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An American View of Japanese Aid Policies

Let me first say how delighted I am that you have convened this workshop on this topic at this time. The issues facing Japan and the United States, both domestically and in their foreign assistance roles, are at strategic junctures, and the input from a project of this kind will be invaluable to all of us. I know I can speak for my colleagues from the Japanese government as well as my own on that score.

I have had a chance to read some of the drafts prepared for this workshop, and it is comforing to see the dynamism of this topic reflected in those drafts. I hope that spirit continues through the workshop. I should explain what I mean. When USAID began incorporating environmental issues into its projects, particularly in infrastructural areas such as energy, in the 1980s, we operated by the maxim, "do no harm." The entire environmental protection movement was focussed on that approach, as expressed in the U.S. NEPA legislation. Over time, we would see that approach come to life in other donor programs as well, through concerted development of environmental guidelines in the OECD. The second phase of our programs was according to the slogan, "do good works." As a result in the late 1980s, we saw the proliferation of good projects: biodiversity reserves, power privatization transactions, environmental research stations, wildlife protection efforts, and so forth. All of the efforts did good work in a transactional sense, but we quickly realized that each was also vulnerable to becoming a proverbial "white elephant." The current stage strikes me as much more positive, which is to "do development right." It is a systemic approach, focussing on the interaction of the natural resource base with the gamut of social and development activities. It is inter-disciplinary, requiring the development of communications between hard scientists and social scientists, between strategists and grassroots workers. It is also the intersection of local natural resource issues with global environmental issues. In that sense, the hopes we had for UNCED revolved around its abilities to give momentum to the agenda for "doing development right." But I should move on from general preliminaries to the topic at hand.

The role of Japanese foreign assistance in the future of global environmental and energy issues would not have been a major topic worth covering ten years ago. Today, we face a new world:

Japan reached a major turning point in its foreign assistance program in June 1988. Pressed by its allies, and reaping the financial fruits of export success, the Japanese government announced the $50 billion aid recycling plan. The world paid great attention, calculating that a five-year implementation plan for that program would make it the largest aid donor in the world. Two sub-themes of that announcement got less attention from the world at large, but a great deal from other assistance agencies such as mine:

(1) that Japan would expand the percentage of aid made available as grants rather than loans; and
(2) that Japan would ensure that an increasing proportion of their assistance would <u>not</u> be tied to procurement from Japanese companies.

I mention this turning point in Japanese policy because of its eventual implications for their programming in the energy and environmental areas, the effects of which are still being felt. But for senior policymakers, the $50 billion number was the important announcement -- to show that Japan was, indeed, a member of the "G-7 team."

Late 1988 was also an important point for what was <u>not</u> said in the government's announcement of augmented resources. The Japanese Government chose not to respond directly to the increasing American calls for increases in Japanese assistance to Western security structures. While aid was increased where convenient to Japanese economic interest (such as the Philippines), the government refused to challenge any further the fragile political consensus behind foreign aid. Secondly, the government chose not to address the problems caused by what Ambassador Masamichi Hanabusa has called "administrative complexities:" the web of agencies and ministries involved in carrying out foreign assistance programs. As Ambassador Hanabusa argued in a paper issued around the same time, the system of bilateral governmental agreements provides all the coordination necessary in a political culture based on consensus. At the same time, he acknowledged that Japan suffered from a "total lack of career aid officials in the Government," weak planning capability, and inadequate field staff. The lack of NGO and university involvement was also a key deficiency, in Hanabusa's view. On all counts, the problems generated by not dealing with such issues would come home to roost in environmental programs in the 1990s.

The environmental community began closer scrutiny of the Japanese assistance program, too, as the need for global financing naturally placed Japan in the spotlight. In a study in late 1989, one NGO commented,

> Japan's ODA is undergoing many changes, and attempts are being made to improve the quality of aid to match the increase in "quantity." Problems in the system remain, however, resulting from the lack of a coherent policy-making structure and basic

European countries on environmental issues. The domestic base of concern and expertise on environmental issues in other countries was largely absent. With the weakness of basic research capacity and interest by industry, and a largely nonresponsive university system, the Japanese aid program had a limited reservoir of technical knowledge to draw upon to deal with environmental politics. The answer, "wait until we develop some expertise in this area," was not acceptable to the aggressive international NGOs, which had no deference to Japan as a sovereign country.

The experience of the Japanese with regard to forestry issues is instructive. The issue of tropical deforestation took off at lightning speed in the late 1980s. The data made clear that two emergencies were unfolding: forestry practices were not sustainable, particularly in Southeast Asia, and the logging of virgin forests were reducing the diversity of biological species at an alarming rate. The linkage to Japan was easy to establish: the principal market for Southeast Asian logs was almost entirely Japan, and it was a group of Japanese companies that were exploiting the forests of the South Pacific, Indonesia, and Malaysia. The Japanese response was to show considerable disinterest in the second issue, and to argue that the first issue would be handled by a multilateral institution located in Japan, the International Tropical Timber Organization (ITTO).

ITTO, in its composition and focus, crystallized all of the positive and negative aspects of working with Japan. For example, the timber companies were included in the ITTO structure -- logical in a sense, since a solution to deforestation would have to involve the harvesting companies. At the same time, much corporate behavior was anathema to the conservationists, creating a struggle for the "soul" of ITTO. Those discussions over a period of several years, involving government, industry, NGOs, and developing countries, resulted in a compromise accepted by the Japanese that has keep ITTO in the international environmental process, but not at the center. It has allowed ITTO to launch a much-expanded program of studies on sustainable forestry that the participants know will not "solve" the deforestation problem, but that may condition the views of participants on long-term technical questions. The lesson from ITTO to date may be: is this, generically speaking, the kind of role that Japan may play on the whole range of environmental and energy issues?

Where Are We Now?

The picture of Japanese activity has become much more complicated in the 1990s. The escalation of attention by international political leadership has led the Japanese government in a variety of directions they might not have chosen. The annual G-7 summits now have sections of the final communiques dedicated to environmental issues. The leadership might not be consistent -- one year it was Thatcher, and another year it was Kohl -- but it is now assumed that environment is a permanent element. Likewise, all international meetings on whatever topic, whether a children's

Agenda 21, after all, can only be implemented one piece at a time. Late in 1991, USAID established an agreement with the Ministry of Foreign Affairs to work together in supporting a network of regional conservation centers, with several major functions -- to serve as regional institutions of biodiversity research, to serve as laboratories of cooperation with the private sector (as INBIO as done in Costa Rica), and to develop the interdisciplinary human resources in developing countries for broad application of sustainable development principles. The first site has been evaluated and tentatively selected in Asia, with additional sites to follow in Latin America and Africa. We hope these centers will serve as the developing country anchors of rapidly expanding networks implied in the UNCED agreements.

What Can We Do?

I want to leave with you today four ideas -- not formal proposals and not fully developed -- but in the spirit of this workshop, reflective of some of our recent lessons and the shape of the coming world. I shall simply itemize some of their characteristics and hope that we can fill out some of the other issues as we go along.

1. Improving the ODA Definition of "Environmental Projects"

a. Need to move from "doing no harm" to "doing development right"

b. Special implications for energy sector, where Asia has rapid growth and Japan will be a major financier.

c. Need for environmentally-sustainable systems: policies, regulations, and institutions. More than hardware and monitoring sites.

d. Collaboration among donors essential: bilateral or multilateral (OECD).

2. A U.S.-Japan Environmental Infrastructure Fund

a. U.S. and Japan are two largest donors (40%).

b. U.S. and Japan, as major players in "trade and aid" debate, need a mode of defusing the contentiousness.

c. Useful to identify infrastructural area that goes beyond bilateral relationships, and can meet global needs.

d. Potential framework in involving all Pacific states: Korea, Canada, Australia, Southeast Asia.

e. Jointly-funded mechanism could provide for open international competition for contracts, and encourage joint ventures.

ATTACHMENT D
MONOGRAPH ON THE TIMBER, FISH WILDLIFE AGREEMENT

ATTACHMENT E
FINANCIAL REPORT

To be submitted separately by
The George Washington University's
Office of Grants and Contracts