



Post-crisis Trend in Development Assistance¹

Kaoru HAYASHI*

1. Introduction

As a part of the whole discussion on the development finance in GDN 2011, this paper examines changing roles and significance of development assistance in Asia, focusing on “post-crisis trend”. Since data after 2009 are yet to become available, it analyzes overall trends of past decades and try to make some projections by latest data currently available. The discussion will go beyond the narrowly defined ODA. The World Bank (IBRD) and the Asian Development Bank (ADB) Loans do not fall within the category of ODA, while these loans are functioning as development assistance together with bilateral ODA Loans, working complementary and sometimes with co-financing arrangements. The threshold of ODA and non-ODA on concessionality of 25% of the “Grant Element” is not free from contestation.

The main focus of this paper is financial flows. The discussions being predominantly on financial assistance, very limited references are to be made to technical assistances. However, it does not imply that

they are irrelevant. The paper examines cases of Cambodia, Indonesia, Laos, Malaysia, the Philippines, Thailand and Vietnam. The research question is whether development assistance still matter in Asian countries and in the region as a whole.

2. Has development assistance been dwarfed?

2.1 Net Aid Flow (Net Disbursement)

Since the middle of 1990s, there is a discourse that foreign direct investment (FDI), workers remittance, other forms of private finance and even current account surplus (theoretically equals to domestic saving/investment surplus) become major financial sources for development, to make development assistance less significant and relevant. Is it a myth or a reality?

Table 1 shows the relative size of various finance flows sources against GDP. It indicates that relative size of “aid” (mostly ODA) has already become marginal or negligible in volume compared to other flows, except for Vietnam, Laos and Cambodia.

*Professor, Bunkyo University

¹ This paper was presented at the Goba Development Confereneec in Bogota, Columbia, in 15th Janurary, 2011. I am grateful to all thoses who supported me to present it.

Table 1

Relative Size of Financial Flows (% of GDP 2004-2009 Average)

Country	Total Aid Net (2004-08)	Workers Remittance Net	FDI Net	Current Account Surplus
Cambodia	7.98	3.53	3.00	-5.54
China	0.06	1.05	6.40	8.00
Indonesia	0.35	1.37	1.55	1.35
Lao PDR	10.09	0.03	3.65	-2.67
Malaysia	0.12	0.74	9.44	15.32
Philippines	0.41	12.44	3.19	3.48
Thailand	-0.11	0.71	1.55	2.19
Vietnam	3.41	7.6	3.79	-5.01

Total Aid = ODA + other Aid

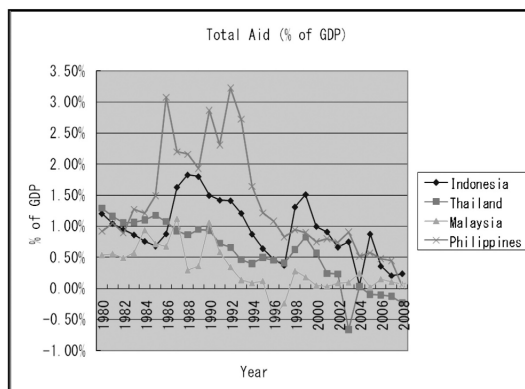
Source: World Development Indicator and Global Development of the World Bank (Hereinafter referred to WDI/GDF)

There are several types amongst these countries. The first group is Thailand and Malaysia (and China), which have positive current account balance and are less aid-dependent. These countries are also known as “emerging donors”.

The Philippines still has trade deficit of around 5 % of GDP (not shown on the table) but thanks to inflow of workers’ remittance, the current account balance has become positive. It should be noted that the Philippines is receiving substantial amount of FDI also. Aid is less significant in Indonesia. This is due partly to large size of the economy. We can tentatively put the Philippines and Indonesia into the second group, which are superficially not aid-dependent but have not yet arrived at the level of “emerging donors”.

Third group is Cambodia, Laos and Vietnam, which are still receiving aid sizable to their economy. Workers’ remittances are increasingly relevant to Cambodia and Vietnam. FDI has become significant source of financing in Vietnam.

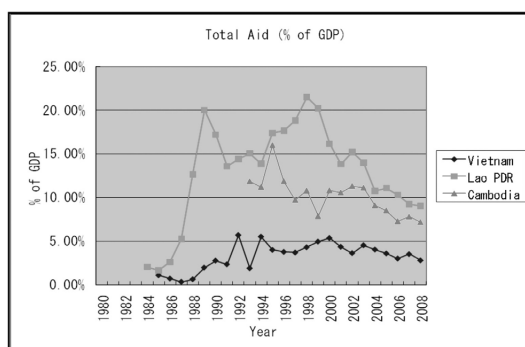
Figure 1



Source: WDI/GDF database

The WDI/GDF’s time series data on net aid flow clearly illustrate that aid is rapidly becoming “insignificant” in Malaysia, Thailand, the Philippines and Indonesia. Thailand and Malaysia are historically not aid-dependent, with Aid/GDP ratio less than 1.5% always.

Figure 2



Source: WDI/GDF database

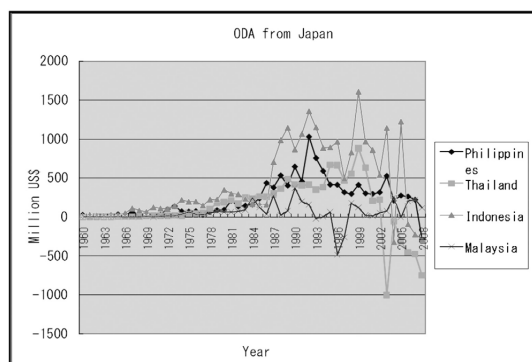
On the other hand, Cambodia, Laos and Vietnam are receiving substantial net flow of aid.

The largest recipient of aid in Asia is now Vietnam, which is vigorously investing in infrastructure, industrial development and poverty reduction under the growth oriented poverty reduction programs.

2.2 Japan' ODA

Japan has been the largest bilateral donor to the Asian developing countries. The reason behind it is a “good match”. The priority of investment of the Asian countries has been put on investment in infrastructure, while Japan has also been putting emphasis on infrastructure in its assistance strategy. More than 40% of Japan's ODA has been in the form of loan assistance which exploits abundant financial source of the Fiscal Loan and Investment Scheme². Infrastructure projects are suitable for loans. Japan is the largest provider of ODA loan assistance amongst OECD-DAC donors.

Figure-3



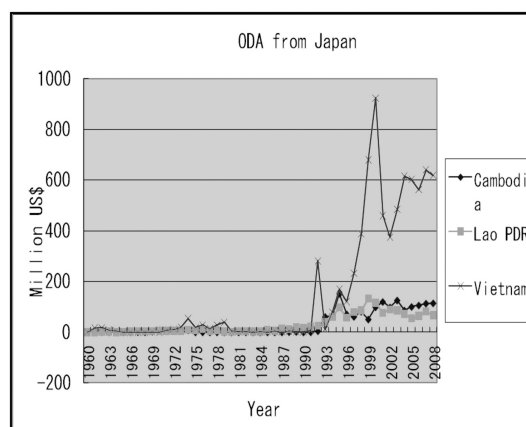
Source: WDI/GDF database

The figure-3 shows the net disbursement amount (current US\$) of Japan's ODA to Indonesia, Malaysia, the Philippines and Thailand. For all the four countries, net flow of Japanese ODA is declining and already negative except for Malaysia.

Vietnam is receiving loan assistances from Japan mainly for development of infrastructure. The net flow of ODA to Vietnam is increasing. (fig-

ure 4). Japan's ODA to Cambodia and Laos is mostly in grant. These countries have not yet started massive investment in infrastructure like ASEAN 4 countries during 70s and 80s.

Figure 4



Source: WDI/GDF database

International aid statistics are often referred on net disbursement or net flow basis. Net disbursement is the figure which deducts repayment from gross disbursement. If repayment exceeds disbursement, a country becomes a negative recipient. There are two reasons that a developing country becomes a negative recipient: (1) previous loan assistances arrive at maturity and large amount of repayment are being made, (2) the country has started its own aid programs as a donor.

In case where loans are widely used as a source of financing, there are gaps between net and gross disbursement. If we look at both net and gross disbursement, the situation may seem differently. The declining net disbursement or negative net disbursement does not automatically mean that there are no needs for development assistances

² Government controlled financial scheme to provide loans and investment of government priority.. The sources of fund are mainly from Post Office Savings and Small Insurance.

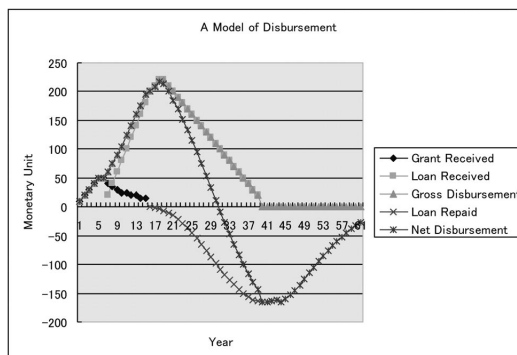
It is quite natural that ASEAN 4 countries receiving negative flow of development assistance because they are repaying the large amount of loan assistance from Japan in the past. They have been also receiving the World Bank and the ADB Loans and credit³ over past three decades.

The next section will examine what is the role of development assistance for each country by comparing net and gross disbursement, analyzing the gap between the two.

3. Mechanism and Characteristics of Loan Assistance and its significance in Development

The trend of development assistances of past decades in Asia indicates that there seems to be some relationship between of stage of development and usage of financial sources or pattern of flow of fund. Figure 5A indicate a 50 to 60 years model of pattern of fund flow based on the historical experience of Japan's ODA. It assumes that at the early stage of development, a country receives only grant assistance (1st to 5th year). In the model, loan assistance starts from 6th year and peaked in 18 and 19th year then gradually decreases. This reflects that donors are normally decreasing aid after recipients have arrived at "graduation criteria" (per capita GNP). It is assumed that loan repayment period is 30 years with 10 years of grace period, which is approximately the average condition of Japan's ODA loans. For the sake of simplicity of discussion, payment of interest is disregarded in this model. New disbursement of grant assistances and loan assistances end in 15th and 40th year respectively.

Figure 5A



We can identify several stages in this Model. The first stage is the period before the start of loan assistance (1st to 5th year), when a recipient receive only grant assistance.

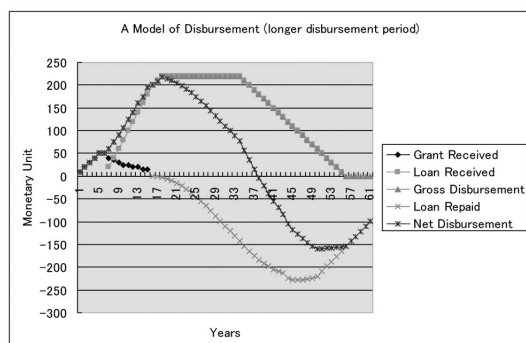
The second stage is from the start of loan assistance to the peak of it (6th and 19th year). During this period, a recipient country makes tremendous effort in investment for large projects and comprehensive programs, absorbing huge amount of loan assistances. In the later years of this stage, the amount disbursed in early years arrives at maturity to prevent further increase of net disbursement.

The third stage is from the start of down turn of net disbursement to the last gross disbursement out of loans (20th to 40th year). During this period, the net disbursement becomes negative (at 31st year in this model). However, it does not mean that development assistances in this stage are insignificant. At least first half of this period, development projects and programs supported by loan assistances are still being implemented vigorously. The gross disbursement is still quite helpful for recipient countries to counter a rapid decrease of net disbursement and to

³ IBRD Loans and IDA credits, ADB Loans and ADF credits are collectively called as MDB (Multilateral Development Bank) Loans in this paper.

secure the time for diversifying financial sources for development. In other words, keeping gross disbursement at certain level in order to make the reduction of aid slow enough to help “soft landing” of recipient countries.

Figure 5B



If we can make a period of receiving disbursement at peak level longer, for example another 15 years, the pattern of disbursement appears differently (figure 5B). In this case, we can make the period of third stage longer enough to secure the time for each country to prepare “soft landing”, by mitigating sudden and steep down turn of disbursement.

The fourth stage is the period between the last loan disbursement to the completion of repayment, or graduation from a recipient country (41st onwards in 5A). During this period, there is no new inflow of aid money. At the same time repayment is also decreasing as outstanding balance of disbursed amount decreases. A country at this stage is expected to transform itself from aid-recipient to aid-donor, as was the case of Japan in 1960s.

Table 2

Stages	Characteristics	Flow of Aid
I. Early Recipient	Countries are preoccupied with nation building. Export capacity has not yet developed.	Development Assistances are predominantly in grant, since capacity to absorb loan assistances is very limited.
II. Active Recipient. Development process supported by loan assistances	Countries vigorously invest in projects and programs conducive to economic development, fully exploiting chances and opportunities to use loan assistance.	Loan assistances play major role in development. Fund flow is positive and increasing, later reaches the ceiling.
III. Matured Recipient Diversification of development finance.	Countries' per capita increase. Donors gradually withdraw from development assistances.	As new disbursement from loans decreases and repayment increases, net disbursement decreases steeply, finally become negative.
IV. Recipient in Transition Transition from recipient to donor	Countries develop further to become upper-middle income countries. Condition to become “emerging donors” is being met.	Negative flow decreases as repayments proceed. Aid programs as a donor starts.

Table-2 above is to illustrate the stages development and the changing pattern of development assistance. It is of course inappropriate to assume that development process is always linear. There will be often setbacks, especially due to various difficulties like financial crises. It is indispensable to examined whether and what kind of demand are there for development assistance. To project “post-crisis” trend, it is important, of course, to carry out analysis of each donor on its capacity and constraints. The next section will examine the demand of each Asian country referring to the model above.

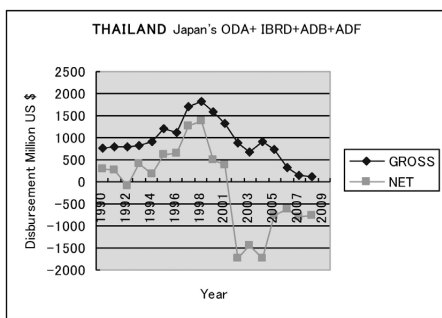
4. Post Crisis Projection of Development Assistance in Asia

This section analyzes the flow of both gross and net disbursement of development assistance to Asian countries. In this region, Japan has been the largest donor of ODA. These countries have received large amount of financing from the World Bank and the Asian Development Bank. Therefore, the aggregate amount of Japan’s ODA and these two MDB loans are to be highlighted.

4.1 Thailand and Malaysia

Thailand has already arrived at the 4th stage in the model mentioned above, having already started its own aid program.

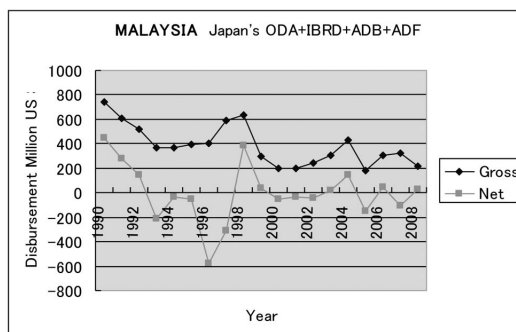
Figure 6



Source: OECD-DAC database

The figure 6 clearly indicates the characteristic of the 4th stage of decreasing of negative net disbursement. Thailand established the Thailand International Cooperation Agency (TICA) in 2004 and the Neighbouring Countries Economic Development Cooperation Agency (NEDA) in 2005 to provide technical and financial assistances. NEDA is mainly aiming at to provide development assistances Laos and Cambodia. Although it is not clearly stated in their policy documents (Sato 2010), Thailand has definitely a comparative advantaged in development assistance to its neighbouring counties from standpoints of natural, environmental and cultural proximities.

Figure 7

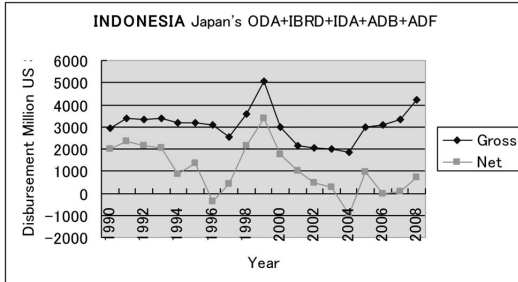


Source: OECD-DAC database

In case of Malaysia (figure 7) the pattern is less clear than Thailand. Malaysia still receives IBRD and ADB financing but amount is marginal compared to other recipients. In case of Malaysia, it seems that it had arrive at the 4th stage before the Asian Financial Crisis in 1997 and successfully “soft landed” during the first decade of 21st century. Malaysia has also started its aid program. For these two countries, it is envisaged that increase of development assistance will not be required any more.

4.2 Indonesia and the Philippines

Figure-8

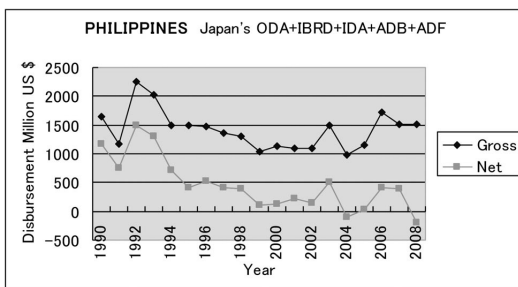


Source: OECD-DAC database

Indonesia (figure 8) and the Philippines (figure 9) show similar propensity, of staying in 3rd stage for long time. Both countries, in long run, face declining net disbursement.

The gross disbursement to Indonesia increased during the Asian Financial Crisis. After the crisis, it decreased. But again start to increase after the middle of the 2000s. Large demand for infrastructure financing and urgent need to counter risks and damages of various natural disasters including the Tsunami in 2004 might have pushed up fresh commitment by donors.

Figure 9



Source: OECD-DAC database

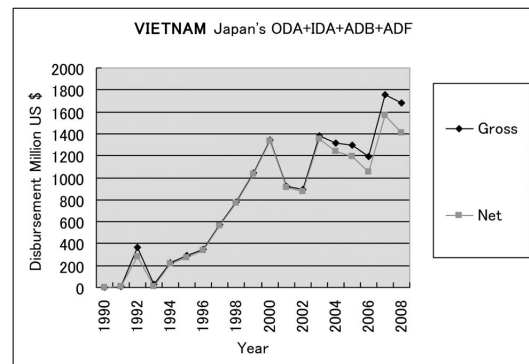
We can observe similar trend in the Philippines. The crisis in 1997 was less severe than that faced by Indonesia. Therefore, increase of aid during and after the crisis is not evident. Gross dis-

bursement remains at the same level throughout 2000s. As it was noted earlier, the workers' remittance is largest source of financing in the Philippines. However, the remittance is not the money which can easily be mobilized to finance development projects and programs.

Indonesia and the Philippines have not yet arrived at the 4th stage. There is still demand for development financing especially for infrastructure. Japan, as the largest bilateral donor to these countries is maintaining the previous level of ODA commitments. Development assistances are required to finance new projects and programs and to avoid sudden change of fund flow patterns.

4.3 Vietnam

Figure 10



Source: OECD-DAC database

Vietnam (figure 10) started borrowing loans for development in mid 1990s. As conditions of the loans are mostly concessional with longer grace period, there was no gap between gross and net disbursement until the mid of 2000s. Japan's aid to Vietnam is increasing to make it one of the largest loan recipient of Japan. Vietnam is putting emphasis on poverty reduction and economic growth. It is envisaged that Vietnam continues to absorb development assistance for at least another decade.

4.4 Laos and Cambodia

Both Laos (Figure 11) and Cambodia (Figures 12) are still depending on grant assistance. The period to fully utilize loans for development is yet to come. In accordance with the economic development, these countries are expected to use more loans but they will not become major loan recipient with huge absorptive capacity like Indonesia and the Philippines, because of the relatively small size of their economies.

Figure 11

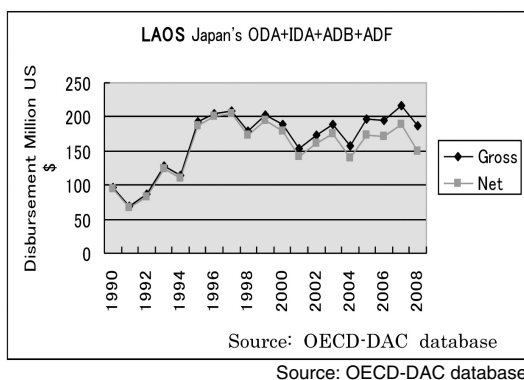
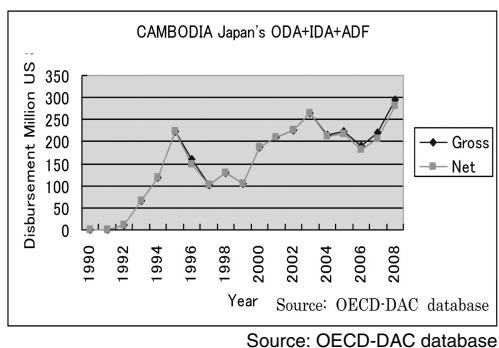


Figure 12



4.5 Regional Fund Requirement

As examined above, development assistance such as ODA or MDB Loans still have their signifi-

cance in such countries like Indonesia, the Philippines, Vietnam, Laos and Cambodia. The role of development assistance differs by country reflecting the deference of stages of development. In addition, we can not regard it as granted that the present level of investment is appropriate. ADB (2009) suggests that total 7,992 billion US\$ is required for infrastructure development in Asia during 2010-20, of which 4,089 billion US\$ for electricity, 1,056 billion US\$ for telecommunication, 2,466 billion US \$ for transportation, 281 billion US\$. Although these fund requirements can be financed largely by private finance and investment, such projects as sanitation and rural road networks will continue to be covered by development assistances.

5. Role of Donors

The majors concern of developing countries after the Lehman Shock in 2008 and Euro Zone crisis in 2010 is whether global aid programs committed by international community towards the Millennium Development Goals such as Monterrey Consensus in 2002 are still affordable to the donors. The G20 Meeting in Seoul in November 2010 confirmed, as the “Seoul Consensus”, the commitment to achieve the Millennium Development Goals (MDGs). It is focusing on concrete measures... to make a tangible and significant difference in people’s lives, including in particular through the development of infrastructure in developing countries⁴. There is no major donor who announced reduction of aid amid the crisis. The UK pledged to increase ODA by 0.7% of GNI despite their drastic budget cuts. But as the crisis deepens, we could not have a bright

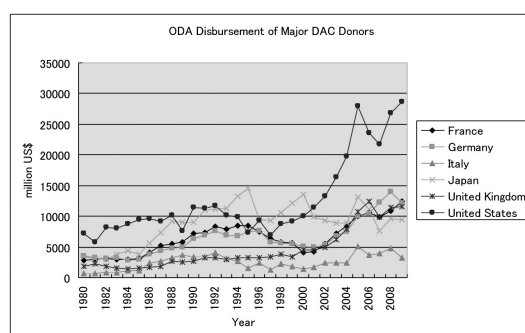
⁴ THE G20 SEOUL SUMMIT LEADERS' DECLARATION NOVEMBER 11 – 12, 2010

perspective on scaling up of aid. In Asia, where majority of the countries has arrived at the middle income level, more diversification of financial sources are required to prioritize the limited resource for grant and concessional loans to lower income regions.

5.1 Japan as the “once” largest donor

Japan is facing public sector debt of approximately 180% of GDP. The government is always under strong pressure to cut spending. The good news is that the present Kan administration of Democratic Party of Japan (DPJ) is putting emphasis on export of infrastructure as one of the growth strategies, and the PM has announced in various occasions Japan’s commitment to global development. The budgetary implication of the positive stance of DPJ on development assistance is yet to become clear.

Figure 13

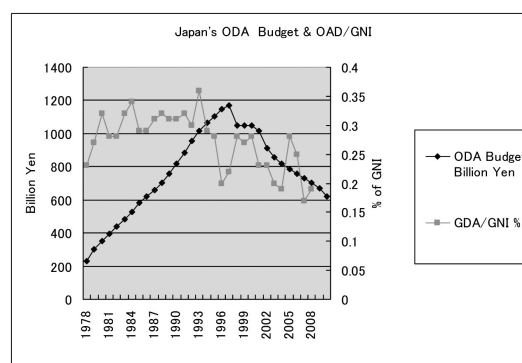


Source: WDI/GDF database

Figure 13 shows the long term trend of major bilateral aid donors in terms of net disbursement. From 1977 to 1997, Japan implemented series of “ODA Expansion Programs” to become the largest bilateral aid donor during 1990s. However, due to long lasting recession and increasing government’s debt burden, Japan’s aid decreased during 2000s,

while other major donors increased aid to achieve MDGs. Now Japan is only 5th largest donor.

Figure 14



Source: Ministry of Foreign Affairs, Japan

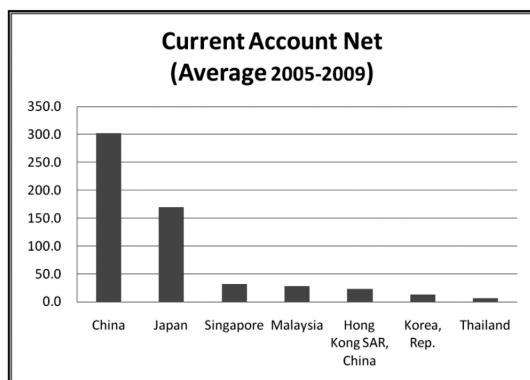
Japan’s ODA budget peaked at 1,169 billion Yen in 1997 amid the Asian Financial Crisis when New Miyazawa Initiative was pledged and implemented. But aid budget was decreasing since then. 2010 ODA budget is only 53% of that of 1997 (figure 14). Accordingly, ODA/GNI ratio is declining to become less than 20% in Fiscal Years 2007 and 2008, which is amongst the lowest group in OECD-DAC countries.

If this downward trend will continue, it is assumed that net disbursement of Japan’s ODA will further decrease and become negative in near future, just opposite the case where major recipient of Japan’s aid has become negative recipient. What are political and diplomatic implications of being a “negative aid donor”? If Japan tries to be a part of the global efforts to fight poverty, it is desirable to avoid to be a “negative” or minimum” donor.. For the “soft landing” of both Japan and traditional recipient countries of Japan’s ODA, maintaining of the substantial amount of new commitment and disbursement of ODA Japan is recommendable.

5.2. Can emerging donors substitute the role played by Japan?

In 1990s, Japan was the overwhelming economic power in Asia. It enjoyed the largest current account surplus in the world, which was the source of huge volume of financial assistance (ODA loans).

Figure 16



Source: Ministry of Foreign Affairs, Japan

The position of Japan of 1990s has been taken over by China. China is already the second largest economy of the world and has the largest current account surplus. Having keeping in mind that per capita GNI of China is still at the middle income level and there are daunting task for China to address the domestic issues of regional disparity and poverty, China has, of no doubt, the potential power to be a largest provider of development assistance. It is therefore expected that China's aid should be a part of global alignment. It is widely recognized that Chinese aid is driven by its national interest and focuses on Infrastructure. Unproductive rivalry between China and other countries should be avoided by better communica-

tion and cooperation.

Korea, which has become a member of OECD-DAC in January 2010, is steadily expanding its aid programs. Thailand and Malaysia has started cooperation programs to other developing countries. Thailand has comparative advantage as a donor in Indo-China Peninsula as noted earlier. Collaboration of Thailand and other donors must be highly expected.

The comparative advantage of Japan in providing ODA is that it has large stock of human resources for international development. There are several tens of universities and graduate schools which are specialized for multidisciplinary development studies. The Japan Society for International Development, which is one of the world largest multidisciplinary academic societies for development, has 1,800 members. There are large stocks of experience and knowledge on development. Therefore, the question must not be who will substitute Japan. Instead, it should be how Japan can collaborate with the emerging donors to utilize its existing resources in order to achieve the maximum outcome of development assistance in Asia and beyond Asia.

On October 29, 2010, JICA, the Export-Import Bank of China (the China Eximbank), the Economic Development Cooperation Fund of the Export-Import Bank of Korea, and the Neighbouring Countries Economic Development Cooperation Agency (NEDA) of Thailand held a joint seminar in Bangkok⁵. This is very important move to share the experience and to strengthen the partnership amongst traditional and emerging donors in Asia.

⁵ http://www.jica.go.jp/english/news/press/2010/101101_03.html (21 December 2010)

6. Conclusion

The significance of development assistance differs by country according to the stage of development. The discourse that the development assistance has lost its significance or it has been dwarfed by the other sources of finance is only applicable to the limited number of countries such as Thailand and Malaysia.

In view of further demand for economic development and for the purpose of “soft landing”, the financial flow in form of development assistance should be maintained for Indonesia, and the Philippines. Vietnam, Laos and Cambodia will continue to require development assistances during 2010s.

Japan, Korea, China and Thailand could cooperate to have better alignment, to enhance the quality of development assistance by sharing

knowledge, especially that obtained through 50 years of experiences of Japanese development assistances.

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