

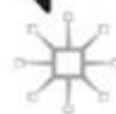


KEIKO HIRATA



The Growing
Role of NGOs
in Tokyo's Aid
Development
Policy

CIVIL SOCIETY IN
JAPAN



bureaucratic failure to rectify it. Within this context, revelations of pervasive scandals, have seriously undermined people's faith in the once-respected, highly prestigious ministries.

Corruption and the Corporate Sector: Declining

Corporate Authority

State-corporate collusions, as seen in the aforementioned cases involving the LDP, ministry officials, and corporate representatives, have seriously eroded public trust in the integrity of the state as well as that of the corporate sector. In the field of ODA, corporate authority has declined since the media disclosed corruption cases involving Japanese businesses (see, for example, *Mainichi Shimbun Shakai-bu ODA Shuzai-han*, 1990). The public has learned that fraud cases are numerous in ODA and that the main culprits in aid corruption are Japanese firms.

There are two main practices that corrupt Japanese firms commit: bribery and *dangō* (bid-rigging). Bribery cases involve Japanese firms that provide lucrative monetary offers to local officials and cronies in recipient countries. The most notorious bribery case was undoubtedly the "Marcos Scandal" of 1986. When Filipino President Ferdinand Marcos fled to Hawaii after the "People's Revolution," the U.S. Customs office confiscated his secret documents on entry into the United States. These documents were later made available to the U.S. House Foreign Affairs Subcommittee on East Asia and Pacific and to the public. The documents revealed systematic corruption in Japan's ODA loan projects in the Philippines, involving a number of Japanese trading firms such as Sutmitomo Shoji and Toyo Tsusho (later renamed Toyo Technica) as aid contractors. It was revealed that these firms had paid kickbacks (estimated about 10 to 15 percent of ODA loans) on a regular basis to the Marcos family and to Marcos's cronies via Filipino firms (Yokoyama, 1994). The revelation of the scandal galvanized public attention in Japan to the issue of corporate corruption in ODA.

Another bribery case involved a Japanese consulting firm, which was found in 1998 to have given a bribe to Bhutanese government officials. This fraud occurred in a grant aid telecommunications project in Bhutan, in which the consulting firm diverted about ¥200 million in ODA funds in 1991 to purchase vehicles for Bhutan government officials' personal use (*Asahi Shimbun*, 1998a; *Nikkei Weekly*, 1998a). In 1999, another bribery case was made public, this time involving several Japanese general construction firms (e.g., Kashima, Taisei, Obayashi, and

Tokai Kogyo) that had paid kickbacks to Indonesian officials in charge of Japanese ODA in that country. The Tokyo National Tax Bureau charged that these Japanese firms had masked the kickbacks as ODA "agency fees" and demanded that the firms pay tax on the amounts of the kickbacks. These types of kickbacks are considered common, especially because Japanese firms have difficulty winning competitive international bids for untied loan aid because of high labor costs in Japan (*International Development Journal*, 1999j; *Yomiuri Shimbun*, 1999a; *Yomiuri Shimbun*, 1999b; *Yomiuri Shimbun*, 1999c; *Yomiuri Shimbun*, 1999d). Although relatively small amounts of aid funds were diverted to the officials, *Yomiuri Shimbun* reported the case as headline news because of the anticipation that they could lead to a "Suharto scandal," similar to the 1986 Marcos case (*International Development Journal*, 1999a).

According to some analysts, many Japanese firms give bribes to officials in aid recipient countries because these firms are forced by Japan's single-year budgeting system to finish their aid projects on time. These firms are especially vulnerable to bribery demands after the conclusion of the exchange of notes (E/N) between the Japanese and recipient governments. After the signing of E/N, Japanese consultants have to negotiate directly with recipient governments and sign contracts. This causes many problems for Japanese consulting firms, which often find their counterparts intentionally delaying the planned schedule unless they receive financial contributions (Araki, 1998b; *Asahi Shimbun*, 1998a; *Asahi Shimbun*, 1998b; *International Development Journal*, 1998b; *Nikkei Weekly*, 1998b; *Asahi Shimbun*, 1998d; *International Development Journal*, 1999k). However, no matter how unfairly the ODA system works for Japanese firms (by imposing a serious time limit and forcing them to directly deal with corrupt recipient officials), the public does not approve of corporate corrupt behavior such as giving bribes using taxpayers' money. A public outcry has demanded structural reform in ODA to eliminate such corruption (*Japan Times Weekly International*, 1999).

In addition to bribery, another practice that has caught public attention is *dangō* (bid-rigging). *Dangō* aims at maintaining high costs and at eliminating market competition. This practice is widespread in Japan's domestic public works, and thus it is not surprising that *dangō* is prevalent in overseas aid projects that involve Japanese firms. This practice in ODA is costly for taxpayers, resulting in inflated design fees, exaggerated cost estimates, and selection of inappropriate equipment by consulting firms to benefit the anticipated contractors. In 1994, Japanese newspapers published a Fair Trade Commission (FTC) investigation of an alleged *dangō* practice committed by nearly forty Japanese firms (including major

other countries and local grassroots groups, succeeded in terminating the aid on the ground that large numbers of indigenous people would be forced to relocate. The second case also involves environmental NGOs concerned about the impact of Japanese aid on the local environment. NGOs campaigned against Japan's ODA project in Cambodia, a grant aid project began in 1992 to provide pesticides to the country. Again, Japanese environmental NGOs, in collaboration with NGOs of other countries, succeeded in canceling an aid project that they viewed as harmful to the local people and environment. The last case is an antilandmine campaign that led the Japanese government to sign and ratify the Mine Ban Treaty in Canada in 1997 and 1998 respectively and to increase ODA funds for landmine eradication and victim assistance.

Each of these cases made officials in the Ministry of Foreign Affairs (MOFA) reconsider Japanese ODA and foreign policy and forced the ministry to change preexisting policies. These are the first three major NGOs campaigns against government foreign policies and also the first three major successes Japanese NGOs have had vis-à-vis MOFA. They represent significant milestones in Japan's civil society-state relations and ODA history. Before examining these three cases, I will first provide a brief overview of NGO advocacy campaigns.

NGO Aid Reform Campaigns

The ODA reform movement by NGOs began in the mid-1980s, following the sharp increase in media coverage of ODA discussed in Chapter 3. After the media revelation of the Marcos scandal, some Japanese citizens started grassroots groups to investigate how the Japanese government manages its rapidly expanding ODA program in collaboration with Japanese businesses and recipient governments.

One such group is the Reconsider Aid Citizens' League (REAL), established in 1986 by aforementioned Sophia University professor Yoshinori Murai. REAL is Japan's first NGO dedicated to changing Japanese aid. To further promote investigation on aid, Murai and others established another group called the ODA Investigation Study Group in 1988. This group, consisting of about 30 Japanese people from its subgroups in Japan, the Philippines, Indonesia, and Thailand, published a booklet of onsite reports on ODA projects. The booklet pointed to business and political interference in ODA and claimed that many Japanese aid projects do more harm than good to the poor in developing countries (Murai, 1991). This claim shocked many Japanese, who had assumed that their tax money was being used for humanitarian purposes.