Donor Country Profiles 5

Briefly discussed below are the bilateral aid programs of five major donors—the United States, Japan, France, Germany, and the United Kingdom. Emphasis is placed on their bilateral environmental aid. None of these countries had reported estimates of their environmental ODA to OECD'S development assistance committee as of May, 1993. Hence, all of the cited environmental aid figures should be considered preliminary and subject to change.

Although not discussed in detail here, large projects can include several bilateral donors and multilateral agencies or lending institutions (see box 2-C). Donors sometimes coordinate bilateral aid with other donors on different components of specific projects.[1] Donors also may provide cofinancing or parallel financing to complement multilateral environmental aid through such mechanisms as the Global Environment Facility or Capacity 21, a recently established facility of the United Nations Development Programme (see box 2-B).

UNITED STATES

Bilateral development aid is only one of several priorities in the overall U.S. foreign assistance program. It accounted for about $4.2 billion (25 percent) of overall U.S. foreign aid

[1] For example, the United States and Japan are cooperating in establishing an Indonesian Biodiversity Protection Center. The possibility of greater United States-Japan cooperation on environmental matters in general is a subject under consideration for possible joint discussions between the two countries, as mentioned by President Clinton at his news conference with Japanese Prime Minister Miyazawa on Apr. 16, 1993. For discussion of recent developments, see Pat Murdo, "Cooperation Conflict in U.S.-Japan Environmental Relations," *JEI Report* Japan Economic Institute, Washington, DC, May 28, 1993.

obligations in fiscal year 1991. Other budget priorities include multilateral aid, food aid, economic support funds (ESF), and military aid.

The U.S. Agency for International Development (USAID), established by the Foreign Assistance Act of 1961, has the major responsibility for administering and coordinating U.S. bilateral aid. Some other agencies share aid responsibilities or undertake closely related activities; these include the State Department (for ESF allocations), the Department of Agriculture (for food aid), and the Trade and Development Agency (support for development project feasibility studies in developing countries).

USAID's budget and priorities reflect U.S. strategic and political goals. Israel (with a per capita income of over $10,000) and Egypt (with a per capita income of about $600) have headed the annual list of U.S. aid recipients since 1980, and together have accounted for close to half the entire bilateral foreign aid budget in recent years.[2] USAID's program reflects numerous objectives added by Congress over the years.[3]

U.S. development assistance, as administered by USAID, has undergone several shifts in emphasis over the last three decades that have a bearing on its commercial effects. From 1961 until 1973, U.S. development assistance tended to finance large capital projects with foreign exchange components. In 1973, USAID took on a new direction; priority was given to human development and institution building as preconditions for self-sustaining economic growth in the developing world. More emphasis was given to issues of equity, alleviation of poverty, and meeting basic human needs. USAID's efforts became more rurally oriented, with small-scale activities focusing on agriculture, nutrition, health, and education. In 1981, aid policy shifted again to place added emphasis on policy dialogue, promotion of the private sector in developing countries, institution building, and technology transfer. In recent years, USAID also has placed much emphasis on policy reforms in developing countries.

The portion of USAID's budget for large-scale capital projects (projects which often entail major imports of engineering services and capital goods from developed countries) has declined over the years.[4] In the early 1960s, 25 percent of USAID's budget was devoted to capital projects. That share had declined to 6.5 percent in the 1980s.[5] Loans, which are primarily used for capital projects, have accounted for a decreasing portion of U.S. bilateral aid, dropping from almost half in the 1960s to less than 5 percent in 1989. Since 1989 almost all new commitments for bilateral aid have been grants rather than confessional loans.

Congress has authorized the U.S. Export-Import Bank to combine loan funds with a special "War Chest" of grant money in order to match confessional financing by foreign governments. However, the War Chest is not large and has been used sparingly. (USAID has occasionally contributed grant funds to be combined with Eximbank's loan funds to the same end.)

While Buy American limitations on procurement have been a feature of U.S. foreign assistance since its inception, waivers are permitted

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2 OECD, *Development Cooperation 1992 Report,* table 43, p. A-64.

3 A 1992 Presidential commission on the management of USAID programs found 39 "central" objectives affecting USAID's mission.

4 One factor contributing to this change was concern that U.S. aid loans sometimes supported large, highly visible, costly infrastructure projects that were unsuited to the needs of the developing country. For discussion of this history, see Curt Tarnoff and Larry Q. Nowels, *Foreign Assistance and Commercial Interests: The Aid for Trade Debate, CRS* Report for Congress, 93-528-F, U.S. Library of Congress Congressional Research Service, May 23, 1993, p. 23.

5 Export-Import Bank of the United States, *Report to the U.S. Congress on Tied Aid Credit Practices* April 1989, p. 15, and OECD, *Development Cooperation 1992 Report,* table 30, p. A-41. While capital projects accounted for just 2.8 percent of USAID's 1990 budget, this number is skewed downward by the abnormally high debt relief in the 1990 figures.

under some circumstances.[6] Much of USAID'S grant assistance is used to hire U.S. firms, nongovernmental organizations or citizens, or developing country participants. According to USAID, a majority of U.S. aid (62 percent in fiscal year 1992) buys goods and services produced in and shipped from the United States.[7] However, the portion of aid going to U.S. procurement has apparently declined since the early 1970s, when it exceeded 90 percent. At the same time, USAID has encouraged developing countries to undertake policy reforms that may make them more open to trade and investment in general. Its 1992 policy office review of these reforms (discussed in ch. 1) found increases in U.S. exports to developing countries.

Several USAID activities facilitate U.S. business involvement (see table B-2 in app. B). Those pertinent to environmental export promotion include, among others: the United States-Asia Environmental Partnership (described in app. B); the Project in Development and the Environment (which is focused on the Near East); the Environmental Credit Program (which helps finance environmentally preferable projects involving exports of U.S. technology);[8] and the Environmental Improvement Project, aimed at reducing urban and industrial pollution in the ASEAN countries. The Environmental Enterprises Assistance Fund aims to promote dissemination of environmental technologies in developing countries. USAID is also a statutory participant in the Federal interagency Trade Promotion Coordination Committee and its working group on environmental trade (both described in app. B).

Some other U.S. government agencies (also discussed in app. B) support activities that may encourage exports of U.S. technologies and services, including environmental exports, to developing countries. Trade and Development Agency grants to developing countries for project feasibility studies are used to hire U.S. consultants. As they are likely to be more familiar with U.S. technologies and products, the consultants may encourage procurement of U.S. goods and services for subsequent stages of the project. The agency estimates that each grant dollar returns over $25 to the U.S. economy in follow on exports. (Some portion of those exports is financed by other U.S. government agencies.) The program is small but growing: $40 million was appropriated for TDA in fiscal year 1993; the Clinton Administration is seeking $60 million for fiscal year 1994.

Many Federal agencies (as well as state and private bodies) participate with USAID in the United States-Asia Environmental Partnership, which is designed to involve U.S. firms in solutions to Asian environmental problems. The Department of Commerce, USAID, and several other agencies are involved in environmental and energy assistance to Eastern Europe. Partly to boost U.S. exports, in 1992 Congress authorized (but has not yet funded) three new U.S. Depart-

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6 See Curt Tarnoff and Larry Q. Newels, *Foreign Assistance and Commercial Interests: The Aid for Trade Debate*, op. cit., pp. 26-28, for discussion of this history. For discussion of the evolution of waiver policies, see U.S. Department of Commerce International Trade Administration, *International Financing Programs and U.S. International Economic Competitiveness*, (U.S. Government Printing Office, Washington, DC, 1990), pp. 2-3.

7 U.S. Agency for International Development, "Buy American Report: October 1991 through September 1992," Dec. 31, 1992. USAID excluded from this calculation $1.56 billion in cash transfers that were used to repa debt, of which $1.43 billion was debt owed to the United States. USAID states that, if debt relief were included, the reflow percentage would increase to 70 percent. However, this is so only if relief of U. S.-held debt is counted as purchases of U.S. goods and services. But U. S.-held debt relief would only promote such purchases under certain circumstances, such as purchases made with freed up funda or in anticipation of future debt relief. If the relief of U.S.-held debt is not counted as purchases of U.S. goods and services, then including debt relief in the calculation reduces the 62 percent figure to 45 percent, as observed in Curt Tarnoff and Larry Newels, Congressional Research Service, "Foreign Assistance and Commercial Interests: The Aid for Trade Debate," op. cit.

8 U.S. Environmental Protection Agency, Global *Markets for Environmental Technologies: Defining a More Active Role for EPA Within a Broader U.S. Government Strategy*, EPA 160-R-92-001, Washington, DC, EPA, December 1992, p. C-8.

ment of Energy programs (to be carried out through USAID) for transfer of environmentally preferred energy technologies to developing countries.

Major changes in the scope and nature of U.S. foreign assistance could be in the offing, reflecting adjustment to the end of the Cold War, concerns about the Federal budget, and the emergence of new priorities (such as economic competitiveness and environmental protection).[9] Despite the reflow from grant aid, the U.S. development assistance program still seems less commercial in orientation than programs run by most of the United States' largest trading partners and primary competitors. As discussed in chapter 4, other leading donors maintain an emphasis on capital projects, and continue to use soft loans as a substantial part of their ODA. Some of the measures discussed in box 1-A and appendix B would, in theory, give a more commercial cast to U.S. foreign assistance if fully funded and aggressively implemented. Given budgetary constraints and continuing debate about development assistance objectives, such an outcome is by no means certain.

U.S. Environmental Aid

Although USAID paid little attention to environmental needs in its early years, the United States was among the first major donors to begin to address the environmental impacts of its development assistance. As early as 1976, USAID had environmental assessment procedures in place. For several years it has also supported and/or carried out environmental or environmentally related projects. USAID's environmental effort, like its approach to aid in general, tends to focus on small-scale projects, often in rural areas. Recent projects support training of public and private decisionmakers; environmental *institu*tion building; and cooperative research on climate change, biodiversity, and other global environmental problems. USAID also supports small-scale technology demonstration projects on alternative fuels and energy efficiency. It has not usually funded large capital projects for environmental infrastructure; exceptions include U.S. aid for water and wastewater treatment facilities in Egypt.

In the last few years, USAID has retie increasing efforts to develop an environmental strategy. Its most recent environmental strategy document identifies five priority problem areas:

- loss of tropical forests and other habitats critical for biological diversity;
- unsustainable agricultural practices;
- environmentally unsound energy production and use;
- urban and industrial pollution; and
- degradation and depletion of water and coastal resources.[10]

USAID'S bureaus have issued regional environmental strategies within this overall focus.[11] Priorities differ by region. In Africa, for example, most environmental aid is for sustainable agriculture, tropical forestry, and biodiversity. These priorities shape much of the environmental aid for Latin America and the Caribbean region, although energy and urban and industrial projects have priority in some areas. Latin America also has been a focus for USAID's activities carried out under a global climate change initiative mandated by Congress in 1990. In Asia, tropical forest conservation is a key objective, but energy efficiency, water and coastal resource manage-

9 As this paper was prepared for publication in June 1993, the Clinton Administration was said to be nearing completion of a report on U.S. foreign assistance reform. See J. Brian Atwood, "Don't Write Off AID Yet," *Washington Post*, June 17, 1993, p. A23. Atwood is the Administrator of USAID.

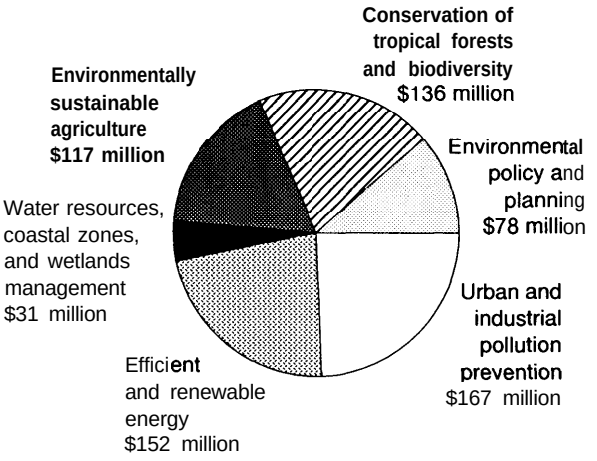
10 U.S. Agency for International Development, *Environment Strategy USAID Policy*, June 1992, p. 1.

11 Much of the discussion in this paragraph is taken from "F-on the Environment," All). *Evaluation News: A Newsletter on Recent Evaluation Findings and Methods*, 1992, vol. *4, No. 2.*

ment, and urban and industrial pollution prevention also receive some priority. In Central and Eastern Europe, energy efficiency and urban and industrial pollution prevention are key priorities. In the Near East Bureau, priorities are energy, urban and industrial pollution, with sustainable agriculture also an important objective.

USAID is preparing baseline estimates on the amount of environmental aid corresponding to these five problem areas. It faces the dilemma of determining g which projects and portions of projects to designate as environmental aid. Preliminary lists for fiscal year 1991 identify over 300 projects that are pertinent to the five problem areas in the strategy. Depending on kinds of projects included, 1991 outlays would range between $625 and $700 million. USAID has supported environmental projects in more than 60 countries, mostly in the poorer developing countries. However, USAID is providing some limited assistance to middle-income developing countries (including Mexico and Brazil) through the global climate change initiative mandated by Congress. As shown in Figure 5-1, USAID's annual obligations (as distinguished from outlays) for implementing its environmental strategy averaged $681 million for fiscal years 1992 and 1993.

Figure 5-1—USAID Environment Funding
Fiscal Years 1992-1993
Average Annual Obligations in Millions



Total = $661 million

SOURCE: USAID.

JAPAN[12]

While Japan and the United States provide roughly the same amount of foreign assistance, Japan has become the largest provider of project-related bilateral development assistance. This reflects both the growth in Japanese aid and the high portion of U.S. aid devoted to debt relief and cash transfers. Japan began providing financial assistance to other countries in 1955 when it entered into reparations agreements with Southeast Asian countries. These reparations, paid in goods and services, helped open markets in Southeast Asia to Japanese suppliers. Japan views aid more as economic "cooperation" than development assistance.[13] Although no basic law governs Japan's foreign assistance, a June 1992 ODA Charter adopted by the Japanese Cabinet set out a philosophy and principles for Japanese aid. The frost of four guiding principles is that "environmental conservation and development should be pursued in tandem.' '[14]

Japan's aid has a complex administrative structure. The ministries of Foreign Affairs (MoFA), Finance (MoF), International Trade and Industry

12 For more detailed discussion of Japan's ODA system, see Nancy J. Hankes, *Japan's Foreign Aid*, CRS Report to Congress, 93-494-F, U.S. Library of Congress Congressional Research Service, May 5, 1993.

13 Adrian Hewitt of the UK's overseas Development Institute, writes, "A pertinent sign is that the normal Japanese term for aid, 'enjo,' (or 'Kaihatsu enjo,' meaning development assistance) is hardly ever used. In discussions and publications in Japanese the foreign concept acronym 'ODA' will be customarily used. Recently the phrase 'keizai kyoryoku' has been used more to convey the concept of cooperation with equal but poorer and needier foreign partners in development." Adrian Hewitt, "Japanese Aid," Overseas Development Institute Briefing Paper, March 1990 (London: ODI, 1990), p. 2.

14 Ministry of Foreign Affairs, "Japan's ODA Charter," June 30, 1992, unofficial translation.

(MITI), and *the* Economic Planning Agency all oversee development of ODA policy and implementation; several other ministries (e.g., the Environment Agency) play smaller roles. Bilateral ODA is implemented by two agencies: the Overseas Economic Cooperation (OECF), the confessional lending arm, and the Japanese International Cooperation Agency (JICA), which undertakes technical assistance and administers grant aid (as does the MoFA).

Japan's bilateral aid has roughly doubled every five years since 1961. Although its aid is becoming more geographically diverse, Asian countries received nearly 60 percent of its aid in 1990. The majority of Japanese ODA has still gone to support economic infrastructure and development of basic industries. Japan devoted 41 percent of its 1991 ODA to economic infrastructure activities, and 17 percent for production, including agriculture, manufacturing industry, mining, and the construction sector.

Japanese ODA tends to finance large projects. It accounted for more than half of DAC aid projects over $50 million in 1990-1991. Japan offers confessional loans for the majority of its ODA. Historically, these loans were provided on harder, more commercial terms compared with other donors. Since 1988, Japanese loans have been offered with terms closer to those of other DAC members.

In 1990-1991, grants accounted for only 27 percent of its bilateral (and 39 percent of its total) ODA. The Japanese aid system tends to be centralized; about 500 people are stationed in field offices outside of Japan-relatively few people given the size of Japan's aid program. Lack of field personnel may partly explain some of the difficulties Japan has had in developing country-specific programs.

JICA, OECF, and Eximbank of Japan operate financing programs that provide loans to Japanese companies for investments in developing countries related to their development needs. Examples are public facilities or experimental projects that might not otherwise be undertaken without innovation or improvements. The total value of outstanding JICA loans is $30 million; OECF and Eximbank of Japan operate larger programs.

Like other donors, Japan has faced criticism about the adverse environmental impacts of its loans and projects.[15] Since the mid-1980s, it has taken several administrative steps to incorporate environmental considerations into its aid.[16] It has also announced several dramatic plans to increase support for environmental ODA and to develop and transfer environmentally preferable technologies to developing countries. While lower-income developing countries will be the recipient of most of this aid, middle-income developing countries will receive some environment-related ODA.[17] These are part of a broader, technology-

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15 For an overview of the way in which Japan's aid system addresses environmental issues, see Richard A. Forrest, "Japanese Aid and the Environment" *The Ecologist,* Vol. 21, No.1, Jan.-Feb. 1991, pp. 24-32. See also Pete Carey and Lewis M. Simons, "Japan lamed for aid projects that scar the land: Tokyo's environmental record rouses objections across Asia," *San Jose Mercury News,* Apr. 21, 1992; and Edmund Klamann, "Aid Machine Struggles With Ecology Issues," *Japan Economic Journal,* Tokyo, June *30,* 1990, p. 1.

16 JICA established a panel in 1986 to consider measures to deal with environmental considerations in ODA. Guidelines on dam construction were issued in early 1990. JICA has placed environmental officials in each overseas office. In August 1989, JICA set up an environment office in its planning department and designated an official in charge of environmental issues in each operational department. In May 1991, JICA made its environmental office part of the Environment Women in Development, and Global Issues Division. OECF has also taken some steps to give more prominence to environmental concerns. The Export-Import Bank of Japan has created an environmental post. For an overview of these steps, see Government of Japan, *Environment and Development: Japan's Experience and Achievement,* Japan's National Report to UNCED 1992, December 1991, pp. 15-30.

17 Examples of Japanese environmental aid to middle-income developing countries include: a 69.3 billion yen ($540 million) OECF loan for a sulfur dioxide emission reduction project in Mexico City; an additional 10.4 billion yen ($8.1 million) loan to the Government of Mexico for afforestation; and a pledge of 99 billion yen ($77 million) in ODA to Brazil for water quality conservation. Japan also provides technical assistance to Eastern Europe for environmental improvement. The Overseas Economic Cooperation Fund, *The Overseas Economic Cooperation Fund Annual Report 1992* (OECF, Tokyo, October 1992), p. 7.

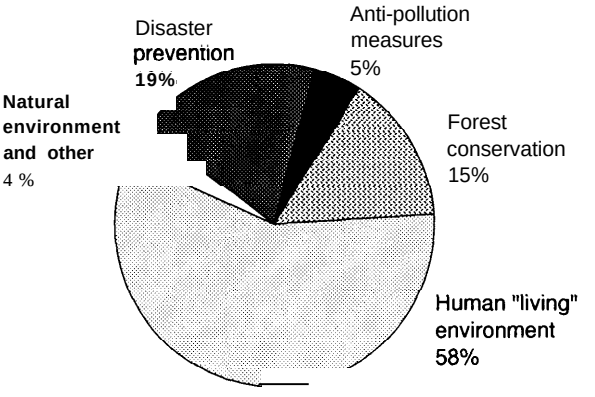
based approach to address environmental problems at home and abroad that could hold opportunity for its environmental industries. Two aspects of Japan's environmental aid are discussed below: (1) the New Environmental ODA Policy, and (2) the Green Aid Plan, and other activities under the broad direction of the Ministry of International Trade and Industry (MITI).

New Environmental ODA Policy

Japan's new environmental aid policy, announced at the London Economic Summit in 1991, is administered by the Ministry of Foreign Affairs. The policy calls for cooperation and collaboration between developed and developing countries on global environmental problems. It indicates that the technologies and know-how Japan used in dealing with its own environmental problems will be actively used to help developing countries. The policy emphasizes the importance of dialogue with developing countries to understand their needs and formulate projects. The policy identifies several environmental priorities for ODA: conservation of forests and afforestation, energy conservation and development of clean energy technology, antipollution measures, wildlife conservation, soil conservation, and enhancement of developing country capacities to address environmental issues.

Figure 5-2 shows disbursements of Japan's bilateral environmental aid by major priority in 1991. Disbursements for environmental infrastructure fluctuate from year to year. For example, "anti-pollution' measures accounted for nearly half the environmental aid disbursed in 1990, but very little in 1991. Disbursements for the human "living" environment (e.g., water and wastewater treatment, solid waste disposal) also fluctuate. The portion of funds allocated to forest conservation and afforestation has grown.[18] As shown, Japan considers natural disaster prevention an environmental priority, and in some years this item has accounted for a fifth or more of its environmental aid.

Figure 5-2—Purposes of Japan's 1991 Environmental ODA (Bilateral Disbursements)



Total = 105 billion yen ($779 million)

Dollar-to-Yen exchange rate: $1=135 yen (1991).

Percentages do not add due to rounding.

SOURCE: Ministry of Foreign Affairs(Japan), Wagakunino Seifu-Kaihatsu-*Enjo 1992, Jyokan [Official Development Assistance 1992],* p. 101.

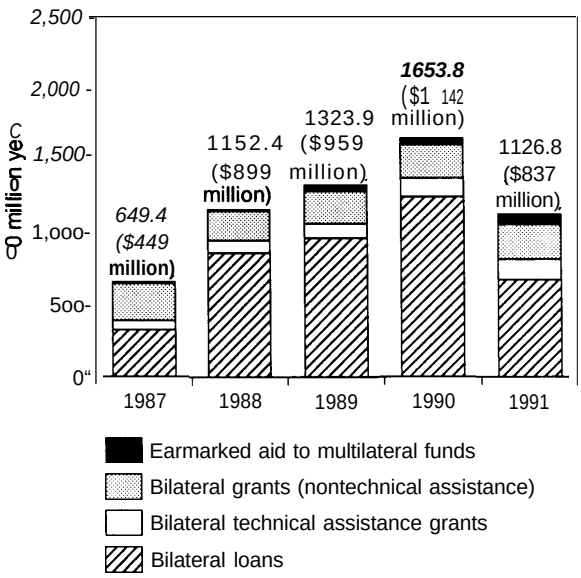
Figure 5-3 shows changes in the amount of Japan's environmental aid going to bilateral grants and bilateral loans between 1987 and 1991; it also shows aid specifically earmarked by Japan to multilateral environmental programs or agencies. Japan's overall ODA grew rapidly during this period; hence, the increase in environmental aid probably represents some new and additional resources rather than relabeling of existing programs. (Disbursements declined in 1991; however, commitments apparently increased).

At the United Nations Conference on Environment and Development in June 1992, Japan announced that it intended to extend 900 billion yen to 1 trillion yen ($7.1 to $7.8 billion)[19] in bilateral and multilateral environmental aid to developing nations over five years. A June 1993

18 Ministry of Foreign Affairs, *Official Development Assistance 1991,* Annual Report (Tokyo, Japan: Association for Promotion of International Cooperation, 1992), p. 142.

19 At the 1992 exchange rate of about 127 yen per dollar.

Figure 5-3--Japan's Environmental ODA: 1987-1991



Dollar-to-Yen exchange rate: $1 = 145 yen (1987), 128 yen (1988), 138 yen (1989), 145 yen (1990), 135 yen (1991).

SOURCE: Ministry of Foreign Affairs, Official Development Assistance 1992, p. 221

United Nations report cites an estimate that Japan's environmental aid increased to about 280 billion yen ($2.4 billion at the exchange rate used by the report) in financial year 1992.[20] (The report does not discuss the basis for this estimate. It also does not provide a breakdown of how this aid was spent.)

B Green Aid Plan

MITI announced this plan in August 1991.[21] If carried out as planned, 300 billion yen (roughly $2.2 billion at 1991 exchange rates) would be spent over a 10-year period on grants and loans to transfer antipollution measures to developing countries and to support international joint R&D projects for the global environment. The two main measures for technology transfer will be environmental grant aid, and the training of foreign engineers. The plan is administered by the Japan External Trade Organization; some other MITI affiliated organizations, such as the New Energy and Industrial Technology Development organization (NEDO) and the Research Institute for Innovative Technology for Earth (RITE), also play roles.

Table 5-1 summarizes Green Aid Plan activities for Japan's 1992 fiscal year, when 2.7 billion yen (about $20 million) were available. As shown, roughly half the funds flowed from the general account for ODA, which is under the overall control of the Ministry of Foreign Affairs. The other half flowed from special accounts more directly controlled by MITI. Funding for the plan in Japan's 1993 fiscal year may increase to 12.9 billion yen (over $100 million) if a MITI proposed budget is approved.

The Green Aid Plan has some noteworthy features. First, environmental and energy-related issues will be reviewed with recipient country officials before aid requests are made. (This contrasts with Japan's traditional request-driven approach to ODA discussed in chapter 4 under "Tying of Aid.") Second, the technological emphasis in the Green Aid Plan is prominent, especially for activities funded through the "special accounts" budget under greater MITI control. As shown in table 5-1, the special account funds are used for intermediate development (adaptation of technology to developing country needs) and transfer of environmentally preferable energy technology (such as for energy-efficiency projects, renewable energy, and clean coal technology).

In early 1992, MITI announced plans to lease antipollution equipment to developing nations to

[20] As cited in, Commission on Sustainable Development "Report of the Secretary General: Addendum: Information provided by Governments on initial financial commitments, financial flows and arrangements to give effect to the decisions of the United Nations Conference on Environment and Development," United Nations Economic and Social Council, E/Ch.17/1993/11/Add.1, 8 June 1993, p. 15.

[21] "Japan Unveils Aid Plan For Developing Countries," The Reuters Library Report, Aug. 16, 1991.

Table 5-l—Ministry of International Trade and Industry's (MITI) Green Aid Plan, 1992 Activities (budget figures are shown in parentheses in millions of yen)

Policy Talks/Dialogue Between the Japanese Government and Recipient Country

Activities Funded From General Account for ODA (1,397):
- Technical Cooperation (1,298)
  - Project Planning (672)
    1. Feasibility study and project needs assessment
       - . Environmental Measures Assessment [JICA] (474)
       - • Environmental Improvement [Japan Consulting Institute] (34)
       - . Comprehensive study on environmental issues [Asia Economic Institute] (34)
       - . Energy conservation technology promotion manual [with UNIDO] (19)
    2. Master planning
       - . Comprehensive environmental preservation project in Asia and Pacific region *(98)*
  - Personnel Training (163)
    1. Dispatching specialists [JODC] (26)
    2. Accepting and training engineers (137)
  - R&D Cooperation (463)
    - . Development of de-sulfurization equipment for coal-fueled boilers: Indonesia (261)
    - . Development of super-absorbent polymer for desert land forestation: Egypt [Japan Desert Development Association] (128)
    - . Development of industrial wastewater treatment system: Thailand (15)
    - . Global Environmental Technology Research Cooperation (59)
      - China (urban industrial pollution and acid rain from coal combustion)
      - Brazil (pollution caused by mining in tropical forests)
      - India (forestation in dry areas)
- Energy & Environment Technology Center (99)
  - China, Thailand (99)
  - (after 1992 projects are planned for Indonesia, Malaysia Philippines)

Activities Funded From Special Accounts (1,294):
- Intermediate Technology Development and Technology Transfer (1 ,294)
  - • De-Sulfurization Technology (570) [Electric Power Development Co.; Mitsubishi Heavy Industry, contractor]
  - • Energy Efficiency Technology [NEDO] (324)
  - • Clean Energy Technology (380) (Solar Sell Generation System) [NEDO]
  - . Clean Coal Technology (20)

NOTE: Agencies other than MITI and JETRO that are involved in particular programs are shown in brackets.

SOURCE: MITI, JETRO, Nihon Keizai Shimbun.

limit acid rain.[22] The funding will be provided through NEDO. The program will help developing country governments and private firms with low foreign exchange reserves make use of imported equipment. Japanese ODA has been offered for installing equipment to control sulfur emissions from coal-powered thermal stations in China.

22 "Japanese Trade Ministry Plans to Lease Anti-pollution Devises to Developing Countries, " The Reuters Library Report, July 15,1992. This is not the first time that MITI has used a leasing system to facilitate use of Japanese equipment. MITI previously setup domestic leasing systems to promote its computer and machine tool industries. U.S. Congress, Office of Technology Assessment, *Competing Economies: America, Europe, and the Pacific Rim,* OTA-ITE-498 (Washington, DC: U.S. Government Printing Office, October 1991), pp. 261-62; U.S. Congress, Office of Technology Assessment, *Making Things Better: Competing in Manufacturing*, OTA-ITE-443 (Washington, DC: U.S. Government Printing Office, February 1990), p. 155.

In 1990, Japan put forth "New Earth 21," a proposal to the world community about the need for a comprehensive and long-range vision to address global environmental and energy issues. An associated "action program" proposed a variety of near- and long-term responses to global environmental problems. Many of the long-term responses would require extensive technological breakthroughs (e.g., nuclear fusion, solar power generation from space, reversing desertification through biotechnology). MITI recently issued 14 proposals to further "New Earth 21" through domestic and international actions to better integrate energy, environmental, and economic concerns. These include: technological development for protection of the global environment and international cooperation in energy and environmental fields, including the Green Aid Plan and ODA.[23]

FRANCE

The third largest aid donor is France. Its aid structure has two main parts: aid to former colonies and current French Overseas Territories (TOMS), and aid to other low-income countries. *The Directorate de RelationsEconomiques Extériures* (DREE), a division of the Ministry of Finance, develops "protocols", longer-term (18-month) financing plans with lower-income countries. The *Caisse Culturale de Cooperation Économique* (CCCE), the central bank for economic cooperation under the Ministry of Cooperation and Development, works with former colonies and TOMs.[24]

Aid that is oriented toward the poorest countries and TOMS in Sub-Saharan Africa, the Caribbean, and the Indian Ocean, tends to be grant-based and has a human development emphasis. Assistance for education, health and population, and planning and public administration together account for 40 percent of total French aid. France's ODA for education and training supports programs in recipient countries and in universities and technical programs in France.

Aid to the better off developing countries tends to be commercially oriented, focusing on economic infrastructure development, and often involving aggressive use of mixed credits (see discussion of "Use of Loans" inch. 4). In 1991, France targeted 16.9 percent of its ODA to economic infrastructure projects, and 10.1 percent to productive industries (as defined by DAC). Roughly 25 percent of French aid is in the forms of loans and mixed credits. The Treasury and the Ministry of Finance are integrally involved in the use of mixed credits.

French Environmental Aid

France has only recently begun to integrate environmental considerations (such as environmental impact assessment and energy and natural resource conservation) in its aid program. However, French firms are among the world leaders in water management technologies, and French aid to the environment is focused on the provision of potable water and sanitation.

In January 1993, the *Caisse Culturale de Dévelopement* (which is a technical assistance arm of CCCE) estimated its environmental ODA commitments to be 825 million French francs ($146 million) for 1992.[25] Nearly 60 percent of this aid was for provision of drinking water. The rest was for sanitation and water purification, public health risks associated with household wastes, industrial pollution control, public awareness and management of natural resources, and agroindustry irrigation. An additional 80.4 million French francs ($14.2 million) in "environmental' aid went to the TOMS, where 46 percent

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23 Special Committees on Energy and Environment, *Fourteen Proposals for a New Earth,* Executive Summary, mimeo, Nov. 25, 1992.

24 The Ministry of Cooperation and Development was the successor to the former Ministry of Colonies.

25 Calculated at $1 = *5.66* French francs.

of the aid went for repairs to sources of potable water, 22 percent went to sanitation, and 31 percent of funding was devoted to restoration of the natural environment.[26] It is unclear whether these figures are indicative of French environmental aid, as CCCE'S aid accounts for only a relatively small portion of total French aid.

The Government of France uses a combination of grants, confessional loans, and mixed credits to provide its aid. Larger infrastructure programs are usually formed in association with French industry and provided for through a basket of mixed credits. A consequence of this policy was to increase aid recipients' foreign debt; however, the French government began a series of debt forgiveness at the Paris Club in 1988, and is continuing that process currently.

France opposed making OECD'S Helsinki Package mandatory. (The Package, discussed in ch. 4, tightened restrictions on use of tied aid credits for commercial advantage). It also has resisted efforts by the DAC Working Party on Environment and Development to impose more stringent environmental requirements among aid donors and to improve collective environmental policies. However, France was one of the strongest early supporters for the European Community program for Eastern Europe, called PHARE/EEC, contributing 3 billion French francs ($500 million) over the first three years. This program provides some support for environmental management, with priority placed on technical assistance and training, particularly for water resources, regional water management agencies, institutional planning, legislation, and implementation of cooperative agreements with industry, local authorities, and environmental groups.[27]

GERMANY

Germany remains the fourth largest aid donor, and has increased its ODA while undertaking reunification.[28] Since adopting "Basic Guidelines on Development Policy" in 1986, German aid has emphasized sectoral and structural adjustment. Germany uses strict development criteria to review its ODA. For example, countries that do not receive German technical assistance are not eligible for projects involving mixed credits. This policy lessens the chance that large projects will be funded in countries without the technical capabilities to manage them. German aid is mindful of the potential for mutual benefits from ODA for both recipient and donor. These export intentions are clearly articulated in the introduction to the Basic Guidelines: "In cases where a nation's development program requires it to obtain goods from industrial countries, we try to ensure that, if we are the suppliers of assistance, our own economy and workers benefit. "[29]

The ministry of economic cooperation (BMZ) oversees development policy for its two implementing arms, the German redevelopment bank (KfW) and the technical assistance agency (GTZ).[30] The use of two agencies is meant to deliver the widest possible base for support. According to DAC statistics, Germany spends slightly more on social program aid than on economic infrastructure spending, 24.7 percent versus 22.8 percent in 1991. However, if water supply projects are counted as economic infrastructure, those figures

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26 Caisse Francaise de Développement, "Reparation Thèmatique des Opérations: A Haute Valeur Ajoutée Environementale Engagées Par la CFD en 1992 (Hors DOM-TOM et hors adjustment)" Jan. 19, 1993, Paris.

27 Friends of the Earth of the u.K., 1991 *Enviro Summit: A Critical View of the Environmental Performance of the G7 Countries* (London: Friends of the Earth U.K. and International, 1991), vol. 2.

28 For an overview Of German development assistance see Burghard Claus and Hans HLembke, "The Development Cooperation Policy of the Federal Republic of Germay," German Development Institute, Berlin, March 1992.

29 German Federal Ministry of Foreign Affairs, as quoted in ibid.

30 KfW is the Kreditanstalt für Wiederaufbau, and the GTZ is the Deutsche Gesellschaft für Technische Zus ammenarbeit. Both are considered agencies under the Ministry of Economic Cooperation.

could change to put infrastructure spending in the lead.[31]

German Environmental Aid

An early proponent of DAC environmental guidelines, Germany has pledged to continue to stress the environment in developing countries as it works with neighboring countries in Central and Eastern Europe where power plants and chemical storage facilities pose an imminent threat to public health in Germany itself. Germany provides a significant amount of aid for environmental protection and conservation of nature. In 1990 and 1991, more than one-fifth of all German aid was devoted directly to the environment.[32] Environmental aid is expected to account for over 25 percent of its total aid in 1992 and 1993. The GTZ estimates disbursements of 1,020.7 DM million ($614.9 million) in 1990 and 847.8 DM million ($510.7 million) in 1991, and commitments of 996.0 DM million ($600 million) for 1992 and 1,001.6 DM million ($603.4 million) in 1993.[33]

To count as environmental aid, projects must have protection of the human environment and/or the conservation of nature as primary objectives. This includes support to countries for managing and rationalizing their use of natural resources or protection of the environment. Examples of projects include conservation strategies, institution building, sludge and waste management, environmental impact assessment studies, and support for recipient country development of environmental action plans.

Germany's estimate of its environmental aid, unlike many other donors, excludes projects that are undertaken for other purposes that have an environmental component. For example, a livestock production project with a sub-activity to train farmers to protect hillsides from erosion would not count as an "environmental" project.

In general, large inrastructure projects are not considered environmental, with the exception of sludge or waste management projects, and some cases of "necessary" infrastructure. Depending upon the level of development in the recipient country, such infrastructure projects will be supported through grants in the form of technical cooperation, confessional loans, and through mixed credit offerings through the financial cooperation arm, the KfW.

German aid has standing programs for collaborative technical R&D and for training. Since the early 1980s, the technical research has been concerned with the development of technology appropriate for developing countries. Such technologies often happen to be better at protecting the human environment or reducing destruction of natural resources. One example is a low-smoke or alternative-fuel cookstove, which reduces or eliminates demand for charcoal and thus lessens pressures of deforestation. R&D for this technology is carried out in developing countries and Germany.

Germany is investing in environmental training and awareness for the staff of its aid programs. It also offers environmental training for developing country personnel in Germany and locally in recipient countries. It provides financial support and technical assistance for environmental institution building in developing countries.

Germany recently launched several environmental initiatives pertinent to sustainable development. These include programs on tropical

31 In DAC statistics, "water supply and sanitation" are included in social spending under a category called "other." For 1991 Japan and Germany had the highest shares in this "other" category among the major donors presented, 9.9 percent of total ODA commitments for Japan and 6.3 percent for Germany. If the whole "other" category in Germany's case were water and water were counted as economic infrastructure, Germany would have spent 29.1 percent for economic infrastructure.

32 This includes KfW and GTZ technical and financial assistance, but not aid provided by German nongovernmental organizations that is funded through its aid structure.

33 Calculated on an exchange rate of $1=DM 1.66.

forestry, household energy supplies, and institution building for the environment. In cooperation with Brazil and as a complement to several World Bank environmental projects, Germany is contributing approximately $172 million (DM 285 million) to an international pilot program for the conservation of Brazilian tropical rainforests.

UNITED KINGDOM

The United Kingdom aid program is similar in philosophy and structure to that of the United States. Administration and policy formulation are, for the most part, under the auspices of one agency, the Overseas Development Administration (UK ODA), whose minister reports to the Foreign Secretary .34 British aid makes use of its own regional missions[35] and takes a country-specific approach to aid policy formulation. The UK places a high premium on promoting sustainable development and working to help low-income countries.[36]

The Overseas Development Administration provides external assistance under three programs: aid to developing countries, assistance to Eastern Europe and the former Soviet Union, and (the smallest by far) "global environmental assistance. "[37] British aid supports numerous small-scale training programs in developing countries. The UK ODA also makes use of a mixed credit facility, the Aid and Trade Provision (ATP), to aid capital projects in developing countries. British aid supports water and waste treatment facilities, power production, and infrastructure projects through loans and **associated financing.**

British Environmental Aid

British aid officials have resisted classifying their projects and programs as "environmental" and a meaningful estimate of British environmental aid is not yet available.[38] The label is thought to marginalize concern for the environment, which aid officials see as a cross-cutting issue which all UK ODA projects must account for. The UK ODA'S *Manual of Environmental Appraisal*, first published in 1989 and revised in 1992, is meant to guide officials in addressing environmental issues early in the decision cycle for all projects and programs. The manual provides environmental checklists that could be used in project conception, formation, planning, implementation, and appraisal. "Policy information markers" are being put in place to identify aid projects and programs that are primarily environmental or that have major environmental components. These markers will adhere to UK ODA policy and will cover poverty, women in development, good government, and other issues as well as the environment. Thus, a clearer enumeration of UK aid for the environment may soon be available.[39]

UK bilateral aid supports a range of programs to promote environmental protection and more efficient use of resources in developing countries. One focus has been sustainable forestry, with over $200 million in forestry projects underway or in

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34 In the UK, this agency is generally referred to ss "the ODA." However, internationally ODA refers to Official Development Assistance. For purposes of clarity, the British agency is referred to here as "UK ODA."

35 Unlike the expansive country mission structure of USAID, however, UK ODA has only five regional missions and relies on the extensive in-country diplomatic missions, British Council offices, as well as the Crown Agents for Overseas Governments and Administrations.

36 British aid, including large capital projects, goes to countries with very low per capita incomes. Overseas Development Administration, "British Overseas Aid: 1991 Annual Review," London, October 1991.

37 UK Overseas Development Administration, "British Aid Statistics 1987/88 - 1991/92," a publication of the Government Statistical Service, 1992, p. ii.

38 'l'he only clearly identified component of its environmental aid is for "global environmental assistance." In 1991/92, this amounted to $7.1 million(L 4.9 million), or O.25% of total UKODA external assistance programs. Thissupports the GEF and Montreal Protocol Fund and is completely separate from funding for the environment in its bilateraODA programs.

39 This &~ should be available from the UK ODA in 1993.

preparation in early 1992. The UK ODA'S scientific agency, the Natural Resources Institute (NRI), works with developing countries on pesticide management and control, and training for users of pesticides and other potential sources of hazardous waste. A "Renewable Natural Resources Strategy, ' first published in 1989, covers programs in agriculture, fisheries, forestry, livestock, land resources assessment, integrated pest management, and post-harvest technology. British aid finds $49 million (34 million pounds Sterling) worth of research in the renewable resources sector.[40]

British aid also funds large capital projects. In 1989, it provided $53 million (39 million pounds Sterling) for water and sanitation projects, of which $25 million (17.4 million pounds Sterling) was devoted to providing clean drinking water in some 40 developing countries.[41] It funds many huge infrastructure projects through its mixed credit facility, the Aid and Trade Provision, or ATP. ATP proposals in principle are subject to the same appraisal criteria and environmental considerations as all other aid.[42] However, a study by the National Audit Office (roughly the UK equivalent of the United States' General Accounting Office) found abuse of the ATP facility and subsequent damage to the environment and public health associated with several large water projects.[43] These projects were planned and carried out before UK ODA issued its 1992 *Manual of Environmental Appraisal. The* manual, as well as other efforts to integrate ATP proposals into the country's priorities system, may help bring ATP projects in line with environmental standards applied to other UK ODA projects.

Through its research programs and via the British Council, the UK ODA funds collaborative cleaner technology R&D, and environmental training and institution building. The British Council manages the UK's Technical Cooperation Training Programme. In 1990-91, roughly 485 persons were trained in environmental subjects at either the technician or higher degree level (out of a total of 12,600 trainees). The program works with trainees from developing countries who are trained at local institutions in their own countries. Subjects include environmental awareness, impact assessment, environmental law, engineering, management and planning, wildlife management, and pollution control.

The British Council also provides fellowships and training in Britain for professionals from overseas. A series of high-level international seminars for senior officials on a range of issues such as environmental policy and management and environmental law took place in 1992. Programs are also already underway to increase environmental awareness in ODA recipient countries, including environmental protection councils and public awareness campaigns in Ghana and Guinea Bissau.[44]

In March 1993, British Prime Minister John Major announced the United Kingdom Technology Partnership Initiative.[45] The Initiative will seek to encourage firms in developing countries to use British technologies and expertise that might contribute to improved performance and reduced environmental impacts. The 3-year program will foster partnerships between British companies and private sector firms and associations in developing countries. A network of key

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40 UK Overseas Development Administration, "Actionfor the Environment" May 1992 brochure, p. 38.

41 Ibid., pp. 30-31.

42 According t. UK ODA, ATP applications for large power-generation projects might be "expected" to include an environmental impact assessment or equivalent measure, as ATP projects "often involve industrial developments which may require special measures to mitigate pollution problems." UK Overseas Development Administration, "Manual of Environmental Appraisal," April 1992, p. 15.

43 National Audit Office, *Overseas Aid: Water and the Environment (report by the* Comptroller and Auditor General, HMSO).

44 UK Overseas Development Administration, "Action for the Environment" May 1992 brochure, p. 40-41.

45 Technology Partnership Secretariat, "Technology Partnership: the Initiative," brochure, n.d., n.p.

officials from government and industry will help business personnel in developing countries obtain information about, among other matters, the best practices employed by British companies, new technologies under demonstration in the UK, and sources of financing and other help. Some assistance will be provided to help UK companies provide hands on training for key developing country business personnel. UK firms also can obtain specific information on the needs of developing country businesses. British and developing country firms can access the network through participating trade associations, British embassy or High Commission commercial offices, or the Partnership's Secretariat in London.