14.1 Introduction

The preceding chapters document how financing development has been a major challenge in Asia and the Pacific over the past 50 years. Export receipts, remittances, foreign direct investment (FDI), bank loans, bond purchases, and portfolio equity investments by nonresidents were important sources of external finance (Chapter 7). Bilateral and multilateral development finance also played a key role in many aspects of Asia’s economic and social development.

In the early years, countries in the region had shortages of domestic savings and foreign exchange. They were less creditworthy to borrow from abroad, and domestic capital markets were not developed. At that moment, external development finance from bilateral aid agencies of developed countries as official development assistance (ODA) was critical.\footnote{ODA is defined by the Organisation for Economic Co-operation and Development (OECD) as financial flows provided by official agencies intended to promote economic development and welfare of the recipient, and sufficiently concessional in character (grants, and lower interest rate and longer maturity loans).} Large amounts of development finance were also provided as concessional (including grants) and non-concessional...
flows from multilateral development banks (MDBs) such as the Asian Development Bank (ADB) and the World Bank, and United Nations (UN) agencies such as the United Nations Development Programme (UNDP), United Nations Children’s Fund (UNICEF), and International Fund for Agricultural Development (IFAD).

There is a large and growing volume of literature on aid effectiveness. Findings and conclusions tend to differ and diverge depending on the context, situation, and type of aid because the complexity of the overall economic development process makes it difficult to generalize and precisely attribute development results to development finance. But in Asia, it is generally agreed that development finance played an important role in supporting country development. Recipients of development finance—through programs and projects—benefited from finance combined with the transfer of technology and ideas. Countries worked to enhance their absorptive capacities, aligning external finance with country strategies, and maintaining “ownership.” Bilateral and multilateral development finance remains important today, especially for supporting such areas as persistent poverty, gender equality, climate change, and quality infrastructure.

In general, there are three instruments of bilateral and multilateral assistance.

The first is loan financing to bridge gaps in necessary funding resources for development. A developing country, for many reasons, often faces constraints in financing, in particular large investment requirements in physical infrastructure. Development finance plays a fundamental role in loosening constraints by filling financing gaps, enabling a country to undertake projects that promote economic growth and enhance its repayment capacity. Also, large loans from bilateral and multilateral development partners often come with the

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The role of bilateral and multilateral development finance involves the transfer of knowledge, ideas, governance, and policies. In addition, recipient countries and loan providers tend to pay more attention to the economic grounds of projects than grants.

The second instrument is grant assistance, especially for social infrastructure such as health and education, humanitarian assistance, and other social programs. Grant aid is a form of financial assistance without repayment obligations. Grant is effective to support the poorest countries and those in fragile and conflict-affected situations. Grant is also used for severely debt-distressed countries. ADB’s operations had been in the form of loans (non-concessional and concessional) in addition to technical assistance since its establishment in 1968. ADB began grant operations in 2005.

The third instrument is technical assistance. It is used to deliver technical and managerial skills in health, education, agriculture, forestry, and others. Technical assistance helps design and prepare projects. It also supports effective policies and structural reforms in such areas as public finance, social security, the financial sector, the education system, health service delivery, and environmental protection. There are broader knowledge spillover effects of international technology transfers through technical cooperation (Chapter 5).

In general, the use of resource inflows from abroad for development evolves in relative importance depending on the stage of development: initially, grant aid for less-developed countries, moving to concessional loans, and then non-concessional finance from bilateral partners (including export credit agencies) and MDBs (including loans and equity investments to private companies). As countries become more developed, private capital inflows, including FDI, commercial loans, portfolio bonds, and equity investments, increase their importance. Since the mid-1970s in developing Asia, the share of bilateral and multilateral development finance has gradually declined as other modes of external finance expanded significantly (Chapter 7).

This chapter discusses bilateral and multilateral development finance in Asia and the Pacific. Section 14.2 gives an overview of bilateral ODA for Asia, while section 14.3 presents an overview of multilateral development financing. Section 14.4 offers a summary of the experience in selected recipient countries. Section 14.5 discusses experiences of several Asian bilateral development finance providers. Section 14.6 looks at future challenges and priorities.
14.2 Bilateral official development assistance flows

In developing Asia, the United States (US) was the largest ODA provider in the 1960s and early 1970s (Figure 14.1). Since the late 1970s, Japan has consistently increased ODA and has become the single largest bilateral aid provider, using large concessional lending (“yen credit”).

ODA flows from Europe, including European Union (EU) institutions, account for around one-third of total ODA flows to developing Asia, with countries targeted changing over time. Australia and New Zealand have prioritized their ODA allocations for

Figure 14.1: Inflows of Bilateral Official Development Assistance, Developing Asia
(gross disbursement, $ billion)

EU = European Union, US = United States.
Notes: EU* includes Development Assistance Committee (DAC) EU member countries and EU institutions. Other countries include non-DAC countries such as Thailand, which reports to DAC.
the Pacific region. The Republic of Korea (ROK) has become an ODA provider in developing Asia since the late 1980s, with the volume of assistance rising steadily.

Japan, the US, Australia, New Zealand, the ROK, and the EU are all members of the Organisation for Economic Co-operation and Development (OECD), guided by the policies of the OECD Development Assistance Committee (DAC). Emerging economies, such as the People’s Republic of China (PRC), Thailand, and India, are increasingly becoming “emerging donors,” providing assistance to other developing countries in Asia and the Pacific.

The large numbers of donors and projects may potentially overwhelm a recipient government’s capacity to manage and administer aid inflows, undermining the efficiency of official development finance, and leading to a situation called “aid proliferation.” But in Asia, this problem has generally been controlled as there were fewer aid providers operating in each recipient country, for instance, compared with Africa. Also, aid providers coordinate among themselves and work together with recipient countries based on their strong ownership, which enhances aid effectiveness.

14.3 Multilateral development banks

Postwar multilateral development assistance began with the establishment of the International Bank for Reconstruction and Development (IBRD), or the World Bank, and the International Monetary Fund (IMF) based on the Bretton Woods Conference in 1944. Originally, the IBRD loans helped rebuild countries devastated by World War II. In time, the focus shifted from reconstruction to development. IBRD started lending to developing countries beginning with Chile in 1948. Its first loan to Asia was to India in 1948 for railway rehabilitation. In 1960, the International Development Association (IDA) was established as a member of the World Bank Group to provide concessional loans and grants to the poorest developing countries. The first IDA loan to Asia was to India in 1961.

In 1966, ADB was established “to foster economic growth and co-operation in the region of Asia and the Far East ... and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and

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The 31 original ADB members increased to 68 by 2019, of which 49 are regional members and 19 are nonregional. ADB provided its first loan to Thailand in 1968 (a $5 million financial sector loan to support industrial development). Its first concessional loan (Indonesia irrigation project) was also provided in 1968 from its Agricultural Special Fund. The Asian Development Fund (ADF) was established in 1974 to support concessional lending. And in 2005, ADF donors agreed to establish a grant program under ADF. It has helped reduce the debt burden in the poorest countries, assisted poor countries in transition from post-conflict situations, and supported countries’ social programs such as health and education.

Initially, ADB’s focus was on food production and rural development in its developing member countries. Lending and technical assistance increasingly covered power, transport, and urban development, later adding the social sectors such as health and education. Over the years, ADB developed policy-based lending to support reforms, grants for the poorest countries, and private sector operations.7

Gross disbursement of multilateral development finance flows to developing Asia surged in 1997 and 1998 to assist countries affected by the Asian financial crisis (Figure 14.2). It has increased again since 2005. The ADB share has increased steadily. As a result of combining concessional ADF lending operations with its ordinary capital resources (OCR) balance sheet in 2017, ADB’s lending capacity for both non-concessional and concessional loans expanded substantially—because of the large combined equity and use of leverage for concessional lending. ADB’s new commitment increased from $13.9 billion in 2014 to $19.7 billion in 2017. ADB's gross disbursement reached $11.4 billion in 2017, a record high, or 30% of total multilateral financing in developing Asia.

Infrastructural development for transport, energy, and water accounted for a large share of ADB’s development finance from 1968 to 2017 (Figure 14.3). But the sector focus shifted over time. The share of agriculture declined, while transport increased. The energy share remained at 25%, although today it is predominantly for renewable energy and energy efficiency. During 1997–2006, the share of the

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finance and public sectors more than doubled over the earlier period, as there was a concerted effort globally to provide countercyclical support to developing countries in the aftermath of the 1997–1998 Asian financial crisis.

Reflecting the changing needs and priorities of developing member countries, MDBs broadened the scope of their assistance to new areas such as governance, fragility, and post-conflict assistance. They developed new modalities such as policy-based financing (budget support finance based on certain reform measures), results-based financing (disbursements linked to performance indicators such as in education and health), and contingency disaster risk financing.
They are also increasing climate finance to support climate change mitigation and adaptation. Nonsovereign operations (lending to and equity investment in private companies) have been expanding. MDBs have extended their country presence by opening field offices, and continue to enhance the quality of engagement by aligning country strategies with those of recipient countries. With their unique cross-country perspective, MDBs can promote learning and knowledge sharing of comparative development experiences.

Figure 14.3: Evolution of ADB Loan and Grant Approvals, 1968–2016 (%)

ADB = Asian Development Bank, ICT = information and communication technology.
Notes: Amounts in bars are sector shares (%) of the total. Figures below years are total loans and grants for the period. Data from 1997 onward follow ADB’s new project classification system, so subsector data across time may not be strictly comparable. Financial sector operations include (i) loans for financial sector development; (ii) inclusive finance through credit guarantees, trade financing, and equity investments; and (iii) guarantees and viability gap financing for infrastructure. Public sector support includes loans and grants related to public, fiscal, and economic management; reforms of state-owned enterprises; law and the judiciary; and social protection initiatives. All data are as of 31 December 2016.

In its corporate strategy, Strategy 2030, adopted in 2018, ADB set remaining poverty, gender equality, climate change, livable cities, rural development and food security, governance, and regional cooperation and integration as priority areas. ADB will increase private sector operations (aiming at one-third of ADB’s operations in number by 2024) and mobilize more private sector resources including through public–private partnership.

Cooperation and coordination among MDBs and bilateral donors have strengthened too. Project cofinancing is a common form of cooperation, especially for financing large infrastructure projects. For example, ADB, the World Bank, and Japan cofinanced megaprojects such as the Jamuna Bridge in Bangladesh. The Nam Theun 2 Hydropower Project in the Lao People’s Democratic Republic was another mega-infrastructure investment that involved multilateral and bilateral cofinancing. In addition, MDBs and bilateral partners have conducted regional studies. For instance, in 2005, ADB, the Japan Bank for International Cooperation (JBIC), and the World Bank jointly produced a regional flagship study, *Connecting East Asia: A New Framework for Infrastructure.*

MDBs cooperate with the IMF to support countries in implementing policy and institutional reforms and to mitigate the socioeconomic impact of external shocks. In the aftermath of the 1997–1998 Asian financial crisis and 2008–2009 global financial crisis, MDBs and the IMF worked closely to support affected countries by providing larger amounts of finance. When there is a balance of payments crisis, MDBs participate in IMF-led programs—the IMF provides foreign exchange financing based on conditionalities on macroeconomic policies and structural reforms, and MDBs provide policy-based, budget support loans for social sector expenditures and structural reforms.

MDBs cooperate with other development partners including UN agencies. ADB has worked with the World Health Organization (WHO) in Asia to help address regional health security related to malaria, HIV/AIDS, and avian influenza. ADB also cofinanced projects with the Global Environment Facility (GEF) to support environmental protection and biodiversity, and the Green Climate Fund (GCF) for climate change mitigation and adaptation.

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More recently, in 2016, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) began operating as new MDBs. ADB and the World Bank have been working closely with them, including through cofinancing in several Asian developing countries.

14.4 Experiences of recipient countries

How well recipient countries used bilateral and multilateral development finance differed. Most Asian countries benefited from development finance as they worked simultaneously to build their absorptive capacity to design and implement projects, and have complementary policies to maximize the impact of external support and, most importantly, keep a strong sense of ownership. They avoided aid dependency.

Japan

Japan received humanitarian and economic aid immediately after World War II from the US government and nongovernment organizations (NGOs). These included the Government Aid and Relief in Occupied Areas (GARIOA), Licensed Agencies for Relief in Asia (LARA), and Economic Rehabilitation in Occupied Areas (EROA). From CARE International, a US-based NGO, the country received aid for necessities such as food and clothing, farm implements, and seeds.

IBRD provided large investment loans from 1951 to 1966—$863 million for 31 loan programs—with repayments completed in July 1990.\(^9\) Japan used the resources to fill financing gaps in domestic investments and development programs, particularly focusing on the “Pacific Belt Zone”—the organic link of industrial clusters between Tokyo and Fukuoka.\(^10\) Examples include the steel-plate production facilities of Yawata Iron & Steel Co. Ltd. (1955), Koromo Plant truck and bus machine tools of Toyota Motor Co. Ltd. (1956), Kurobe No. 4 hydroelectric power station of Kansai Electric Power Co. Ltd. (1958), Tokaido Shinkansen (the first high-speed train) line of Japanese

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National Railways (1961), and Tomei Expressway of Japan Highway Public Corporation (1964).\textsuperscript{11}

The IBRD loans were extremely important for Japan, providing much-needed foreign exchange and financial resources more generally, but also to transfer knowledge and new technology. The Shinkansen railway was based primarily on Japanese technology as the country had long prioritized railway systems. For its road systems, the Japanese construction ministry drew on a German consultant engaged by IBRD to design and construct toll-based highways.

\textit{Republic of Korea}

Devastated by the 1950–1953 Korean War, the ROK relied heavily on foreign assistance for development finance and external payments. In the 1950s, foreign aid inflows, especially from the US, financed about 70% of crucial imports. Foreign aid was also used for the rehabilitation and reconstruction of war-damaged infrastructure. Aside from import and infrastructure financing, emergency relief and military aid, US aid went to higher education (including scholarships to study in the US) and capacity building of public administration that supported industrialization.\textsuperscript{12} After normalizing diplomatic relations between the ROK and Japan in 1965, bilateral ODA from Japan increased significantly.

Overall, foreign aid was an important source of investment financing during the country’s early economic development. Foreign aid accounted for 42% of overall fixed capital formation during 1965–1974. The ROK used ODA effectively to promote rapid industrialization. Although the World Bank turned down a plan for constructing a new steel mill due to the size of the ROK economy, the government built it in 1969 with Japanese assistance.\textsuperscript{13}

Multilateral support played an important role in economic development. ADB’s first loan to the ROK was for the Seoul–Incheon highway project in 1968. While construction was already underway when ADB was approached for financing, ADB’s technical contribution was critical to ensure a high design standard and effective


**The People’s Republic of China since 1978**

Following the 1978 reforms and move toward opening its economy, the PRC began receiving significant bilateral and multilateral development finance together with the transfer of knowledge and technology. Japan was the largest bilateral aid provider between the early 1980s and early 2000s. In 1979, it started to support PRC policy reforms based on the Treaty of Peace and Friendship between Japan and the PRC. During the period, Japan provided 367 concessional loans (yen credit) totaling ¥3.3 trillion, based on the “round modality” in which Japan pledged a lump sum every 5 years to support the PRC’s five-year plans. Assistance from other bilateral donors, the World Bank, and, later, ADB also increased.

In the 1980s, bilateral and multilateral partners supported the PRC on major development goals such as alleviating infrastructure bottlenecks and improving health. Knowledge was also critical. In 1985, the World Bank sponsored the 6-day International Symposium on Macroeconomic Management—a river cruise conference along the Yangtze River—which brought together senior officials and many world-renowned economists. Today, it is considered a symbolic event that inspired future market-driven reforms. In the 1990s, donors started paying more attention to supporting PRC efforts to cope with emerging challenges such as urban reform, environmental protection, and poverty reduction.

Sharing development experience and absorbing technology from abroad were essential for the PRC’s rapid economic development, both for building highways, bridges, and urban infrastructure, and for macroeconomic policy, city planning, and environmental protection. The Ministry of Finance and the State Development Planning Commission (the predecessor of the National Development and Reform Commission) were the central government agencies for engaging with bilateral and multilateral development partners.

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The PRC joined ADB in 1986 and became a large borrower together with India (which also began borrowing from ADB in 1986, although it was a founding member). The focus of ADB lending was initially to support industrial development in coastal areas, but over time, it shifted to transport and urban development in poorer inland provinces. ADB’s operations supported capacity building of public institutions to develop, implement, and operate public projects. They included best practices for international competitive bidding, contract awards, and safeguard policies against adverse environmental and social impacts. ADB’s country partnership strategy for the PRC (2016–2020), aligned with the 13th Five-Year Plan, prioritized climate change, environmental protection, institution building for inclusive growth, and regional cooperation.

**Thailand**

ODA flows to Thailand played a critical role in facilitating economic growth and development. Since the mid-1970s, Japan has been a major provider of ODA (approximately 60%–80% of assistance from DAC countries) by way of grants, technical assistance, and concessional loans. The Eastern Seaboard Development Program shows how Thailand successfully leveraged bilateral and multilateral development finance to industrialize (Figure 14.4). The Government of Thailand also used external finance for integrated rural development initiatives, including small-scale irrigation programs, rural finance through the public Bank for Agriculture and Agricultural Cooperatives, and vocational education such as an industrial college in Chiang Mai.15

Thailand actively promoted FDI-led industrialization by using development assistance to crowd-in private investment. Bilateral and multilateral development finance together contributed to attracting FDI.16 There is an “infrastructure effect” that improves physical infrastructure; and a “vanguard effect” whereby foreign aid from a particular country promotes FDI by bringing its own specific business practices, rules, and systems into recipient countries. Over time, the country benefits from an improved business climate.

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Figure 14.4: Infrastructure Development of Thailand’s Eastern Seaboard

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

FDI-led agglomerations, including the automobile and auto parts industry, expanded formal employment opportunities, improved education in rural areas, and narrowed the urban–rural income gap.

**Bangladesh**

Soon after Bangladesh became independent in 1971, ADB, the World Bank, and bilateral donors began supporting its socioeconomic development (Figure 14.5). In the 1970s, the country was heavily dependent on foreign aid due to a lack of domestic resources needed...
for capital formation: the savings rate stayed below 5% of gross domestic product.\textsuperscript{17} External aid initially came in the form of food aid and then mostly as project aid. Both bilateral and multilateral aid played a critical role in financing physical infrastructure, especially in energy and transportation as well as innovative social development projects and programs such as microfinance.

Jamuna Bridge, cofinanced by ADB, the World Bank, and Japan, is the longest and largest multipurpose bridge in Bangladesh. It carries gas pipelines, a railway, power cables, and a two-lane dual highway. The bridge both improves national connectivity as a strategic link between the eastern and western parts of Bangladesh and helps reduce poverty in the surrounding region.\textsuperscript{18} Even though ODA has been a significant source of foreign exchange and domestic investment, its relative importance declined over the years as other sources of foreign exchange, such as exports and worker remittances, grew.\textsuperscript{19}

\textbf{Viet Nam}

After several decades of war and reunification, in 1986 Viet Nam began the \textit{Doi Moi} reform process, covering a broad range of economic policies—to move from a centrally planned economy to one more market-oriented. During this transition, bilateral and multilateral donors both supported infrastructure development and the social sectors such as health, education, and rural development (Figure 14.6). Physical infrastructure helped develop a wide range of manufacturing and improved linkages to global and regional supply chains. Ensuing strong economic growth led Viet Nam to middle-income status in 2009.

Large amounts of bilateral and multilateral development finance were combined with advice for reform policies and capacity building. The ROK is an important ODA provider to Viet Nam. Since 1993, it has provided $2.7 billion for Viet Nam for about 60 projects in priority areas such as transport and energy infrastructure,


health, water supply, and drainage.20 These ODA projects met both Viet Nam’s development needs and matched sectors where the ROK is strong. Korean partners work directly with their Vietnamese counterparts to share technical knowledge and implementation experience to strengthen local capacity.21

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Through ODA support, the ROK also assists Viet Nam in structuring public–private partnership finance for infrastructure projects with ROK private companies. Viet Nam is an important production base and network for a wide range of East Asian multinational firms such as Canon, LG, Panasonic, and Samsung. ODA-supported investments in constructing various sections of the North–South and East–West corridors benefit both Viet Nam and its subregional neighbors. Infrastructure connectivity increased mobility and lowered transportation costs, strengthening regional integration.

**Central Asia**

Since the 1990s, the Central Asia and South Caucasus region has begun a drastic transition from central planning to market-based systems. Bilateral and multilateral development partners provided technical assistance on policy analysis and capacity building, including price liberalization and reforming state-owned enterprises. They also provided special financial assistance to ensure imports of essential goods and help mitigate the adverse impacts from the sudden disruption of trade and financial flows after the breakup of the Soviet Union. By the end of the 1990s, the World Bank, ADB, the European Bank for Reconstruction and Development, and bilateral ODA partners started financing development priorities such as infrastructure, human capital, agriculture and rural development, the financial sector, and social protection.

A main barrier to development in Central Asia was the shortage of connectivity between neighboring countries and beyond. The ADB-led Central Asia Regional Economic Cooperation (CAREC) Program was formally established in 2001 to enhance cooperation and connectivity between members (Chapter 15). The program provides financing for cross-border energy and transport infrastructure, and trade facilitation such as customs. It is now expanding its scope under a new long-term strategic framework, CAREC 2030, by including economic and financial stability, environment, agriculture and water, tourism, and regional human capital development.
The Pacific

Small Pacific island countries face a set of development challenges very different from those of other countries in developing Asia. Pacific nations are particularly vulnerable because of their small populations, geographical isolation and dispersion, exposure to shocks such as natural hazards, climate change, and abrupt fluctuations in food and fuel prices. High production and transportation costs severely limit private sector development along with the potential for export-led growth and resulting job creation. They also lack sufficient resources to produce and deliver a wide range of public services.

In the Pacific, bilateral partners such as Australia and New Zealand and multilateral agencies such as ADB and the World Bank provide assistance tailored to Pacific island country needs. Assistance supports building infrastructure and improving education, health, and small and medium-sized enterprise finance to foster inclusive growth. Development partners help countries take advantage of technologies, such as digital connectivity, to encourage private sector activity and promote women’s participation in the workforce. They also prioritize disaster risk management and adaptation to climate change. Australia and New Zealand have seasonal worker schemes in the Pacific that both help address employment challenges in the island countries and alleviate labor shortages in the two host countries.22

14.5 Experiences of Asian official development assistance providers

As providers, Japan and the ROK share some common characteristics of emphasizing economic infrastructure, supportive concessional loans, and the idea of self-reliance. These principally reflect their experience in using external development finance to support their own economic development. Australia and New Zealand have become important ODA providers and use grants to support Pacific island countries, especially in social and private sector development. Emerging donors in Asia are also becoming important providers of official development finance to other Asian countries.

Japan

Historically, Japan’s development assistance can be divided into three eras. The first ran from the mid-1950s to the mid-1970s. During the postwar period, Japan started reparations and joined the Colombo Plan in 1954. Even prior to this, it provided technical assistance under the Third Country Training (3CT) Program sponsored by the US International Cooperation Administration (ICA) for Southeast Asian countries in the 1950s. Through this technical assistance program, Japanese experts were sent to developing countries and trainees were brought to Japan.

Through the 1960s, Japan used a four-pillar system of developing country assistance—grant aid, concessional loans, technical assistance, and contributions to international organizations. During this period, Japan established aid delivery institutions such as the Overseas Economic Cooperation Fund (OECF) (formed in 1961) to manage ODA loans (yen credit). In 1964, Japan joined the OECD DAC. The Japan International Cooperation Agency (JICA) was established for technical assistance and grant operations in 1974, succeeding the Overseas Technical Cooperation Agency.

The second era spanned from the mid-1970s to the 1980s. Japan’s economic vitality in the 1980s and the yen appreciation following the 1985 Plaza Accord led to consecutive plans that aimed to double the volume of ODA (for instance, in 3 years from 1978). The idea was to support Asia’s industrialization, trade, and overall economic development using aid, trade, and FDI—functioning as a comprehensive economic cooperation package. The large growth of Japanese ODA by the 1990s was supported by three underlying factors: (i) Japan’s strong economic growth and healthy fiscal position, (ii) large current account surpluses, and (iii) the idea of contributing to the international community under its pacifist constitution.

The third era began in the 1990s. The first ODA Charter in 1992 clarified Japan’s policy more clearly, highlighting, among others, its geographical focus on Asia, the dual targets of environmental and economic development, tackling global issues, basic human needs, infrastructure development, and the principle of self-help. Since the early 1990s, Japan’s position on ODA has changed. First, the economy entered a period of long-term tepid growth with a significantly deteriorated fiscal position. Second, the prospect of very large current
account surpluses had diminished. And third, Japan felt it should enhance contributions to the international community through activities such as peacekeeping.

These changes, plus evolving global thinking on aid, shifted Japan’s ODA policy in 2003 from increasing the quantity of assistance to ensuring its effectiveness and cooperation with the international aid community. Its revised ODA Charter incorporated human security as a core principle, setting poverty reduction and sustainable growth and tackling global issues as main objectives. It emphasized the need for evaluation, coherence, aid effectiveness, governance, and alignment with recipient country strategies. In 2015, Japan’s new Development Cooperation Charter emphasized the need to enhance synergies for development by strengthening collaboration with development partners including NGOs and the private sector.

**Australia**

Australia’s official aid work began before World War II in Papua New Guinea (which was a mandate territory under the League of Nations framework and a UN trust territory until 1975). Australian aid increased rapidly after World War II. Australia made significant contributions to UN agencies and the World Bank and provided bilateral aid, especially for supporting Pacific island countries. Australia was an ADB founding member and is today its fifth-largest shareholder in OCR and third-largest contributor to concessional resources.

In 1951, Australia helped found the Colombo Plan, which provided about 40,000 scholarships over 35 years to students from developing countries for academic degree programs at Australian educational institutions. It began to institutionalize aid delivery starting with the Australian Development Assistance Agency (ADAA) in 1974. In 2013, Australia integrated ADAA’s successor, the Australian Agency for International Development (AusAID), into the Department of Foreign Affairs and Trade (DFAT) to more closely align aid with diplomacy.

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From 2004, Australia’s aid budget grew significantly as part of a bipartisan effort to substantially increase Australia’s contribution to international development. By 2014, it had become the second-largest bilateral donor to East Asia and the Pacific. Papua New Guinea and Indonesia are the largest recipients of Australian aid, followed by Solomon Islands.

**New Zealand**

New Zealand has a tradition of progressive ideas, symbolized by being the first to allow women’s suffrage to the national legislature in 1893 (when it was a self-governing British colony). Since the 1960s, official aid has mostly provided budget support for newly independent states, especially in the Pacific. In the 1970s and 1980s, the New Zealand official assistance program started providing project aid and humanitarian support. Like Australia, scholarships to developing country students were an important element of New Zealand’s aid program.

In recent years, New Zealand aid has become more focused on helping countries achieve sustainable development and reduce poverty. Strategic focus is a key feature. In 2017, its ODA budget was about NZ$615 million.\(^{25}\) Climate change, renewable energy, agribusiness, private sector development, gender equality, and capacity building are among its priorities.

Geographically, New Zealand focuses its ODA on the Pacific island countries, with the Pacific receiving 60% of New Zealand’s annual ODA budget. Modalities of ODA support in the Pacific evolved to include budget support, project investments in areas where New Zealand has comparative strength, and long-term institutional building for Pacific island-states. New Zealand works closely with MDBs such as ADB and the World Bank, and other bilateral agencies. In 1965, New Zealand hosted the United Nations Economic Commission for Asia and the Far East (ECAFE) meeting that passed the resolution supporting the creation of ADB. New Zealand became a founding member the following year.

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Republic of Korea

While the ROK had early experience hosting technical training for other developing countries, its economic assistance broadened in the 1980s to include sending out ROK volunteers and providing concessional loans. In the 1990s, the current structure of its ODA system began to take shape. In 1991, the Korea International Cooperation Agency (KOICA) was established to provide grant assistance. The Korea Eximbank (established in 1987) operates and administers the Economic Development Cooperation Fund (EDCF). The ROK joined the OECD in 1996.

In 2004, the ROK launched a policy-oriented development cooperation program called the Knowledge Sharing Program (KSP) which supports developing countries by sharing its development experience. A good example is the Saemaul Undong (New Village Movement) program, the ROK version of community-driven development with a strong emphasis on intervillage competition and intra-village resource mobilization.

After joining the OECD DAC in 2010, the ROK hosted the Fourth High-Level Forum on Aid Effectiveness in Busan in 2011, which culminated in adopting the Busan Partnership for Effective Development Co-operation. The meeting was the most inclusive forum ever on aid effectiveness. It formally acknowledged the important roles of emerging donors.

The ROK also actively cooperates with multilateral development institutions. In 2006, it established the e-Asia and Knowledge Partnership Fund at ADB in response to the widening “digital divide” in developing member countries and to support capacity building and knowledge sharing. In Myanmar and Uzbekistan, for example, the fund developed an information and communication technology (ICT) strategy and priority action plans for e-government and public institutions. In Bhutan and the Kyrgyz Republic, the fund helped ICT-supported tax administration and revenue management information systems.

Emerging donors in Asia

Aside from the traditional bilateral donors, emerging donors in Asia include the PRC, India, and Thailand, which are increasingly active in providing development finance to other Asian countries.
The PRC sees South–South cooperation as an important external policy. It supports developing countries in Asia and beyond, based on its own development experience. It provides foreign aid in the form of grants and concessional loans, and through the Export–Import Bank of China and China Development Bank, preferential export buyer credits and other forms of finance. The PRC took the initiative of founding the AIIB, which began operations in early 2016.

India’s development cooperation consists of Exim Bank lines of credit, grant assistance, small development projects, technical consultancy, disaster relief and humanitarian aid, and capacity-building programs.

Thailand also provides aid, especially to developing neighboring countries through the Thailand International Development Cooperation Agency and Neighboring Countries Economic Development Cooperation Agency.

Many other emerging Asian economies (Brunei Darussalam; Hong Kong, China; Indonesia; Kazakhstan; Malaysia; Singapore; and Taipei, China) are now becoming donors for a wide range of countries in Asia and beyond. Together with the PRC, India, the ROK, and Thailand, these economies are now contributing to the ADB concessional window—Asian Development Fund (which currently provides grant support to the lowest-income ADB members, as concessional lending was merged into OCR at the start of 2017).

While statistics on official development finance from these emerging donors are not listed in the OECD ODA reporting system (except Thailand, which reports to the DAC as a non-OECD and non-DAC country), the importance of official financing by these emerging donors has increased and is continuing to grow.

14.6 Looking ahead

In Asia, several countries graduated from ODA and assistance from MDBs, but many will still need assistance in the years ahead. Bilateral and multilateral financing partners and recipient countries must work together, focusing on the following priorities.

First, more effort is needed to address remaining and emerging challenges—including persistent poverty, increasing inequality, climate change mitigation and adaptation, disaster resilience as well as environmental sustainability, gender equality, rapid urbanization, demographic aging, rural development, and food security. Working
within global agendas, such as the Sustainable Development Goals and the Paris Agreement on climate change adopted at the 21st Conference of the Parties (COP21) to the UN Framework Convention on Climate Change, is critical.

Second, quality infrastructure should be promoted using new technologies. The “Quality Infrastructure Principles” adopted by the Group of Twenty (G20) Summit in Osaka in 2019 emphasizes the importance of incorporating advanced technologies and know-how, paying attention to infrastructure maintenance and life-cycle costs, integrating environmental and social considerations, building resilience against natural hazards, and strengthening governance for debt sustainability and transparency.

Third, developing country support should pursue policy and institutional reform. Policy-based MDB financing instruments have proven effective in supporting policy reform. Technical assistance and capacity building can support project preparation; public sector management; climate action; and areas such as foreign exchange reserve management, environmental law, anti-money laundering, and legal frameworks for gender equality.

Fourth, continued attention must be given to aid effectiveness. It is necessary to enhance coordination and cooperation among recipient countries, bilateral donors, the IMF, and MDBs, including new institutions such as AIIB and the NDB. Ensuring debt sustainability should be part of this coordinated work. It is critical to closely monitor a country’s debt situation and avoid excessive lending beyond its repayment capacity.

Fifth, private sector resources must be mobilized for development finance. In addition to infrastructure such as highways, water, and renewable energy, the private sector can support education, health, small and medium-sized enterprise finance, and agribusiness. MDBs should help crowd-in private sector development finance by improving the investment climate, identifying bankable projects, and advising on well-designed public–private partnerships.