors.

Needless to say, the relevant Japanese embassy and JICA staff must continue an official or unofficial dialogue with the recipient government on a daily basis, and gather information. More importantly, it is crucial to convey Japan's position at various meetings, such as through policy dialogues, annual presentation meetings, and Consultative Group (CG) meetings.

***Implementation and monitoring***

To the sectors and areas where Japan has decided on assistance, JICA prepares a program using project formulation studies, project formulation advisors, and development studies. During these preparations, JICA also discusses how Japan's resources can be utilized for this assistance. The details are then decided through discussions with the recipient government, and the development assistance is provided.

It is desirable to enter into an agreement regarding the implementation of a multi-year comprehen-

sive program at the preparation stage. Preferably, such a program should be flexible enough to make changes according to the program of the situation. In other words, a program is expected to facilitate flexible and timely resource inputs and/or withdrawal, beyond schemes such as project-type technical cooperation (personnel training, dispatch of experts, equipment provision), development studies, and grant aid.

Under the present situation, JICA can prepare a program using development studies, project formulation advisors, and dispatched experts, then propose the physical facilities and infrastructure for grant aid as well as project-type technical cooperation over a five-year period. Along with this, efforts should be made to develop and improve methodologies as the concept of the development program becomes established. Accordingly, new methods for providing program aid have become available, such as sector program development studies and sector program grants for environmental and social development (See Box 3).

In order not only to ensure that a program succeeds, but also to improve aid efficiency over the medium- and long-term, it is necessary to incorporate personnel training into each program both at the central and local government levels.

Any program designed along these lines needs to be monitored and made part of a review and evaluation cycle. It is therefore important to incorporate a monitoring function into any program from the planning stage.

**3.4. Problem of recurrent costs**

Project aid will continue to serve as a major means of development assistance provision in the future.

Table 1 Achievements in Sector/Non-project grant aid

FY	Country	Amount (million yen)	Sectors provided with Counterpart Funds (the term for the reserves of Counterpart Funds)
1998	Ethiopia	600	Health and education sectors (23 March 2001)
	Zimbabwe	400	Agriculture, health/medical, and environment sectors (10 June 2001)
	Senegal	400	Health sector (24 March 2001)
1999	Ghana	2000	Health and education sectors (30 May 2001)
	Zambia	1500	Health and education sectors (28 June 2001)
	Tanzania	1000	Education sector (16 April 2002)
2000	Ghana	2000	Health and education sectors
	Zambia	1500	Health and education sectors

Source: Hearings at the Ministry of Foreign Affairs

However, based on progress in the systematic enhancement of competence, transparency, and accountability of the recipient government, conventional aid methods should be further improved, and the possibility of ways of providing partial assistance to Common Funds should be studied.

Technical cooperation should be provided according to the situation in recipient countries. For example, for the least developed countries in Africa, certain costs are an additional expense for the recipient governments concerned. These costs include costs for the administration of a secretariat required for the preparation, implementation, and management of programs, costs for seminars or explanatory sessions, and costs for transportation. Donors should therefore provide assistance to cover these costs. It is necessary to consider a flexible approach to dealing with the burden of recurrent costs. There are two measures: (1) Institutional reform to enable the JICA budget to temporarily bear recurrent costs; (2) Utilization of Counterpart Funds in grant aid provided by the Ministry of Foreign Affairs of Japan (Non-project grant aid, Food aid (Kennedy Round (KR)), Aid for increased food production (2KR),

Grant aid for debt relief).<sup>14</sup>

#### 4. Grant aid<sup>15</sup> and program aid

##### 4.1. Sector programs using grant aid and JICA's role

###### *Establishment of sector program grants for environmental and social development (sector/non-project grant aid) in FY1998*

In order to support the sector programs that have been actively implemented in recent years, a form of "sector program grants for environmental and social development (sector/non-project grant aid)" was established in FY1998 within the grant aid budget for assisting developing countries undertaking structural adjustment programs (non-project grant aid).

The main funds for the above sector/non-project grant aid are provided to purchase imported products required for the implementation of policy packages aimed at improving the socio-economic structure, as in conventional non-project grant aid.

The greatest difference between the sector/non-project grant aid and non-project grant aid is that

<sup>14</sup> The Ministry of Foreign Affairs considers it difficult to directly contribute new funds to the recipient country's finances due to the problem of accountability. As for special assistance finances (Common Baskets) based on donor coordination, it is possible to contribute Counterpart Funds for sector/non-project grant aid on the following conditions: (1) To open an account for Japan's exclusive use in disbursing the funds; (2) To contribute ancillary funds for a specific purpose (e.g. nurses training in the health sector) or funds for a clearly defined purpose within the framework of a sector program.

<sup>15</sup> The Ministry of Foreign Affairs, not JICA, is in charge of implementing grant aid programs (including the monitoring and utilization of Counterpart Funds). JICA implements the following activities related grant aid projects in order to assist the main grant aid projects implemented by the Ministry of Foreign Affairs: (1) Preliminary Study (including Basic Design Study in order to submit a "Cooperation Planning" proposal to the Ministry of Foreign Affairs to obtain cabinet approval for the main project); (2) Promotion of implementation; (3) Follow-up. (These related activities are referred to as "Investment-Related Technical Cooperation (IRTC)" as in the case of a JICA Development Study.) Among the ten grant aid schemes managed by the Ministry of Foreign Affairs, JICA undertakes support for the following six schemes on separate instructions from the Ministry of Foreign Affairs: (1) Grant aid for general projects, (2) Grant aid for fisheries, (3) Cultural grant aid, (4) Grants for overseas students, (5) Food aid, (6) Aid for increased food production.

Table 2 Project-type grant aid & Program-type grant aid

Project-type grant aid	(1) General grant aid, (2) Grant aid for fisheries, (3) Cultural grant aid, (4) Grants for overseas students, (5) Grant assistance for grassroots projects
Program-type grant aid	(1) Non-project grant aid for structural adjustment support (including Sector/Non-project grant aid), (2) Grant aid for debt relief, (3) Emergency grant aid, (4) Food aid (KR), (5) Aid for increased food production (2KR)

the former can come under a bilateral agreement at the time of signing the Exchange of Notes (E/N) regarding the sectors (areas) for which Counterpart Funds<sup>16</sup> are provided.

Besides grant aid, some domestic reserves accrued during the redemption period, such as Structural Adjustment Lending (SAL) in yen loans and Sector Adjustment Loans (SECAL), are also referred to as Counterpart Funds. When these Counterpart Funds are further invested through private finance companies, these investment funds are referred to as “Revolving Funds.”

Candidate projects for Counterpart Funds are selected through local meetings on the usage of the funds (with the attendance of the Japanese embassy and the recipient government). Then the Ministry of Foreign Affairs gives the final approval.<sup>17</sup>

In non-project grant aid and 2KR funds, a committee<sup>18</sup> is established after signing the E/N to exchange opinions on the reserves and investment of the Counterpart Funds in past cooperation.

***JICA has an advisory role to provide ideas for the use of Counterpart Funds in sector/non-project grant aid***

Though JICA is obliged to participate in the 2KR

committee as an observer, there is no obligation to participate in committees on non-project grant aid, KR funds, and Grant aid for debt relief (as well as in the meetings on fund usage). So far, the related Japanese embassies have not provided sufficient information on approved Counterpart Funds to overseas JICA offices.

In the recent trend towards focusing on a program approach, JICA is expected to actively present ideas on the usage of Counterpart Funds to both the Japanese government and the recipient government. This is particularly important in sector/non-project grant aid, as the sector where Counterpart Funds should be used is determined at the time of signing the E/N.

For example, in the Development Study on “School Mapping in Tanzania (from FY1999 to FY2001),” a general grant aid project and a Counterpart Fund project are integrated.<sup>19</sup>

**4.2. Management of public expenditures in the recipient country and Japan’s grant aid**

Japan’s grant aid can be largely divided into the following two types: project-type and program-type.

<sup>16</sup> Counterpart Funds refer to the recipient government’s domestic reserves resulting from some kinds of grant aid provided by Japan, which is agreed upon the time of signing the E/N. Such grant aid includes Food Aid, Aid for increased food production, Non-project grant aid for structural adjustment support (including Sector/Non-project grant aid), and Grant aid for debt relief. The recipient country deposits the amount equivalent to the sales price of imported materials provided through grant aid (or the amount of expenditures incurred as a result of the government’s financial measures for distributing such imported materials for free) into the designated bank account for the reserve. The reserves of the Counterpart Funds and their utilization are monitored through the respective Japanese embassy (*Kokusai Kyoryoku Yোগoshu [International Cooperation Glossary] JIDC Co. Ltd. (1998)*).

<sup>17</sup> When there are various sectors to which Counterpart Funds are provided, as in Zambia (e.g. health and education sectors), the ratio of allocation is not decided at the time of signing the E/N. The ratio is adjusted through later meetings or committees on the usage of the funds.

<sup>18</sup> The leading figures in the committee are the Japanese embassy and the recipient government. Procurement deputy agencies (Japan International Cooperation System (JICS), Crown Agents, UNOPS) participate as the secretariat. For 2KR funds, JICA attends as an observer.

<sup>19</sup> A construction project for two-story elementary school buildings in urban areas (which requires sophisticated technology in designing and construction) was implemented through general grant aid. On the other hand, in local areas where quantity rather than quality comes first (for example, one-story buildings with simple construction), a project for school building construction was implemented through Counterpart Funds (using local design standards, services, and materials). Thus, the construction costs for local school buildings were reduced.

Project-type grant aid: (1) General grant aid; (2) Grant aid for fisheries; (3) Cultural grant aid; (4) Grants for overseas students; (5) Grant assistance for grassroots projects

Program-type grant aid: (1) Non-project grant aid for structural adjustment support (including Sector/Non-project grant aid), (2) Grant aid for debt relief, (3) Emergency grant aid, (4) Food aid (KR), (5) Aid for increased food production (2KR)

According to the *Kokusai Kyoryoku Yogoshu* [International Cooperation Glossary], “a program” in program-type grant aid means “bilateral cooperation to provide the necessary funds in order to promote a policy program (e.g. a program to increase food production) in a recipient country in principle (underlining by the author).”

For involvement in the recent sector program approach, it has become essential to explain to the recipient country, other donors, and the Japanese people how these types of program grant aid (e.g. non-project grant aid, KR, 2KR) should deal with a policy program in the recipient country, and select the appropriate level of inputs (funds) and the aid modality (i.e. 2KR or non-project aid).

In providing continuous program-type grant aid, such as food aid, aid for increased food production, sector/non-project grant aid, and grant aid for debt relief, that assumes the usage of Counterpart Funds (domestic funds used as financial resources made available to the recipient government), it is necessary to confirm the position of Counterpart Funds of past cooperation in the Medium-Term Expenditure Framework (MTEF) of the recipient government. Where Counterpart Funds have not been appropriated in the MTEF as bilateral special financial resources between the Japanese government and the recipient government, the validity and reasons should be sorted out according to the circumstances of the country. This is important for “the improvement of predictability and transparency in aid,” which is the key to promoting program aid.

Furthermore, in providing continuous program-type grant aid that requires the usage of Counterpart Funds, it is necessary to prepare, through financial analysis using the MTEF, the most suitable input planning to decide on the grant aid scheme, the limits to the amounts provided, and the sectors to receive Counterpart Funds, based on the recipient

government’s financial resources and coordination programs with other donors. Moreover, the reserve system of Counterpart Funds requires reform in accordance with the situation in the recipient country, in order to improve transparency and predictability.

From the medium- and long-term perspective, in order to maintain accountability to the Japanese people, JICA should introduce a system to assess the recipient government’s competence in managing public expenditures through coordination with other donors, and establish an evaluation or supervision system to decide whether provisions to the recipient country should be continued or not. (In this sense, an evaluation of the recipient government’s performance regarding the reserves of Counterpart Funds serves as a means of assessing the government’s competence in managing public expenditures.) Some problems in providing Counterpart Funds beyond the authority of JICA will be discussed between the Ministry of Finance and the Ministry of Foreign Affairs, together with the discussion of Japan’s financial assistance to sector programs.

## 5. Future directions

In poverty reduction, it is difficult to expect improvement in ownership, which is a prerequisite for a program approach, without achieving economic growth in developing countries. Therefore, it becomes increasingly important for macroeconomic growth and social sector development to become focused in the PRSP, which should be implemented through financial and technical cooperation complementing each other. Within the framework of such cooperation, if sector program methods are applied along with the existing individual project methods, the impact of aid is expected to improve.

JICA has taken a passive attitude toward donor coordination (This does not mean that JICA has actively avoided donor coordination on the basis of a strong objection, but that JICA has avoided it by default). However, it is necessary for JICA, as a member of the donor community, to be aware of its own position and demonstrate its views and experiences internationally with the recent development of the PRSP process and the program approach.

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## Chapter 4 Perspectives on considering the characteristics of each country

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Socio-economic conditions in the 72 countries that are required to each prepare a PRSP are highly diverse. Therefore, in order to achieve the policy objective<sup>1</sup>, i.e., poverty reduction, it is necessary to consider macroeconomic policy as well as a sectoral policy in accordance with each country's economic conditions (such as the initial conditions and the development stage). There is criticism of the new classical regimentation regarding the conventional structural adjustment policy, as it provides the same prescription for quite different socio-economic conditions. Based on this criticism, both the World Bank and IMF have focused on "procedures" for the preparation of PRSPs, in which the recipient government, donors, NGOs, and other stakeholders, including representatives of civil society, should participate so that the content can express the particular socio-economic conditions. Japan, too, has reinforced its country-specific approach in recent years, to provide appropriate cooperation in accordance with each country's conditions and needs. With the trend towards reinforcing a country-specific approach, Japanese ODA Country Policies and JICA Country Programs mentioned in Chapter 1 have emerged.

The country-specific approach is a major premise for cooperation. However, there should be a common viewpoint as well as basic indices in considering the appropriate development strategy and /or development process. Based on the viewpoint and indices, countries might be divided into some types.

Measures that each country should take can be discussed more easily when the country is considered according to the type. As for measures a country should take, there has been an argument over the trade-off between poverty reduction and economic growth. However, poverty reduction requires a well-balanced policy, not a selection of either approach. A well-balanced policy is not uniform, because it necessarily involves selecting priority issues and taking measures to deal with such issues according to the characteristics of each country. According to Amartya Sen, there are two types of development strategy for successful poverty reduction: growth-mediated strategy and support-led strategy<sup>2</sup>.

In considering PRSPs, developing countries may request donors to present an approach using "comparison with other countries (a cross section)" and "viewpoints based on donor experience" as a means of adding value for donors. In particular, the presentation of examples of best practice provides developing countries with some comparative viewpoints and data to make decisions on their own. Through the accumulation of experience in policy discussions on these issues, a cooperative relationship between donors and recipients can be established.

In order to offer effective policy advice in the preparation of PRSPs and their implementation, this Chapter presents the viewpoint of each country that needs to be confirmed, examples of indices, and the concepts for a typology.

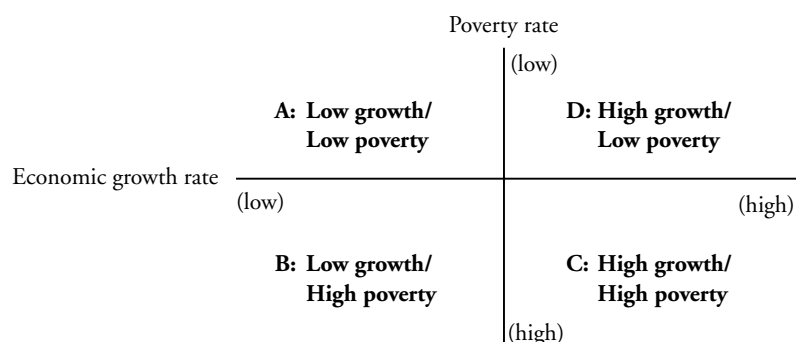
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<sup>1</sup> In general, policy objectives include not only poverty reduction but also many other objectives, such as economic growth, and the priorities vary according to the country. However, for some donors, including the World Bank, poverty reduction is regarded as the primary objective in assistance policy.

<sup>2</sup> The growth-mediated strategy proposed by Amartya Sen refers to a strategy that includes a government public policy of intentionally transforming a trickle-down effect of growth into social supply (successful models: Hong Kong, Singapore, and South Korea). On the other hand, the support-led strategy refers to the strategy to implement a large-scale public policy that secures a certain basic potentiality before leading to affluence (successful models: Sri Lanka, China, and the Indian state of Kerala). In both strategies, public investment always plays an important role. The difference between these two is timing and order (Esho, 1997).



Fig. 3 Typology based on the economic growth rate and the poverty rate



### 1. Relationship between poverty reduction and economic growth

The survey on “The Quality of Growth” conducted as a background survey to the World Development Report 2000 stated the following tendencies. The poverty rate tends to be low in high-growth countries, whereas it is high in low-growth countries. This tendency is also observed for other aspects of poverty, such as the infant mortality rate, illiteracy rate, and life expectancy. While the rate of economic growth shows no strong correlation with an environmental/public policy index, it shows a certain correlation with the rule of law and corruption. Moreover, as for the relationship between the economic growth rate and human development, there is a positive correlation between the GDP growth rate and a decrease in Income Poverty, a drop in the infant mortality rate, an extension of life expectancy, and a reduction in income inequality. As for the relationship between economic growth and environmental conservation, there is a negative correlation between the GDP growth rate and a drop in CO<sub>2</sub> emissions. While a decrease in Income Poverty has a positive correlation with a reduction in income inequality, it has a negative correlation with a drop in the illiteracy rate as well as a drop in CO<sub>2</sub> emissions. Due to such correlations between economic growth and human development as well as environmental conservation, policy formulation must take various aspects into account.

The World Development Report 2000 also refers to the relationship between the GDP growth rate and the poverty reduction rate according to the geographical region. Both rates are high in East Asia, whereas both are low in economies in transition in

Central Asia and Europe. Middle East and North Africa show a low economic growth rate and a high poverty reduction rate. There is no change in the poverty reduction rate in Africa, Latin America, and South Asia; however, the economic growth rate varies. Even in the same region, countries show different patterns. For example, East Asia includes countries like China with a high growth rate and a relatively low poverty reduction rate and also like Mongolia with a low growth rate and a low poverty reduction rate, showing the pattern of a transitional economy. A certain correlation between the economic growth rate and the poverty reduction rate can be shown statistically. It should be noted that there is a significant variance in the poverty reduction rate at the same economic growth rate. The higher the economic growth is, the larger the variance tends to become. From the above, it can be concluded that there is a positive correlation between the poverty reduction rate and the economic growth rate, which is statistically significant. However, the rate of poverty reduction varies according to other policy variables and the region.

### 2. Examples of a typology

In considering the characteristics of each country, typologies focusing on the economic growth rate and other characteristics of each region are helpful. There is a correlation between economic growth and poverty reduction, and Japan considers that policies which maintain a balance between economic growth and poverty reduction are effective and valid for developing countries. In order to clearly understand the situation and direction of each country, a typology based on the economic growth rate and the pov-

erty rate will be helpful when considering appropriate measures to be taken.

For example, it is possible to understand that a recipient country currently placed in Type B “low growth/ high poverty” in Fig. 3, aims at shifting to Type A “low growth/ low poverty” (which Sen refers to as a support-led strategy) or to Type D “high growth/low poverty” within the next five years. Or it could be considered that a recipient country has a national strategy to implement government-led development by forcibly shifting from B to D, but this strategy is too much for the country due to its physical conditions, and it seems rather obvious that this will end in failure because of excessive debts. Fig. 3, as such, can be used for analysis and discussion.

DAC has been proposing a typology in areas other than economic growth and regional characteristics. The results of discussions on a typology in DAC are shown below, which could contribute to making Japan’s strategy for poverty reduction more substantive.

In the *DAC Guidelines on Poverty Reduction (2001)*, developing countries are classified into the following five types, and the role of assistance for each type is discussed: (1) Large and non-aid dependent countries, (2) Countries that have developed a poverty reduction strategy but lack implementation capacity, (3) Countries striving to develop economic strategies and social policies for poverty reduction that lack capacity and institutional mechanisms, (4) Countries recovering from conflict or natural disaster, (5) Countries where the government is not demonstrating adequate commitment to poverty reduction.

(1) Large and non-aid dependent countries:

In these countries, a key priority will be to ensure that development assistance catalyses additional local resources and actions to reduce poverty. Efforts to foster greater commitment and resources for reducing poverty should focus on dialogue with partners, advocacy and efforts to strengthen the voice of civil society in policy formulation. Entry points for assistance include *poverty-focused support* for developing the private sector, upgrading public sector performance, and improving governance structures and insti-

tutions.

(2) Countries that have developed a poverty reduction strategy but lack implementation capacity:

In these countries, development agency strategies and programs should be a sub-set of the country-led strategy and public investment priorities.

Key areas for assistance for these countries include public sector institutional development, civil society capacity-building and technical cooperation for sectoral development.

(3) Countries striving to develop economic strategies and social policies for poverty reduction that lack capacity and institutional mechanisms:

In these countries, process indicators and intermediate measures of progress towards goals are particularly important. When setting context-specific process indicators, the participation of the poor is essential. Development agency programming in these countries should encourage domestic participation in analyzing poverty. Preferably assistance should include resource transfers in the form of support to country-led projects, sector-wide approaches, and providing debt relief.

(4) Countries recovering from conflict or natural disaster:

In these countries, development agencies may focus on restoring damaged economic infrastructure and services to mitigate the impact of such calamities on the poor. Poverty reduction action may be missing for such countries; thus development assistance may need to support the formulation of poverty reduction policies. Development agencies should consider support for the media and civil society to build alliances for poverty reduction and for local projects focused on improving governance.

(5) Countries where the government is not demonstrating adequate commitment to poverty reduction:

In these countries, the kinds of support devel-

opment agencies can provide may be limited. Agencies can then only work with local authorities or through NGOs to help relieve poverty, and provide more support to reduce vulnerability and to satisfy humanitarian needs. Bilateral agencies could consider how their support for local structures, civil society and the private sector could foster more serious partner country commitment to poverty reduction and development agency engagement in the future.

Jones (1999) considers that both consensus and capability in developing countries are important for the improvement of aid efficiency. Thus, developing countries are classified according to consensus and capability, and measures to be taken for each case are suggested as follows:

- (1) High consensus/ High capability:  
Broad support for a national public expenditure program is in principle the preferred approach.
- (2) High consensus/ Low capability:  
Project-based models or parallel funding at the sectoral level may be appropriate.
- (3) Low consensus/ High capability:  
The focus should be on policy dialogue to build consensus.
- (4) Low consensus/ Low capability:  
The focus should be on policy dialogue to build consensus. Project-based support is likely to be ineffective because of problems of fungibility and lack of ownership.

When Japan provides assistance, it is necessary to establish its viewpoint, and consider an effective poverty reduction strategy for each country by using a typology to some extent. However, the “typology” itself must be further discussed through the improvement of JICA Country Programs and the preparation of issue-specific guidelines as well as a poverty reduction guideline. It will be increasingly important to establish JICA’s viewpoints using DAC’s typology and other useful references. More importantly, with an overall perspective on Japan’s

position as a donor country, JICA should make every effort to provide poverty reduction assistance best tailored to each country.

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