

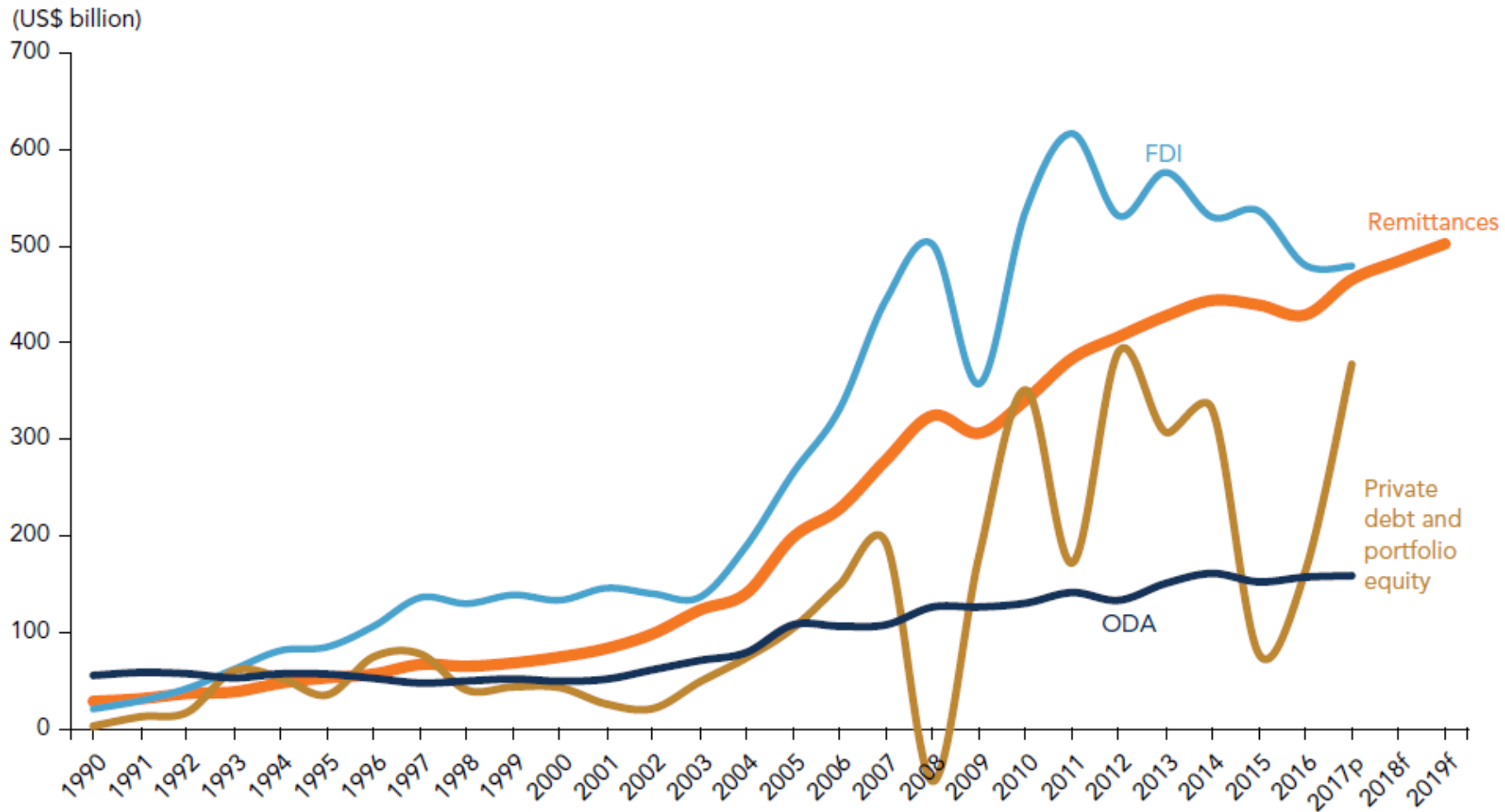
Official Development Assistance (ODA)
AID, or “Economic Cooperation”

Changing international development finance

- Official Development Assistance (ODA) as the largest inflow in early 1990s
- Private capital > Public capital (Series of monetary easing + deregulations)
- Rapid rise of FDI (since 2000s)
- Fluctuating loans and equity investment
- Stable but falling share of ODA
- Soaring remittance to take over FDI (← Movement of persons), especially without China
- Emergence of new donors (China, India...): From assistance to “Economic cooperation”? (BRI)

Changing structure of net capital flows to developing economies

(Source: Migration and Development Brief 29, KNOMAD, World Bank)

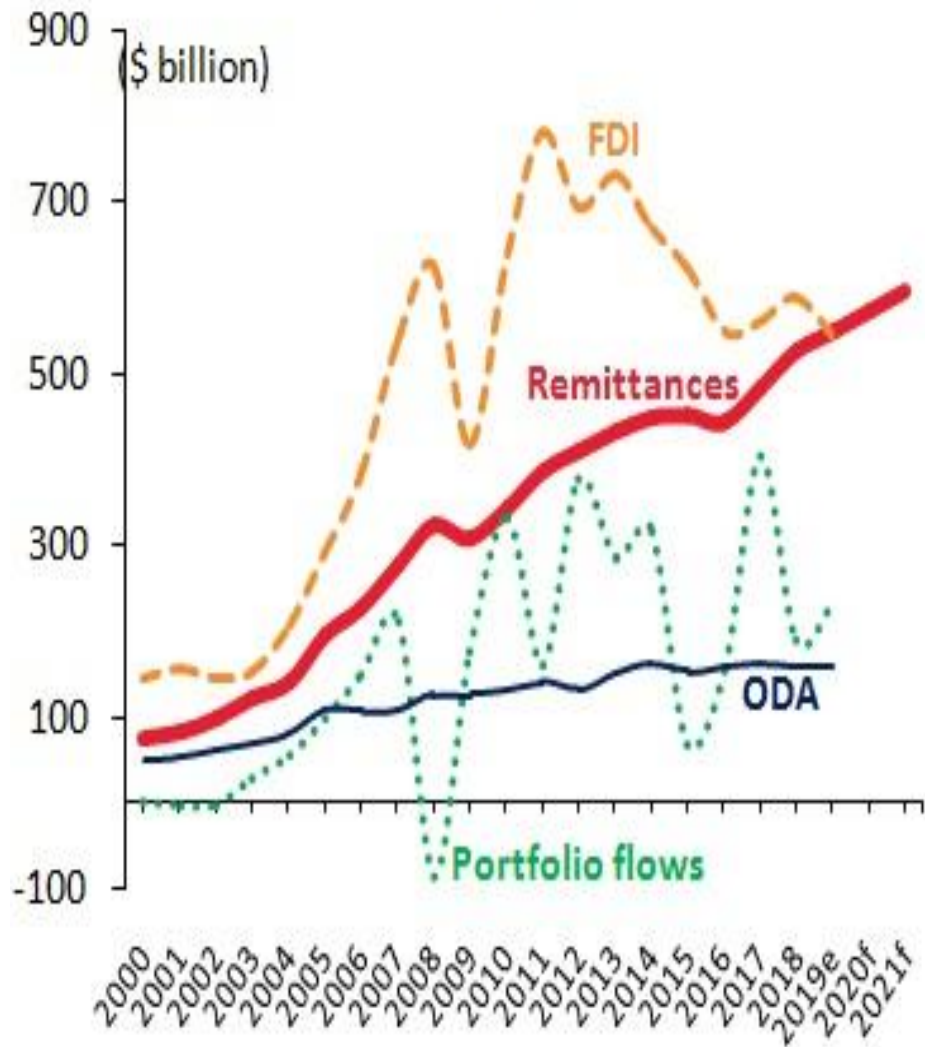


Sources: World Bank staff estimates; World Development Indicators.

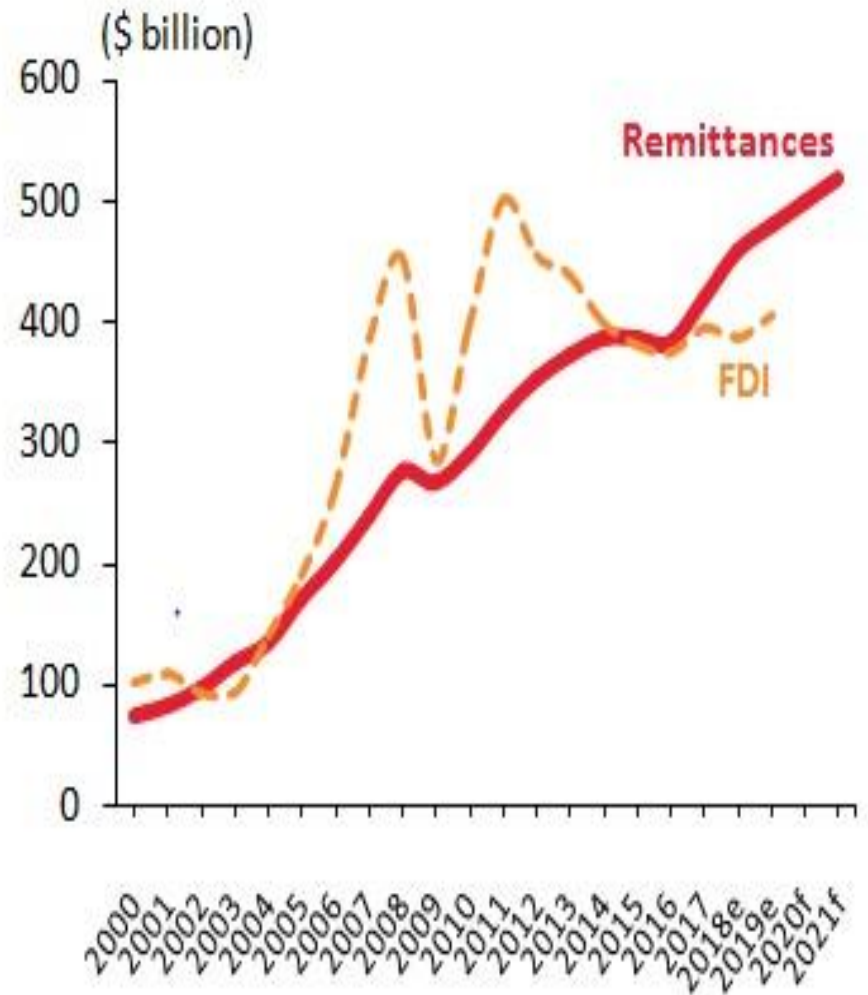
Note: FDI – foreign direct investment; ODA – official development assistance. See appendix A in World Bank (2017b) for data and forecast methods.

Excluding China.....

(a) Global flows including China



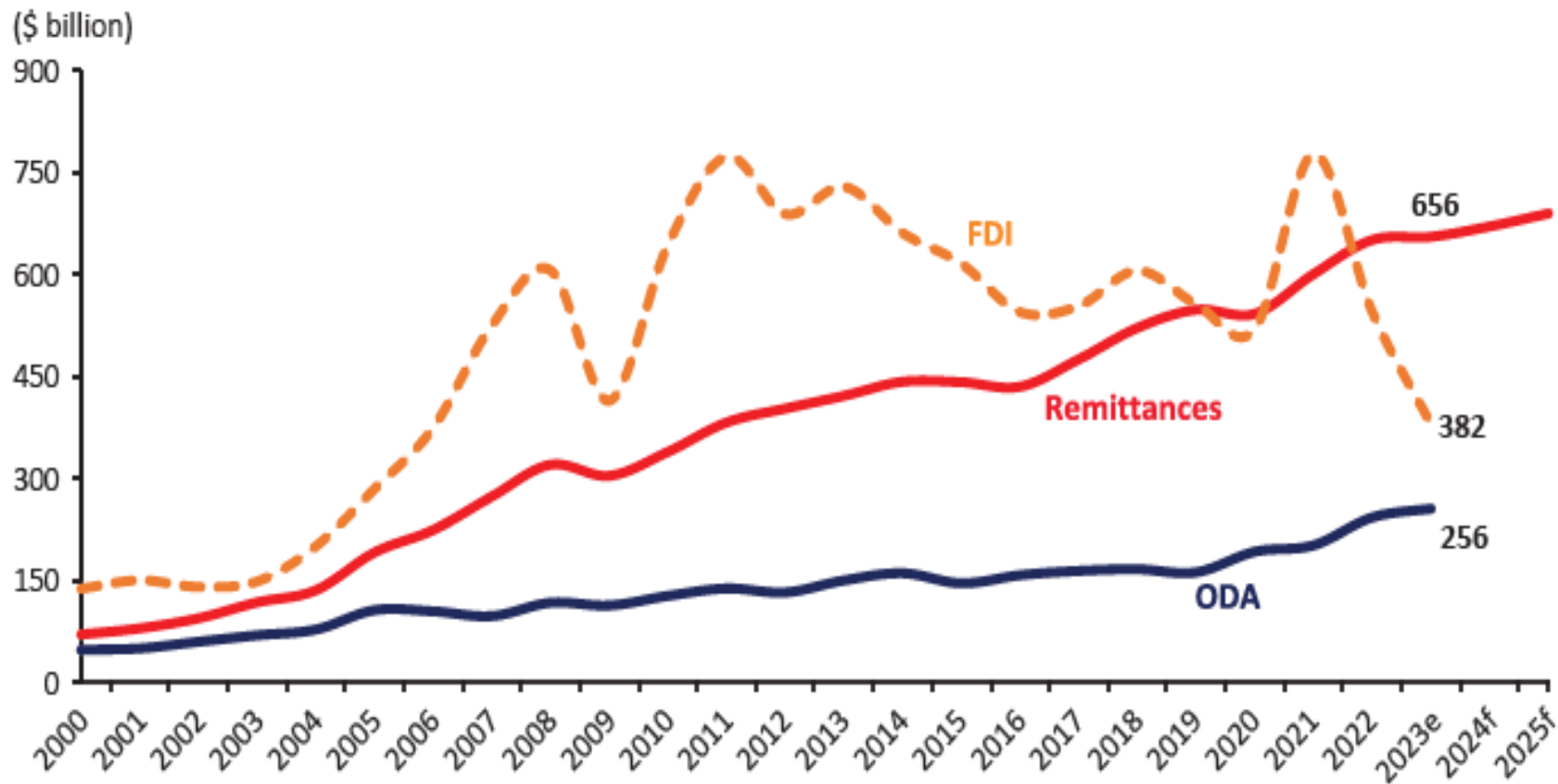
(b) Global flows excluding China



KNOMAD Report “Migration and Development Brief”

(Source: <https://economymiddleeast.com/news/remittance-flows-to-low-middle-income-countries-moderated-in-2023-reaching-656-billion-world-bank>, June 2024)

Figure 1.1 Remittances Larger than FDI and ODA Combined in 2023



Source: World Bank/KNOMAD staff estimates.

Note: f = forecast; FDI = foreign direct investment; ODA = official development assistance.

Background for private capital

- Change in international finance (Better access if opened the capital markets)
- Change in development strategies (Endogenous growth by innovation rather than capital accumulation)
- Change in the North: Aid fatigues, Skepticism for Aid (Aid efficiencies), Budgetary constraints
- Changing aid regime: NGOs, CSR by firms → Increasing management cost (Donors) → Aid coordination
- Aid volume (J. Sachs) vs. Aid quality (Easterly) → Quantitative evaluation for aid projects

Two-gap Model for ODA

- Two gaps faced by developing countries: Investment-Savings gap and Foreign reserve gap (Chenery-Strout model)
- Aid can cover both: $Y(\text{GNI})=C+I+(X-M)$ and $Y=C+S$ (G is excluded) Then, $I-S$ (Saving gap) $=M-X$ (Forex gap)
- Aid classification
 - (1) Grant: No reimbursement
 - (2) Concessional loans: High Grant Elements (GE) ratio $> (25\%)$ compared to allocation by the market
$$GE=100 \times (1-r/d) [1-(1/(1+d))^G - 1/(1+d)M/d(M-G)]$$
(r: reimbursing interest rate, d: standard discount rate typically 10%, G: Grace period, M: Reimbursement period) \rightarrow GE is higher with lower r and longer d
 - (3) Technical cooperation: Expert dispatch, Trainee

ODA: The basic rules and Categories

- How to offer aid?: Traditionally *project aid*
(*Finding projects to assist the costs*)
 - *Investment cost and Imported goods by donors (ex, Construction costs and foreign goods)*
 - *Running costs, and Domestic goods allocation by recipients (domestic goods without exchange rate risks)*
- Debt problems in 1980s → *Non-project (Program) assistance*
 - Capacity building for reimbursing debts (ex. Structural Adjustment Lending (SAL) with conditionalities)
 - * Controlling the domestic currency problems
 - * Quick disbursement (No estimation like in project aid for domestic procedures)

Fungibility and Governance in ODA

- Success of program assistance depends on the use of the fund: Fungibility problems if ODA was used for different purposes (ex. Military expansion)
 - Common monitoring for the expenses
- Good governance by efficient government (politicians, bureaucrats)
 - Anti-corruption efforts
 - “Aid effectiveness” debates (Burnside, Dollar (2000): Aid helps growth with good governance
 - Easterly (2006): Problems lies in how to use aid
- “Aid bombardment”: Aid implementation constraints/ costs by too complicated aid structures
 - Aid coordination efforts (OECD-DAC) for cost reduction

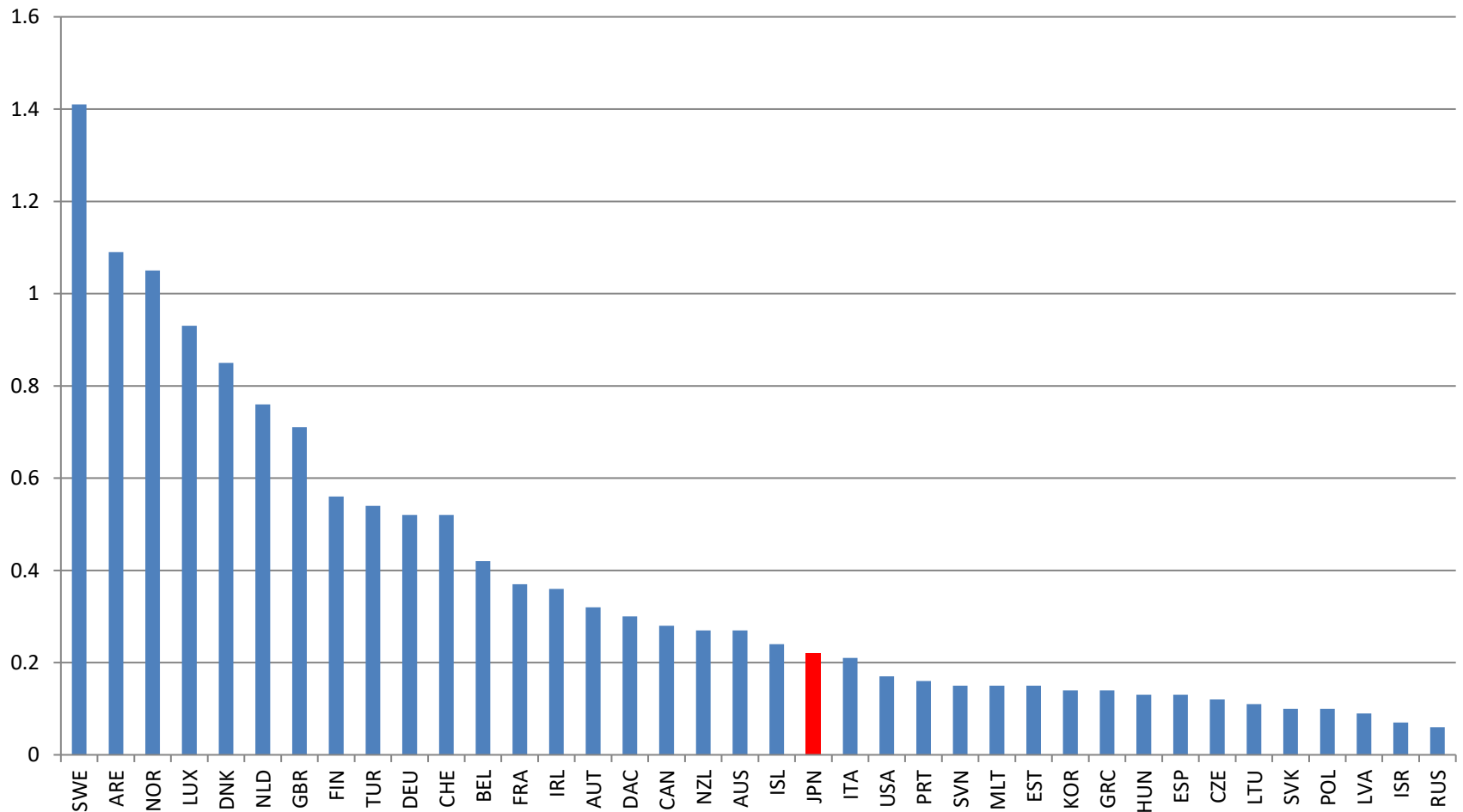
Efforts for Aid Effectiveness

- 2005 Paris conference for 5 Principles
 - ① Aid Ownership
 - ② Policy-Institution alignment
 - ③ Donor harmonization
 - ④ Management for development results
 - ⑤ Mutual accountability
- Donor harmonization: ex. Budget supports (General/ Sectors (Agriculture, Public health...)) \Rightarrow Common Basket by global development organizations, government bodies, Sector wise approaches....

Japan's ODA

- Traditionally the big donor: No.1 donor from 1983-2000, but has been gradually falling in 2000s to No.4 donor
- But smaller expense by GDP (DAC goal in 0.7%>0.2%)
- Basic characteristics
 - 1) First non-Western DAC member
 - 2) Unique presence: War time compensation for Asia, Loans>Grant, Request basis (Weaker human rights fundamentalism (unlike EU), Weaker democracy propaganda (unlike US) → Ownership approach
 - 3) Commercialism?: Aid as the vanguard for FDI and trade growth
 - 4) Technology cooperation: Hardware orientation (ex. civil engineering, agriculture...) to software

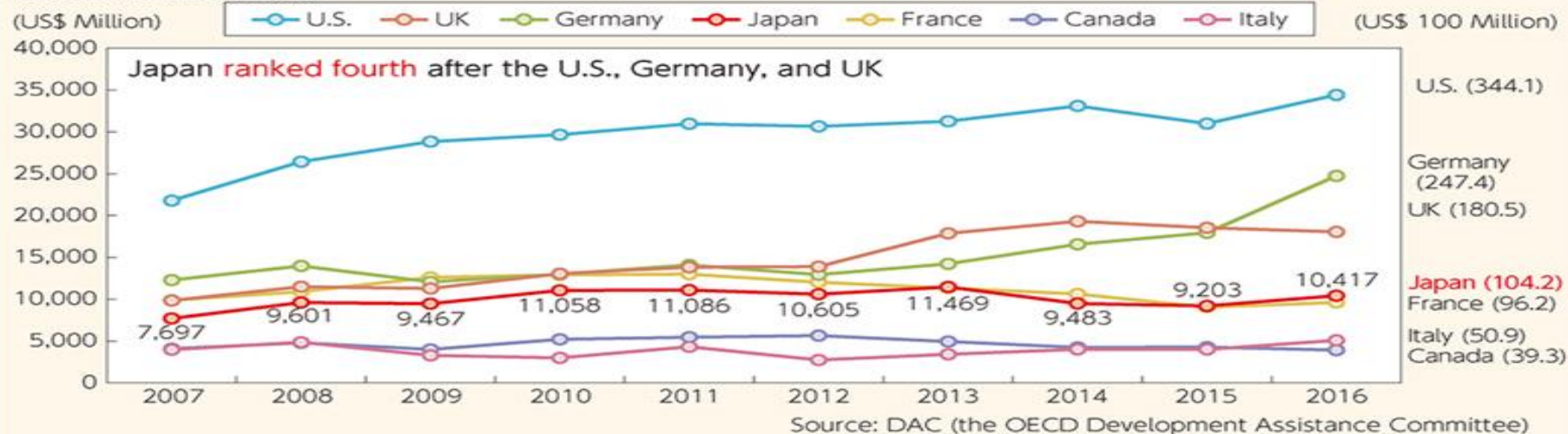
NET ODA/GNI (%) (OECD data)



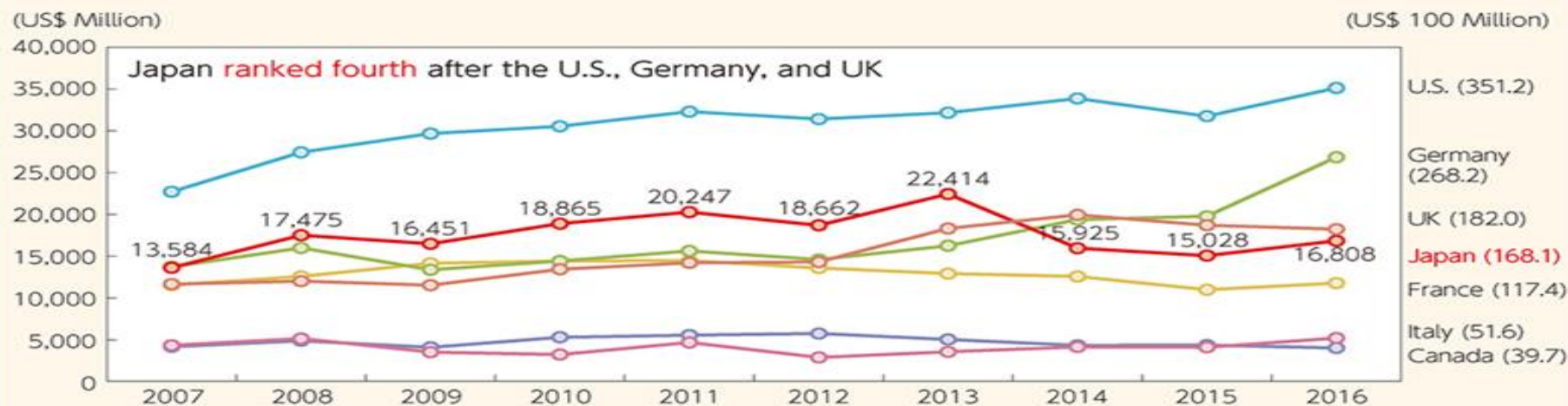
Japan and other ODA donors

Recent Trend of ODA by Major Donors

Net ODA Disbursements



Gross ODA Disbursements



Note: Since China is not a DAC member, it is not placed under an obligation to report its disbursements to DAC. According to China's official announcement, the foreign disbursements of the country accounts for 2.366 billion US dollars.

Source: DAC (the OECD Development Assistance Committee)

Japan's ODA (2): Challenges

- Commercialism again?: Responding commercial aid criticism from the West (1980s), Japan reduced “tied” project ratio substantially (since 1990s the lowest among the DAC members (Open bidding, local business sector enhancement)
 - ← Competitions in ODA (Matured economies and Emerging donors like China, India....) → Yen Loans for tied projects (“Special Terms for Economic Partnerships”) again
 - ← Change of ODA Principles (2014): ODA use for middle income countries, Military related goods
- Accountability/ Transparency reform, Donor coordination within Japan, Donor coordination with the “graduated” countries (Political constraints for China, Korea but expanding potentials with ASEAN)
- Generalization of successful experiences in Asia for Africa

New challenges for ODA

- 2000s~ : New Donors out of DAC
(China with BRI (Belt and Road Initiative) and AIIB (Asian Infrastructure Investment Bank), India, Middle East, NPO and NGOs....)
→ Different ideas for development, but complications for coordination (ex. DAC standard for environment, human rights....)
- Traditional donors' efforts for fiscal constraints
ex. UK: Future Flow Securitization (Issuing bonds for future investment)
ex. France: Tobin tax for financial transaction
ex. US: Millennium Challenge Account for better governed LDCs and BOP business for the private sector

Suggested Readings

- Burnside, C, and D. Dallar (2000) “Foreign Assistance and Economic Growth”, *American Economic Review*, No.90, No.4, pp.847-868.
- William Easterly (2008) *Reinventing Foreign Aid*, The MIT Press
- ----- (2007) “The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good” Penguin books
- KNOMAD (various year) “Migration and Development Brief”, World bank group
- Emma Mawdsley (2012) *From Recipients to Donors: Emerging Powers and the Changing Development Landscape*, Zed Books
- Yasuyuki Sawada, 2014. "Japan's Strategy for Economic Cooperation with Asian Countries," Public Policy Review, Policy Research Institute, Ministry of Finance Japan, vol. 10(1), pages 53-76, March.
- Hidemi Kimura & Yasuyuki Todo, 2009. "Is Foreign Aid a Vanguard of Foreign Direct Investment? A Gravity-Equation Approach," Development Economics Working Papers 22881, East Asian Bureau of Economic Research.