

# How Should the Issue of ODA for Africa Be Addressed?

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THE G8 summit in Gleneagles, the United Kingdom, emphasized the importance of a drastic increase in Official Development Assistance (ODA) to Africa. Asia and Africa are two major ODA recipients and the cumulative amounts of ODA that the two areas have received are almost equal (around \$310 billion during the period from 1960 to 2003). However, the Asian economy has flourished whereas the African economy has stalled. One of the reasons for this difference might be attributed to Japan's ODA for Asia.

Japan is the major donor in Asia and Europe is the major donor in Africa's ODA. During the period mentioned above, 71% of Japan's ODA went to Asia while Europe contributed 55% of its ODA to Africa. The characteristics of Japan's ODA are as follows.

- (1) The fundamental philosophy is to donate fishing rods, rather than fish, so that the recipients can manage their daily lives by catching fish with the fishing rod. This allows the recipients to stand on their own feet instead of just being aided continuously.
- (2) ODA can be divided into four categories, namely grants, loans, technology cooperation and contributions to international organizations. Low interest rate loans, or soft loans, are an important part of Japan's ODA. Of these four categories, Japan's ODA is topped by loans which make up 38% of the total, while grants top Europe's ODA, accounting for 34%. The reason why Japan's ODA tends to take the form of loans is not necessarily to save money but to avoid spoiling the recipient countries by giving away funds. The obligation of the

recipient countries to repay those loans imposes discipline on their fiscal and economic policies in general. On the other hand, the management of soft loans requires donor countries to watch the recipient countries' economic growth and productivity improvement, which are closely related to the repayment of debts.

- (3) Japan's ODA is often used to develop the economic infrastructure such as electricity power generation or port facilities which are indispensable for private sector participation, including foreign direct investments. Nowadays most developed countries, including Japan, are suffering from fiscal deficits, and securing adequate budgets for ODA is difficult. Combining ODA with foreign direct investments in developing countries, for example, is therefore the most efficient way to help the recipient countries achieve high economic growth with the limited ODA budgets of developed countries. In this regard, Japan's ODA has been particularly conducive to Asian economic growth because most of it has been used to create the economic infrastructure which is needed to invite foreign direct investments.

Japan's ODA budget has been declining since 1997. However the amount was the highest in the world throughout the 1990s. If we take a look at the ODA statistics of the major donor countries, Japan had kept its rank as No.2 during the most recent decade (1995-2004) with 18% of the total, running a close to the United States with 19%.

In addition, the so called untied ratio of Japan's soft loans (yen credit) was 100% in 1996. These loans do

not oblige the recipient countries to purchase goods and services from donor countries. The OECD recommended its members in the early 1990s to untie their ODA loans because tied ones would distort the market mechanism by forcing the recipient countries to purchase rather expensive goods and services from donor countries. I fully support this idea. However, the OECD recommendation only targets loans, and not grants. Ironically, tied grants would have a much greater distorting effect on the market mechanism than tied loans because grants are more attractive to recipient countries and make it easier to force them to purchase goods and services from donor countries. I think the OECD should recommend that not only loans but also grants be untied. The recipient countries would then be able to procure the best and the cheapest goods and services from all over the world. The donor countries would also be able to reduce their ODA budgets because a similar level of achievement can be expected with less money.

Japan's ODA has contributed a great deal to the prosperity of other Asian countries by encouraging them to build their own countries using private sector funds, mostly in the form of foreign direct investments.

The G8 leaders have committed themselves to doubling the amount of ODA to Africa within the next five years from \$25 billion in 2004. In this context Prime Minister Koizumi Junichiro has decided to double Japan's ODA to Africa within the next three years. In implementing the commitment mentioned above, I strongly hope the experience of Japan's ODA in Asia will be carefully studied by the other G8 countries to avoid repeating the rather futile experiences they have had in Africa over the last 40 years. **JS**