Abstract: Focusing on Japanese foreign aid administration, or officially called Official Development Assistance (ODA), this paper discusses two trends since the 1990s, specifically two kinds of changes, which seem to contradict each other. One trend is “participatory ODA,” in which the Japanese government, including the Ministry of Foreign Affairs (MOFA), eagerly asks Non-governmental Organizations (NGOs) to participate in aid activity. The other is the increasing attempts of MOFA to “steer” Japanese ODA so as to gather more information on the needs of potential recipients and organize coherent aid strategies. This paper seeks to contribute to the understanding of these seemingly contradictory trends using the framework of governance, especially that of governance as networks.

This paper first reviews the existing literature on or potentially relevant for Japanese ODA, which reveals that the dominant perspective has rarely assumed an interdependent relationship between the public and private sectors. Next, this paper examines why scholars have not focused on networks in the past and concludes that one possible reason is the prior existence of a unilateral relationship between the sectors whereby the private section did not have to cede its autonomy to the public one. It then
looks at how the situation concerning ODA has changed since the mid-1980s as
evidenced by the Japanese government’s leadership in the field and its attempts to
establish national aid strategies as well as by the increasing participation by the private
sector, especially by NGOs. After that, this paper goes on to discuss how the public
sector has become more systematic with respect to ODA, focusing on two important
examples: the setting up of country and regional study groups and establishment of a
system of feedback among MOFA, the Japan International Cooperation Agency (JICA)
and the Institute for International Cooperation (IFIC). Finally, by means of an empirical
analysis, this paper examines the effect of the institutional changes on the behavior of
businesses with respect to ODA and concludes that such changes have had a statistically
significant effect on business, thereby supporting the use of “governance as networks”
as a viable approach to study the distribution of Japanese ODA.

*Keywords*: foreign aid, ODA, public policy, governance as networks
Introduction

Recently, the participation of citizens in policy implementation has increased rapidly and changed the way of looking at public policies. For example, in the area of social welfare, local governments pay public funds to qualified NPOs to care for the elderly. The care system started in FY 2000, and as of the end of 2003 more than 14,000 NPOs have qualified and serve seniors (Hattori 2004). In general, participation is considered to be equal to the empowerment of people, but it is not completely without problems. In the case of nursing elders, some NPOs have been criticized for ignoring standards and unexpectedly exercising too much discretion.

Those who appreciate the market mechanism in problem-solving may overlook this kind of dilemma. Here lies the issue concerning mechanisms to solve the problem of allocating resources. Rhodes (1999, xviii) says that the market mechanism is not the only such mechanism available but that there are at least three kinds of mechanisms, or “governing structures” in his words: markets, hierarchies, and networks. Characteristics of each are summarized in Table 1. One can notice that, unlike in markets in which prices enable exchanges and in hierarchies in which authoritative orders and controls are determinative, in networks interdependent actors exchange resources (e.g., information) on the basis of trust.
Table 1: Characteristics of the Three Mechanisms

<table>
<thead>
<tr>
<th></th>
<th>Markets</th>
<th>Hierarchies</th>
<th>Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis of Relationships</td>
<td>Contract and property rights</td>
<td>Employment relationship</td>
<td>Resource exchange</td>
</tr>
<tr>
<td>Degree of dependence</td>
<td>Independent</td>
<td>Dependent</td>
<td>Interdependent</td>
</tr>
<tr>
<td>Medium of exchange</td>
<td>Prices</td>
<td>Authority</td>
<td>Trust</td>
</tr>
<tr>
<td>Means of conflict resolution</td>
<td>Haggling and the courts</td>
<td>Rules and commands</td>
<td>Diplomacy</td>
</tr>
<tr>
<td>and co-ordination</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td>Competition</td>
<td>Subordination</td>
<td>Reciprocity</td>
</tr>
</tbody>
</table>

Source: Copied from Rhodes (1999, xviii)

Among many approaches regarding governance, and currently trendy among academics, “governance as networks” emphasizes the effectiveness of networks. One of the important characteristics of this approach is that it highlights the role of the public sector in steering a country’s policies while simultaneously assuming an interdependent relationship between the public and private sectors. Studying the “indirect government” or the “vending machine model of government service,” Kettl (2002, 500) claims that “networked relationships puts [sic] greater emphasis on the bridge-building, boundary spanning skills of managers [i.e. public administration].” ³

The problems surrounding NPOs that care for the elderly show that one can apply the framework of governance as networks to actual public policies. Scholars tend to consider ODA as an exception to such policies, but this attitude risks discouraging
people from studying public policies from a comparative perspective, and finding common characteristics and making general statements. Claiming that governance as networks can explain changes in Japanese ODA since the 1990s, this paper places foreign aid within the field of public policies.

This paper first reviews the existing literature on or potentially relevant for Japanese ODA, which reveals that the dominant perspective has rarely assumed an interdependent relationship between the public and private sectors. Next, this paper examines why scholars have not focused on networks in the past and concludes that one possible reason is the prior existence of a unilateral relationship between the sectors whereby the private section did not have to cede its autonomy to the public one. It then looks at how the situation concerning ODA has changed since the mid-1980s as evidenced by the Japanese government’s leadership in the field and its attempts to establish national aid strategies as well as by the increasing participation by the private sector, especially by NGOs. After that, this paper goes on to discuss how the public sector has become more systematic with respect to ODA, focusing on two important examples: the setting up of country and regional study groups and establishment of a system of feedback among MOFA, JICA and IFIC. Finally, by means of an empirical analysis, this paper examines the effect of the institutional changes on the behavior of
businesses with respect to ODA and concludes that such changes have had a statistically significant effect on business, thereby supporting the use of “governance as networks” as a viable approach to study the distribution of Japanese ODA.

**Extant Studies and Their Views on Mechanisms**

1. The Dominant Perspective Has Rarely Assumed an Interdependent Relationship between the Public and Private Sectors

Prior literature assumes either bureaucratic dominance or business’ controls over ODA, where cooperation, that is networks, between the political / administrative and business elite is not considered.

For example, Rix (1980) contends that the decision-making process of the Japanese government is characterized by conflicts among ministries, which are assumed to represent the diversified interests in Japanese society. Citing the example of the Ministry of International Trade and Industries (MITI) [currently the Ministry of Economy, Trade and Industry (METI)]\(^4\), considered by him to be one of the most influential ministries, Arase (1995) explains the concentric structure of Japanese aid administration where the ministry is core, agencies surround the core, and private actors are in the periphery (Arase 1995, 197). These studies consider the elite to be dominant
over private actors, and the autonomy of the latter is rather discounted, despite the fact that quite a few of these studies conclude that business interests contribute in some way to Japanese foreign aid.

Sumi’s (1989) is among the studies that have criticized the manner in which Japanese foreign aid is managed, claiming that Japanese ODA is dominated by business interests including consulting firms and that people in developing countries suffer from Japanese aid projects. Sumi assumes that the private sector controls foreign aid. He advocates the strengthening of public organizations by merging the existing multiple agencies which deal with ODA. It is interesting that he never considers the interdependent relationship between sectors as preferring the public control of the private sector to the private control of the public sector.

In sum, many extant studies tend not to pay full attention to the various possibilities within the framework of governance as networks.

Of course, not all prior literature has ignored the cooperative, or rather interdependent, relationship between the public and private sectors. Kato (1998), for instance, emphasizes the interdependence between the political / administrative elite and private actors with respect to Japanese foreign aid. He contends that the Japanese government and companies have had close contact and the latter has shared information
on developing countries with the former. Readers may notice that he devotes more
time in applying his theory to German cases than to Japanese ones. One wishes that he
had spent more time applying the framework of governance as networks to Japanese
cases.

2. Why Scholars Have Not Focused on Networks: Existence of a Unilateral
Relationship between the Public and Private Sectors.

A literature review in the field of foreign aid shows that people have rarely focused
on the interdependent relationship between the public and private sectors in Japan.
This section discusses the background and reason for this.

Due to the dearth of public policy literature specific to Japanese ODA, reference to
general public policy literature focusing on the interdependence between the public and
private sectors may be useful. Looking at the framework of governance as networks
with respect to public policies in general, one can notice that an interdependent,
although not necessarily equal, relationship is assumed among members of networks.
Rhodes (1999) believes that exchange of resources results in the smooth working of
networks. Though using the words “new governance instruments,” Peters (2005, 80)
states that since actors need others’ cooperation, they trade their assets. He points out
that “social actors … must also cede some autonomy in order to gain direct involvement in the policy-making processes” (Peters 2005, 80).

Peters’ comment concerning public policies in general, however, does not necessarily apply to Japanese firms involved in foreign aid between the end of the Second World War and the mid-1980s, and one may conclude that this could be a reason that many extant studies have not considered networks as a problem-solving mechanism. To understand the background of Japanese ODA, one must look at both qualitative and quantitative studies on Japanese foreign aid administration.

Examining the relationship between the public and private sectors with respect to Japanese ODA during the aforementioned period, some quantitative studies conclude that Japanese private consulting firms have exercised some influence on Japanese foreign aid, although they focus on different aspects of the ODA process. Looking at the linkage between the number of projects major Japanese consultants recommended to developing countries between FY 1964 and FY 1974 and the number of projects the Japanese government accepted, Rix (1980, 207) finds that more than 10 percent of the projects Japanese consultants had promoted were actually realized as Japanese ODA projects. Focusing on one of the largest and oldest consulting companies in Japan, Nihon Koei Ltd., Mori (1995, 100) shows a positive correlation between the business
profits of the consulting company and the amount of yen loans given as a part of ODA between FY 1968 to FY 1990.\textsuperscript{5}

One can interpret these studies from two different perspectives. Some may insist that these data are evidence that Japanese private companies had some influence on Japanese ODA. Others may interpret that the consulting firms were controlled by the government, which wanted to strengthen links between Japan and developing countries, especially Asian nations. However, some qualitative studies can be used to refute the latter conclusion and enable one to notice that certain social sectors did not have to cede their autonomy because the government could not but rely on them.

One example is the yen loan to India in FY 1958. This was the first time the Japanese government had given ODA in the form of a yen loan. According to a study, Mitsubishi, a private trading firm but not necessarily a consultant, persuaded MITI and other competent ministries, which were reluctant to provide foreign aid to the country, maintaining that India was a very large market to sell Japanese products (Nagano and Kondo (Eds.). 1999, 205).

Consulting firms possessing more information than the Japanese government had influenced ODA decisions in a more explicit way. Rix (1980) explains that, given that Japanese ODA has been and is distributed in response to a request from a developing
country in need, Japanese consultants connected with developing countries, especially Asian countries, could easily find their favorite projects accepted as projects for Japanese ODA. This is because, during WWII, many Japanese consultants independently conducted surveys in Asian countries and established strong links with their governments. As a result, private consultants had been privy to much more information about Asian countries than the Japanese government, and thus, they had been in a better position to more easily identify the needs of Asian countries. Consultants with an extensive amount of information had been helpful not only for the governments of developing countries, but also for the Japanese government which had limited resources in terms of finances and staff (Rix 1980, 200).

For example, Yutaka Kubota, the first president of Nihon Koei Ltd., one of the largest consulting companies in Japan as noted above, independently conducted research on Sumatra, Indonesia during WWII (Sumi 1989, 127-137). In his Asahan Project, he proposed the construction of a hydroelectric dam to enable the refining of crude aluminum. Although Japan’s eventual defeat forced him to give up the project, he lobbied the Japanese government to include it in the list of its reparations. The Asahan Project itself was rejected as a reparation project due to the indifference of aluminum refining companies in Japan, but the Japanese government accepted an
alternative dam project that had also been proposed by Kubota. Without Nihon Koei Ltd. or its information, one of the biggest ODA projects in Indonesia might never have been realized.

That having been said, one can claim that in the post-war era until the mid-1980s the nature of the relationship between the public and private sectors was not bilateral but unilateral. Members of the private sector had often possessed more information and expertise about developing countries than the Japanese government had. This is why members of the Japanese private sector did not have to give up their autonomy concerning foreign aid, and why scholars in this field have not taken “governance as networks” into serious consideration. However, the situation has changed since the early 1990s as the Japanese government has been striving to collect more information on the needs of potential recipients and to make its foreign aid strategies much clearer while simultaneously encouraging more citizens to commit themselves to the implementation of ODA.

Factors Which Have Promoted Changes in ODA Distribution: The Changing Environment

The increasing reliance on civil society since the early 1990s as well as attempts to
gather more information and seek national aid strategies after two scandals in 1986 has led to an emphasis on the various roles of government. Facts show that the framework of governance is applicable to Japanese ODA and that foreign aid faces the same dilemmas as other public policies in Japan.

1. Attempts to Gather More Information and Seek National Aid Strategies

The year 1986 was a memorable year for Japanese ODA because the “Marcos scandal” as well as a Japan International Cooperation Agency (JICA) scandal were brought to light. Since and as a result of those scandals, national strategies on ODA have been sought and several institutional changes have occurred.

In March of that year, the U.S. Senate released several documents concerning Ferdinand Marcos, the former president of the Philippines, who had exiled himself in Hawaii. The documents were thought to be evidence that Marcos had lined his own pockets with national funds. Among them were documents that showed that Japanese firms had continued to contract yen loan projects with the Marcos administration despite unreasonably high charges that had to be paid by the Japanese government along with project costs. The charges were not necessary for the projects themselves and people thought that the Japanese firms had used the surplus as a sort of kickback for Marcos.8
In addition to this Marcos scandal, in fall of the same year, a JICA scandal shook Japan. JICA is an agency under the Ministry of Foreign Affairs (MOFA) and plays important roles in the implementation of Japanese ODA, especially technical cooperation. For instance, JICA is in charge of Development Surveys, which are conducted to determine and assess the needs of developing countries and to “prepare projects” of ODA (the Japan International Cooperation Agency (JICA) 1999, 27). The surveys are usually delegated to private consulting companies. In fact, about “530 consultants are registered with JICA at any time and the most appropriate consultant for each study [of projects proposed by recipient countries] is selected through the proposal system based on a contract with JICA” (JICA 1999, 28). A few JICA staff were arrested for taking bribes from Japanese consulting firms that desired to be selected to undertake Development Surveys.

These two infamous events led Japanese people to criticize their government for lacking coherent ODA strategies for each developing country. This is because coherent strategies, as well as collection of information by the Japanese government accompanied with preparation of the strategies, were thought to be a cure for the corrupt practices of business interests. Faced with the outcry of its constituency, the Japanese government formed country and regional study groups.
In addition to establishing these groups, the government promulgated the ODA Charter in 1992. The charter includes four basic principles to be followed when giving Japanese foreign aid. The first is that the development projects should not harm the environment. The second is that the aid should not be used for military goals in the recipient country. The third is that, when deciding to donate, the government should be attentive to questions such as how much of the budget in the developing country is used for defense, and whether the country has weapons of mass destruction. The fourth is that the Japanese government should pay attention to such matters as the degree of freedom in the country, its achieved level of democracy, and its efforts toward introduction of a market economy.

2. Increasing Private Sector Participation, Especially by Non-governmental Organizations (NGOs)

Soon after the Japanese government began its attempts to make coherent national aid strategies, the Cold War ended and the call for effective use of the budget started to be seen also in the realm of ODA, which, unlike other policy areas, had been exceptionally increased for security reasons due to the Japanese constitution’s prohibition on the government’s provision of military aid. The government began to
encourage Japanese NGOs to involve themselves in the implementation of Japanese ODA.

Two schemes for encouraging a partnership between the administrative sector and NGOs have been introduced since the end of the 1980s: financial assistance for NGOs and consultation with NGOs regarding implementation of ODA. The former has a longer history, that is to say, the “grassroots grant aid scheme” and “NGO project subsidy scheme” started in FY 1989. In FY 2002, a grassroots technical cooperation scheme, entitled the JICA Partnership Program (JPP), commenced. The aim of the JPP is “to support and cooperate with the implementation of projects formulated by Japanese NGOs, Japanese local governments, and Japanese universities to utilize their accumulated knowledge and experience in assistance activities for developing countries.”

A new aid fund, entitled the Japan Platform (JPF), is an illustrative example which shows that the roles of NGOs have become so important that NGOs are being given more leverage in implementing ODA. The fund, started in 2000, consists of contributions by MOFA and Japanese firms as well as private individuals. Based on implementation policies decided at meetings in which representatives of NGOs take part, the pooled money is provided to developing countries in cases of disasters and
other emergencies through Japanese NGOs. The scheme was utilized to assist Iraqi
refugees camped near the Jordanian border after the collapse of the Hussein
administration. International Cooperation Plaza (2004, 5) remarks that the
effectiveness of the scheme was highly evaluated by international society.

The amount of the ODA budget which MOFA gives to Japanese NGOs through
various schemes has been increasing. Though it was 1.52 billion yen in FY 1998, the
Japanese government gradually increased the budget to 1.86 billion yen in FY 1999,
3.02 billion yen in FY 2000, 3.99 billion yen in FY 2001, 5.65 billion yen in FY 2002,
and 7.01 billion yen in FY 2003 (Saotome 2003). Given that the total amount of
Japanese ODA decreased during the same period, from 1.41044 trillion billion yen in
FY 1998 to 1.02915 trillion yen in FY 2003, the increase was notable.

The caveat is that studies, such as that of Saotome (2003, 70), claim that the roles
of the NGOs in formulating aid strategies are relatively small compared with those in
implementation. Saotome’s (2003) comment coincides with this paper’s contention
that governmental steering is inevitable even if the number of implementing actors
increases. However, it is necessary to examine more evidence to support this
contention. Here is a key question: is it really the case that the public sector has
become more systematic in its steering of Japanese foreign aid? If it is, one may safely
say that “governance as networks” is of help in this field. If it is not, the changes in
Japanese foreign aid since the 1990s stand for mere outsourcing and Japanese ODA can
be more clearly analyzed from the perspective of market-oriented approaches.

**Trend Towards a More Systematic Public Sector**

1. **Setting Up Country and Regional Study Groups: From the Private to Public Sector**

   Country and regional study groups for Japanese ODA (Country Study Groups) are
   ad hoc bodies within the Institute for International Cooperation (IFIC), an agency of
   JICA, established to collect and analyze information concerning the political, economic,
   and social status of developing countries and regions. The group also considers and
   redirects the future plans for Japanese ODA. Country Study Groups were first set up in
   1986. Given that the idea of having Country Study Groups arose out of the public
   outcry for reform following the Marcos scandal in the Philippines, it is reasonable that
   the first Country Study Group dealt with aid to that country.

   **Table 2** indicates how many members of Country Study Groups were from the
   business sector, JICA and NGOs and other sources. As the table shows, although the
   government has sought to encourage NGOs to participate in the implementation of
ODA, JICA staff predominate over people from such organizations as NGOs. It is also interesting that businesspersons seem to have been gradually excluded from the process. Although originally involved in the Country Study Groups as administrative support-staff, over the years JICA staff have come to play a significant role as “members” of the Country Study Groups. It may be safe to say that JICA staff make the voice of the public sector louder.

Table 2: Backgrounds of Country Study Group Members: Where Do They Come From?

<table>
<thead>
<tr>
<th>Year of Publication of Country Study Group Report (Number of Reporting Groups)</th>
<th>Business society</th>
<th>JICA</th>
<th>NGOs and Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1987 to 1989</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 1990 to 1992 10</td>
<td></td>
<td></td>
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<td>From 1993 to 1995 10</td>
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<td>From 1996 to 1998</td>
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<tr>
<td>From 1999 to 2001</td>
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<td></td>
<td></td>
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<tr>
<td>From 2002 to 2004</td>
<td>14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*: Except members from JICA, JBIC (the Japan Bank for International Cooperation), JETRO (the Japan External Trade Organization), universities, national organizations, and think-tanks.

**: This member is a technician in a private firm, which contrasts with previous years when people came from business associations.

2. Establishing a System of Feedback among IFIC, MOFA and JICA

In the late 1990s, the Japanese government established an additional system to gather information on developing countries and to make concrete ODA strategies, including JICA country programs and Japan’s country assistance strategies.
JICA country programs comprise the policy for JICA’s implementation of ODA. For principle, they are confidential and people who have access to the programs are generally JICA staff. We know only two facts. First, the programs address general as well as specific projects that the Japanese government thinks are important for the countries. Second, it is said that in FY 2003 programs were prepared for 58 developing countries.¹²

Japan’s country assistance strategies are literally the national strategies developed mainly by MOFA. The first strategies were devised in March, 2000. As of November, 2005, strategies for 19 developing countries were completed.¹³

IFIC, MOFA, and JICA have a symbiotic relationship based on mutual feedback. First, IFIC sets up a Country Study Group for ODA to a country and publishes a report on the country. Second, MOFA and its consulting body develop the country assistance strategy for the country based on the Country Study Group report. Third, JICA formulates the county program to achieve the goals set in the country assistance strategy. Fourth, a request for the establishment of a new Country Study Group may be made since the Japanese ODA, given to the country based on the previous Country Study Group report, may have changed the country’s circumstances, and more up-to-date solutions may be necessary.
Thailand is a suitable example. The first Country Study Group report was published in 1989, and the second one in 1996. After four years had passed since the publication of the second report, the country assistance strategy for Thailand was completed. Since the Japanese government thought that Japanese ODA, based on the strategy, had improved the Thai economy and society, a new Country Study Group was established. It published the third report in 2003. Two years after that, revision of the country assistance strategy was commenced.

**Table 3** shows that only a few country assistance strategies have been devised without reliance on previously compiled country study reports. These tables are evidence that the public sector has become more systematic with respect to ODA, which supports the approach of governance as networks.
<table>
<thead>
<tr>
<th>Country</th>
<th>Year of Publication of the First Country Study Report</th>
<th>Year of Publication of the Country Study Report which Formed the Basis for the Aid Strategy</th>
<th>Year the First Aid Strategy was Determined</th>
<th>Year of Publication of a New Study Report Following the Determination of Aid Strategy</th>
<th>Year of Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1988</td>
<td>1995</td>
<td></td>
<td>[2005]</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>1991</td>
<td>2002</td>
<td></td>
<td>No report</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>1991</td>
<td>2003</td>
<td>2005</td>
<td>No report</td>
<td></td>
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<tr>
<td>PRC</td>
<td>1991</td>
<td>1999</td>
<td>2001</td>
<td>No report</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>1993</td>
<td>1993</td>
<td>2002</td>
<td>No report</td>
<td></td>
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<tr>
<td>Nepal</td>
<td>1993</td>
<td>2003</td>
<td></td>
<td>No report</td>
<td></td>
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<tr>
<td>Palestine</td>
<td>1994</td>
<td>1994</td>
<td></td>
<td>No report</td>
<td></td>
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<tr>
<td>Jordan</td>
<td>1996</td>
<td>1996</td>
<td></td>
<td>No report</td>
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<tr>
<td>Mongolia</td>
<td>1997</td>
<td>1997</td>
<td>2004</td>
<td>No report</td>
<td></td>
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<tr>
<td>Tanzania</td>
<td>1997</td>
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<td>2000</td>
<td>No report</td>
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<td>Laos</td>
<td>1998</td>
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<td>No report</td>
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<tr>
<td>Cambodia</td>
<td>2001</td>
<td>2001</td>
<td>2002</td>
<td>No report</td>
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<tr>
<td>Central Asia**</td>
<td>2001</td>
<td>2001</td>
<td></td>
<td>No report</td>
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<tr>
<td>Cuba</td>
<td>2002</td>
<td>2002</td>
<td></td>
<td>No report</td>
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<tr>
<td>Bolivia</td>
<td>2004</td>
<td>2004</td>
<td></td>
<td>No report</td>
<td></td>
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<tr>
<td>Tunisia</td>
<td>2002</td>
<td>2002</td>
<td></td>
<td>No report</td>
<td></td>
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<tr>
<td>Zambia</td>
<td>1994***</td>
<td>1994***</td>
<td>2002</td>
<td>2003*</td>
<td></td>
</tr>
<tr>
<td>Nicaragua</td>
<td>2002</td>
<td>2002</td>
<td></td>
<td>No report</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>2003*</td>
<td>2003*</td>
<td></td>
<td>No report</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Compiled by the author from all of the Country Study Group reports and MOFA's homepage (http://www.mofa.go.jp/).

Regional study groups for the following regions are omitted (the years when reports were published are in parentheses): Africa (1991, 2003), Oceania (1991), Southern Africa (1994), Middle and Eastern Europe (2003).

*: The countries included in the regional study groups for Africa (2003).

**: Uzbekistan, Kazakhstan, and Kyrgyzstan were studied by the group. Among the three, national strategies were devised for two countries: Uzbekistan and Kazakhstan.

***: The countries which were analyzed in the regional study groups for Southern Africa (1994).
Effect of the Institutional Changes: An Empirical Analysis

1. Hypothesis

Here one may raise a results question: Have institutional changes since the early 1990s transformed the policy output, that is, ODA itself?

Hook and Zhang (1998) compare correlations between ODA and several social and economic variables from FY 1986 to FY 1988 with those from FY 1993 to FY 1995. Their conclusion is that the ODA Charter in 1992 did not have a significant influence on Japanese foreign aid administration vis-à-vis trade since the correlations between the characteristics of trade between Japan and the recipient countries and the way ODA was distributed were similar for both periods. However, two problems exist regarding the study. The first is that five years, meaning the time period between FY 1988 (the end of the first period) and FY 1993 (the start of the second period), might be too short a period to expect to see substantial changes. The second is that, as discussed in the previous sections, institutional changes have continued even after the publication of the Charter. Therefore, for a more thorough evaluation of their impact on changes in Japanese ODA beginning in the 1990s, one needs also to study more recent data than those considered by Hook and Zhang.

Rix (1980) concludes that foreign aid followed consulting firms’ activities in the
1960s and 1970s because such firms had succeeded in realizing their pet projects as aid projects. The following statistical analysis in this paper suggests that from FY 1976 to FY 1983 foreign aid followed the activities of consulting firms, a contention similar to that of Rix, but the analysis shows that from FY 1997 to FY 2004 business followed foreign aid policies as a result of institutional changes.

**Hypothesis:** *In contrast to the past when the way ODA was distributed had a less significant impact on business decisions, since the early 1990s ODA has had a significant effect on receipt of orders by private consulting companies in developing countries.*

2. Measurement

This paper uses the following simple model to analyze data from the Engineering Consulting Firms Association (ECFA), which includes most of the major consulting firms in Japan. Specifically, the model is used to examine and compare the past and recent statuses of foreign aid. Period 1, from FY 1976 to FY 1983, represents the past and Period 2, from FY 1997 to FY 2004, signifies the recent period.

\[
\text{BUSINESS } [t, p] = a + b_1 \text{BUSINESS } [t-1, p] + b_2 \text{ODA } [t-1, p] + \epsilon
\]
BUSINESS \([t, p]\) in Period 2 means the percentage of total sales values of foreign orders placed in a given fiscal year, \(t\), by members of ECFA in a specific region \(p\) compared to the total sales values of all foreign orders received by the members of ECFA in the year \(t\). Since complete data on orders in the 1970s and 1980s were not available due to the fact that information from ECFA shows major but not all projects, as an alternative for Period 1 this paper utilizes the available complete data on expenditures for preliminary inquiries before formal orders. The number is reliable since the correlation between the number of major projects in the year \(t\) in region \(p\) and the percentage of the expenditures for preliminary inquiries for the region \(p\) in the year \(t\) vis-à-vis all of the expenditures for preliminary inquiries is high (0.769907) and statistically significant (the risk is 2.58E-07). BUSINESS \([t-1, p]\) stands for the one-year-lagged value of BUSINESS \([t, p]\), that is the percentage of sales values or expenditures for preliminary inquiries in the year \(t-1\) (i.e., the year prior to \(t\)) in the region \(p\) out of the total sales values or expenditures for preliminary inquiries for that year. ODA \([t-1, p]\) is the percentage of Japanese ODA in the year \(t-1\) to the region \(p\) compared to all of the Japanese ODA except that distributed thorough international organizations. The one-year-lagged BUSINESS \([t-1, p]\) data are used as lagged dependent variables because they tend to have a strong
correlation with BUSINESS \( t, p \). The term “a” is the constant while “e” signifies the error term. If incrementalism is the determinative factor with respect to the data of ECFA, \( b_1 \) is expected to be positive and statistically significant. In contrast, if the foreign aid policies of the government exclusively are determinative, \( b_2 \) would be positive and statistically significant. The coefficients are estimated by the Ordinary Least Squares (OLS) without considering the region \( p \), meaning that \( N \) is 32, i.e., 8 years multiplied by 4 major regions. The results of the analysis follow (Table 4).

3. Results

The results indicate that in Period 2 the foreign aid policies of the previous year have had a larger impact on decisions concerning BUSINESS than ODA policies had in Period 1. During Period 2, if Japanese ODA to a certain area increased by one percent, the percentage of the BUSINESS to ECFA members in the region increased by 0.7049 percent. This figure is five times as large as in Period 1, when it changed by 0.1455 percent. The BUSINESS of Period 2 had less influence on next year’s BUSINESS than it did in Period 1. A one percent change in BUSINESS in a region resulted in a 0.7015 percent change in BUSINESS during the following year in Period 1, but in Period 2 it resulted in a 0.3442 percent change, which is less than half of the figure in Period 2.
The third column of Table 4 regarding standardized coefficients shows that, although both independent variables, (i.e., the BUSINESS and the ODA), are important, the latter has more robust influence (0.3556 < 0.6380).\(^{15}\) This result is interestingly surprising given that the lagged dependent variables in statistical analyses tend to have a strong influence.\(^{16}\) At the same time, the result supports the claim that foreign aid distributed by the government leads the business activities of the private sector.

<p>| Table 4: Results of Linear Regression Analysis to Predict the Percentage of ECFA’s Orders or Expenditures for Preliminary Inquiries in a Certain Region Compared to the Total Sales Values of Orders or Expenditures for Preliminary Inquiries by Using a One-year-lagged Percentage of the Orders or Expenditures for Preliminary Inquiries and a One-year-lagged Percentage of Official Development Assistance (ODA) (From FY1976 to FY1983 and From FY1997 to FY2004) |</p>
<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BUSINESS ([t, p])</td>
<td>BUSINESS ([t, p])</td>
</tr>
<tr>
<td></td>
<td>(Standardized Coefficients)</td>
<td>(Standardized Coefficients)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Duration</th>
<th>Period 1</th>
<th>Period 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.6864</td>
<td>0.5210</td>
</tr>
<tr>
<td>BUSINESS ([t-1, p])</td>
<td>0.7015*** (0.6306)</td>
<td>0.3442** (0.3556)</td>
</tr>
<tr>
<td>ODA ([t-1, p])</td>
<td>0.1455** (0.3100)</td>
<td>0.7049*** (0.6380)</td>
</tr>
<tr>
<td>Adjusted R-square</td>
<td>0.7790</td>
<td>0.9740</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

F-values are in parentheses. ***: \(p<0.01\), **: \(p<0.05\), *: \(p<0.10\) (two-tailed)

Sources:

The above is a rather primitive analysis, given the limited amount of information. Nevertheless, results of this linear regression analysis support the claim that, to the extent that the impact of foreign aid exceeds that of business success, i.e., BUSINESS, the governmental attitudes toward foreign aid have influenced private firms. One can interpret that ODA policies somehow determine or re-direct business decisions, unlike in the past when private actors seemed to make stronger attempts and led the Japanese government.

**Conclusion**

Presenting data from IFIC as well as JICA and MOFA, this paper shows that since
the early 1990s the government has attempted to steer foreign aid more strongly than before despite the government’s apparent preference for outsourcing and the increase in the number of actors who are engaged in Japanese ODA. Behind it is the historical fact that the relationship between the public and private sectors has changed from a unilateral one to a bilateral one. It is interesting that two major public organizations for implementation of ODA, that is JICA and JBIC (the Japan Bank for International Cooperation) which provides yen loans, are being merged into one large agency. This means that the public sector’s systematization is still going on.

Although ODA is one of the “deviant examples” (Peters 1988, 146) among public policies, this paper reveals that the implications of the approach of governance as networks can be applied even to the policy area of Japanese ODA. This is because the Japanese government faces the same dilemma in foreign aid as in other fields such as welfare programs. Using such an approach enables people to better understand the common and comparable aspects of public policies in general.

This paper stresses that steering by the government with respect to foreign aid has become more prevalent and even necessary in recent times. However, it is important to recognize the contributions of business interests, NGOs and others as well as dedicated government officials to ODA.
In conclusion, it is hoped that this paper has provided a basic academic framework to understand what has been and is happening in the area of ODA, and that it will promote communication between the public and private sectors.

## Appendix

### Appendix 1: Relevant ministries, agencies and sub-agencies

<table>
<thead>
<tr>
<th>Ministries</th>
<th>Agencies</th>
<th>Sub-agencies</th>
</tr>
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<tbody>
<tr>
<td>MOFA</td>
<td>JICA</td>
<td>IFIC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>--------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>others</td>
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</table>
Appendix 2: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
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<tr>
<td></td>
<td>FY1997-2004</td>
<td>32</td>
<td>1.5</td>
<td>67.3</td>
<td>22.6125</td>
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<td></td>
</tr>
<tr>
<td>BUSINESS [t-1, p]</td>
<td>FY1976-1983</td>
<td>32</td>
<td>8.6</td>
<td>45.8</td>
<td>24.575</td>
</tr>
<tr>
<td></td>
<td>FY1997-2004</td>
<td>32</td>
<td>1.5</td>
<td>67.3</td>
<td>22.64375</td>
</tr>
<tr>
<td>[Independent variable]</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ODA [t-1, p]</td>
<td>FY1976-1983</td>
<td>32</td>
<td>5.6</td>
<td>77.2</td>
<td>24.44375</td>
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<tr>
<td></td>
<td>FY1997-2004</td>
<td>32</td>
<td>3.1</td>
<td>63.2</td>
<td>20.28125</td>
</tr>
</tbody>
</table>

Notes

1 Please do not quote without author’s permission.

2 Although not all types of foreign aid are categorized as Official Development Assistance (ODA), in this paper the term “foreign aid” is used interchangeably with
The approach of “indirect government” seems more similar to New Public Management (NPM), often characterized as market-oriented, than to the framework of “governance.” However, as Akizuki (2006, 190) states, the latter covers a wider range since it deals with questions about who to govern, with whom to govern, and whether governments must govern as well as the question about how to govern, in which NPM is exclusively interested. In addition, Sotokawa (2005) explains that the approach of governance partially overlaps with that of NPM. This is the reason this paper cites Kettl (2002).

Many ministries, including MITI, are engaged in Japanese ODA, and this is why people find Japanese aid administration complex. Appendix 1 of this paper lists some of the major ministries and agencies mentioned herein.

Japanese ODA consists of yen loans, grant aid cooperation and technical cooperation. Among them, yen loan have occupied the majority of the bilateral foreign aid.

The Asahan Project was finally accepted in the 1970s as a regular ODA project rather than as a special reparation project (Sumi 1989, 169-174).

Strictly speaking, the alternative dam project was a special “reparation” project. However, the Organization for Economic Cooperation and Development (OECD) and its Development Assistance Committee (DAC) defined Japanese reparations, including the alternative dam project, as ODA according to its criteria.


In Japanese ODA, free from the Japanese government’s guidance, developing countries themselves must request the projects they want.

The charter was revised in 2003, to suggest that national interests should be a
significant goal of giving ODA.


12 According to a lecture by a member of JICA at Keio University on October 30, 2003.

13 They are Bangladesh (completed in March, 2000), Thailand (March, 2000), Vietnam
(completed in June, 2000 and revised in April, 2004), Egypt (completed in June, 2000),
Ghana (June, 2000), Tanzania (June, 2000), Philippines (August, 2000), Kenya (August,
2000), Peru (August, 2000), PRC (China) (October, 2001), Malaysia (February, 2002),
Cambodia (February, 2002), Tunisia (October, 2002), Zambia (October, 2002),
Nicaragua (October, 2002), Sri Lanka (April, 2004), Indonesia (November, 2004),
Mongolia (November, 2004) and Pakistan (February, 2005).

14 The specific areas studied as p were Asia, Africa, Latin America and the Middle East,
chosen because they are major regions for receipt of foreign aid. Data on the Pacific
Islands, Europe, the U.S., and Canada as well as unclassified data were not used.

15 A comparison of standardized coefficients decides which has a stronger impact.

16 This is true especially when serial correlation exists.

References

Governments in the Era of “Governance”: NPM and NPO]. In Muramatsu, M. (Ed.).
pp. 185-210.


Houkousei” [The future of participatory ODA]. *International Cooperation Plaza, 114*, pp. 4-10.


and New York: Routledge.


