# Institutional Analysis of Development Administration

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Andreas Foerster

# Institutional Analysis of Development Administration

## The Case of Japan's Bilateral Grant Aid and Technical Assistance

With 20 Figures

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## Preface

This study was conceived while I was a research assistant in the Department of Development Economics at the University of Heidelberg. The atmosphere there stimulated my interest in the increasing importance of the institutional dimension of development administration. Since the study consists of both theoretical and empirical data, a large number of very different people have helped me to successfully complete the project.

For the theoretical parts and the overall framework I am indebted to my advisor Prof. Bruno Knall, Dr. Hans Christoph Rieger, and my colleague Karl Ludwig Brockmann of the Department of Development Economics. I also want to express my gratitude to Bernhard Warkentin, Micheline Beaudry-Somcynsky, Dr. Kraft, Prof. Seifert, Prof. Rifkin, Prof. Liesegang, and Prof. Kieser, who offered useful advice on the overall framework of the study.

For the empirical parts, I am also indebted to a large number of people in many different organizations. In particular may I express my gratitude to Mr. Kano and Mr. Sasaki of JICA. With their kind assistance I could stay two times as a visiting researcher in JICA and could survey several projects in Thailand. I am greatly indebted to the JICA office and the project personnel there. The frank comments about their activities was a very useful source of information.

In Paris, Mr. Schurig and Mr. Nakano of the Development Assistance Committee of the OECD and Mr. Kurokawa of the JICA office provided valuable information. Dr. Eylers of the Gesellschaft für Technische Zusammenarbeit (GTZ) arranged my stay as a visiting researcher in the GTZ headquarters in Eschborn. A special word of thanks to Sherryl Hirsch who corrected my manuscript and finally, but most importantly, to my dear friend Naoko Tamura who supported my work in many ways and encouraged me to bring it to its conclusion.

The final result of this study is based on material from different sources in English, Japanese, and German. Besides the publicly available literature, it includes protocols from interviews, information pamphlets from participating organizations, official publications of the Japanese government, and internal papers and guidelines of the related organizations. All citations that were Japanese or German in the original have been translated by the author and marked with an asterisk in the footnote.

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| AJDF | ASEAN - Japan Development Fund |
| AOTS | Association for Overseas Technical Scholarship |
| APIC | Association for Promotion of International Cooperation |
| APO | Asian Productivity Organization |
| ADB | Asian Development Bank |
| ASEAN | Association of Southeast Asian Nations |
| BHN | Basic Human Needs |
| BMZ | Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung |
| CBA | Cost-Benefit Analysis |
| CEA | Cost Efficiency Analysis |
| D/D | Detailed Design |
| DAC | Development Assistance Committee |
| DTEC | Department of Technical and Economic Cooperation |
| DUP | Directly Unproductive Profit-seeking |
| E/N | Exchange of Notes |
| ECEC | Economic Cooperation Evaluation Committee |
| ECFA | Engineering Consulting Firms Association |
| EIA | Environmental Impact Assessment |
| EPA | Economic Planning Agency |
| F/S | Feasibility Study |
| FASID | Foundation for Advanced Studies on International Development |
| FILP | Fiscal Investment and Loan Program |
| FY | Fiscal Year (from April to March) |
| GEF | Global Environmental Facility |
| GNP | Gross National Product |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit |
| IBRD | International Bank for Reconstruction and Development |
| ICSC | International Cooperation Service Center |
| IDCJ | International Development Center of Japan |
| IDE | Institute of Developing Economies |
| IFIC | Institute for International Cooperation |
| ILO | International Labor Organization |
| IPPAM | Integrated Project Planning and Management Approach |
| IRR | Internal Rate of Return |
| ITIT | Institute for Transfer of Industrial Technology |
| JAIDO | Japan International Development Organization |

| | |
|---|---|
| JCI | Japan Consulting Institute |
| JETRO | Japan External Trade Organization |
| JICA | Japan International Cooperation Agency |
| JICS | Japan International Cooperation System |
| JOCV | Japan Overseas Cooperation Volunteers |
| JODC | Japan Overseas Development Cooperation |
| JPC | Japan Productivity Center |
| JSID | Japan Society for International Development |
| KfW | Kreditanstalt für Wiederaufbau |
| LDC | Less Developed Country |
| LFA | Logical Framework Approach |
| LIC | Low Income Country |
| M/P | Master Plan |
| M&E | Monitoring and Evaluation |
| MAFF | Ministry of Agriculture, Forestry and Fisheries |
| MbO | Management by Objectives Method |
| MITI | Ministry of International Trade and Industry |
| MMAJ | Metal Mining Agency of Japan |
| MOF | Ministry of Finance |
| MOFA | Ministry of Foreign Affairs |
| MOU | Memorandum of Understanding |
| NGO | Nongovernmental Organization |
| NIC | Newly Industrialized Country |
| NIE | New Institutional Economics |
| OCTA | Overseas Technical Cooperation Agency |
| ODA | Official Development Assistance |
| ODA | British Overseas Development Agency of Great Britain |
| OECD | Organization for Economic Cooperation and Development |
| OECF | Overseas Economic Cooperation Fund |
| OOF | Other Official Flows |
| OVI | Objectively Verifiable Indicators |
| P/O | Plan of Operation |
| PCM | Project Cycle Management |
| PMS | Project Management System |
| PDM | Project Design Matrix |
| PPM | Project Planning Matrix |
| PROFI | Project Finding Mission |
| Quango | Quasi non-governmental organization |

| | |
|---|---|
| R/D | Record of Discussions |
| S/W | Scope of Work |
| T/R | Terms of Reference |
| TSI | Tentative Schedule of Implementation |
| UNCED | United Nations Conference on the Environment and Development |
| UNDP | United Nations Development Program |
| UNIDO | United Nations Industrial Development Organization |
| USAID | United States Agency for International Development |
| ZOPP | Zielorientierte Projektplanung |

## LIST OF JAPANESE TERMS TERMS USED IN THE TEXT

| | |
|---|---|
| Amakudari | Descent from heaven |
| Asahi shinbun | Asahi journal |
| Bucho | Managing director |
| Chosa kogai | Survey pollution |
| Daini no jinsei | Second career |
| Gaigaku dantai | Auxiliary organs |
| Gaimusho | Ministry of Foreign Affairs |
| Gyousei shidou | Administrative guidance |
| Honne-tatemae | Difference between real intentions and official statements |
| Itakuhi | Commissioned funds |
| Jigyoudan | Enterprise units |
| Jizenchosa | Preliminary survey |
| Jinmyaku | Personal network |
| Jishi kyogi | Record of discussions mission |
| Junkai shido | Technical guidance (monitoring) mission |
| Ka | Section |
| Kacho hosa | Assistant director |
| Keidanren | Japan Federation of Economic Organizations |
| Kaihatsu chosa | Development study |
| Keikaku utchiawase | First monitoring mission |
| Kofukin | Government subsidy |
| Kokusai kyoryoku jigyodan | Japan International Cooperation Agency |
| Kone | Connections |
| Kodan | Public units |
| Kumiai | Unions |
| Nawabari arasoi | Competition among ministries to increase territory |
| Nemawashi | Informal consultation before action is taken |
| Nenji | Same year of entry |
| Nihon keizai shinbun | Japan Economic Journal |
| Okujofu | Erecting a roof on a building |
| Okurasho | Ministry of Finance |
| Omyage gaiko | Diplomatic gifts |
| Riji | Executive directors |
| Rijikai | Board of executive directors |
| Ringi | Decision-making process |
| Senmonin | Inhouse specialists |
| Shadan hojin, kyokai | Incorporated associations |
| Shien-iinkai | Domestic advisory committee |

| | |
|---|---|
| Shingikai | Formal or informal meetings between ministries and other interested parties |
| Shushikin | Capital contributions |
| Shosha | International trading firms |
| Somucho | Administrative Management Bureau of the General Affairs Agency |
| Todai | University of Tokyo |
| Tokushu hojin | Special legal entities |
| Tsusansho | Ministry of International Trade and Industry |
| Zaidan hojin | Incorporated foundations |

# 1 INTRODUCTION AND OBJECTIVE

## 1.1 Introduction: The Need for Institutional Analyses of Donor Administrations

Ever since international government-to-government transfers, known as official development assistance (ODA)[1], began on a large scale, their effects have been controversial. Despite such efforts, the economic and social situation in most developing countries did not improve in the 1980s. On the contrary, in some countries the number of people living below the poverty level has increased. High population growth rates have produced increasing pressure on the environment, which in turn has globalized local or regional problems of underdevelopment. Fears of migration on an unprecedented scale have induced a higher awareness that problems in the developing countries may increasingly affect the industrialized nations. Expectations that ODA should reverse or at least halt such negative developments have grown. At the same time, doubts are growing that ODA in its current form can cope with these problems and criticism of ODA has become more virulent than ever before.

Traditionally, critics of ODA could be divided into two different groups.[2] Fundamental critics, mainly academics, implied that a complete halt of ODA would be the best solution, since ODA in its present form is incapable of solving existing problems. This type of criticism often contrasts the ODA results with its humanitarian intentions. A number of studies such as Hancock (1989) describing the detrimental consequences of ODA support this position. Other studies related problems directly to motives and criticized donors of having economic or political instead of humanitarian interests. Often the implicit assumption is that administrations are effective tools in the hand of political authorities, and bureaucrats are viewed as separate from the process of political decision-making. Most of these critical studies did not analyze the role of the donor administration and its institutional structure as a factor influencing failures because their focus was different.

The second group of critics are writers involved in the development administration did not question the need for some kind of assistance. Their criticism focussed on particular aspects of development cooperation, such as ignorance concerning different cultural environments, rigid conditions of ODA procurement, and the

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[1]According to the Development Assistance Committee (DAC), capital flows qualify as ODA if they are undertaken by the public sector, promote economic development or welfare as a main objective and are given at concessional financial terms (at least 25% grant element). See OECD, Development Co-operation Report 1991: 257.

[2]See Klemp, 1988: 18-82 for an overview.

problem of decreasing ODA as a proportion of the GNP. In principle, however, ODA was seen as being capable of solving development problems and a large number of evaluation studies with positive results seemed to prove that point. According to this view, the problems of aid implementation are not insurmountable, and with appropriate regional and sectoral expertise ODA funds can be put to effective use.

The line between these two types of critics is no longer as easily drawn. On the one hand, development administrations began to publish critical reports of their own activities. Rondinelli (1987), an official in the US development administration, pointed out that administrative problems undermine the ability of the US Agency for International Development (USAID) to implement development programs and projects effectively. Evaluation studies of the German Ministry for Economic Cooperation (BMZ) indicated that 36 of 66 evaluated projects revealed serious problems in the planning stage. In 27 projects, serious monitoring problems were detected.[3] The "Wapenhans Report" of the World Bank (1992) found serious problems in the Bank's projects and the United Nations Development Program (UNDP, 1993) confessed that its technical cooperation provided to Africa has caused more damage than it helped. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) pursues biannual analyses of donor administrations. While the results of many of the studies have not been made public, political statements in press releases and the annual DAC reports reveal some critical points. Many such studies demonstrate a strong need for an improved monitoring of programs, better coordination of policies, and better feedback through evaluation.

On the other hand, academics have also begun to address the problems which exist in the administrative systems of donors. According to Van Ufford, in development administrations "there is a considerable chaos, systematic ignorance at each desk or department of what other parts of the organization are doing, as well as a substantial lack of insight into the implementation of programs and their wider impact."[4] Some researchers have pointed out that, therefore, the analysis of administrative functions and processes are as important as the discussion of development goals and philosophy. Kievelitz and Tilmes argue that the effect of

---

[3]BMZ, 1988: 21.

[4]Van Ufford, 1988: 10.

institutional innovation processes is usually underestimated. While its practical effects are at least as great, public interest still focuses on the discussion of development strategies.[5] Körner states that the failure of some approaches to development cannot just be explained by the concepts that are used for development. On the contrary, the inappropriate design of the donor's institutions for development cooperation presents a major problem.[6]

Yet institutional analysis of aid organizations has received little attention from researchers so far. The institutional problems of donor development administrations have been "badly under-researched," especially when compared to the number of studies at the local level concerning the effects of development policy.[7] For the few publications focusing on the analysis of institutions in the development process, theoretical models guiding empirical research are hardly available. Körner (1989) admits that this is a major problem, since not only the behavior of governments, administrations, and development bureaucracies in developing countries, but also the respective institutions of development cooperation in industrial countries are extremely difficult to comprehend and to analyze.

The lack of theoretical approaches has resulted in the descriptive nature of the few studies done on this issue. When Dennert analyzed the German development administration, he explicitly pointed out that "this study describes the facts, procedures, institutions and organizational problems. The description represents the prerequisite for analysis. The core is the single case. Other than some general concluding remarks, no general theory of government or administration should be devised."[8] Likewise, Martinek undertook an institutional analysis of the German development administration from the viewpoint of administration science which, in his opinion, lacks a fundamental methodology. While he emphasized the need for institutional analysis, he claimed that a descriptive analytical strategy is the best methodological basis. Martinek concedes that such a descriptive study presents problems for scientific legitimation. Yet he points out the pragmatic

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[5]Kievelitz and Tilmes, 1987: 132, see also Bierschenk, 1990: 9 and Strachan (1978).

[6]This issue was the focal point of a conference held by the 'Verein für Socialpolitik'. See Körner, 1989: 5.

[7]Van Ufford, 1988: 17.

[8]Dennert, 1968: 9.*

relevance of the study which will lead to a better understanding of the political-administrative subsystem called development administration.[9] While such descriptive studies obviously have their place, they have limited significance for other cases and a short period of use on a broad scale. This leads to the question of whether the existing theory can provide useful theoretical approaches to guide such an analysis and respond to the obvious need. Does the existing theory have nothing to offer in the institutional analyses of development administrations?

### 1.2 Approaches to Institutional Analysis

The recognition of the relevance of institutional analysis in development administrations is not limited to the field of development economics. According to Schmalz-Bruns (1988), who reviewed the literature on this issue in the different disciplines, in general it was acknowledged that "institutions matter." The controversy no longer revolves around the questions of institutional analysis per se, but rather is concerned with conceptualization and ways of dealing with institutions analytically. Yet there is no standard use of the term "institution."[10] Therefore, a definition of the term is required before different analytical approaches can be investigated.

While some interpretations of institutions are rather abstract, others refer primarily to practical institutions and actual organizations. Clapham, for instance, uses the term institution in a rather comprehensive way, referring to explicit or implicit rules or to an organization.[11] Esman more specifically states that "organizations do not become institutions until they are perceived within their own ranks and among the relevant publics as embodying norms of behavior and serving values that are widely respected in society. The abstract values to which societies aspire achieve concrete expression in organizations and their activities; organizations, in turn, gain institutional status and the respect and strength that this conveys only when they appear to be instrumental to valued social purposes."[12] Defined in this way, such organizations or rules within and between organizations structure

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[9]See Martinek, 1981: 8.

[10]Nabli and Nugent, for instance, note that "the consensus on the centrality of institutions to development has not been matched by one on its definitions. Different authors have used quite different definitions, each emphasizing quite different aspects or characteristics of the more general phenomenon." Nabli and Nugent, 1989: 1334.

[11]Clapham, 1989: 19.

[12]Esman, 1991: 133.

human interaction and govern the behavioral relations among individuals or groups. This function, however, can only be fulfilled if the institution is generally accepted. If it is ignored by a larger number of participants, it has lost its relevance and purpose.

This study uses this broad definition of the term. Due to the complexity of the tasks at hand in development administration, a network of mutually supporting organizations is dealing with them. Therefore a systemic view of the organizations and the interaction between them is necessary. Defined as such, institutions represent the framework that shape these interactions, no matter whether explicitly delineated in constitutions and laws or implicitly in culture-bound norms and traditions. Furthermore, they specify the consequences which can be expected from individual decisions. Each member of an organization will have an idea as to the reaction his activities will provoke. Thus, institutions can be seen as the link between the behavior of individuals and organizations. By conveying the rationale of the organization to individuals, institutions represent a coordinating mechanism for the actions of individuals. This facilitates decision-making since stable expectations and information about the behavior of other individuals and the consequences of decisions are available. In this sense, institutions reduce the uncertainty of social interaction and provide a means of decreasing transaction cost. Following this clarification of the terminology, two different research approaches to analyze institutional phenomena will be briefly introduced: New Institutional Economics (NIE) and organization theory.

### 1.2.1 New Institutional Economics and Organization Theory

In economics, the interest in institutions is reflected by the renaissance of institutional analysis, referred to as New Institutional Economics (NIE).[13] Frey argues that this was probably the most successful new approach in economic

[13]For a discussion of traditional institutionalism see Elsner, 1986: 293 ff and Nitsch, 1989: 37 ff. It was heavily criticized for its lack of theory. Coase, for instance, found that without any theory they produced only a huge amount of descriptive material that was waiting for a theory or the oven (Coase cited in Schmid, 1988: 230). Nabli and Nugent find that "the problem with many of the early institutionalists is that they wanted an economics with institutions but without theory; the problem with many neoclassicists is that they want economic theory without institutions. What NIE tries to do is to provide an economics with both theory and institutions" (Nabli and Nugent, 1989: 1336). The major difference is that NIE has grown out of the neoclassical school and attempts to use this analytical framework to explain real world phenomena that seemed inaccessible before.

theory in the 1980s.[14] However, NIE is not a monolithic and homogeneous body of knowledge; it consists of three major schools, all of which are based on the principle of self-interest and focus on the reduction of transaction cost.

- The economics of property rights "maintains that the basic need is to get the property rights straight - after which markets will reliably assign resources to high valued uses."[15]
- Principal-agent theory, based on the pioneering work of Jensen and Meckling (1976), focuses on the efficient design of delegation relations between principal and agent.
- The transaction cost approach identifies the institutional setting (market versus hierarchy) that minimizes transaction cost (Williamson, 1990).

Since this study deals with questions of efficient delegation from legislators to bureaucrats responsible for the implementation of development assistance, principal-agent theory looks promising for our case. Its relevance will be analyzed in greater detail in later chapters.

There is yet another school of economic thought that is occasionally categorized under NIE. The new political economy (also referred to as economic theory of politics or the public choice approach) also applied the individual utility maximization rules to the operations of institutions. "It provides, on the one hand, an explicit positive approach to the workings of political institutions and to the behavior of governments, parties, voters, interest groups and (public) bureaucracies; and it seeks, on the other hand, normatively to establish the most desirable and effective political institutions."[16] The lines between new political economy and NIE are blurred in the literature. For instance, the economic theory of bureaucracy is attributed to the new political economy school as well as to NIE.[17] While within this study, reference will be made to NIE rather than to the

---

[14]Frey, 1990: 492. This view was underscored by the award of the Nobel prize in economics to Ronald H. Coase in 1991, who developed the concept of transaction cost as early as 1937, which is the core of NIE. Endres states that by giving the Nobel Prize to Professor Ronald Coase, NIE, which is already supported by many other authors, has been brought to the world's attention. In his opinion, it deserves the support from it - and does need it in the German speaking countries. (Endres, 1991: 586). In 1992, the Nobel prize was given to Gary S. Becker who operates from the same assumptions about human behavior.

[15]Williamson, 1990: 66. Property rights refer to socially enforced rules concerning the right to use economic goods.

[16]Frey, 1991: 220.

[17]Clapham, 1989: 19, Nitsch, 1989: 38.

new political economy, it should be emphasized that the major assumptions of both approaches are basically the same.

NIE, this "new thriving subdiscipline of economics," is sometimes accused of being imperialistic. Williamson finds that "the upshot is that the NIE occupies or shares territory that was once thought to be the exclusive domain of sociologists."[18] Hirshleifer even claims that "as economics 'imperialistically' employs its tools of analysis over a wider range of social issues, it will become sociology and anthropology and political science. But correspondingly, as these other disciplines grow increasingly rigorous, they will not merely resemble, but will be economics. It is in that sense that 'economics' is taken here as broadly synonymous with social science."[19]

A major target of this "theoretic invasion" was organization theory. Traditionally, business administration focused on the institutional analysis of organizations using organization theory. The focal point of organization theory is what determines organizational structures. In recent decades, the environment was seen as the major determinant of organizational structure. Since each given organizational structure affects incentives and bureaucratic behavior, formal organizations are referred to as institutions that come into existence through deliberate actions to rationally achieve given goals in the environment.

Organization theory emerged from a fundamentally different approach of modeling human behavior. Whereas NIE adopts a "reductionistic" methodological individualism, organization theory focuses on a more aggregate level of organizations and their environments. Such competition between reductionistic and contextual theories is not rare in science. Kieser and Kubicek cite the quarrel in psychology over whether the behavior of individuals is determined by their environment or their heredity.[20] It may be difficult to decide which of the two approaches is theoretically more useful for institutional analysis. Should the reductionistic explanation from a lower system level and the analysis of the micro-processes that occur within them be preferred? Or is the structuralist position more useful?

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[18]Williamson, 1986: 46.

[19]Hirshleifer, 1986: 321 f. For a critical discussion of that issue see Schäfer (1989).

[20]Kieser and Kubicek, 1983: 219.

### 1.2.2 Combining Two Different Research Approaches

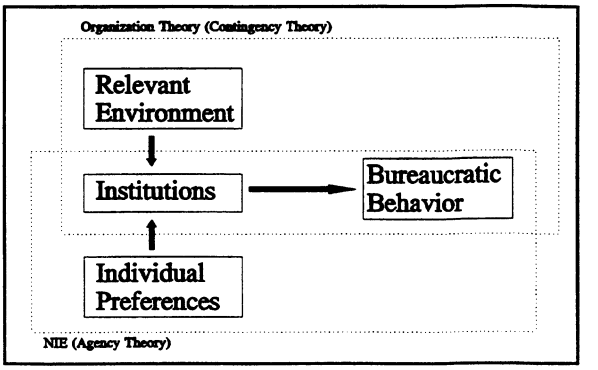


Figure 1-1: Different approaches of Organization Theory and New Institutional Economics

The two different approaches are graphically represented in figure 1-1. Whereas NIE begins with individual preferences in order to understand bureaucratic behavior, organization theory has a holistic approach that explains behavior in organizations through their environment. The two factions defend their respective positions fiercely. Staehle claims that the interpretation of organizations as a result of individuals' rational decisions necessarily has to fail.[21] Likewise, Pfeffer claims that "collectives and macrostructural constructs are more than just the aggregation or sum of the individuals or activities that constitute them."[22] However, Jensen and Meckling state that "organizations are only legal fictions which serve as a nexus for a set of contractual relationships among individuals...."[23] One is tempted to suspect that the two groups are defending their dogmatic beliefs more than trying to find ways of creating models more appropriate for analyzing empirical findings. This competition causes immense difficulties for investigators when drawing on results from the other school of thought.

In the recent literature, however, there are some preliminary attempts at bridging the two approaches. Barney concludes that "it is clear that even though there are differences in assumption and method between organizational economics and traditional organization theory, these differences are not of the sort that will

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[21]Staehle, 1990: 382. See also Staehle, 1990: 132.

[22]Pfeffer, 1982: 20.

[23]Jensen and Meckling, 1976: 310, Similarly, Weick states bluntly that "organizations do not behave, people do." See Weick (1969) cited in Pfeffer, 1982: 18.

prevent theoretical intercourse and integration between these models."[24] They may very well supplement each other. While NIE does not emphasize the environment of an organization and focuses only on internal processes, organization theory does not take individual preferences into account. Yet both aspects are relevant. An institutional innovation, for instance, influences both internal processes (via controlling) and the external environment (via a different type of interaction). Thus, for a comprehensive analysis, both approaches are helpful in analyzing whether the innovation is in accordance with both the internal process/interests of the individuals and the external environment.

Lane's statement summarizes this perfectly when he writes that "two distinct approaches to bureaucracy may be identified - the organizational framework and the public choice approach. Theories regarding bureaus and bureaucratic behavior derived from mainstream public choice theory tend to be individualistic, atomistic and economic in their assumptions, whereas the organizational approach displays a preference for structure, holism and power. How to integrate these two research traditions is the major task facing any study of bureaucracy."[25] To address this issue the dissimilar and complementary points of the two approaches must be analyzed in detail.

### 1.3 The Case of Japan's Development Assistance

An abstract theoretical study may not be capable of answering the questions which have been raised and of generating concrete approaches to the institutional analysis of development administrations. The lack of direct application to an empirical case can easily become an "ivory tower study" which has little bearing on real situations. Furthermore, it would be impossible to assess whether the application of the theoretical study really can provide useful results. Therefore, I have used an empirical case to ensure the pragmatic relevance of the theoretical chapters.

While to some extent the results of this study may also be applicable to the development administration in recipient countries or multilateral development institutions, its focus is on the bilateral development administration of individual

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[24]Barney, 1990: 388. See also Elsner, 1986: 204 who states that institutional analysis can involve both individualism and collectivism.

[25]Lane, 1987: 13.

donor countries. It can be organized according to three major models:[26]

- In the first model, a relatively autonomous development cooperation agency or ministry is responsible for both the planning and implementation of aid. This can be found, for instance, in the United Kingdom, England, Canada, the US, Sweden, and Denmark.
- In the second model, there is one independent aid ministry responsible for planning and separate downstream implementing organizations. In Germany, for example, the Ministry of Economic Cooperation (BMZ) delegates the implementation of ODA to separate implementation organizations for technical and financial cooperation.
- In the third model, the structure is segregated even further into several sectoral ministries and several downstream implementation agencies. In Japan four ministries are responsible for loan aid, and the budget for technical assistance is divided among 18 ministries and agencies. An even larger number of organizations for different sectors and forms of aid are responsible for the implementation.

This provokes several immediate questions. What are the consequences of the different institutional models? Which institutional setting is most appropriate for the task of giving aid to the maximum benefit of recipient countries? Which concrete policies and programs should development administration provide and how should these operations be managed, planned, implemented and controlled? Such questions may be answered most effectively by considering the Japanese model in more detail. The large number of ministries, agencies, and implementation organizations, and the fact that many practical approaches are quite different in Japan may provide some fresh input for the discussion of the issue. In the 1980s, Japanese management methods had a strong influence on private sector organizations in Europe and the US. That may hold true for the public sector, as well. The relative lack of information due to the language barrier reinforces the decision to use this case. Whereas the overall relevance of Japanese ODA has increased steadily in the last two decades, little information is available about the role of institutions and administrative processes in Japan.[27]

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[26]See Claus, 1989: 43 f and Goto, 1988: 20.

[27]Besides representing an opportunity for decision-makers in Japan to obtain a different perspective, an insight into the institutional setting of development administration will also be of interest outside Japan. First, it may facilitate understanding among donors, which will lend support to the increasingly important donor aid coordination. Claus showed that limited understanding of historically grown donor development administrations decreases the chance of donor cooperation (see Claus, 1989: 42-60). The

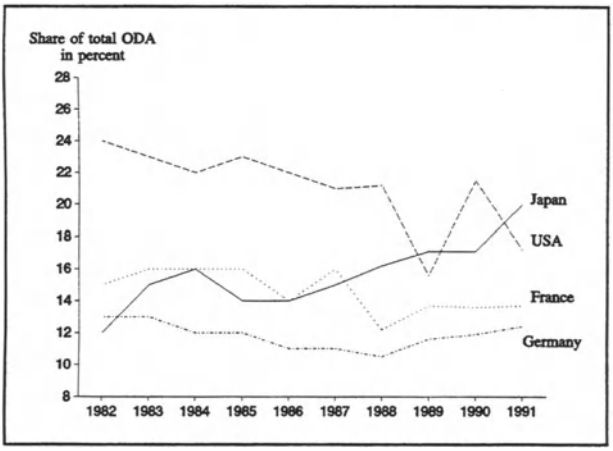


Figure 1-2: The four largest donors and their share of total ODA (Source: OECD, 1992, excludes forgiveness of non-ODA debt)

While Japan borrowed development funds from the World Bank until 1966, figure 1-2 shows that the country quickly developed into a major donor of ODA. Although in 1982 it still ranked fourth after Germany, France, and the US, it assumed first place among bilateral donors in 1989 and 1991. In 1991, Japan was the most important donor in 30 countries, its ODA amounting to 11 billion dollars.[28] Japan's importance is expected to increase even more in the future, since other major donors are scaling back their programs while Japan continues to raise its expenditures for foreign aid at high rates. While the five-year target (1987-1992) of 50 billion dollars was almost achieved, the new five-year target is believed to be at 80 billion dollars for 1993 - 1997.

The ever-increasing share of Japanese ODA prompted growing interest in the effects of these activities. Most reviews were critical. Japan was accused of behaving like an "economic animal" whose lack of ecological consideration is based on the wrong interpretation of its role in the world.[29] These articles, like many others, pointed a finger at Japan's interests, motives, and goals, arguing that either political or economic motives were behind it all. May (1989) claims that,

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same argument applies to the recipients. While donors frequently strive for a better understanding of the recipient's development administration, mutual understanding, by definition, also means that the recipients understand the donor's systems. This is what Cohen meant when he stated that "it is essential that all parties to aid agreements understand each other's policy space and administrative system." Cohen, 1985: 1224.

[28]Despite the growth of Japan's aid program, aid as a proportion of GNP has remained modest. Japan ranks at the bottom of the list of the 18 DAC member nations in terms of both grant share and grant element.

[29]See Nuscheler, 1989: 30. A German magazine even employed the headline "The ugly Japanese," which resembled the phrase once used to describe the Americans. See Quick, 1. October 1990: 98 ff.

in the 1980s, political motives surpassed economic motives, which had been dominant until then. In contrast, Nuscheler (1990) does not recognize such a change and characterizes Japanese ODA as a multipurpose instrument that still serves economic interests.

The academic discussion of which of these motives were ultimately decisive can be traced throughout the literature on Japanese aid. A stronger priority of economic interests have been cited by White (1964), who asserts that economic interests determine the allocation of aid and Caldwell (1972). Other studies pointed to political or strategic motives.[30] Yamamoto (1978) pointed out that the dictation of American foreign policy became apparent during the Vietnam war, when Japan increased aid to nations neighboring Vietnam and being supported by the US. Yasutomo (1986) suggests that Japan's ODA serves mainly strategic purposes. Orr (1990) emphasizes the strong influence of the US on aid decision-making in Japan.[31] Most of the publicly available literature in Japanese falls in the category of fundamental criticism. Often the evidence supporting the negative view of Japanese aid tends to be descriptive, focusing on case studies in particular countries.[32]

This underscores the fact that a more differentiated look at the issue is necessary. Perhaps it is not the "interests of Japan" or "motives of the Japanese government", but rather the different interest groups within Japanese society and the means by which they look to succeed which are decisive. Therefore, an analysis of the institutions and how the various interests are taken into consideration and balanced out promises useful results. It may also provide an answer to the question of

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[30]Loufti (1973) found that "Japan does incur significant net cost in offering foreign aid and that there seems to be a strong reason to presume that political motivation is leading her to undertake the cost of aid." (Loufti, 1973: 96.) Matsui (1983) finds the major role of foreign aid to be one of securing good relations with other countries.

[31]Other studies have analyzed Japanese ODA mainly from a regional perspective. Lerch (1984) analyzed Japan's bilateral development policy for Africa. He states in very broad terms the following motives for Japan's ODA to Africa: the securing of resources, the opening up of markets and political influence. Shishido (1973) analyzed the aid to Southeast Asia and found that political guidelines given by the US were decisive in an environment without a clear aid philosophy. Different from the other studies is Rix (1980) who analyzes the domestic politics of foreign aid in Japan. This study is most helpful in understanding the origins of the Japan International Cooperation Agency (JICA).

[32]See for example, Kawakita (1990); Peoples Plan 21 seiiki Kanagawa Kokusai Simuposiumu (1990); Mainichi Shinbun Shakaibu (1990); Doi (1990); Murai (1989); Sumi (1989); Yokoyama (1990); Nagai (1989). For an official Japanese viewpoint, see Matsumoto (1990).

whether Japanese development assistance should really be viewed as negatively as most of the literature suggests. If the result of the analysis confirms the criticism, it would be interesting to see whether the deficiencies could be attributed to the multiple agency system of the Japanese development administration. Furthermore, the institutional viewpoint may promote the generation of ideas for innovations based on a clearer assessment of the the existing institutional setting.

### 1.4 Objectives and Research Method of the Study

Two series of questions proceed from the aforementioned. The first series of questions is related to the empirical case of Japan. Can an institutional analysis confirm the critical view of the other studies? Are there institutional deficiencies that determine structural problems on the project level? What is the effect of the multiple agency system? While similar empirical questions could also be raised for other donors, the main consideration is whether theory is capable of providing answers to them. This refers to the second, theory-oriented series of questions. Which answers can the existing theory provide for such questions referring to institutional issues? Preliminarily, two different research approaches, NIE and organization theory, were identified as having such a potential. Yet many questions are still unanswered. How can these theories be applied to development administrations? What is the rationale behind the theories and can these theories be combined? In addition to these two sets of questions, institutional analysis promised to provide hints as to how the causes of problems can be eliminated and which potential solutions may be feasible.

The chapters of this study are organized according to the questions raised above, and theoretical and empirical analysis will be interwoven. Figure 1-3 shows that in the second chapter, organization theory will be analyzed with respect to the question of applicability to our case. As a result of its operationalization for our case, the first working hypothesis can be formulated. The third chapter focuses on the analysis of empirical data for Japan in order to confirm or reject this hypothesis. The fourth chapter, again, is theory oriented. The second working hypothesis is derived from the theoretical analysis of the concepts of NIE and microeconomic bureaucracy theory. This hypothesis will be empirically tested in the fifth chapter. The effects of an institutional innovation will be discussed in the sixth chapter. The efficiency of the alternative institutional setting for project management will be analyzed using the theoretical frameworks of both the second chapter and the fourth chapter. The last chapter contains a summary and conclusion of the whole study.

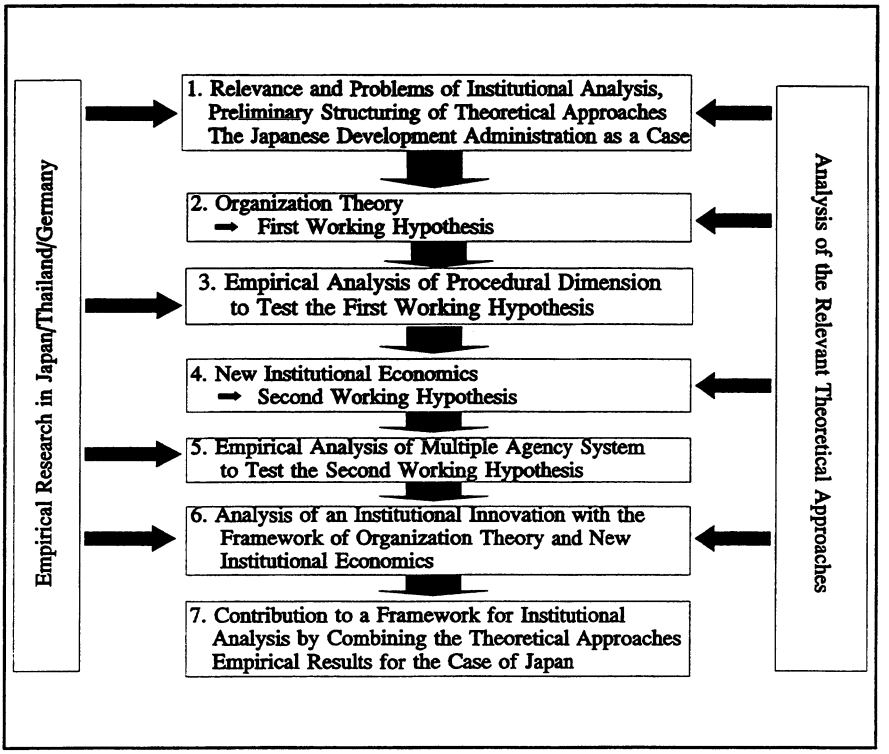


Figure 1-3: Study methodology

To answer the questions effectively, the scope of this study needed to be narrowed down. It focuses only on the executive branch of the state; judicial and legislative bodies, political parties and advisory councils are not emphasized in this analysis since most of their functions are of minor relevance to the actual course of managing aid policy, as will be shown in chapter 4.1. Furthermore, as mentioned above, this study is restricted to ODA flows as defined above and makes no reference to other official flows with a grant element below 25% or private flows given at market terms. The relationship between Japanese ODA and foreign economic policy is analyzed in a separate study.[33] Moreover, neither the funds given to international governmental institutions as multilateral assistance nor the bilateral ODA loans with the obligation of repayment are of concern to this study.

[33]See Foerster (1994)

This study concentrates on an analysis of the institutional setting to administer technical assistance and grant aid. Complete understanding of the technical assistance system is an important prerequisite for understanding other forms of Japanese ODA since it involves all forms of development studies, including those for loan aid. Although technical assistance and grant aid are seen as two separate categories of ODA, in Japan there is a close relationship between them. Both forms of assistance are mainly implemented by the Japan International Cooperation Agency (JICA) and are often combined. They impose no obligation of repayment and are thus summarized as bilateral grants. While grant aid focuses on equipment flows, technical assistance involves the provision of human resources to disseminate technical, economic, and administrative know-how.

The material for the empirical research has been culled from various sources. In 1993, one month was spent at the Gesellschaft für Technische Zusammenarbeit (GTZ) headquarters in Eschborn, Germany. In total 18 months were spent on three visits to Japan in 1989/1990, 1991, 1992, and research was conducted in JICA for two two-month periods. JICA has separate internal guidelines for its different programs.[34] While these guidelines are useful in providing a general understanding of bureaucratic procedures and terminology they do not provide a comprehensive view of actual processes. In fact, most of the actual procedures are guided by the knowledge and experience of the officers in charge. As a consequence, many of the procedures are not described in written form, and, therefore, numerous interviews with the respective officers were an indispensable source of input for this study. Furthermore, interviews with and guidelines of other participating organizations were used, including private sector consulting firms, trading firms and suppliers. Other related individuals were consulted as well, especially those from the Japanese academic world.[35]

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[34]Kokusai kyouryoku jigyoudan (JICA), Haken senmonka no tebiki (Handbook for expert assignment), 1990; Kokusai kyouryoku jigyoudan (JICA), Kizai chotatsu no tebiki, (Handbook for equipment supply), 1992; Kokusai kyouryoku jigyoudan (JICA), projecto houshiki gijutsu kyouryouko no tebiki (Guideline for project type technical assistance), 1990.

[35]See Appendix I for a list of interviews. Questionnaires were not used since they would not have been operational within Japan. The author is aware of the potential problem of doing research in a different culture. The *honne-tatemae* differences are a special problem when doing research in Japan. They refer to the proverb that "in official situations, Japanese often say what they do not want and do not say what they do want." Therefore, it takes time and personal trust in order to distinguish between the real intentions and the official statements. While through the large number of interviews mutual understanding was developed, and an effort was made to make the rationale of the approaches explicit, the views and interpretations in this study will, naturally, represent a German perspective.

The dispersed nature of Japan's development administration complicated the research, since each of the participating organizations viewed the process from their perspective and there was no comprehensive overview. Information from various sources had to be assembled, which was, in several cases, more difficult than the actual results may show. In order to obtain a better understanding of the operations in the recipient countries, Thailand was selected as a test case and visited in 1990 and 1992. While interviews were again pursued with staff of the related organizations there, three JICA projects were analyzed in detail during the last visit to Thailand.[36] While the third and fifth chapters draw heavily on these results, the detailed case studies of each of the projects could not be included in this work.

[36]The Research and Training in Reforestation Project, the Reforestation and Extension Project in the Northeast (REX), and the National Animal Health and Production Institute (NAHPI).

## 2 DEVELOPMENT ADMINISTRATION AND ORGANIZATION THEORY

Research on formal organizations is divided between the disciplines of management/organization research for the private sector and administration science for the public sector. Yet the distinction is not always that clear. Esman notes that "development administration has evolved, for no particular reason that I can discern, into 'development management', with no significant changes in substance or methodology."[1] Although the procedures for both research subjects may be similar, they were kept separate. While there is no reason to limit organization theory only to private organizations, public organizations have not been in its focus. This concentration on private sector organizations is startling when the increasing significance of the public sector as a whole is taken into account. In average the total government expenditure in all OECD countries represented 47.3% of the GNP in 1985, as compared to 26.6% in 1960.[2] Dunsire finds that "... there is no prima facie reason to suppose that government departments are not organizations like any others, and so are susceptible to the same kind of analysis as firms or local authorities or insurance offices. If there is a relationship between size and structure, or environment and structure, it should surely become manifest in government departments as elsewhere."[3] Accordingly, in this chapter organization theory will be reviewed with respect to its relevance to our research subject.

### 2.1 Approaches to Organization Theory

Organization theory does not refer to a single well-established theory but consists of several different approaches. Kieser and Kubicek (1983) summarize their textbook on organization theory by stating that presently there is nothing like a general organization theory. The authors make reference to the painful realization that in the last 30 years it was possible to send man to the moon, "but in the social sciences and with respect to the design of organizational structures our knowledge and ability has hardly improved, even though it is precisely this knowledge and these abilities that would be necessary for the social management of technical development."[4] The lack of a well-established theory is sometimes referred to as an "organization theory jungle" that cannot be summarized by one general theory but is only characterized through the same research object. Pfeffer

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[1]Esman, 1991: 1.

[2]Roppel, 1979: 14, Mueller, 1989: 322.

[3]Dunsire, 1987: 101.

[4]Kieser and Kubicek, 1983: 469.*

is tempted to argue that this growing review and reflection coupled with ambiguity is indicative of a paradigm crisis in organization theory.[5] The source of the problems may be both the complexity of the research object and the fact that the research approaches are inadequate.

As a result, many studies on the subject are rather descriptive. Furthermore, different viewpoints may be revealed, depending on the analytical approach. Kieser and Kubicek refer to the "spotlight-function" of the different theories since they only focus on one of the numerous aspects of organizations.[6] Depending on how organizations are modeled, recommendations on how the organization should be structured, how to obtain compliance, and how to react to environmental changes may be quite different. This study provides a selective survey of the literature on organization theory in an attempt to find the methodology most appropriate for this study's objective.[7]

### 2.1.1 Classical and Specialized Organization Theories

Historically, organization theory has focused on quite different aspects of the organization. In his major work "Principles of Scientific Management," Taylor (1913) postulated that the highest efficiency of workers can be achieved through maximal specialization. This scientific management and industrial engineering approach dealt with work allocation in lower production spheres, assuming that there is "one best way" for work allocation and organization. The organization chart was seen as the basic tool for monitoring and controlling the entire process.

The insights of scientific management in the field of production also had some impact in the field of public administration. The bureaucratic-structural approach of Max Weber dealt with public organizations. In his main work "Economy and Society" (1921), Weber viewed an ideal bureaucratic organization as the purest and most efficient form of legal dominance. "Experience tends universally to show that the purely bureaucratic type of administrative organization ... is capable of attaining the highest degree of efficiency and is in this sense formally the most

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[5]Pfeffer, 1982: 255.

[6]See Kieser and Kubicek, 1992: 33.

[7]Since this chapter is oriented to that purpose, it does not claim to give a complete or comprehensive analysis of organization theory. For an overview of the existing approaches, also Voßbein, 1989: 127 ff, Staehle, 1990: 3-64.

rational known means of exercising authority over human beings."[8] Assuming that bureaucrats would perform as expected because of their training and professionalism, Weber concentrated on formal rules and duties within hierarchically ordered positions. He also addressed the question as to whether this dominance is legitimate.

The primary interest of classical organization theories was the efficient design of internal structures, whereby the members of the organization had only an executive and no active role. Clear hierarchical differentiation and the specialized division of labor and centralization became the norm. It was assumed that, through the design of a rational order of processes, a result that matches its predetermined purposes can be achieved. This was the result of conceptualizing organizations by clearly defined means-end relations and of all organization members having the same goals.[9] It was heavily criticized, however, that human behavior as another important factor was not considered. Scott, for instance, decried that "rationality came from the structure, not from the individual. It was hidden in rules that ensured that individuals behave in a way to achieve goals, in control systems that motivated participants to fulfill their predetermined tasks, and in a bundle of criteria that was used to choose and promote the workers."[10]

The criticism that man cannot only be considered *homo oeconomicus* led to the recognition that working conditions and psychological factors may also be important. Furthermore, it was acknowledged that it is impossible to foresee all possible situations with formal rules. This induced several physiological-psychological approaches focusing on individual and informal actions rather than on formal rules and goals, for example, the human relations school established by Mayo (1933). It was found that noneconomic rewards play a central role in influencing worker motivation. Satisfaction and individual motivation became important variables. The behavior of the superior, social groups and their interactions and incentives came into play as well. For the first time, organization members were seen as having influence on the processes in which they were involved.

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[8]Weber, 1978: 223.

[9]For further review, compare Kieser and Kubicek, 1992: 35 ff.

[10]Scott, 1986: 116.

After the second world war the disciplines started to specialize. Based on scientific management and industrial engineering, the concept of "operations research" emerged as a quantitative management science. Supported by progress in statistics and computer science, procedures were developed to optimize management activities. In contrast, behavioral science and decision-oriented approaches focused on decision-making processes. Simon (1957) and Cyert and March (1963) applied psychological models of human behavior to the analysis of behavior in organizations, which led to the insights of bound rationality. The major concern was the coordination and rationality of decision-making. Marschak (1972) developed the "team theory" to address the issue of decentralized decision-making and coordination. He assumed that all members of the team have the same preferences and focus on the optimization of information structures and communication among them.

Although the analysis become more differentiated, and the internal structure determined by motivation, attitudes, decision-making and communication was considered, organizations were still conceptualized as closed social systems independent of their environment. Dessler argues that the assumption of stable environments was not a major constraint in a time when organizational environments were relatively simple and unchanging.[11] However, these approaches are inappropriate for modelling organizations when interactions with a highly unstable environment are predominant and flexible adjustments to frequent changes are necessary. As for development administration, White finds that "the environment is something that managers need to take account of, adapt to, and design programs that fit it."[12] This points to the limited relevance of these theories to the objectives of this study.

### 2.1.2 Systems Theory

Systems theory introduced the distinction between the organization and its environment. Emphasis shifted from the narrow design of internal structures to methods of achieving optimal organizational adaptation to turbulent environments. An important source of systemic thinking was the book on general systems theory written by Ludwig von Bertalanffy (1958). Its aim was to enlarge the generality of laws which apply to narrow fields of endeavor to isomorphic laws which go

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[11]Dessler, 1980: 31, see also Scott, 1986: 117.

[12]White, 1987: 31.

beyond mere analogies. By systematizing approaches for use in different disciplines, abstract statements should lead to a "unity of science" and a common terminology in seemingly unrelated fields. Therefore it was necessary to use an abstract systems model that is not based on real existing situations.

A system was defined as a set of related components in which the whole is more than the sum of all its elements. These elements can in turn be systems in their own right, i.e., subsystems. The concept of structure relates to the form of relationships which bind the components together. The functions and effectiveness of the system depend on the elements themselves, the interrelationships among them and the interaction of the system with its environment. All systems over which the subsystem lacks control are defined as environment. A closed system would be one that has no outside systems impinging on it. Therefore, by definition, all living systems are open systems.

Nevertheless, the applicability of systems theory in science has been a controversial issue for a long time. Bertalanffy's push for "systems everywhere" meant that any material or ideal research object was suspected to have systemic characteristics. Any kind of empirical data should be expressed in formal systemic terminology. It was argued, though, that this approach could not fit all kinds of human interaction and that within such abstract approaches no practical variables could be identified.[13] Therefore, systems theory was criticized as being of low operational value for organization theory.

The general characteristics of systems theory led to many different approaches that developed around the systems paradigm and which proceeded from different research interests. It is therefore difficult to refer to one systems theory. The theory of complex systems, for example, focussed on the interactions between elements of a system. In combination with cybernetics, organizations were viewed as control mechanisms that constantly try to bring a system close to a predetermined, intended state. Yet another paradigm is contingency theory. It has dominated organization theory since the early 1970s and is therefore most authors classify it separately from systems theory.

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[13]See, for instance, Epple (1979)

### 2.1.3 Contingency Theory

In the 1960s, Lawrence and Lorsch (1967), building on theories developed by Burns and Stalker (1961), formulated an explicit "contingency theory of organizations." It is also referred to as the "external system orientation" or "situational approach", which views the organization as an innovative and interactive subsystem of a 'social supersystem'. Contingency theory incorporated the elements of systemic thinking but with a different focus and a lower level of abstraction. The suitability of the organizational design is seen as contingent to the change in the organizational environment. Contingency theory tries to describe the environment in an operational way and analyzes the concrete impact on organizational structure. Of the different approaches to organization theory, there is widespread agreement that contingency theory is the preferred orientation and consequently, "the dominant approach to explaining organizational structures in the sociological and business school literatures has been structural contingency theory."[14]

Contingency theory emerged from a series of empirical studies which indicated that there are major differences in formal structures between successful organizations. Thus it was concluded that there is not "one best way" that is generally appropriate for organizational design, as classical organization theory prescribes. Contingency theory claims that there "is one best way depending on the environment."[15] It is assumed that some organizational structures are more appropriate in some situations than others. For instance, Burns and Stalker (1961) showed that in relative stable environments, bureaucratic systems are more appropriate, while organic systems have advantages in unstable environments. The basic conclusion, then, was that differences in organizational structure can always be traced back to the environment as the major determinant.

Assuming that the structure prescribes a certain behavior of organizational members, it is important to design the organizational structure in such a way that its rules match the requirements of the environmental context. Figure 2-1 graphically shows the cause and effect relationship between the environment and behavior. If, in a concrete situation, problems are discovered, the model suggests

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[14]Pfeffer, 1982: 147. In the third edition of their book published in 1992, Kieser and Kubicek state that despite the recent criticism of contingency theory, it still represents the most widely used approach in organization theory. See Kieser and Kubicek, 1992: 47.

[15]Kieser, 1981: 215.

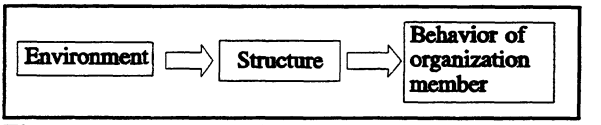


Figure 2-1: The basic, deterministic model of contingency theory (Source: Adapted from Kieser and Kubicek, 1992: 57 and 207)

that the reason is a "discrepancy" between structure and environmental requirements. "From this diagnosis the therapy can be derived: To create a compatibility between structure and the environment by adjusting the structure to the environment and/or adjusting the environment to the structure."[16]

The connection between the environment (independent context variable) and the organizational structure (dependent structure variable) has to be established through empirical case studies. A serious obstacle, however, is that the formulation of the dependent and independent variables hinges on the object of research. Empirical evidence that context variables have not led to the appropriate organizational design can be refuted by the argument that the empirical research has not covered all relevant context factors. Thus, hypotheses about the link between independent variable and dependent variable cannot be verified on a general level. Therefore, several authors have rejected calling it a theory and have preferred to refer to an analytical approach.[17] For reasons of consistency and clarity, reference will be made to the term contingency "theory", although the term is, admittedly, somewhat misleading.

Kieser and Kubicek furthermore indicate a lack of theory in the explanation of the context-structure connection when they state that there is a "black box" between the open concept of environment and the formulated concept of structure. The implicit assumption is that organization designers invariably take appropriate measures for each given situation. This presumes a rational organization designer who pursues certain goals for the organization and chooses the most appropriate structure for this purpose.[18] The explanation of the "black box" is avoided through the definition that the organization designer will react in identical situations with identical measures. Yet March indicated that "it is possible, of course, that such (rational) portrayals of behavior are perverse. They may be

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[16]Kieser and Kubicek, 1992: 61.*

[17]See Staehle, 1990: 49 and Kieser and Kubicek 1992: 56 f.

[18]Kieser and Kubicek, 1992: 57, see also Ebers, 1985: 58 f.

perverse because they systematically misrepresent the actual behavior of human beings."[19] This issue will be taken up again in chapter four.

Despite these deficiencies, contingency theory is more appropriate for the purposes of this study than the other approaches of organization theory. The straightforward connection between the environment and the organizational structure may be simplistic, but it still represents the best alternative and therefore will be taken up for this study. In the next section this research approach will be operationalized for this study to make its predictions more specific.

### 2.2 Operationalization of Contingency Theory

Stockmann states that all contingency theories have a twofold problem. Firstly, a decision needs to be made as to how the theoretic dimensions of organizational structure should be operationalized. Secondly, the context factors need to be operationalized.[20] Section 2.2.4 will deal with the problem of how to operationalize the context factors. Before that, the first question will be addressed and the dimension of organizational structure operationalized for our specific case.

#### 2.2.1 Dimensions of Organizational Structure

Any organization consists of a large set of subsystems that interact in order to reach a certain goal for the organization. Subsystems come into existence when one section of the organization is to deal with a specific environment or procedural task and receives some autonomy to do so. The choice of the relevant subsystem is crucial, since this determines the segment of reality which will be analyzed subsequently. As many relevant aspects as possible should be covered, although the complexity should be reduced by selectively deciding to omit certain dimensions. Such a selection is determined by the purpose of the model and the relevance to empirical material. In this study the subsystems of functional structure and procedural structure represent the larger system "development administration." The more complex reality of the whole development administration can be modeled in terms of its procedural and functional subsystems, the interactions of these subsystems, and the interaction of the whole system with the environment.[21]

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[19]March, 1978: 595.

[20]Stockmann, 1987: 30.

[21]A similar definition of subsystems was used by Forss (1985).

The **functional structure** (also referred to as primary organization) refers to the different levels of the organizational hierarchy that fulfill specific sets of functions. Most empirical studies have chosen to conceptualize organizational structure according to this hierarchic model. The formal hierarchy can be structured according to departments with different functions such as marketing, information, or personnel or according to different product lines or regional responsibilities. Heaver notes that "the organization chart is generally readily available, and is one of the few concrete pieces of information about the organization."[22] One is tempted to rely heavily on such a chart and this approach is obviously relevant. It is fundamental to an organization: careers are developed on the basis of functional achievement, and projects are composed of functional support activities. Chapters four and five will deal with this subsystem.

The **procedural structure** (secondary organization) stipulates the premises for decision-making in the different phases of a project cycle. Projects are established for a limited period of time as a vehicle for achieving organizational objectives. They cut across the functional organizational lines of an institution as an interrelated set of activities. In contrast to standard activities, projects are by definition unique endeavors and do not usually repeat a previous effort. This applies to development projects, which can be referred to as temporarily, regionally, socially, and functionally limited innovative endeavors to resolve specific problems. Since the output of development administrations consists in projects or programs, obviously the procedural view has a specific relevance. Therefore this study will start with the analysis of the procedural subsystem.

Until recently, the project approach was the approach primarily used by development administrations. Rondinelli claims that "projects have become critical components of development assistance and basic building blocks in the development process."[23] Likewise Knall points to the fundamental importance of projects: "In the least developed countries the necessity to form viable projects is so urgent that elaborate development projects together with an adequate national budget are almost more important than setting up a comprehensive development plan, since this may overtax the organizational and statistical capacity of the

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[22]Heaver, 1982: 6.

[23]Rondinelli, 1977: 1.

country."[24] Yet the donors should be expected to have the capacity to link all the relevant issues and financed projects in a country to each other. In fact, in recent years several donors have reorganized their individual projects in a comprehensive country program. For reasons which will be explained in detail in the fifth chapter, the Japanese development administration still uses the project approach. Thus the operationalization of contingency theory has to be on the project level to provide useful results.

### 2.2.2 Phases of the Project Cycle

In the procedural subsystem of an organization, different successive phases of decision-making can be identified. The term "project management" summarizes these phases in an all-encompassing concept, embracing all the activities involved in planning, implementation, and evaluation.[25] Project management deals with the entire life cycle of a project. In any kind of project management there is a logical organization pattern with successive phases. In most general terms a project is divided into the planning phase, the implementation phase, and the evaluation phase. For the purpose of this study further differentiation will be necessary, and thus two major publications on this issue have been consulted.[26] While Baum and Tolbert (1985) of the World Bank identify six phases, Rondinelli (1977) refers to twelve project phases. According to table 2-1, these classifications were taken as a basis for developing eight important and distinct phases. They will henceforth be used as a framework.

As shown in table 2-1, some adjustments were necessary for this study. While in the preparation stage the recipient is responsible for the examination of the proposed project, in the appraisal stage the donor is supposed to review all aspects of the project. This distinction is not as important for technical assistance projects since these phases are often combined because of the smaller size of such projects.[27] Moreover, the donor frequently assists the preparation due to the limited administrative capacity of the recipient. Thus it makes sense to condense preparation and appraisal into one step for this empirical analysis. The same

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[24]Knall, 1969: 294.*

[25]Rondinelli visualizes the phases as links of a chain, with the weakest link affecting the performance of the whole project. See Rondinelli, 1977: 6.

[26]For a review of other similar concepts see Neun, 1985: 48.

[27]See Bernecker, 1984: 184.

applies to the distinction between implementation (recipient responsibility) and supervision (donor responsibility), which becomes blurred if the donor plays an active role during implementation. The concept of termination is actually an alternative to follow-up, and thus the termination issue has been placed there.

| Main phase | Baum and Tolbert | Rondinelli | This study |
|---|---|---|---|
| Planning phase | Identification | Identification and definition | Identification |
| | Preparation | Formulation, preparation, feasibility analysis | Preparation, appraisal |
| | | Project design | |
| | Appraisal | Appraisal | |
| | Negotiations | Negotiations and selection | Selection |
| | | Activation and organization | Detailed design |
| Implementation phase | Implementation and supervision | Implementation and operation | Implementation |
| | | Supervision, monitoring, control | Monitoring |
| | | Termination | |
| | | Transition for normal administration | |
| Evaluation phase | Ex-Post Evaluation | Evaluation | Ex-Post Evaluation |
| | | Follow-up analysis | Termination/follow-up analysis |

Table 2-1: Phases of the project cycle (Source: Baum and Tolbert (1985) and Rondinelli (1977))

The concept of project cycle emphasizes the close interaction of the successive phases. In fact, all phases can be a basis for a new cycle and their sequence does not necessarily follow the sequence in which they are introduced in this study.[28] Korten (1980) suggests that "the project concept itself and its emphasis on breaking development up into discrete time-bound pieces may be the real heart of

[28]Rondinelli emphasizes that this formal model of the project cycle is only a description of how it is supposed to work, but admits that reality often differs substantially from the model. Rondinelli, 1977: 4-17.

the problem."[29] He claims that this kind of project organization is antidevelopmental if carried out within an unstable environment. This issue is not taken up since the objective of this chapter is not the normative design of development initiatives but rather the conceptualization of current practices. Most of Japanese technical cooperation is done within the project framework. Therefore, it would not be helpful to evaluate it with a normatively designed ideal framework as suggested by Korten.

### 2.2.3 Dichotic Management Approaches to Each Project Cycle Phase

What are the alternative designs of organizational structures? Kieser and Kubicek suggest defining scales that enable differentiation between different modes and their implications.[30] For the procedural dimension that means that for each phase in the project cycle different approaches need to be identified. While in the literature diverse modes have been discussed for the procedural dimension, they have not been conceptualized for the different steps of project management. In this section the relevant literature will be used to define dichotic approaches for each phase of project management.[31] For the alternative approaches no normative criteria will be specified. According to contingency theory, the decision for one or the other alternative should be determined by the perception of the relevant environment. Without relating the approaches to the relevant environment, neither of them is fundamentally superior. Thus, instead of an evaluation based on a prescription of one alternative, the normative mode of operation will be based on the Japanese perception of the environment. Comparing the normative alternative with the actual operations allows a critical assessment of the Japanese institutions for project management.

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[29]Korten, 1980: 509. Korten suggests that pilot projects should be expanded in four different phases to a full scale project. Critics of that experimental approach claim that any aid agency would have difficulty obtaining budgetary resources for that. Thus there is a bias to stick with the emphasis on carefully analyzed projects.

[30]Kieser and Kubicek, 1992: 63 ff.

[31]For clarification of the different approaches, this chapter draws heavily on the literature in the field of development administration. The comments of the second generation of scholars on development administration who emerged in the late 1970s and early 1980s were particularly helpful. Among them were Rondinelli (1977, 1983), White (1987, 1990), Korten (1980, 1984), Esman (1980, 1991), and others. They recognized the radical differences between the Western administrative context and that of developing countries. This is different from the founding generation of Siffin (1956), Riggs (1971), Diehl (1970) and others who concentrated on applying the conceptual devices of Western public administration to the realities in developing countries.

Table 2-2 summarizes the two possible approaches employed in the next chapter for each project management phase. The dichotomy of the approaches is deliberately simplified for the purpose of clarification. In practice management methods are found somewhere along the continuum between these extremes. Despite the fact that each phase has distinct operational characteristics, some of the approaches overlap and may fit into several phases of the project cycle. Such topics have been placed sequentially where they seemed most appropriate. Most of the approaches discussed in the literature were not related to one step of the project cycle; the implicit assumption was that one approach will be used in all steps of the project cycle.

In this study, the alternative approaches are considered independently of each other, although a contingent relationship may exist between them. To opt for incremental participative planning would imply less emphasis on all of the steps until implementation. Similarly, stressing the technical-economic aspects implies topdown planning since target groups obviously would not have the expertise. This interrelation has not been explicitly addressed by this study; in other words, the ceteris paribus clause has been employed.

| Project management phase | Alternative institutional approaches |
|---|---|
| Identification | Active **versus** reactive role of the donor |
| Preparation, appraisal | Multidimensional analysis **versus** technical-economic focus |
| Selection | Goal orientation **versus** inductive approach |
| Detailed design | Topdown-blueprint **versus** participative-incremental planning |
| Implementation | Institutional learning (recipient) **versus** target orientation |
| Monitoring | Controller **versus** mediator mechanism |
| Ex-Post Evaluation | Institutional learning (donor) **versus** justification function |
| Termination/follow-up analysis | Extended external financing **versus** complete termination |

Table 2-2: Dichotic approaches for each project management phase

### 2.2.4 Relevant Context Factor

According to systems theory, the environment determines the organizational design but it is unclear how the context factors can be operationalized. Environment conceptualizes all subsystems over which the organization in question has no control. In a narrow meaning, this could refer only to the environment in

which the organization operates and for which it produces its outputs **(external environment)**. However, it may also include the internal decision-making processes and the interests of individuals in the organization **(internal environment)**. Several authors have suggested that the broad concept of environment should be analytically separated into these two segments.[32] This may facilitate the comprehension of the two, sometimes opposing, influences on organizational structure and different analytical instruments may be necessary to conceptualize them. In the external environment orientation, the collectivize approach of organization theory is more appropriate, and chapter three will limit itself to that viewpoint.[33]

The newly evolving concept of organization culture furthermore supplemented contingency theory by claiming that the relevant context factors are only those that are perceived by the decision-makers. When it is recognized that human beings perceive their world through the medium of culturally specific frames of reference, it becomes clear that the decision-makers in the organization also perceive the environment through selective information processing.[34] Therefore, not all objective constraints identified by the researcher are relevant; it is only the subjective perceived constraints that count. Ebers claims that the context factors must not be searched for in the world of objective facts but rather in the heads of the decision-makers.[35] Therefore only perceived and accepted constraints of organization members are relevant premises for organizational design.

Hence, for this study, the context factor does not directly refer to the environment but to the context factors the donor perceives to be relevant. For this purpose it must be analyzed how the environment is perceived within the Japanese development administration. That information can only be derived from the donors' own official statements. The sources available to analyze this perception refer exclusively to the external environment in recipient countries on which ODA

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[32]Kieser and Kubicek, 1992: 208, Bryson, 1988: 53 ff.

[33]In the fourth chapter, the individual decision makers will be introduced as an additional independent variable. The framework will be broadened from "one best way depending on the external environment" to organizations "depending on both individual decision makers and the external environment." For that analysis the framework of NIE, which is based on methodological individualism, will be more appropriate.

[34]See Ebers, 1985: 95.

[35]See Ebers, 1985: 96.

should have a developmental effect.[36] While theoretically also the internal environment might be relevant, the concentration on the external environment determines a normative character of this approach.

### 2.3 Conclusion

The purpose of this chapter was to analyze organization theory with respect to its relevance for the institutional analysis of development administrations. Neither of the multiple approaches in organization theory is satisfactory and further research in this field is very desirable. The statements are too general and often based on hierarchic internal structures that no longer exist. Systems theory and contingency theory broadened the narrow view by taking changing external environments into account. Contingency theory, the dominant approach in organization theory, claims that the organizational design is determined by its environment. In the second part of this chapter much time was devoted to develop that rudimentary prediction in order to make it more specific for our case.

Since the output of development administrations is mainly confined to time-limited projects, the procedural dimension was chosen as the structural dimension to be analyzed with this approach. Within the procedural subsystem, also referred to as project management subsystem, eight different phases were identified. For each phase, two dichotic approaches were developed that mutually exclude each other. According to contingency theory, the environment should determine which of the two is chosen. For the case of the Japanese development administration, this leads to the first working hypothesis: **Project management in the Japanese development administration is determined by its relevant environment.**

Based on that framework, the empirical analysis in the next chapter will follow three steps for each of the project management phases:

- In the first section, the two dichotic approaches will be defined for each of the phases.
- In the second section, it will be analyzed how the relevant environment is perceived within the Japanese system to assess its implication for one or the other approach. This analysis will determine which approach should theoretically be used in each of the stages according to contingency theory. This prediction is normative, since it is assumed that only the external environment is relevant.

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[36]See Foerster, 1994: 9-13.

- The empirical analysis of Japanese project management in the third section will enable a comparison between the theoretical prediction of contingency theory and the actual operations. Deviations would consequently reject the first working hypothesis. Even if rejected, the instruments of contingency theory are helpful in defining a normative state of an adapted organization which can be used as a basis in evaluating the empirical results.

## 3 THE PROCEDURAL STRUCTURE OF JAPAN'S DEVELOPMENT ADMINISTRATION

A large number of organizations in Japan are related to planning and implementation of technical assistance and grant aid. It is impossible to cover all their different programs and procedural structures within this study. Thus the procedural analysis in this chapter will focus on projects combining grant aid (used for large scale equipment) and "project-type technical assistance" which comprises sending experts, receiving trainees, and supplying equipment on a small scale. The project-type technical assistance is the activity that is best comparable to the technical assistance of other international donors and represents the greatest proportion of the different forms of technical cooperation. While both grant aid and project-type technical assistance are administered by the Japan International Cooperation Agency (JICA),[1] there is an important difference. The budget for project-type technical assistance is completely entrusted to JICA, while grant aid is budgeted to the Ministry of Foreign Affairs (MOFA). Therefore the management procedures for both forms of aid is different, and separate administrative structures are responsible for the planning of the two forms of aid.

Nevertheless, the combination of grant aid and project-type technical assistance programs has become the preferred alternative due to the growing awareness that "most grant aid projects that failed were grant aid projects that only supplied equipment."[2] This resulted in an expanding number of project-type technical assistance projects linked to grant aid. In most cases, grant aid first finances construction work or equipment, then the technical assistance project uses these facilities. After the 1993 fiscal year, the budget for grant aid will be transferred to JICA,[3] which will additionally increase the number of combined projects. Such a transfer will not affect the integrated administration of the two programs immediately, though, and so an analysis of the existing project management procedures will still be relevant even after the budget transfer. Although this chapter focuses on the combination of grant aid and technical assistance projects, many of the conclusions relate directly to other forms of aid, as well.

In the following, the framework developed in chapter two will be used. For each of the eight project cycle phases, two possible dichotic approaches will be defined. Then the relevant environment as perceived by the Japanese development

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[1]See chapter five, section two for an overview of the other JICA activities.

[2]Kaigai konsarutingu kigyou kyoukai, 1990: 50.*

[3]See Joho kigaku kenkyujo, 1992: 28.

administration will by analyzed to determine which approach would theoretically suit the particular environment. Through comparison of the theoretical prediction with the actual operations, a conclusion will be made as to whether the working hypothesis holds for the empirical case, i.e., whether these operations were really determined by the perception of the external environment.

### 3.1 Project Identification

The goal in the first phase of a project is to develop a list of project ideas. The suggestions should be feasible within the rough estimates of costs and benefits and should have the potential support of the decision-makers. Project identification has hardly been covered in the existing planning literature. Rondinelli wrote in 1977: "Because identification is poorly documented in development literature and not well understood by either scholars or development administrators, the complexity of the process is often unappreciated."[4] A review of the more recent literature does not suggest any rectification of this shortcoming. The decisions made in this phase often determine whether the project will be successful. Despite the preliminary character of the proposals, their relevance may be great since experience shows that later rejections of project proposals are rare.[5] Given the importance of this phase, a crucial question is whether the donor should be involved in it. In the following section, the concept of Cunningham (1974) is employed to distinguish between an active and reactive donor role.

#### 3.1.1 Active Versus Reactive Role of the Donor

**(a) Reactive Role**

Theoretically, every aid program begins as a response to the recipient's request. The donor's role is reactive; he relies on the recipients' suggestions, which are created through national macroeconomic planning. For that purpose, most donors require recipient country governments to submit comprehensive multisectoral, long-term development plans as the governmentally sanctioned framework for both macrolevel economic policies and sectoral investments. In his seminal work on development planning, Knall identified three levels of development programming: macroeconomic, sectoral and project programming. Ideally all levels should be integrated.[6]

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[4]Rondinelli, 1977: 70.

[5]OECD, 1992: 34, BMZ, 1986: 27.

[6]See Knall, 1969: 6a.

However, in developing countries, often governments and national planning agencies are limited in their ability to take on the complex burden of such national economic analysis. According to Rondinelli, "most countries simply have not been good in creating formal systems linking national planning with project identification."[7] Knall noted this weakness and emphasized that "a development plan that does not include feasible projects only increases the planning literature without contributing to the effective growth of the developing countries. (...) Only concrete projects guarantee that macro- and sectoral planning does not remain an abstract."[8]

As a consequence of the weak link between national planning and project identification, in reality, project ideas often represent different individual interests. Many decisions are quintessentially based on the respective power of the interest group when scarce resources are being allocated among competing groups. Rondinelli states that project identification is a complex process evolving from multiple sources, intricate patterns of organizational interaction, entangled political, social and economic forces, and internal and external pressures. Hence, project ideas can emerge from any of the following formal and informal processes in the recipient country:[9]

- Regime supporting projects, through which the government gets credit for the positive impact of the project and accordingly contributes to political stability. The projects identified are often prestigious and are used as symbols of national progress.
- Emerging bottlenecks lead to the identification of essential shortages of resources that are critical to social and economic progress.
- Emergency conditions and catastrophes often trigger the search for projects to relieve direct hardship, long-range difficulties, and to develop means for preventing the same disaster in the future.
- Initiatives of national and international private entrepreneurs who wish to take advantage of available opportunities.
- Pressure from influential political groups.

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[7]Rondinelli, 1977: 10.

[8]Knall, 1969: 294.*

[9]See Rondinelli, 1977: 81 ff., especially 87.

Thus the actual process of identification does not parallel the normative model of project identification through national development planning. The balancing out of multiple interests determines which projects are eventually requested by the recipients. In a study on the Philippine aid administration, Reyes finds that criteria for prioritization of proposals do not easily lend themselves to measurement and claims that "the extent to which decisions are actually made on the basis of the foregoing criteria is of course conditioned by the degree of intervention made by pressure groups within and outside the system."[10]

**(b) Active Role of the Donor**

Given the intricacy of the identification process, the donor may doubt the recipients' capability of rational project identification and may "wish to ensure that its money is spent in a way that results are maximized, not only according to the judgement of the authorities of the recipient, but in its own judgement." Consequently donors should opt for pursuing an active role in identification.[11] Cunningham offers further arguments for why donors should actively involve themselves in the use of their funds. Legislatures need to be reassured that aid is being well used, in the opinion of both their own governments and the recipients. Modernizing elements can be strengthened against either status quo elites or politicians looking for aid to finance political plums.[12] According to Strachan, "some third world development managers not only feel that this active role of the aid agencies is inevitable but actually advantageous. They have found that in their struggle to improve public administration or to initiate new programs, these aid

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[10]Reyes, 1985: 160.

[11]Cunningham, 1974: 13. Yet Cunningham points to the importance of closely linking these activities to national development planning. Otherwise many projects may be subject to the pressure of aid agencies and closely linked to the national policies and preferences of the donor. In the 1980s these areas of concern were not only limited to the direct project environment, but under the notion of policy dialogue also broad national policies were influenced. Many of the problems in developing countries were ascribed to internal factors such as incorrect economic policies, discouragement of private enterprise and overstaffed and undermotivated departments and enterprises in the public sector. Policies for cutting back the role of the state in the economy through privatization, deregulating and marketization were often attacked under the notion of neo-colonialism and dictation of recipients' policies. For further discussion of the problems of policy dialogue, see Körner, 1989: 60 f. In the 1990s the scope expanded and not only economic issues were addressed. In a speech to the Diet, the former Prime Minister Kaifu stated in April 1991 that in aid policy "full attention would be paid to trends in recipient countries in relation to such aspects as military expenditure, the development and manufacture of weapons of mass destruction, and the import and export of arms, as well as efforts to introduce democracy and market-oriented economy, and to secure human rights and freedom." See MOFA, 1991: 34.

[12]See Cunningham, 1974: 15.

agencies have sometimes been among their strongest allies. Pressure from the donor can even be used as a political excuse for taking some necessary public action which is politically unpopular in the short run."[13]

The decision to play an active role implies that the donor will need to deploy country and sector expertise in the recipient country, as well as in agency headquarters. Some form of country programming will be necessary. By forming a joint strategy in close cooperation with the authorities of the recipient state, dominance of one-sided interests could be prevented. Such a country program should include the following to provide a guideline for rationally allocating aid: An assessment of the country's socioeconomic condition and obstacles to development; the identification of the country development objectives and the proper strategy to achieve them; and the identification of the role of external aid within that strategy.[14] Furthermore, the interest and competitive strengths of the donor will need to be considered.

### 3.1.2 Perception in Japan

The MOFA believes there to be a lack of planning capabilities in recipient countries and thus favors taking an active role in the identification of projects. "The essential purpose of official development assistance is to support individual development projects planned by developing countries. However, developing countries do not always have adequate project planning capabilities, and in many cases there is also a lack of understanding about the workings of Japanese assistance or about projects themselves. Moreover, the social and economic development needs of developing countries have become increasingly complex and sophisticated in recent years, and there has been an upsurge of concern about environmental problems."[15] Consequently, MOFA concludes that "Japan will need to assist recipient nations with the establishment of projects by actively participating, offering its own ideas and know-how, in the process of identifying and creating projects that closely match the increasingly sophisticated and diversified needs of the developing countries."[16]

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[13]Strachan, 1978: 469.

[14]See Rondinelli, 1983: 71 ff.

[15]MOFA, 1989: 93.

[16]MOFA, 1989: 27.

### 3.1.3 Actual Operations

The actual process of identification is different for each recipient country and each project. Since it is often dictated by informal activities that are undocumented, it is impossible to reconstruct how most projects were identified. Despite these obvious limitations, an attempt is made in this section to outline the basic procedures of the major interest groups in the identification process. They have been divided into three major groups: The recipient government, the official Japanese sector and the private Japanese sector. The results are summarized in figure 3-1, which depicts the procedural structure identified through a large number of interviews. Internal documents of several organizations were used as well; however, they could not be cited. A questionnaire conducted by the *Kaigai konsarutingu kigyou kyoukai* provides supporting evidence for these results. This questionnaire was administered to 41 major Japanese consulting firms in 1989; and multiple answers were possible. While the results of the questionnaire were not officially published, the *Kaigai konsarutingu kigyou kyoukai* (1990), a consulting firms association, draws on them.

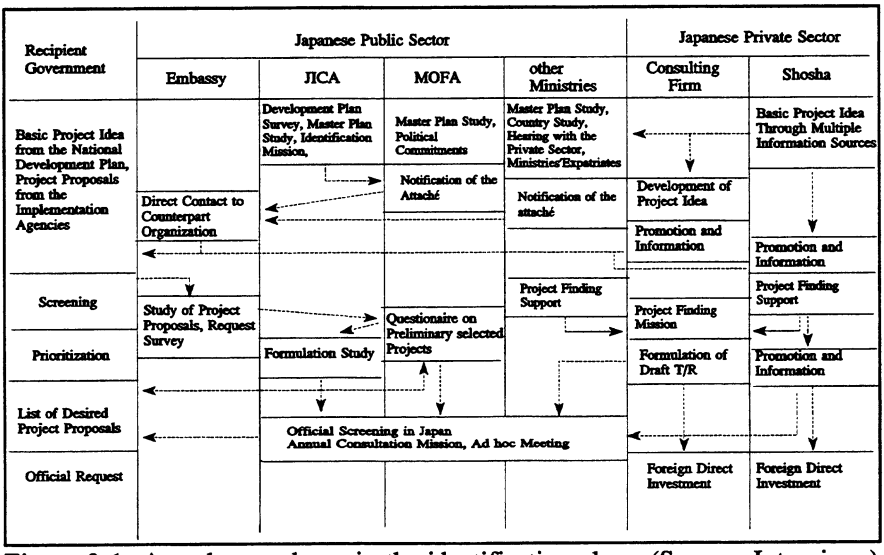


Figure 3-1: Actual procedures in the identification phase (Source: Interviews)

The left column of figure 3-1 refers to the procedures in the recipient government. It shows that, according to the model of a passive donor, the basic project ideas are derived from the national development plan. In addition, implementation agencies submit their project proposals to the government institution responsible

for administering ODA. This institution is either integrated in the Finance Ministry, or another ministry, or is an independent planning agency that may or may not have some autonomy versus the other ministries' interests. In such an agency, all proposals are screened and prioritized, and the remaining projects are summarized in a list of desired projects. For these projects, an official request is submitted to the donor that seems most appropriate.

In most cases for Japanese aid, however, these domestic procedures are subject to informal influence by the Japanese official and Japanese private sector. Their activities can be separated into two different objectives. While in early stages of a project, efforts concentrate on adding proposals from the Japanese side to the list of basic project ideas, a great deal of energy is devoted to promoting certain projects afterwards.

**(a) Projects Proposals from the Japanese Public Sector**

The official Japanese sector has traditionally been passive, operating according to the "request principle," and responding only to an official request from the developing country. In recent years, however, efforts have been increasingly made to identify new projects even before an official request has been made. Among these efforts are master plan studies, country studies, identification survey missions, expatriates of line ministries, and activities of individual politicians. All of these identification and preparation activities can be financed in principle under the technical assistance budget.

Each of the major ministries uses its technical assistance budget to conduct **country studies**. While these studies focus on the respective sector of the ministry, general information is often included. Some of the studies are limited and focus on specific recommendations for future activities in certain areas; others are more policy-oriented macrostudies. Both can be used as a source for concrete project ideas.[17]

Other project ideas come from Japanese politicians. Ever since the ODA program was implemented, they have used ODA as a political tool for improving Japan's bilateral relations with developing countries. Once such **diplomatic gifts** *(omyage*

[17]For that purpose, line ministries often send individual experts to their counterpart line ministries in the recipient countries. Furthermore, as chapter 5, section 2.2.3 will show, some organizations are specialized for this task.

*gaiko)* are made, the MOFA makes the necessary arrangements through the embassy to ensure that these high-level political commitments are met. Another source of proposals are the regular **hearings of line ministries with the Japanese private sector**. Besides these institutionalized meetings, informal contacts also ensure that representatives of Japanese consulting firms and Japanese international trading firms *(shosha)*[18] are an important source of information and for basic project ideas. A problem is that the ministries do not coordinate their activities with those of the other ministries. On the contrary, often the information is kept secret until a concrete project request has been made.

JICA, the major implementation organization for grant aid and technical assistance, has begun to formulate project proposals as well. Since 1988, JICA has been receiving a budget "to improve aid efficiency", part of which is used to finance **JICA's project identification activities**. In 1992, JICA sent 46 identification missions to recipient countries to define implementation projects through discussions with the recipient governments.[19] This was supplemented by sending long- and short-term experts to local JICA offices, where they were engaged in development plan surveys for 3 to 12 months. Some experts are also dispatched from line ministries. However, the technical bias in their area of expertise may cause interdisciplinary or institutional aspects to be overlooked.

Another form of creating new project ideas is the **master plan study (M/P)**, which is conducted both by line ministries or by JICA. The master plan is designed to formulate a long-term, integrated development plan in which the development potential of a specific region or sector is analyzed. It seeks to provide the basic information and data that are required for a development strategy in a region or sector, and assesses the priority of specific projects. However, compared to integrated development programs of other donors, the scope of the Japanese master plan study is narrow and elaborates on concrete projects in great detail. The master plan study can be directly used as a feasibility study accompanying the official request for a project. Therefore, it is influential in determining future projects. While it is implemented only after an official request has been made by the recipient, in most cases the Japanese side has recommended

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[18]See section 2.3.4 of chapter 5 for a more detailed description of the *shosha's* activities.

[19]See JICA, Annual Report, 1991: 40.

the recipient to make the request.[20] Master plan studies are also directly financed by the ministries. Many collaborate with the International Development Center of Japan (IDCJ), which was founded in 1971 as a nonprofit organization with private contributions and the support of the Japanese government.

Concrete project proposals from these various sources are channeled through the Japanese embassy to the recipient. The attaché from the respective ministry in the Japanese embassy is a crucial contact person between the line ministry in Japan and its counterpart in the recipient country. In many cases, the attaché will discuss such project ideas directly with the ministry or agency in charge in the recipient country. This has proven to be much quicker and more effective than going through official channels of the MOFA and the coordinating agency for ODA in the recipient country.

**(b) Projects Proposals from the Japanese Private Sector**

Since the beginning of Japanese development assistance, private companies had an interest in ODA. ODA is an important source of financing capital flows from Japan to developing countries. In the 1980s, Japanese direct investments in developing countries were almost as large or larger than ODA flows. In 1991, for instance, direct investments of $ 11.3 billion were recorded, compared to $ 11 billion of ODA. Furthermore, ODA project awards represent profitable business opportunities. To maximize the chance of being in the "ODA business," Japanese companies seek to actively participate in the stage of project identification. By developing new project ideas and supporting a project early in the project cycle, the chance of winning the bid for a project can be increased.

Since the potential profits of technical assistance are much lower than those for grant aid, the private sector's efforts are more concentrated on the latter form of assistance. That does not mean, however, that such activities do not influence technical assistance. In many cases, grant aid finances the construction of the facilities used by the technical assistance project afterwards. Since the design of the grant aid project determines the shape of the technical assistance to a large extent, inappropriate design of grant aid will render the technical assistance less effective than it could be.

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[20]In 1991, JICA conducted 96 master plan studies under its development study program. The development study *(kaihatsu chosa)* program includes also feasibility studies which will be addressed in the next section. In 1991, a total of 214 studies were conducted in the development study program.

According to the questionnaire mentioned above, 98% of the officials interviewed pointed to *shosha* as the primary source of project ideas. Government organizations in the recipient country were given as the source for project ideas in 75.6% of the cases. Since consulting firms have relatively few subsidiaries in recipient countries, project ideas stemming from their local representatives amounted to only 31.2%.[21] The large percentage of identifications by *shosha* can be explained by the fact that they can combine three main functions. Firstly, they can analyze the needs of the recipient country and define the targets, which is facilitated through their worldwide network. Secondly, they understand how the Japanese ODA system functions and how the request has to be formulated in order to be successful. For example, advice can be given concerning the form of aid that should be requested to increase the chance for approval. The *shosha* also have the necessary personal network in Japan, and informal discussions with personnel of the relevant ministries concerning specific projects are not unusual.[22] Thirdly, the *shosha* knows the suitable equipment supplier companies (especially manufacturers or general construction firms) and consulting firms in Japan and can coordinate them through their broad domestic network.

While the *shosha* has the option of creating its own new project ideas, it often pursues projects identified by other sources. Among them is the "World Bank Monthly Operational Summary of Proposed Projects," the five-year plan of the recipient, other publications or informal information sources in recipient governments, or ideas from the staff in local branches. In choosing a project to promote, priority is generally given to projects that seem to have a high probability of receiving support and which match with the company's competitive strengths.

After identification, the basic project idea needs to be developed in greater technical detail, which is often done by a consulting firm. Often, either the *shosha* or the consulting firm informally provides such information to the implementation agency in the recipient country (78%) and to the official institutions in Japan (73%).[23] This shows that leverage is used on both the recipient and the donor sides to increase the chances that the project is considered in the process. This

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[21]Multiple answers were possible, see Kaigai konsarutingu kigyou kyoukai, 1990: 90.

[22]Interview with the representative of a large *shosha*, 1991.

[23]Kaigai konsarutingu kigyou kyoukai, 1990: 90.

promotion often results in the addition of the project to the official list of desired projects. The same information also makes its way to the relevant ministry in Japan.[24]

**(c) Influence on the Priority of the Project from the Official Japanese Sector**
There are several diplomatic steps to take before an official request is made to the Japanese government, which could be described as prebargaining. Most important are the annual consultations between the Japanese and the recipient government which are usually held in May or June. Besides policy dialogue, there are usually two more agenda items in the annual consultations. One is the commitment for the current fiscal year, the other is the discussion about the "preliminary requests" for the forthcoming years. In 1990, the number of countries considered for annual consultations was increased from 12 to 25 to intensify the discussion.[25] Ad hoc missions are sent sporadically to the other recipients and officials usually visit four to five countries in a row. It is of note that the annual consultations are divided into two separate missions: one for loan aid and the other for technical assistance and grant aid.

This prebargaining implies that the Japanese development administration starts the selection process before an official request is made by the recipient. To be able to do so, it needs to be informed of the project proposals as early as possible. Often, this information will be given in the annual consultation; in other cases, the Japanese embassy makes a request survey to get information about the "preliminary requests." After adding a comment to that list of proposals, the embassy sends it to the MOFA. To clear up open questions, a questionnaire concerning proposed projects is sent to the recipient government. In some cases, a formulation mission is sent by JICA to the recipient government to elaborate on the proposal and influence the scope and focus of the project.

The related Japanese ministries screen the information (including that from the private sector) before the annual consultation mission leaves for the recipient country. A JICA official stated that "due to the fact that Japanese aid is implemented through various ministries' involvement, tapping resources from

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[24]A *shosha* official stated: "We try to feed both governments but do not know whether they will eat. Therefore we need to make the food appealing to the eye. This is what we mean by making a proposal effective."*

[25]See MOFA, 1991: 30.

various sides, it has been necessary to undergo intensive internal negotiations with related line ministries, and thus the responses to be given to recipients are largely decided before the negotiation."[26] As a result, some of the proposed projects are selected preliminarily. In the annual consultations, the Japanese side indicates which of the proposed projects seem most feasible. The *kaigai konsarutingu kigyou kyoukai* states that the result of the annual consultation could be understood as a kind of "long list."[27] All participating groups thus know whether, in general, a project is acceptable for funding even before the request has been made. Khien Theeravit, a Thai academic, points out that "in recent years there have been many requests for foreign aid addressed specifically to Japan. Some of them were negotiated on a personal level prior to making a formal request. In order to process the matter more quickly, the Department of Technical and Economic Cooperation (DTEC, Thailand) has set up a rule to handle this kind of request differently from other requests."[28]

Comments from the Japanese side may cause a change in the priority of a project. Another Thai study on Japanese ODA suggests that Japanese influence at this stage may actually be quite strong. "Representatives of the Japanese government will later unofficially inform the DTEC officials which projects are of interest to their government. The DTEC then informs the Thai agency, which then makes the request to prepare documents for the official request procedure. A DTEC official who is responsible for Japanese aid complained that most of the time the Japanese government does not pay attention to the priorities listed by the DTEC and that the Japanese have their own list already. Apparently during the annual meeting between Japan's Consultant Team and Thailand's DTEC officials, the Japanese just informed the Thai what has been decided on the aid projects of that fiscal year."[29]

**(d) Influence on the Priority of the Project from the Japanese Private Sector**
Likewise, the Japanese private sector is eager to increase the priority of the projects it prefers. To do so, more information about project details is necessary, which is usually elaborated on through project-finding missions. In the

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[26]Interview with a JICA official, 1991.

[27]Kaigai konsarutingu kigyou kyoukai, 1990: 45.

[28]Khien Theeravit, 1984: 219.

[29]Patcharee Thanamai, 1987.

questionnaire, the consulting firms reported the following percentages as regards their activities:

- Contacting the implementation agency of the recipient country (73.2%),
- Sending a project-finding mission financed partly by a subsidy of a ministry (58.8%),
- Negotiating with the concerned ministries and implementation agencies (51%),
- Identifying new projects while implementing other projects (34.1%),
- Getting in contact with the embassy and representatives of JICA and OECF (31.7%).[30]

While the consulting firms can develop the project idea either at their own expense or with the support of a *shosha*, the ministries offer subsidies for private sector project-finding missions as well. These missions analyze the technical details and prepare a draft of the terms of reference and other data needed for the promotion of the project. Both sides benefit from such missions. The ministry gains a comparative advantage over other ministries and can screen the project ideas from the private sector. Thus the ministries can control information before the recipient country has made the official request. The private sector enjoys receiving a government subsidy for their potentially risky project-finding missions.

Funds for the project-finding mission are not given directly to the consulting firms. They are channeled through one of the numerous consulting firm associations such as the Engineering Consulting Firms Association (ECFA) or Japan Consulting Institute (JCI).[31] Based on the results of the mission, information about the project is used to promote it both in the relevant ministries in Japan and in the government of the recipient country. When both the official and the private Japanese sectors seriously consider a project, it may be difficult for the recipient government to disregard it.

In that sense, the success of a project proposal is also related to the effectiveness of the network of the *shosha*. The better it is acquainted with the key people in a potential recipient's private and public sector, the easier it is to influence a particular project's priority in the national economic planning of a developing country. On the Japanese side, it increases the likelihood that the desired aid

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[30]Kaigai konsarutingu kigyou kyoukai, 1990: 90.

[31]See chapter five, section two.

package will be accepted through its connections to government officials. The form in which the project is requested is important for maximizing the chances of getting approval from the Japanese government. This is important since there are several formal and informal stipulations for the request in each different aid category. Furthermore, the *shosha* know much better how detailed a request needs to be in order to be considered. Support from the recipient government is also important. The *kaigai konsarutingu kigyou kyoukai* mentioned that, in rare cases, pressure might be used to get the project in the "right" priority.[32]

Most of these operations serve to enhance the company's chances in future bids for the project. The company is able to prepare a more informed bid for the project when it has fully acquainted itself with the details. According to the *Kaigai konsarutingu kigyou kyoukai*, for grant aid consulting firms spend an average of five million yen per project for identification and formulation. For loan aid, where a more detailed feasibility study is required, consulting firms invest an average of twelve million yen for each project. Strong competition forces the firms to identify new projects quickly. Of all consulting firms answering the questionnaire, 44.1% identified less than five projects per year, 32.4% of the firms identified between five and ten projects. 11.7% identified 10-20 projects, and another 11.7% more than 20 projects, which leads to an average of 9 projects per firm.[33]

Due to the long time ranges between identification and implementation, the profitability of these investments is difficult to estimate. Half of all firms calculated the ratio of identified and actually implemented projects to be below 20%.[34] As a general rule, roughly 50% of all identified projects are accepted by recipient governments, and 50% of those accepted are taken on by JICA for a feasibility study. These low success rates provide an argument for demanding higher project-finding subsidies from the line ministries to ensure that the consulting firms remain independent of the powerful interests of the *shosha* and other contractors.[35]

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[32]"There are also cases where the *shosha* that have identified such projects influence the implementation organization as well as the coordinating organizations directly to increase the priority of the project." Kaigai konsarutingu kigyou kyoukai, 1990: 45 f.*

[33]Data from Kaigai konsarutingu kigyou kyoukai, 1990: 91.

[34]Kaigai konsarutingu kigyou kyoukai, 1990: 91.

[35]Kaigai konsarutingu kigyou kyoukai, 1990: 92.

The finding mission really pays off when a loan or grant aid project can be supervised, since then profit margins are larger than at the feasibility study stage. Again, estimates are complicated by the fact that it takes up to two years from finding to disbursement for most aid categories; in the case of loan aid it can take up to five years. Yet loan aid projects have the best prospect for the consulting business since their services are needed in the feasibility study, for the detailed design of the project and for project supervision. It is estimated that roughly 80% of the projects are supplied by the same consultant initially involved in the identification.[36] This process is highly competitive and consulting firms have to prepare their bids very carefully. Consequently, offers are prepared so carefully that the actual feasibility study will not differ greatly from the proposal. A Japanese aid official admits that "although at the appraisal stage proposals are compared at neutral criteria, the very neutrality of these could favor proposals (from potential recipients) with higher specified and well thought-out implementation strategies (which is often achieved through the assistance of interested consultants behind the scene), over the independently worked-out but poorly prepared one."[37] Therefore the step before the feasibility study is crucial for the project. When the decision for a contractor is taken, the ministries are aware of the firms involved in the project so far. The increasing percentage of untied aid may not hinder the smooth flow of that process significantly.[38]

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[36]Interview with a representative from a consulting firm, 1992.

[37]Sahara, 1990: 174.

[38]As a reaction to the criticism of the DAC concerning the large role of the private sector in aid, the share of untied ODA was steadily increased. Yet insiders worry that the untying in statistical terms may not be adequately translated into competitive procurement procedures that give an equal opportunity to all bidders. The supply share statistics indicate that, despite the official untying, a large number of contracts are won by Japanese firms. The decrease from 55% in 1987 to 27% in 1990 was for the most part compensated by a strong increase of LDCs from 35% to 52%, while the other OECD countries' share increased only from 9% to 21%, as the following table shows.

| | Japan | LDC | OECD (except Japan) |
|---|---|---|---|
| 1987 | 55% | 35% | 11% |
| 1988 | 43% | 41% | 16% |
| 1989 | 38% | 41% | 21% |
| 1990 | 27% | 52% | 21% |
| 1991 | 31% | 48% | 21% |

Procurement shares by nationalities of contractors, ODA loan: (Fiscal years, Source: Joho kigaku kenkyujo, 1992: 15)

The information advantage when being involved in the identification process is an efficient countermeasure to untying. Consultants may write project design specifications tailored to Japanese suppliers' specializations, so that non-Japanese firms have a disadvantage in the bidding process. Another consequence of increasing untying is that *shosha* tied up with suppliers in recipient countries (especially labor intensive projects where Japanese firms are not competitive). A representative of a *shosha* pointed out, "Japanese *shosha* have so many foreign subsidiaries that the supply share statistics may not mean much."[39]

Therefore investments in the early stages of the project cycle are important for the firms to ensure participation in later stages of the project cycle, even though the costs and risks involved are high. A positive side effect for the private sector is that the identification procedures up to this stage are not only used for ODA projects but are also utilized for Japanese foreign direct investment. The Ministry of Trade and Industry (MITI) states that this is one purpose of its ODA program because overseas investment in Third World countries is another way initiate development effects.[40]

In conclusion, analysis of the actual procedures shows that the Japanese side is not completely passive, although it has adopted the request principle. Both public and private sectors intervene in the process of request formulation in the developing country. The public funds allocated for that purpose are small compared to the overall size of the ODA program. Furthermore, their effectiveness is limited by the fact that most activities are not coordinated because each ministry wants to secure its relative information advantage. Besides the intervention in the process of generating project requests, there are intensive negotiations between Japan and recipient governments in order to influence the priority of proposed projects. The private sector in Japan is strongly involved in the identification of new projects and supported by the Japanese ODA administration. Its overall impact may be much stronger than that of the public sector. Naturally, the private sector tends

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[39]Interview with a *shosha* official, 1991.*

[40]MITI, Technical cooperation 1984: 34. Unfortunately, the potential positive effects from foreign direct investment and the potential negative effects from informally tying aid to national procurement are not differentiated. If a clear distinction of these effects could be worked out, complementary activities of public and private sector could even be an interesting model for other donor countries. See Foerster (1994).

to identify and promote projects that promise high profits. While private sector involvement is not counterproductive per se, a lack of rigid appraisal and selection procedures may mean that the actual requirements are not taken into account.[41] The existence of informal contacts between Japanese firms and both governments, and the lack of a consistent country approach, creates the danger that identified projects are not always beneficial to the recipient country. While this institutional setting is not completely different from the theoretical predictions of contingency theory, the inefficiency of identification activities by the public sector and the strong role of the private sector limit the effectiveness of an active donor role.

### 3.2 Preparation and Appraisal

The purpose of the preparation and appraisal stage is to provide decision-makers with the information necessary to evaluate the project proposals. After having received a request, the donor has to decide whether a feasibility study should be conducted. Under the notion of pre-feasibility study, the first systematic test of project ideas is undertaken. Since it is an initial rough estimate of the economic and financial effects, secondary sources are often used rather than field data. Baum states that "since the feasibility study is likely to constitute the first substantial investment of public funds, the question is bound to arise whether this expenditure is justified."[42] The information detailed in the request and the results from the pre-feasibility study form the basis for this decision. The surviving project ideas are elaborated and analyzed in greater detail from different viewpoints to prioritize some projects among the list of proposals. This is called "feasibility study," but the terms "ex-ante evaluation," "preparation report" and "appraisal" are also used.

Until the end of the 1960s, a characteristic feature of the priority of a development project was its contribution to the GNP, at that time the main indicator for the success of a development policy. Cost-benefit analysis was used to select the projects whose contribution to the GNP would be at least as high as that of alternative uses for resources. Yet, this direct link between growth and development began to be questioned. The World Bank changed its priorities after its president McNamara proclaimed in 1973 that the benefits of development assistance had not trickled down to the majority of the poor. In 1976, the

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[41]This issue will be analyzed in the next section.

[42]Baum, 1985: 348.

International Labor Organization (ILO) suggested the basic human needs strategy to cope with these problems. The paradigm change in development theory from growth to basic human needs caused a major shift in the management of development projects. It increased the complexity of the planning, implementation and evaluation processes. While a high rate of growth was still important, the distribution of its benefits and other effects became equally significant. The one-dimensional view was replaced by a multidimensional viewpoint encompassing technical, economic, financial, social, institutional and environmental criteria.[43]

These changes may not be adequately reflected in the actual operations of most donors. Several studies show that often technical, economic, and financial indicators are overemphasized and social, institutional, and environmental factors neglected.[44] Based on that view, two different approaches in the preparation and appraisal stage are conceivable. On the one hand, the analysis can reflect the change in the development paradigm and consider all six dimensions. On the other hand, important parts of the preparation analysis could be neglected, as Rondinelli and Baum/Tolbert suggest. In the following pages, the major concern of two approaches is outlined in order to assess which of them should be adopted according to contingency theory. Then this will be compared to the actual operations of the Japanese development administration.

### 3.2.1 Multidimensional Analysis Versus Technical-Economic Focus

#### (a) Analysis of Technical, Economic, and Financial Issues

The **technical analysis** addresses the question of whether a project can meet its

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[43]These changes in development theory led to a lack of an overall theoretical concept. A model was sought which would integrate the isolated aspects into a comprehensive decision model. This initiated an intensive debate about the possibilities of expanding cost-benefit analysis and incorporating other aspects through the formal weighing of output. A critical evaluation of these proposals leads to a largely negative result. Cost-benefit analysis appears to be ill-suited to the requirements of evaluation of basic needs projects. Most of the objectives involved are simply impossible to quantify. The focus on basic human needs, complex environments and integrated development called for more concentration on management questions. Despite that recognition, the "main efforts to improve cost-benefit techniques have concentrated on the quantitative pricing of costs and benefits, rather than on improving the qualitative assessment of realistic implementation speeds." (Heaver, 1982: 3.) One reason for the preoccupation with allocative efficiency at the expense of organizational efficiency and effectiveness is seen in the professional bias of economists, "because this is what they are good at. ... The problem of professional bias is not limited to economists. Most practitioners are trained and must develop their careers within a particular discipline and this predisposes evaluators to see problems in sectoral terms." (Heaver, 1982: 4.)

[44]Rondinelli, 1983: 13, Baum, 1985: 499, OECD, 1992: 9, 36.

objectives if appropriate technology is used.[45] The study's purpose is to select a technology appropriate to the circumstances of the country and the requirement of the project. The **size** of the project may depend on demand, administrative capacity of the implementing agency, physical limitations, and the technological capacity. The nature of the project often determines various considerations concerning the **location**. These can include proximity to required raw materials, proximity to a primary source of energy, proximity to principal markets or to a suitable infrastructure; availability of labor, quality of soil, etc. The country's regional planning efforts should also be considered. **Timing** is also important. A project may be premature if the demand or the technology is not yet sufficiently advanced. It may be too late if the overall benefit would have been much greater if undertaken sooner. Most difficult is adjusting the impact of the project to the projected situation in the future. The **technology package** should be appropriate to the circumstances of the country and integrate local and imported technology. For this the availability of trained personnel, local production capacities, raw materials, and other inputs must be taken into account. The result of this analysis forms the basis for realistic cost estimates and implementation schedules in the detailed design stage.

In the **economic analysis** an attempt is made to determine the impact of economic policies on the project and the potential impact of the project on the national economy. For the latter, the economic perspective is based on the premise that through any given economic action resources will be used up that cannot be spent on other projects. Cost-benefit analysis is the major instrument used for evaluating alternative projects to find the approach that will provide the greatest benefit for the economy as a whole. The net present value of discounted future economic costs and benefits of competing projects are compared not only to determine whether the project will provide a satisfactory return, but also to compare it to alternative investments. When market prices do not reflect "true" economic costs (opportunity costs), shadow price adjustments are used that consider the cost to society. Cost-benefit analysis is based on economic welfare theory and aggregated individual preferences. Thus distributional effects are not taken into account, since it is assumed that the winner will compensate the loser.

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[45]For a more detailed discussion see Baum/Tolbert, 1985: 393-415.

During **financial analysis**,[46] the adequacy of the expected provision of funds is investigated. Not the costs and benefits for the economy as a whole, but the costs and benefits at market prices are relevant. All money flows which impinge on the project sponsors are considered, both those for finance payments and receipts, and for real inputs and outputs. For that purpose, accounts for capital costs, equity and loan financing, cash flow forecast, depreciation schedule, and profit and loss account need to be forecasted. Initially start-up and operating costs, value of fixed assets and inventories, terms of existing debt, and sources of capital need to be estimated. To get a clear picture of actual financial needs, these figures are not be based on constant prices but, in a second step, are adjusted to the estimated inflation. On this basis, a forecast account for the cash flow can be established for each year. This comparison of cost and revenue indicates the amount of subsidies and the point in time when they are not needed anymore. Each project needs sufficient funds for maintenance and completion. Since most financing for technical assistance projects is given as a grant, the problem of repaying the loan does not exist.

Yet the capital required after the donor terminates his funding is usually underestimated. According to Bernecker, the main reasons for this are underestimation of implementation time, overestimation of future revenue, overestimation of the availability of qualified personnel, and changes in the economic or political environment.[47] A project has been defined as a time-limited endeavor, starting with its identification and ending with the termination of donor funding. However, this is only true from the perspective of the donor country. The time element is longer and might be infinite in the recipient's understanding. This difference in perspective is one of the root problems concerning the sustainability of development assistance projects. The terms of reference for the feasibility study usually do not explicitly demand the estimation of project cost for more than the first implementation period.[48] Donor countries insure themselves by demanding the recipient's commitment to pay the recurrent costs after termination of funding. The probability that recipient governments will actually do so increases when required funds are low and have a decreasing trend. The best safeguard for financial sustainability are user charges ensuring cost-recovery.

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[46]See Rondinelli, 1983: 72 and Baum/Tolbert, 1985: 447-468.

[47]See Bernecker, 1984: 193.

[48]See Bernecker, 1984: 194.

**(b) Additional Analysis of Sociocultural, Institutional and Environmental Issues**

The multidimensional analysis is not limited to sociocultural, institutional and environmental aspects, but includes these aspects in addition to the three dimensions already presented.

**Sociocultural analysis** focuses on the main agents of the implementation of the projects and the target groups intended to benefit from it to ensure that the project is compatible with their needs and capabilities. It includes an analysis of the distributional effects and clearly state the groups and individuals who will benefit and those who will be harmed by the project. To do so from the perspective of the target groups is not an easy task, since there are different social structures, religions, traditions and patterns of behavior in different societies. This implies that the idea of development might also have a different meaning for people with different backgrounds. Weiland, for instance, refers to "efficient poverty" when he states that it might be more rational for a farmer to remain in his current state than risking a project innovation which might fail. While this decision guarantees his survival, it does not allow for economic development.[49]

The sociocultural analysis considers the relationship between the behavior implied or demanded by the project and the cultural values that are predominant in the society. The design of the project should be adjusted as much as possible to prevalent cultural values. According to Baum and Tolbert, this perspective is also important to ensure the sustained participation of the project population. "A project that runs counter to or ignores the traditions, values, and social organization of the intended beneficiaries or that is based on objectives which they do not share has little prospect of success."[50] The German Ministry for Economic Cooperation (BMZ) distinguishes between three key factors of sociocultural analysis. Legitimity refers to the question of whether the project is accepted within the target group (are there religious taboos, collective or individual constraints, or resistance to new forms of production or consumption?). Under the notion of social level of development, the question is analyzed as to

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[49]Weiland, 1984: 142.

[50]Baum and Tolbert, 1985: 588. Depending on the viewpoint, these issues are also referred to as constraints: "Factors such as ethnic origins, patterns of collective action, previous experience with development efforts, religion, language, sex roles, kinship networks, control over resources may place severe constraints on the feasibility of a particular development initiative." See Gow, 1988: 1400.

whether the target group is able to support the project (traditional working structures, technology, literacy rate, etc.). The key word heterogeneity refers to a deeper understanding of the different roles of the relevant groups for the project.[51] In the 1980s, there was increased awareness that consideration should be given to the role of "women in development."

In **institutional analysis** and the relative advantages of different institutional arrangements there is a growing interest, as discussed in chapter one. It refers to organizations as well as to formal or informal regulations for individual interaction and decision-making. Individuals behave differently in different institutional settings, and policy is strongly influenced by it. Nabli states that "institutional change can be considered to be at the heart of the long-run process of economic development, providing the missing link between development and growth. (...) Indeed, it might be appropriate to define economic development as economic growth accompanied by efficient institutional change."[52] Therefore, the organization assigned to implement a project should be assessed as regards the adequacy of its managerial capacity.[53] The links to other organizations in the same sector and the institutions for cooperation and coordination need to be identified. Analysis of the existing structure helps to assess whether the implementation organization is able to ensure the efficient and effective implementation of the project, or what needs to be changed to make it competent to carry out the task.

The interests within the organizational network are an important determinant for its efficiency. If the objectives of the participants are contradictory, this will strongly affect the outcome of the project. Gow writes that "virtually all development interventions, whether at policy or project level, are of intense interest to the various groups who believe their interests will be affected."[54] Rondinelli warns that the dynamics of political interaction and intervention are often underestimated. "Serious differences of opinion among (all participants) are often deliberately repressed or ignored when a project is proposed.... These

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[51]See Kohnert, 1992: 4 f, see also Lachenmann (1990).

[52]Nabli, 1989: 1342.

[53]Another alternative is to create an autonomous unit for carrying out the project. See Rondinelli, 1983: 123 f, and Gow, 1988: 1404.

[54]Gow, 1988: 1412. Gow also provides a list of these groups.

differences will later erupt as conflicts that can affect the course of implementation."[55] Thus different objectives need to be described, their respective influence assessed and, finally, ways of mobilizing support and negotiating with interest groups need to be explored.

The **environmental dimension** was not considered a necessary component of economic development until the 1970s. Likewise, the detrimental effect of some development projects to the environment had not been seriously considered. In the 1980s, it became clear that the anthropocentric view of the world could not be sustained. The close interdependence of development and the environment was emphasized by the United Nations Conference on Environment and Development (UNCED) held in Rio in 1992. Development involves changes in the natural environment. If it is not in balance with the environment, it causes damage which will eventually halt development itself.

The recognition of the importance of environmental issues has had two effects. First, it has lead to projects specifically designed to address environmental problems.[56] Second, the importance to assess the environmental effects of all other development projects was emphasized. Environmental impact assessment (EIA) of development projects should become an integral part of the feasibility assessment of development projects. Yet its implementation has proven to be difficult. One problem is that the environmental impact of projects can be quite different and is often only understood after a long period of time. More importantly, it often contradicts the results of analyses focusing on short-term economic growth since changes due to environmental considerations can sometimes increase the cost of the project.

### 3.2.2 Perception in Japan

Besides the technical, economic and financial analysis, MOFA recognizes a need to include cultural, social, and environmental analysis into the project preparation procedure. For this purpose, studies have been published concerning environmental assessment (JICA, 1988), poverty (JICA, 1990) and "women in development" (JICA, 1991). In the rubric "key considerations concerning the implementation of aid," it is noted that "the environmental impact and the

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[55]Rondinelli, 1983: 85.

[56]For example, the Global Environmental Facility (GEF) managed by the World Bank was started in 1991.

influence on the lifestyles and cultures of regional populations will be taken into account. Special steps will be taken, including the implementation of environmental impact assessments and the formulation of sector-wise environmental guidelines, to ensure that aid projects do not have an adverse environmental impact in developing countries."[57] Interestingly, the recognition of these requirements is not new. As early as 1971 the JICA annual report claims that "to avoid merely a mechanical transfer of technology ... we must study thoroughly the cultural environment, including customs and social systems and organizations in the recipient country."[58] This perception should theoretically lead to the consideration of all six dimensions in the actual operations.

### 3.2.3 Actual Operations

**(a) Screening and Preliminary Survey**

Figure 3-2 summarizes the procedures after the project has been officially requested by the recipient government. The official request is usually accompanied by the terms of reference (T/R) and is channeled through the Japanese embassy to the MOFA. The attaché of the respective line ministry may add a comment to the request, often to clarify the interest of his ministry. Informally, he is in contact with the line ministries in Japan, and discussions on the request have already taken place. On a parallel track, the recipient government instructs the local JICA office, which sends the information to the JICA headquarters in Tokyo. This procedure ensures that all interested parties know about all requests.

All official requests for ODA are subject to **formal screening** in the MOFA to make sure that the project is in keeping with the basic requirements for Japanese assistance. If the request is not detailed enough or no other information is available through Japanese activities before the request, a JICA mission (**formulation survey**) is sent to the recipient country.[59] On the basis of this information, there is an **interministerial meeting** with MOFA, MITI and the relevant line ministry. The Ministry of Finance (MOF) usually does not participate in this meeting. At the beginning of each new fiscal year, sectoral budget allocation is already decided. All ministries have a certain ceiling which they

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[57]MOFA, 1991: 35.

[58]JICA, Annual Report, 1971: 21-22.

[59]Several cases have been reported where this mission was used by MOFA and JICA to add further supporting information to that project before the interministerial meeting began, thereby improving their standing on that project.

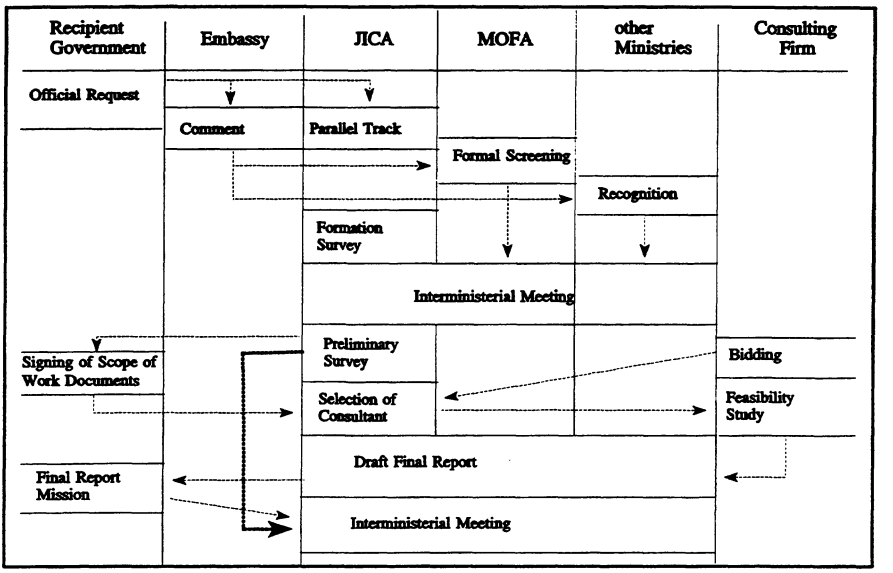


Figure 3-2: Actual procedures in the preparation phase (Source: Interviews)

usually try to use up completely. The allocations per country have to be more or less consistent with the previous year. The task of this interministerial meeting is to pinpoint the concrete projects within this framework of country and sector.

After the interministerial meeting, a **preliminary survey** *(jizenchosa)* mission is sent to the recipient country. This mission does not function as a prefeasibility mission, but rather its major purpose is to collect basic data and consult with the authorities responsible for the project in the developing country. The results of the preliminary survey can be used as terms of reference (referred to as scope of work, S/W) to determine the objectives and the method of the feasibility study. The scope of work documents are signed by representatives of both parties at the end of the mission.

Then JICA selects a consulting firm to conduct the full-scale feasibility study. For this selection technical and local knowledge are the major criteria. Thus the consultants who already have information through project-finding activities have major advantages. After a consultant has been selected and a contract between JICA and the selected consultant is signed, the consultant starts the field survey, which generally takes 3-6 months. The size of the mission depends on the size and type of the project; on average it consists of 8-10 people. The result is submitted

to JICA. After analysis and study in Japan and the communication of the results to all participating ministries, the **draft final report** is presented to the recipient by a JICA mission. Upon agreement from both sides, the final report is completed in an interministerial meeting. This final appraisal is mainly carried out by MOFA and MOF.

The feasibility study is conducted under JICA's development study *(kaihatsu chosa)* program which is used for the preparation and appraisal of a project. JICA states that "the development study corresponds to the preparation stage of the project cycle and mainly consists of the formulation of the master plan which outlines the proposed development plan and the feasibility study which studies the suitability/viability of individual projects planned on the basis of the master plan."[60] While the importance of the master plan studies has been analyzed in the identification section, this section focuses on the role of the feasibility studies. Although the feasibility studies are part of the technical assistance program, they should be used for grant aid, loan aid, and technical assistance projects.[61] The departments in JICA responsible for its implementation are divided according to sectors, which has been criticized as inappropriate for most development projects.[62] This ensures, however, that the respective line ministries can control the appraisal process for the projects in their sector. Another problem is that the development study is promoted as an individual project with its own project cycle, although it is an inherent part of a larger project cycle.

The major problem, however, is that the feasibility study is not done for all projects. As figure 3-2 shows, there is a shortcut by which the results of the preliminary survey can be used directly in the next interministerial meeting. This shortcut is usually taken for all technical assistance requests. There is usually no feasibility study for grant aid, either, except when the recipient government explicitly requests it. This brings up the matter of whether the recipient should request the study first, which is then used in the grant aid request, or whether it is better to request the grant aid project directly. This strategic decision is made mainly on the advice of the Japanese private companies involved in the identification stage. As soon as the request reaches MOFA, it is forwarded to the

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[60]JICA, Development Study Pamphlet: 8.

[61]JICA, Development Study Pamphlet: 4.

[62]See Kaigai konsarutingu kigyou kyoukai, 1990: 60.

department responsible for technical assistance, loan aid, grant aid or development study and usually remains with the administrative unit responsible for this form of assistance. Since the departments for the different forms of aid in the ministries and implementation agencies are separate, this decision determines who will be dealing with the project after it has been requested.

While a positive feasibility study greatly increases the chances for receiving Japanese funding of a project, it is time consuming and can delay the start of a project for several years. This has brought about the situation whereby most important grant aid projects are directly requested without a prior request for a feasibility study. Instead, grant aid requests are often accompanied by detailed studies prepared by the Japanese private sector. Feasibility studies are requested in those cases in which the project idea is still relatively vague. These are often projects that are desired by the recipient government but which do not have the support of the Japanese private sector. As a consequence, a high percentage of projects in the development study program are not taken up at all, as shown in table 3-1. The table also shows that most requests for grant aid and loan aid and all requests for technical assistance bypassed the feasibility study stage. When compared to the number of newly started projects, it is obvious that the development study program would not be able to cope with all grant aid projects.[63]

| Fiscal year 19.. | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total number of feasibility studies | 25 | 42 | 39 | 31 | 42 | 27 | 32 | 31 | 49 | 46 |
| Used for loan aid | 13 | 22 | 11 | 17 | 9 | 3 | 7 | 9 | 12 | 14 |
| Used in grant aid | 0 | 1 | 3 | 1 | 3 | 4 | 4 | 6 | 12 | 12 |
| Used by other donors | 4 | 5 | 2 | 7 | 1 | 4 | 7 | 6 | 9 | 4 |
| No follow-up | 8 | 14 | 23 | 6 | 29 | 16 | 14 | 10 | 18 | 16 |
| Newly started loan aid projects | 59 | 91 | 81 | 93 | 85 | 67 | 97 | 133 | 105 | 100 |
| Newly started grant aid projects | 86 | 79 | 96 | 115 | 106 | 128 | 140 | 136 | 145 | 146 |

Table 3-1: Follow-up of JICA's feasibility studies (Source: Internal statistics of MOFA)

[63]Even if the number of master plan studies were to be added to the number of total feasibility studies, it would still be less than the total number of newly started grant aid and loan aid projects, not to speak of technical assistance projects.

**(b) Content of the Feasibility Study**

The low actual relevance of the feasibility study also influences its content. There are no guidelines for feasibility studies in written form and there is no clear indication as to what criteria are used in the final decision.[64] Because of the lack of clear and explicit guidelines, it is up to the subjective judgment and expertise of the mission leader to determine the detailed contents of the feasibility study. While it is obvious that the technical, financial, and economic dimensions need to be included, the lacking institutionalization of sociocultural, institutional and environmental analysis often resultes in consulting firms not considering it. JICA admits that, for technical cooperation and financial aid programs, comprehensive guidelines which incorporate the viewpoint of women in development in aid planning, implementation, and evaluation have not yet been formulated.[65] A JICA official concludes that "JICA's lack of explicit appraisal guidelines, or its relative lack of specialist staff - of which the ODA (Great Britain) enjoys greater numbers - may imply that JICA's planning could lack consistency."[66]

In this institutional setting, it is difficult for Japanese consultants to include all six dimensions. It is generally accepted in the Japanese development administration that feasibility studies have to cover the technical-economical-financial dimensions. The *Kaigai konsarutingu kigyou kyoukai* writes that "recently it has been emphasized that the influence on the environment and sociocultural aspects need to be taken into account, but since the methods to express this mathematically are not yet established, economic factors are the decisive measure to what extent the project is appropriate."[67] One consultant stated that "if we seriously considered the sociocultural, institutional and environmental dimension, we would not be able to do our jobs."[68] Harago argues that the existing environmental guidelines are essentially useless. "First, it is not guaranteed that the guideline is actually used by consultants who are contracted to conduct the preliminary feasibility study on a dam project. The guideline (P2) specifically notes that 'the guideline was created as a referential literature so that JICA staff, who are not environment specialists,

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[64]See also kaigai konsarutingu kigyou kyoukai, 1990: 59.

[65]JICA, Annual Report, 1990: 28.

[66]Interview with a JICA official, 1991.

[67]Kaigai konsarutingu kigyou kyoukai, 1990: 59 f.

[68]Interview with the representative of a Japanese consulting firm, 1992.*

are able to produce a report and related operational manuals based on short site visits, hearings, and discussions with counterpart government officials in the preliminary survey.' Thus the guideline assumes that it will be applied for JICA staffs and not for consultants. Second, there is no institutional authority given to the environment unit to guarantee that the scoping is conducted properly by each executing department strictly following the description of the guideline."[69]

This shows that the feasibility study is more focussed on the technical and financial investigation of the project site. It has been argued that its main purpose is not to decide whether projects are feasible but to show that they are. Theeravit points out that "as soon as a feasibility study is conducted, it is understood that technical cooperation has already begun and a positive decision has already been made. For the Japanese, a feasibility study is not meant to find an answer as to whether or not the project is feasible for an undertaking, but it is meant to find means to make it feasible or workable."[70] Consequently, the Thais do not seem to take them too seriously. "But for the Japanese, sometimes they sent several survey missions to conduct feasibility studies for one project only, for newly proposed projects and for the project up for an extension. The missions may be titled differently: Contact Mission, Fact-finding Mission, Preliminary Survey Mission, Feasibility Studies Team, Basic Design Team, Final Report Team, etc. Their real function is not to study the positive and negative factors in order to facilitate decision-making for or against the cooperation, but to work out a working plan through discussion, consultation and negotiation with the responsible Thai authorities."[71]

In conclusion, the empirical analysis revealed that the discrepancy between the actual operations and the relevant environment is even larger than the theoretical framework conceptualized. While it asked whether the feasibility study covers only three or all six dimensions, it was observed that feasibility studies are not

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[69]Harago, 1990: 5. Other authors came up with similar conclusions. "The project in question is mainly judged on the basis of economic results, i.e. how does the project contribute to the national economy (economic evaluation), and how will the funds for the implementation of the project be used (financial evaluation). These are the absolute evaluative criteria for the decision about a Japanese ODA project. (...) Even in this situation, the Ministry of Finance is asking that economic and financial evaluations be carried out even for grants in aid, for which economic factors were not previously regarded as the first priority." Ampo, 1990: 18.

[70]Khien Theeravit, 1984: 88.

[71]Khien Theeravit, 1984: 219.

done for all projects. Ideally, all types of projects should be appraised in the development study program of JICA.[72] The analysis showed that none of the technical assistance projects and only few grant aid projects are appraised in the development study program. Most of them bypassed the feasibility study, which means that the results of the preliminary survey are used as a direct basis for selection in the subsequent interministerial meeting. There are two reasons for that. First, the procedures of development studies are extremely time consuming, especially when compared to the projects not going through this process.[73] Second, despite the fact that the development study represents the largest single budget item of JICA, the actual capacity of the program is not adequate. As a result, the guidelines for the feasibility studies do not rigidly enforce the matter of studying all six dimensions. Being aware that they cover only a small percentage of all requests may be one reason for that. Consequently, for most projects only a preliminary survey or a feasibility study focusing on technical and financial aspects is conducted. This contradicts the prognosis of contingency theory and is not compatible with the perceived needs of the relevant environment.

### 3.3 Selection

An assessment of the selection process is extremely difficult, since this happens behind the scenes and is not subject to empirical study. Rondinelli states vaguely that "selection is usually based on some combination of economic, financial, and political criteria."[74] The complexity of decision-making has increased since goals have become increasingly multidimensional and found to be lacking clear quantitative indicators. In the literature on organization theory, the analysis of decision-making processes have received more attention since the 1960s. While

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[72]JICA, Development study pamphlet: 4.

[73]The involvement of the "domestic technical advisory committee" further increases the time necessary and reinforces the technical focus. The existence of this committee in development studies has been subject to strong criticism from the consulting industry. It was argued that it undermines the firm's independence and flexibility and also unnecessarily increases the time required for the development study. Here its major function is to guide and check the content of the work which has been entrusted to a consulting firm. It also determines a technical focus of the development studies and hence an unbalanced view to sociocultural, institutional and environmental issues. After successful bidding, the consulting firm receives a contract from JICA. However, this contract does not transfer all responsibility for the detailed design to the firm and it remains unclear how the duties are divided between JICA and the consultant. See Kokusai Kaihatsu Janaru 8/1991: 97 f.

[74]Rondinelli, 1977: 13.

many different theories on decision-making have developed over time,[75] only the two most distinct approaches relevant to this empirical case will be presented.

### 3.3.1 Goal-Oriented Versus Inductive Approach

**(a) Goal-Oriented Approach**

In the goal-oriented approach, a decision is geared towards the professional standards of the problem to be solved. "It is a rational deductive approach to decision-making that begins with the goals, from which are deduced policies, programs and actions to achieve the goals."[76] As figure 3-3 shows, there is a hierarchy, with a goal on the top dictating policies and programs, and consequently actions. This kind of rational selection has often been the object of normative prescriptions. Gow, for example, claims that before making a decision for a project, the overall objectives must be clear and it must be determined how to make them operational.[77]

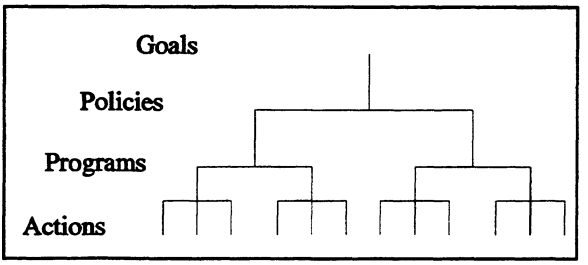

Figure 3-3: Goal oriented selection (Source: Bryson, 1988: 67)

For the operationalization of this approach, the establishment of clearly defined immediate, intermediate, and long-range development objectives is required. Since they are different for each recipient, a country program should identify objectives, strategies and program areas for each country. This can serve as a basis for a coherent aid policy and improved coordination of different parts of the aid administration. To further improve the applicability of such a goal-oriented country-based approach, several aid agencies have been reorganized along geographical rather than sectoral or functional lines. Within this approach professional rationality is supposed to dominate political rationality and clear guidelines are assumed to subordinate ministries' interests to the development objective.

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[75]For an overview, see Faludi, 1986: 47, Staehle, 1990: 500 ff.

[76]Bryson, 1988: 67.

[77]Gow, 1985: 1411.

But in reality this may be difficult. According to Rondinelli, "in most cases it is difficult or impossible to define goals and objectives precisely at the outset or to give more than general indications of what can be accomplished when a proposal is initially made - especially for social and human resource development projects in rural areas."[78] Incomplete information and the lack of knowledge about all alternatives may render the decision-making process difficult. A fundamental assumption of this planning model is a consensus concerning goals and the activities. This may hold true only in authoritarian, centralized bureaucracies.

**(b) Inductive Approach**

Whereas goal-oriented decision-making is rational-deductive, this approach is inductive and is also referred to as a "garbage can" approach. "It begins with issues, which by definition involve conflict, not consensus. The conflicts may be over ends, means, timing, location, political advantage, and philosophy or reasons - and the conflicts may be severe."[79] To resolve the issues, policies and programs that are politically acceptable to all participants emerge. Figure 3-4 shows that "over time, more general policies may be formulated to capture, frame, shape, guide or interpret the policies and programs developed to deal with the issues. The various policies and programs are, in effect, treaties among the various stakeholder groups and, while they may not exactly record a consensus, at least they represent a reasonable level of agreement among stakeholders."[80] While the main supposition of this theory is that goals are not major variables in conceptualizing decision-making, the concepts of bureaucratic politics and the garbage can approach are used to explain this kind of decision-making.

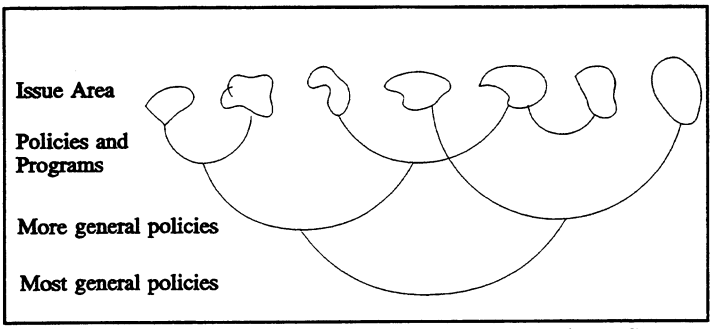


Figure 3-4: Inductive approach to decision making (Source: Bryson, 1988: 68)

[78]Rondinelli, 1983: 81.

[79]Bryson, 1988: 68.

[80]Bryson, 1988: 68.

March and Olsen argue that in many situations with decentralized decision-makers and conflicting goals, decision-making is completely unstructured and based on chance. This "garbage-can-principle" seeks to delay a decision until it resolves itself and ignores problematic consequences that might be caused by the decision. All problems and ideas are thrown in a garbage can and constitute a mess. They represent multiple objectives, many interacting variables, and the poorly understood relation between them. Systems are frequently so overloaded with problems, solutions and decision opportunities that "the flow of individual actions produces a flow of decisions that is intended by no one and is not related in a direct way to anyone's desired outcomes."[81] White finds that "for the practicing administrator, the garbage can model is extremely valuable, since it makes some kind of sense out of the bewildering shifts, turns, and unexpected outcomes in daily organizational life. It notes that people fight hard to get access to committees, then rarely attend, because of unstable priorities and limited attention spans. People struggle mightily to formulate rules or plans, then forget all about them as new problems arise and the membership of coalitions shifts."[82]

While the garbage can concept explains the inductive approach with the complexity of the process, the bureaucratic-politics concept assumes that it is the result of different groups pursuing their own interests. The garbage can approach does not seem to be rational in terms of the organizations goal, but seen from the viewpoint of each individual (or group of individuals with the same interests) it can make sense. When the decision is oriented to the political feasibility within the organization, acceptance and social feasibility become the main criteria for each decision. It is assumed that all parties related to the bureaucracy will do what is politically rational from their perspective. This will be more often the case when institutional devices for rational decision-making are not available and administrators are not forced to make decisions based on professional rationality.[83]

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[81]March and Olsen, 1976: 19, see also Staehle, 1980: 495.

[82]White, 1987: 95.

[83]In the sixth chapter, the goal-oriented project planning method (ZOPP) will be introduced as a bureaucratic device to consider professional rationality for overcoming political/garbage can decision-making.

### 3.3.2 Perception in Japan

The MOFA recognizes a need for streamlined decisions based on professional knowledge and predetermined goals. "As Japan's ODA expands, it is becoming increasingly important from the viewpoint of effective cooperation in the development efforts of developing countries to ensure that Japan makes a planned and integrated contribution based on respect for the development plans of recipient countries. ... The formulation of country specific aid programs has therefore become an essential priority for Japan's aid activities. The development of such policies will require not only the expansion and enhancement of research and surveys relating to each recipients country's economic and social circumstances, but also to the maintenance of close dialogue with recipients, other donors and organizations."[84] The country program would establish goals or directions against which the project proposal in question can be measured. This is only possible within the framework of a goal-oriented approach.

### 3.3.3 Actual Operations

Based on the results of either the feasibility study or the preliminary survey, an interministerial meeting is held in which the MOFA, the MOF, and the line ministries are involved in the final approval of the request.[85] Each of the ministries has control over the decisions in its own sector. The Ministry for Agriculture, Forestry and Fishery (MAFF) has a specialized department for foreign aid and is responsible for all agricultural projects. On mining and industry requests, Rix notes that "MITI decided whether to approve the aid or not, and the MOFA could not force MITI to support a proposal which it considered impracticable or undesirable. The same principle applied, by and large, to those requests requiring cooperation from other specialist ministries."[86]

Yet the respective ministries cannot decide by themselves. MOFA tries to influence the selection from its perspective. MOF is involved in all cases, as well, since grant aid and technical assistance fall under its realm of responsibility. Therefore, the final decision-making process can be compared with "an act of

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[84]MOFA, 1991: 159 f.

[85]After a positive decision in the interministerial meeting, the official agreement between Japan and the recipient country will be signed. In the case of grant aid, this is referred to as Exchange of Notes (E/N), for technical assistance it is called Record of Discussions (R/D). The E/N requires formal approval through the cabinet and usually takes place in the Japanese foreign embassy.

[86]Rix, 1980: 136.

active balancing of interest" between the ministries. Sahara states that "naturally any decision needs to be the result of the negotiation between various interests, which makes decision-making more of a collective consensus."[87] The fact that the mandates for project approval are not clearly defined is a major problem and does not allow goal-oriented decision-making.[88]

The precarious balancing of interests of the different ministries makes it difficult to consider broader objectives relevant for the recipients. The major criterion for selection is consensus among the ministries. As Sahara points out, "loosely structured country programs - which select projects by comparing merits and the resource requirement of each project rather than according to a set of policies - requires the constant flow of abundant information if it is to be run effectively. (...) Thus constant informal bidding of ideas take place among various actors. It is basically project by project planning, intended to respond to the best possible proposals."[89] Miyoshi states that "diffusion of aid functions within the government has hindered the development of policies tailored to the needs and conditions of specific countries. The result is that country policy is the sum of ad hoc policies embodied in each project and program of each aid group. Similarly, budget allocations for a given host country are no more than the aggregate total of those discrete projects. Allocations are overly determined by the previous year's allocation, with little relevance to the actual needs."[90]

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[87]Sahara, 1990: 171. See also Rix, 1980: 136.

[88]In the German system, for instance, the Ministry for Economic Cooperation makes autonomous decisions in the field of technical assistance. However, it needs the approval of the Foreign Ministry for all projects up to six million marks, and over that amount the approval of the Finance Ministry. Since most technical assistance projects cost less than six million marks, the institutional setting allows the Ministry for Economic Cooperation to make decisions without taking the policies of other ministries into account.

[89]Sahara, 1990: 170 f. Similarly Hofmann states that "the decisions taken almost always concern individual projects rather than cooperation with countries, making it easier for the ministries to reach a quid pro quo arrangement or to defer decisions on technical grounds." Hofmann, 1984: 18.

[90]Miyoshi, 1991: 7. The *kaigai konsarutingu kigyou kyoukai* found that "because of the lack of standards, the process of how a project is selected is not transparent. In several cases, the selection was mainly based on domestic political interests but does not suit the needs in the field or the recipient national plan." Kaigai konsarutingu kigyou kyoukai, 1990: 50.

This is obviously different from a goal-oriented country programming approach.[91] In fact, the comments of several authors can be interpreted as a garbage can-inductive approach. In his recent study on Japanese ODA, May labeled the decision-making process as chaotic, absurd, time consuming, and ineffective.[92] While the pejorative connotation of this interpretation implies a lack of understanding of the underlying interest structures and behavior patterns, it exemplifies how the garbage can approach is perceived by outsiders. Goto, who has been working for more than 20 years in the Japanese development administration, states that "when the ministries discuss a development policy, they do not set the goal first and then the measures to achieve it. Rather, the goal becomes clear by discussing the means. In that sense, means-oriented decision-making is characteristic in Japan. (...) Here the process of achieving the outcome is valued more that the pragmatic outcome itself."[93] In other words, the process of accomplishing the results should not hurt any of the members participating in making the decision. The peaceful arrival at a compromise is seen as more important than the suitability to the relevant environment.

While in 1992 the garbage can-inductive approach was prevalent in the selection process, JICA's increasing professional endeavors to make the selection more goal-oriented may change that in the future. All JICA identification activities are summarized in its planning department and formulated into comprehensive country aid guidelines for each recipient country with additional input from the JICA offices abroad. The guidelines include a summary of socioeconomic and financial indicators, the national development plan, national budget, other donor involvement, and lessons drawn from evaluations. It states the main objectives in

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[91]The consequences of the lack of an accepted country program establishing clear objectives are severe. Since selection depends on the existing interest structure in the multiple agency system, and the possibility of finding consensus, there is no integration of projects with other technical assistance in the same region; and there are no rural integrated development projects. The only exception is that, in many cases, the selection of a grant aid project determines the selection of a technical assistance project to be linked to it. The coordination with loan aid projects, however, is almost impossible, not to mention the coordination with non-JICA assistance projects such as that of JETRO, NGOs, or other donors. Miyoshi states that "poor coordination among so many bureaucratic participants in the aid process can lead to a number of problems. The needs of developing countries might be misread or imperfectly understood. Furthermore, opportunities might be missed to integrate loan aid, grant capital aid and technical assistance programs in innovative packages ideally suited to host country's needs." Miyoshi, 1991: 8.

[92]May, 1989: 175.

[93]Goto, 1987: 26.*

each sector explicitly, and these objectives are related to a special code in the list of ongoing or pending projects. Even though JICA's country guidelines establish criteria for a goal-oriented selection according to a long-term strategy, the fact that it is not yet officially recognized limits its impact. The formal status of this guideline is unclear and since it was compiled independently of MOFA, it is still not taken seriously. Moreover, the fact that the goal orientation collides with the particular interests and "pet projects" of the participating ministries may prevent quick changes. Although JICA is in the process of changing that, still a discrepancy has to be concluded between the actual operations and the suggestion of contingency theory.

### 3.4 Detailed Design

After selection, the project proposal enters the stage of detailed design and specification. The resources, personnel, and material which are required need to be specified and schedules set. Furthermore, responsibility must be assigned to the appropriate organization and an implementation plan of the project must be developed. When inhouse capacity is inadequate for meeting the demands of the project, specific tasks are contracted out to consulting firms. It is not enough to recognize possible constraints for a project in the feasibility study; in the detailed design stage, appropriate action must be taken to cope with them. Yet, attempts to change the constraints are usually limited to factors in the project environment; the option to abandon the project is rarely chosen at this stage.

There are four different approaches that have been used in the detailed design stage which are basically centered around two competing concepts, as Rondinelli notes. "There are those who believe that foreign aid administration is a bureaucratic function that must be closely supervised and controlled in order to assure efficiency and effectiveness in the use of public funds to achieve larger political ends. On the other side are those who think that the major purpose of foreign aid is to improve the living conditions of the poor in the developing countries, and therefore must be managed in a flexible, responsive, and adaptive way."[94] Although grouped in topdown-blueprint planning and participatory-incremental planning approach, the individual concepts do not represent mutually exclusive choices; for instance, the combination of the top down and the incremental approach is conceivable.

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[94]Rondinelli, 1987: 148.

### 3.4.1 Topdown-Blueprint Versus Participative-Incremental Planning

**(a) Topdown Planning Approach**

In the topdown approach, the quality of the service in the detailed design is the overriding concern.[95] Since local staff may not have the desired expertise, often qualified foreign consultants are employed who have the professional sector-specific knowledge. The current literature in development administration suggests that this approach is based on an antiquated concept of development that should be overcome. Rondinelli, for instance, warns that this topdown planning may lead to an "overdesign of projects" which then become too sophisticated for the institutions assigned to implement them.[96] Since these experts will usually not be involved in the implementation, such an approach reinforces the idea of planning being separate from implementation.

Moreover, this approach has the tendency to overstate the value of expertise by producing reports that sound more authoritative than the actual observations warrant. One explanation for that are vested interests. According to Korten, often these procedures ensure that "the real decisions will remain with professional technicians and government bureaucrats, neither of whom are rewarded for being responsive to local conditions nor for contributing toward the development of local institutional capacities."[97] The failure to involve intended beneficiaries in planning and management and the reliance on technical standards leaves donors ignorant of the knowledge and insight from those who are supposed to benefit from the project. The use of local expertise offers the advantage that knowledge of social customs and local environment, institutions, and legal requirements are integrated in the project automatically. This is preferable to sophisticated analyses of the target groups by foreign experts.

**(b) Participatory Approach**

The concept of participation was the response to the criticism of topdown planning. It encourages learning from experience during the design phase of a project and thus improves one's ability to rapidly analyze new situations and problems. As early as in 1974, Knall stated that "the criterion of active

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[95]See Baum, 1985: 350 and 557.

[96]"The heavy reliance on foreign consultants who presumably understand and can meet the requirements of the international agency often leads to projects that are unrealistic and inappropriate for local conditions." Rondinelli, 1983: 76, see also Rondinelli, 1983: 86 and White, 1987: 58.

[97]Korten, 1980: 484.

participation must also be fulfilled. The successful implementation of a plan cannot be the responsibility of only a few esoteric technocrats; instead it should call for active participation and adequate performance, not only of the public agencies, but also of the private elements of the society, such as individuals (producers and consumers), productive and commercial organizations (both regional and local), co-operatives, trade unions, etc. How to mobilize public participation cannot be stated in general terms, for no two developing countries have the same traditions, culture, and mentality. Active, as opposed to mere verbal, participation will be forthcoming only if the plan reflects the will and desire of the vast majority."[98]

That means that the knowledge of the beneficiaries, who are aware of the constraints in the field, can be put to use if they are part of the design process. If interest groups are involved, they are given the chance to develop their own capabilities and take control of their futures. This encourages the target group to invest in its own development, which is a key element of sustainability.[99] The same argument also applies to the officials that are assigned for the implementation of the project. According to Heaver, "such participative planning has the greatest possible incentive benefit, since officials are likely to be committed to targets that they believe to be realistic and have helped set. For this reason participative goal-setting should be extended to the lowest level of the hierarchy. Bottom-up rather than top-down targetry is not only realistic, but essential to motivation. More realistic goal-setting has important bureaucratic-political consequences too. (...) Goals that are realistic as well as clear make deviations from the official line more obvious and less excusable."[100]

**(c) Advance Blueprint Planning**

The blueprint approach is based on the traditional principle of instrumental rationality. It is assumed that there are clear and operational goals, that alternatives and their impacts are known, and the relationships between activities, effects, and goals are clear. Thus the data available prior to the design stage will make it possible to design of the most cost-effective project for achieving the given objectives. The project should then be implemented according to this

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[98]Knall, 1974: 437.*

[99]See OECD, 1992: 53.

[100]Heaver, 1982: 42.

blueprint and monitored in case it must be revised if the actual situation deviates from what has been anticipated. The project manager has the task of keeping the project on its course, using monitoring as a control mechanism. It is easier for managers to control organizations and staff when broad goals have to be translated into measurable and precise objectives. According to White, this "can also reduce expectations and demands on managers, demands that would otherwise greatly overload the capacity of an organization."[101] This approach seems well suited to clearly defined tasks in stable environments.

For development projects, however, "objectives are more often multiple, ill-defined and subject to negotiated change, task requirements unclear, outcomes unbounded by time, environments unstable, and costs unpredictable."[102] Therefore it is impossible to grasp the whole complexity of the project ex ante. Rondinelli adds that the misplaced priority on quantification often makes the planning and analytical procedures of international assistance agencies or national ministries ends in themselves.[103] Baum refers to the decreasing marginal return of investments in preparation and claims that "beyond a certain point, (there is) a tradeoff between the investment of additional resources in project preparation and the use of those resources to help implement the project."[104] Besides the monetary cost, detailed planning is time-consuming and entails long delays in translating policies into action. Strachan urges a reduced emphasis on prior planning because the benefits of planning are often not worth the costs. He writes that "it is almost impossible to anticipate the future in the degree of detail necessary for most blueprint types of planning. On the contrary, any system which promotes detailed planning years in advance, by people who are neither going to be responsible for implementation nor even likely to be involved in the implementation of the project, is almost surely going to be ineffectual."[105]

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[101]White, 1987: 63.

[102]Korten, 1980: 497.

[103]In his opinion that does not mean that "planning and analysis should not be done - or done with great care and in detail - but that existing methods, procedures and requirements that place strong priority on comprehensive planning and design during the preparatory stages of the project cycle are misplaced, inappropriate and often perverse." Rondinelli, 1983: 88 and 83.

[104]Baum, 1985: 351.

[105]Strachan, 1978: 475.

**(d) Incremental Approach**

The opposite principle of blueprint planning was discussed by Lindblom in his theory of incrementalism. In the literature it is also referred to as "muddling through." The main assumption is that there is little knowledge as to which specific interventions are likely to be effective in the long run. Lindblom asserts that, in unstable environments, a method consisting of successive "limited comparisons," an incremental process of dispersed decision-making, is more efficient than blueprint planning.[106] Regardless of whether it is referred to as "piecemeal engineering," a "trial and error process" or the "evolutionary method," the principle is the same. Alternatives are reduced through the elimination of classes of alternatives. Thus the number of alternatives is reduced at the same rate as detailed knowledge of the complexity increases. The variation of the trial and error processes are incremental changes, e.g., mutations of other trials.[107]

According to Lembke (1984) this principle has clear relevance to the management of development projects. While the dynamic nature of project environment cannot be fully anticipated, it may be possible to learn how to cope more effectively with such uncertainty. If traditional evaluation techniques are being performed at a point in the project cycle when decisions regarding the project approach cannot be made, decision-making should be delayed by an iterative type of problem solving. Incremental changes in the approach are evaluated and the approach is revised by going through the same cycle several times. Projects are then modified and adapted according to what has been learned about their specific environments, and the next interval of the project is not planned until some experience has been gained. This would require intensive communication and participation of all parties involved in implementation. Furthermore, quick adjustment to unexpected changes requires that the project manager has some autonomy to make decisions without the approval of his agency. Under conditions in the field, "the most valuable managerial skill is not necessarily the ability to conform to preconceived plans or project schedules, but the ability to innovate, experiment, modify, improvise and lead, talents that are often discouraged or suppressed by rigid designs or centrally controlled management procedures."[108]

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[106]See Staehle, 1990: 488.

[107]See Malik, 1984: 260 and 320.

[108]Rondinelli, 1983: 79.

### 3.4.2 Perception in Japan

The bias of the literature in development administration towards a participatory-incremental approach is reflected in the Japanese perception of the environment. Having recognized that it quickly changes, a strong need for flexibility has been spelled out which suggests incremental rather than blueprint planning. The MOFA states that "it will be necessary to eliminate rigidity from aid implementation systems, and to make necessary improvements with an emphasis on promptness and flexibility."[109] Japan's 1991 ODA report furthermore notes that "it is clear from past evaluations of Japanese aid projects that a project is more likely to be successful in terms of sustainability after completion if the participation of residents affected by the project is sought at the planning stage. The promotion of participatory development becomes even more important if we accept that the ultimate objective of development is to help people living in the areas affected."[110] Based on that view, contingency theory suggests that a participatory-incremental planning approach should be taken by the Japanese development administration.

### 3.4.3 Actual Operations

As mentioned above, the plans for grant aid and technical assistance are drawn up in completely separate procedures. The detailed design study for grant aid is carried out by a Japanese consultant and is summarized in the basic design document. It includes primarily technical and financial details required for the supplier of the equipment. A problem is presented by the fact that the consultants for the basic design study are inclined to provide as much machinery and other heavy hardware as possible, since they may have informal ties with the *shosha*, and because their commission is paid as a percentage of the total grant aid project cost. The resulting focus on expensive equipment has been criticized from several sides.[111]

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[109]MOFA, 1989: 125.

[110]MOFA, 1991: 48.

[111]A Thai official, for instance, commented on a weed project in Thailand: "Among twelve foreign projects, including those by the UN, for the Department of Agriculture there were no other projects that put such a high priority on the machines and instruments as the JICA project." One of the Thai staff members even said: "Don't make a museum of machines and instruments." (Kokusaikyoryoku jigyodan, Sasso kenkyu tai, 1989: 25*).

In the technical cooperation, which usually immediately follows the grant aid, two types of documents stipulate the rights and obligations of both parties. The record of discussions (R/D) has a standardized format and describes the objectives in broad terms; however these documents do not delineate the output and the activities of the projects clearly. For example, in a project in Singapore, the R/D stipulated that the objective is to develop the human aspect of productivity in Singapore. Sato et al admit in a review of the project that "it would have been worthwhile for the two sides to explore and discuss more deeply what 'the human aspect of productivity of Singapore' really meant in concrete terms."[112]

In addition to the R/D, the tentative schedule of implementation (TSI) stipulates the content of the project. While in most cases, it is generated in the respective sectoral department; in some cases one or two experts conduct a survey of the possible project activities. Unfortunately, however, these sectoral experts are technical specialists with little knowledge concerning questions of management or the sociocultural environment of the recipient country.

The R/D Mission *(jishi kyogi)* pursues a final discussion with the recipient government and both sides sign the R/D and TSI, approximately six months after the preliminary survey *(jimaechosa)*. The TSI mainly describes the resource requirements for equipment, the Japanese long- or short-term experts, and the number of trainees coming to Japan. There is no detailed description of the planned activities other than an itemized list stating how long different activity items will be pursued. Furthermore, the same standard package consisting of short-term experts, long-term experts, trainees and equipment is used for all projects without evaluating the appropriateness of these components. Yet, depending on the nature of the project, some components may be of little relevance for the achievement of the project goal. These problems are a direct consequence of the lack of detailed problem analysis. Activities derived from clear objectives can only be defined after the problems are fully understood. In the case of technical assistance, neither are the objectives clearly stated nor are the activities clearly defined and the reason for both is that the problems are not analyzed in detail before the cooperation starts.

A positive aspect of this is that the project leader is given the flexibility to adjust the activities of the experts to actual needs in the field during the implementation.

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[112]Sato et al., 1988: 90.

The tentative character of the TSI is underlined by JICA when it states that "the first and second years very often constitute a preliminary implementation stage and the remaining years are the main implementation stage. In such a case, discussion on detailed design may be expected to take place at the end of the second year."[113] While the equipment component is specified in detail, the terms of reference for each expert sent to the project are only roughly outlined in the sectoral department based on the TSI. The experts write down the final form after they have been exposed to the project for 3-6 months.[114] This gives the team leader and the experts enormous flexibility in defining their major activities. Yet, the flexibility is limited by the fact that sectoral experts are usually limited to redesigning projects within their sector. Furthermore, the Japanese approach is incremental when it concerns issues not written in the TSI, but inflexible when it comes to changing the written part. Despite the fact that a rough time frame is delineated in the TSI, its name indicates that it is subject to many changes.

Flexibility after a project has started indicates that there is a tendency to employ the incremental approach. While this may be related to weaknesses in the planning process, it fits, deliberately or not, to the Japanese view of an unstable environment. A case study of a project in Bangladesh illustrates this point. Nakata writes about his project: "In the early stages of the project, emphasis was placed on the introduction of advanced agricultural technology from Japan, meaning that a great deal of machinery and equipment including the latest rice-planting machines and combine harvesters were brought to Bangladesh. (...) Instead of using the machines, we set to work on the modification of rice reaping tools. For this purpose we had to begin training on field blacksmithing and invited blacksmiths from Japan as instructors. In the following year, we introduced from Japan winnowing baskets called tomi so that local carpenters could fabricate similar ones using locally available materials. Instead of using rice-planting machines, we devised a bamboo sizer for manual rice planting. We also conducted a nationwide survey of the yak population of Bangladesh with a view to improving yak farming, but unfortunately the period of cooperation of the project expired, leaving this area in the hand of our successors."[115]

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[113]JICA, Preliminary guidelines on evaluation methods: 21-23.

[114]Often, when the technical assistance starts, the grant aid has not yet finished, so that activities can only start after the grant aid has expired and the time until then is used for the detailed design of technical assistance.

[115]Nakata, 1990: 87.

This example also shows which problems arise in this institutional setting: For grant aid very detailed planning is done within the basic design process. The technical assistance part enjoys considerable flexibility; and the documents describing the tasks and activities of the experts are only rough outlines. In many cases the incremental approach in technical assistance combined with the blueprint approach for the hardware has resulted in the delivery of equipment that did not suit the requirements of the actual project.

This setting shows that the target groups were hardly involved in the detailed design process. Since the grant aid (as for other donors) is tied to Japanese procurement, only Japanese experts deal with it. As for the technical assistance, there were two reasons why target groups did not participate. First, JICA does not accurately plan the technical assistance activities in the detailed design stage and thus there is no need to consult the target groups then. Second, in JICA, the definition of the target group may be different from the international use of the term. For JICA the target group is the counterparts who sometimes may participate in decision-making during the implementation stage. Views and knowledge of the actual beneficiaries at the grassroots level are hardly taken into account. Since there is no experience and a lack of language skills, most discussions about the course of the project transpire between the Japanese experts and the experts in the recipient government. This has resulted in a top-down approach to detailed design that clearly favors the knowledge of experts to that of local people. Combined with a blueprint approach to grant aid and an incremental approach in the technical assistance part, it fits partly to the perceived need for flexible planning. It does not conform, however, with the perceived need for participatory planning.

### 3.5 Implementation

Honadle defines implementation as "translating plans into activities and carrying out these activities, recording progress and shifting priorities as crises occur, and coordinating the many actors responsible for various operations."[116] Successful project implementation requires a high level of managerial skill, yet a major characteristic of most implementation organizations is inadequate administrative capacity. In the following pages, two different ways of coping with this problem are suggested.

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[116]Honadle, 1979: 103.

### 3.5.1 Target Orientation Versus Institutional Learning

**(a) Target Orientation**

It is of critical importance which role foreign experts play during the implementation and how they perceive what their major task is. Some may conclude from the lack of capabilities of the recipient organization that it is the expert's job to assure the achievement of the goals set. In this case, they will take on the most critical duties in the project. Concentrating on the achievement of predetermined objectives can lead to a situation in which the experts implement a project and achieve its technical goals, but the ability of the recipient to manage a project by himself is not increased.

This may seem rational from the foreign expert's point of view when their performance is evaluated according to indicators that focus on project goals; however, this will not lead to sustainable development. Gow states that "when development projects emphasize production at the expense of strengthening institutions, the result is an inability to sustain those production gains in the long run."[117] The result of target-orientated implementation mode may be passivity on the part of the counterparts, as Strachan notes. "He shuffles the papers, does his best to protect himself, but he certainly does not show the creativity, the drive and the leadership necessary to make the project successful. A manager who feels that a project is not his, that his hands are tied, and that the obstacles are simply too great, generally shifts to a strategy of personal bureaucratic survival."[118]

**(b) Institutional Learning (Recipient)**

In this approach, the primary means of ensuring efficient implementation of projects and their long-term sustainability is the development of efficient institutions and qualified manpower. The increased institutional and organizational capacity makes self-reliant development possible and nurtures the ability of the recipient to cope with upcoming problems without having to rely on foreign assistance. If the objective is the initiation of such a self-sustaining process and new appropriate institutions, the type of interaction between donor and recipient in the field and the defining of responsibilities is crucial. The Development Assistance Committee (DAC) of the OECD notes that "donors should select experts not only for their professional competence but also for their ability to

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[117]Gow, 1988: 1402.

[118]Strachan, 1978: 472.

exchange and transfer experience. The desire for quick results in material terms must no longer be allowed to squeeze out the process of skills development."[119] Theories of social learning and community development theory had a major impact on this approach. They emphasized that community groups need to be independent and empowered to expand their self-help capabilities. Thus a major focus should be on organizational procedures and management techniques that demand direct interaction and collaboration of the community groups and the managers. This may sometimes require simplifying project activities.

According to Korten the interaction between foreign expert and counterpart should be compared with a teacher-student interaction.[120] While the expert's function is not to check whether the counterpart follows the operating schedules, he should be an advisor or catalyst for development, helping counterparts to define problems clearly and to work out solutions. To view implementation as a learning process for the recipient is a shift away from traditional project management. Projects do not need to be planned in detail at the outset, but rather they emerge out of a learning process between local people and the foreign experts. While incremental planning refers to the adjustments made as a result of changes in environment or goals, learning involves becoming conscious of the efficiency or inefficiency of past actions and their relevance for the future. For learning to take place, individuals have to be part of the process, shape it, and be transformed by it. Thus, processes need to be established that involve individuals in the management. In the stage of detailed design, this means turning over responsibilities for the project design, in the implementation stage it refers to involving individuals from the recipient country to achieve the goals.

### 3.5.2 Perception in Japan

JICA has recognized that a focus on technical targets is not sufficient to achieve sustainable development. Therefore, "JICA will make every effort to plan projects which would not only achieve the original purposes of JICA's cooperation, but also sustain and develop their far-reaching impacts."[121] MOFA has recognized the need for institutional development in the fulfillment of this goal. It states that "the effective and efficient implementation of Japanese technical cooperation

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[119]OECD, 1992: 62, and 54.

[120]Korten, 1980: 482

[121]Kokusaikyoryoku jigyodan, purojekto jigyo jishi hoshin, 1992: 15.*

cannot be achieved solely through Japanese efforts, it is also necessary for recipient countries to establish adequate systems for the acceptance and assimilation of that cooperation. (...) This is important from the viewpoint of encouraging self-help efforts by developing countries. It also helps the recipient country acquire the ability to implement projects independently in the future."[122] Based on this perception and the understanding of the problems related to target-oriented project implementation, an institutional learning approach should, theoretically, be taken up by the Japanese development administration.

### 3.5.3 Actual Operations

The Japanese implementation team includes a team leader, who is from a sectoral ministry and is responsible for the overall management of the project. The JICA coordinator assists him in logistic issues. The coordinator also functions as a liaison officer for communication with Tokyo and the smooth cooperation between experts and counterparts. The fact that the JICA coordinator is subordinated to the team leader, who is a technical expert, is the first indication of the concern to achieve technical targets, since institution building would mainly require management expertise. Moreover, the coordinator has only a temporary contract, which indicates a low personnel status in Japan.

This technical bias is reinforced by technical short-term experts (one to three months) and long-term experts (two years). Out of the approximately 800 experts dispatched per year almost all come from a sectoral ministry. JICA has almost no control over the selection of the experts. Only in rare cases, when no experts from the ministries are available, former Japan Overseas Cooperation Volunteers or private sector experts can be recruited.

To recruit the public sector experts, JICA has to appoint a domestic advisory committee *(shien-iinkai)* which usually had already been involved in the design of the record of discussions. The members are high-ranking officials in the public sector that receive relatively small compensation. They still have a strong interest in the projects since they are able to appoint experts from their own organization. The domestic advisory committee consists of sectoral experts, and, naturally, its major focus is the technical perspective. Ampo notes that "the selections are such that one may think the project is being carried out as some kind of public works project in Japan. This way of selecting personnel for study teams has several

[122]MOFA, 1989: 95.

disadvantages. If the staff is not fluent in the language used in the recipient country, a minimum requirement for international cooperation, consultation with the other government cannot be carried out smoothly."[123] Besides the selection of the experts, the domestic advisory committee is also involved in the selection of the members for monitoring and evaluation missions.

All experts attend a five week predeparture orientation course. Since it is the first time for most of them to experience an ODA project, two weeks are spent as an introduction into the basics of ODA. The other three weeks are used for language training, and so a high level of knowledge concerning development issues and language skills cannot be expected. Moreover, this situation does not allow the development of a larger number of development specialists because there is no demand for them. The line ministries prefer this system since they can monitor the projects more closely and their staff are required to travel to developing countries frequently. This can be used as an effective incentive, given the working conditions in Japan, and helps to increase the loyalty of the appointee.

According to a new guideline, JICA expects the experts to have technical expertise, management skills, communication skills and knowledge about development problems.[124] The reliance on the public sector experts, however, ensures only technical expertise. Miyoshi, a JICA staff member, concedes that "administrative staff whose experience is primarily limited to Japan may not be ideally suited to international assignments. In complex and sensitive programs, such as those related to the environment or grass roots development, knowledge of community structure, the local economy, and social and cultural mores are essential for project planning."[125] Miyoshi furthermore notes that "the orientation of these 'borrowed' experts tends to be limited to their own experience in the special contexts of Japan. These contexts are characterized by a catch-up mentality, constant investment in economic and social infrastructure, education and health, and manufacturing related technologies. This experience may or may not be applicable to the needs of developing countries, however."[126]

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[123]Ampo, 1990: 17.

[124]Kokusaikyoryoku jigyodan, Purojekto saikuru manejimento maniaru, 1992: 57.

[125]Miyoshi, 1991: 21.

[126]Miyoshi, 1991: 27.

The expert's technical expertise may not be appropriate to the requirements in the recipient country since, often, the scientific level is too advanced for application in developing countries. Moreover, in many fields the problems are completely different from what the experts have been dealing with in Japan. In the field of agriculture, for instance, climate, soil conditions and species may be so different in recipient countries that Japanese local expertise is virtually useless. Furthermore, since the experts are only from one discipline, interdisciplinary research, which is important in solving interdisciplinary development problems, is difficult.

For many of the long-term experts the first year is used to learn about development and cultural issues. Combined with a technical interest and a lack of management expertise it has happened that experts have focused on their own field of research, lacking both the interest and ability to achieve overall project goals. This is a structural problem since the terms of reference usually do no refer to instutional learning. A JICA official admitted that "due to the fact that we never know what kind of experts we can get, it does not make sense to write very detailed terms of reference first and then find no expert who can fulfill that task."[127]

A positive aspect of this system is, however, that the counterparts and the Japanese experts have to learn together. One JICA staff member expressed the opinion that "the worst expert is one who has a definite idea in mind about the solutions to a problem."[128] The Japanese culture reinforces the sharing of acquired knowledge with other people. Unfortunately, the lack of language skills often hinders open communication with the counterparts. A Japanese case study revealed that this reason seriously limited the effectiveness of the project in Thailand since more than half of the Japanese experts in this project could not speak English or Thai.[129]

Despite the best intentions of individual Japanese experts, this resulted in many misunderstandings, which often led to negative attitudes from their counterparts: "In actual cooperation, the Thai counterparts tended to work with the Japanese

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[127]Interview with a JICA official, 1991.*

[128]Interview with a JICA official, 1990.*

[129]Kokusaikyoryoku jigyodan, Sasso kenkyu tai (Weed research project in Thailand), 1989: 48.

experts as inferior partners, not as equal ones. This was because the counterparts were conscious that their knowledge was low compared with the Japanese experts. Moreover, they were aware that the Japanese experts had a decisive voice for selection of Thai counterparts to be trained in Japan."[130] A comparison of Japanese and German experts furthermore showed, that "the German experts are given more authority than their Japanese counterparts, and the Germans consult more with their Thai counterparts. (...) Moreover, the Japanese strictly observe the rule that the equipment must be made in Japan, but the Germans could be more flexible."[131] In the Thai case, this led to a negative view of the counterparts to the Japanese experts. "A great number of the Thai counterparts were skeptical about the sincerity of some Japanese experts in transferring their technical know-how."[132]

The problems of the target-oriented approach are recognized, and contingency theory suggests that the institution building approach should be taken. The observation of the actual cooperation has shown that this is not the case, which contradicts the prediction of contingency theory. The experts focus mainly on technical transfer and the immediate targets. Although they cannot be blamed for that, the institutional setting relying on experts from the public sector is a major weakness and makes the introduction of an institution building approach difficult.

## 3.6 Monitoring

Monitoring is defined as an ongoing activity during implementation in order to systematically examine and guide the project and record its progress. Despite that formal definition, different development administrations developed quite distinct procedures, determined by how they perceive the implementation process.

### 3.6.1 Control Versus Mediator Mechanism

#### (a) Control Mechanism

The term controlling is used in business administration to describe an activity in which deviations between plan and implementation are identified so that they may be corrected as quickly as possible. Likewise, the objective of this approach is to control and steer a project by producing immediate information about all factors

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[130]Khien Theeravit, 1984: 63.

[131]Khien Theeravit, 1984: 38.

[132]Khien Theeravit, 1984: 65.

relevant for reaching the planned output. Deviations from the plan, such as time lags of inputs or unanticipated financial pressures, are the starting point for quick countermeasures in order to avoid delays in the time frame of the project. Monitoring is also used to justify the use of resources to the political decision-makers both in the donor and the recipient countries. Like controlling, monitoring presumes the validity of planning and the overall objectives; and its purpose is not to question the project goal or its premises.

A necessary condition is, therefore, that the plan is consistent and detailed enough to allow the plan and the actual situation to be compared. If deviations from the plan are recognized, adaption to the actual circumstances can be done. Problems that cannot be resolved with the resources available should be identified, which may lead to the termination of a project. If such adaptations were done easily and regularly, the approach would become similar to incremental planning. Experience shows, however, that this may be difficult, and thus major changes can only take place after a funding period is over. Another problem is that this type of monitoring sometimes conflicts with the controlling devices existing in the counterpart institution. If the donor's monitoring system is forced upon a system of the recipient which is different, major problems will occur after the donor retracts. In fact, this would endanger endeavors for institution building.

**(b) Mediator Mechanism**

In this approach, also called "participative monitoring," the objective is not to change implementation procedures through formal decisions based on monitoring results. On the contrary, the participants in the project are encouraged to discuss the identified problems and to reach a consensus. This may increase the motivation of foreign experts, their counterparts and the target group. The emphasis on solving problems in the field rather than at the political level increases flexibility. The stress of consensus building can be seen as a condition for effective attitude and organizational change. It becomes a more holistic process, and the development of appropriate institutions is preferred to the realization of goals.

In this approach, monitoring is perceived as a benefit and as a participative learning process for both sides. Participation may mean, in the strictest sense, that the recipient not only takes part but becomes decisive in the monitoring process. The role of the donor administration should be to encourage the counterpart

organization in developing its own concepts for monitoring.[133] The focus is on advice rather than control. Performance is automatically evaluated in the course of discussion. Since peer pressure is one of the strongest possible incentives for achieving conformity, regular discussions, which may also involve the beneficiaries, should be institutionalized. Gow suggests a management team strategy which depends "on strong links between the long-term team, which has been identified, recruited, oriented, and placed in the field, and a home office system with the capability to provide administrative, logistical, personnel and financial support to maintain the field team."[134] This makes it easier to resolve problems during implementation and also provides psychological support to the team in the field.

### 3.6.2 Perception in Japan

In Japanese organizations, control is not an important concept since it is considered to endanger trust relations.[135] Therefore, creating a constructive atmosphere and external stimuli are seen as more important functions of monitoring. Naturally, this concept is also valid for the development administration. JICA's handbook on project-type technical cooperation notes the following purposes of monitoring: Monitoring should provide advice to the expert and the counterpart. It should give supplemental technical and practical recommendations not originally included in the approach, and guidance concerning project management.[136] In the handbook, a comparison between plan and results is not mentioned; it may not fit to how personal relationships within JICA are viewed. Thus a clear preference for monitoring as a mediator mechanism can be inferred.

### 3.6.3 Actual Operations

For budgetary reasons, the grant aid project has to be completed within one year. It is implemented by the Japanese private sector within a remarkably short time and the supplier is directly liable for the fulfillment of the contract. Consequently,

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[133]See, for example, the evaluation guidelines of a German NGO, the Arbeitsgemeinschaft Kirchlicher Entwicklungsdienst, 1991: 46 ff.

[134]Gow, 1988: 1407.

[135]For the cultural importance of trust-based relations in Japan, see chapter five, section one.

[136]Kokusaikyoryoku jigyodan, Projekto hoshiki gijitsu kyouroku hokokusho sakusei shishin, 1992: 50.

no formal monitoring device for this form of aid is necessary. Therefore, this section refers to the monitoring of technical assistance. The first monitoring mission *(keikaku utchiawase)* is sent approximately 6-12 months after the technical assistance project has started. Its major task is to prepare the first annual work plan. Then other monitoring missions *(junkai shido)* are sent once a year to review the last annual work plan and approve the work plan for the next year. In fact, the themes of both types of missions are similar, despite their different titles.[137] While there are plans to transfer the monitoring task to the local JICA offices, neither the manpower nor the interests of the line ministries will allow such a change to happen in the near future. The JICA offices, in contrast to the embassies, employ no staff from the line ministries, and thus the decentralization of the monitoring task would also weaken the grip of the line ministries on the projects.

Since the project's objectives and its activities are not clearly and operationally defined in the record of discussions (R/D) and the tentative schedule of implementation (TSI) documents, control-oriented monitoring would be difficult. Consequently, there are also no clear terms of reference for the monitoring mission. The mission centers around interviewing the participants about the proceedings of the project and upcoming problems. Sahara concludes that "JICA may be more interested in checking the progress of the implementation and reaching a consensus between recipients, expatriates, and donors over the direction of the project in the coming one or two years."[138] He furthermore notes that "since the implementation process itself is constructed based on the assumptions which presupposes changes in the project environment- where originally set goals themselves become increasingly irrelevant at later stages - the attention is directed more to creating (rather than examining) conditions for subsequent cooperation - i.e., resetting the mode of implementation according to changes in the counterpart organizations, and building up the commitment of the recipients."[139]

Sahara's statement shows that the monitoring activities can be referred to as mediating ventures. Its major objective is to encourage an open debate of the

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[137]In addition to the missions from Tokyo, the foreign experts are supposed to prepare regular reports of their activities, usually four times a year. These quarterly reports are channeled through the local JICA office to Tokyo.

[138]Sahara, 1990: 180.

[139]Sahara, 1990: 182.

problems identified and to reach a consensus among the related parties. This establishes a basis for introducing changes in the project activities and being able to readjust the vaguely defined objectives to the actual needs. In comparison with the British Overseas Development Agency (ODA), Sahara states that "while the ODA's view of the aid process seems more mechanistic and favors more explicit changes in the procedures, ... JICA's view of the aid process seems more holistic, stressing consensus building as a precondition for effective attitudinal and organizational change."[140] In a smooth process, the major task of the monitoring mission is to guide a project lacking a clearly defined goal in the "right direction." This fits the Japanese word for the monitoring mission; the term *junkai shidou* is translated as technical guidance mission.

The fact that these missions are referred to as "technical" guidance, however, once again indicates a preoccupation with the technical target rather than institutional building. This is reinforced by the fact that most members of the team are sectoral experts from the line ministry in charge. While monitoring missions are formally sent by JICA's sectoral department, the mission leader usually comes from a line ministry and in some cases members of the domestic advisory committee participate, as well. Moreover, most team members are appointed less than four weeks before the mission starts. According to the Administrative Management Bureau of the General Affairs Agency *(Somucho)*, 92.4% of all mission members are selected less than 30 days before the mission starts.[141] Given the heavy workload of Japanese ministry officials and the need for preparing a two week absence from the job, little time remains for the preparation of the projects. As one mission member complained, often only a weekend can be spared for the preparation of the mission.[142] Consequently, most members of the monitoring mission merely have a rough idea of the project when they arrive at the site. The lack of a deeper insight means that often the monitoring mission focusses on logistic issues that can be easily communicated to the related departments at Tokyo headquarters.

This leads to a situation in which almost all opinions and suggestions from the project team are taken up by the monitoring team and the actual "guidance" is

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[140]Sahara, 1990: 185.

[141]Somucho, 1988: 265.

[142]Interview with a monitoring mission member, 1992

often minimal. More important is the mission's indirect function in forcing the project team to actively consider the plan for the coming year. While the majority of the mission members are different each year, long- or short-term experts who have been members of the project team before are often included as members of the monitoring mission. This helps to create a familiar atmosphere and makes it easier for the mission to assume a mediating function when there are conflicts in the project. Overall, this institutional setting determines that monitoring is unstructured and functions mainly as a mediator mechanism with few visible results. It is not difficult to pursue this approach since it is the typical mode of monitoring within most organizations in Japan. It fits the Japanese perception of the relevant environment and is in line with the prediction of contingency theory.

### 3.7 Ex-Post Evaluation

While monitoring focuses on the input and output considerations, evaluation includes an analysis of the effects in comparison to the goals. Since evaluations can take place during several phases of a project, three types can be distinguished: Ex-ante evaluation (before selection, in this study referred to as appraisal), ongoing evaluation (during implementation), and ex-post evaluation, which is executed after the project is terminated.[143] Representing different aspects of the same analytical exercise, the criteria developed in section 3.2. for the ex-ante analysis of a proposed project would also apply here. The following pages, however, pertain specifically to ex-post evaluation. This is in line with the actual use of the term "evaluation," as expressed by MOFA. "When referring to evaluation, however, the Ministry of Foreign Affairs normally attaches greatest importance to ex-post evaluation."[144] The OECD refers to two main purposes of ex-post evaluation: to improve future aid policy, programs and projects through feedback of lessons learned; and to provide a basis for accountability, including the provision of information to the public.[145] In the following pages, the two different approaches are distinguished and analyzed in greater detail.

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[143]The fact that ex-post evaluation produces feedback about projects that were started five to ten years ago and planned even earlier may be problematic in environments that are changing quickly. Thus ongoing evaluations may, in some cases, produce more relevant results for current planning tasks.

[144]Gaimusho, Annual Evaluation report, 1990: 1.

[145]OECD, 1992: 132.

### 3.7.1 Institutional Learning Versus Justification

**(a) Institutional Learning**

According to Knall, the objective of evaluation is to gain the knowledge for future projects which is most relevant to political decision-makers or central planning agencies. "The feedback function of evaluation from the standpoint of planners and decision-makers is to diagnose failures and to determine their direct and indirect causes in order to avoid insofar as possible making the same mistakes in the future."[146] This feedback function offers a chance to learn from previous mistakes, which is a prerequisite for institutional learning. It can be thus regarded as a basic requirement for a self-regulating system. The analysis of the extent to which this feedback is institutionalized in practical procedures enables conclusions to be made as to whether evaluation is designed to make a contribution to the effective operation of an aid program. Three types of assessment can be used for that purpose: efficiency assessments, impact assessments, and systems-oriented assessments.

**Efficiency assessments** evaluate whether planned goals were reached with minimal input. Since it is often difficult to operationalize outputs and link them directly to inputs, some kind of benchmark is necessary, such as the comparison of the output of a project to that of alternative uses of the resources. While the efficiency assessment refers mainly to the internal environment of the project, the scope of **impact assessments** is broader,[147] the main focus being the effect of the project on the social and economic conditions on the target group (effectiveness).[148] The **systems-orientated assessment** differs from the assessment of efficiency and effectiveness since it does not assume that goals are formulated explicitly. The systems approach emphasizes the identification of the interactions between the individuals, the individuals and the project, and the project and the environment. On different levels, such as the ecological,

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[146]Knall, 1974: 438.* While ideally this should apply to both the donor and the recipient side, in practice this refers to a learning effect for the donor.

[147]It includes the transactional environment, which consists of the institutions and the people the project is interlinked with. Furthermore the contextual environment is considered, which is defined as having an impact on the project but cannot be influenced by it. See Forss, 1985: 334.

[148]The critical issue of impact assessments is to find out whether a project produced more of an effect than would have occurred either without the intervention or with an alternative intervention. Rossi, 1979: 189 suggests the use of randomized or constructed control groups in comparison with a group participating in the program. Another alternative are reflexive controls which compare participants now and at a previous point in time.

technological, social, political, or cultural level, attention is not only drawn to the impact of the project on the environment but also in the opposite direction. Such an approach should lead to a better understanding of complex socioeconomic systems and enable more appropriate project designs and, thus, a higher acceptance.[149]

If the criteria for the three types of assessment are derived from the project design, it is called an **immanent evaluation**. Yet it may be important to go beyond that and apply norms taken from other sources, such as general development theory, employing a **transcendent evaluation**.[150] For this purpose, not only internal evaluations by members of the aid organization are necessary, but also external evaluations carried out by consultants. Various viewpoints may help to elucidate the problematic effects of the project and, thereby, improve the learning effect for the aid organization.

**(b) Justification**

Development administrations need to publish evaluations if they want to be viewed as serious and well managed. The use of public funds needs to be justified, even though the results of evaluations are not necessarily used for decision-making. White states that "evaluation persists because it serves significant symbolic purposes. Without it, we would worry about the efficiency and effectiveness of activities. Evaluations produce 'magic numbers' to help us believe that things are working. Evaluations show that organizations take goals seriously. It demonstrates that an organization cares and wants to improve."[151]

While a focus on justification of the use of tax funds for the domestic public, or the desire for international acceptance as a serious donor does not necessarily mean that evaluations are not used for decision-making, several authors have pointed to that problem. Referring to the aphorism that "evaluations should not prove but improve", Wesseler admits: "Today I can accept that evaluations - also my own - have often been used as an instrument to justify the impasses of

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[149]Lembke, 1984: 29 ff. suggests the introduction of qualitative criteria catalogues to operationalize this orientation.

[150]See Forss, 1985: 335.

[151]White, 1987: 89.

development."[152] White finds that "evaluation illustrates how a managerial routine can be used for symbolic and reassuring purposes even though it fails to fulfill its ostensible purpose. (...) Evaluations do not address decisions that have to be made, evaluation results are not available when needed, and they often are not used by those who commission them."[153] This orientation can involve the danger, that evaluation contents are distorted, and the number of positive evaluations counts more than what can be learned from them.

### 3.7.2. Perception in Japan

Japanese official sources emphasize the feedback function of evaluations. The annual evaluation report states, for example, that "since the intention of evaluation is to make Japan's economic and technical cooperation more appropriate, effective and efficient, the undesirable points which are revealed by evaluations should be rectified and the lessons learnt from evaluations should be fully fed back to future projects. (...) It is thus important to explore the factors behind the problems as well as the reason and background of successful projects and take them into consideration in future policy. The utilization of such lessons is indispensable for enhancing the effectiveness of Japan's foreign aid, not only in the formation and execution of individual projects, but also in the process of formulating Japan's aid policies. Herein lies the biggest objective of aid evaluation."[154] From this point of view, the evaluation operations should be shaped mainly by the objective of institutional learning.

### 3.7.3 Actual Operations

Both MOFA and JICA conduct their "own" evaluations. JICA established an evaluation unit within the planning department in 1988, which was upgraded to a division in 1990 and which conducts about 50 evaluations per year.[155] The division is responsible for making recommendations as to which projects should be evaluated. After informing the respective sectoral departments, and upon approval from the JICA evaluation committee (consisting of the executive director for the planning department and the managing directors of all other JICA departments), the evaluation mission can start.

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[152]Wesseler: 136.*

[153]White, 1987: 89.

[154]Gaimusho, Annual Evaluation Report, 1988: 2.

[155]See JICA, Annual report, 1990: 38.

The evaluation activities of MOFA were institutionalized much earlier. In 1981, the Economic Cooperation Evaluation Committee (ECEC) was established within the economic cooperation bureau of MOFA to organize and systematically implement evaluation activities. In 1982, MOFA published its first evaluation results and has done so every year since. The annual evaluation report is based on the evaluation of approximately 150 projects in circa 50 countries.[156] While the "proofread" MOFA evaluations are available to the public, JICA's evaluations are only used internally.

According to MOFA, JICA, as the implementation agency, should be responsible for efficiency assessments, while MOFA is responsible for impact assessments. Though the respective evaluation departments claim that their activities are well coordinated and that the evaluations can be conducted without considerable overlapping, the reality is different. A JICA expert who participated in a project in Africa reported that there was a JICA evaluation mission only three months after a MOFA evaluation mission asking exactly the same questions.[157] Since the line ministries sometimes conduct independent evaluations, the Japanese evaluation system is as fragmented as its decision-making system.

MOFA states that "the ministry's annual evaluation report is formulated, first of all, by the Economic Cooperation Evaluation Committee. Then in conformity with the program, evaluation is conducted by (i) survey teams dispatched by the ministry (ii) overseas diplomatic establishments, and (iii) third parties such as knowledgeable persons and private organizations to which Economic Cooperation Evaluation Committee entrusts evaluations."[158] The report does not mention the criteria for the selection of projects to be evaluated, and interviews did not clarify that matter. The assessments are extremely positive and no serious problems concerning the appropriateness of the projects were diagnosed in the evaluation reports until 1991. Nuscheler wonders, when 90% of all Japanese development projects were evaluated as "successful," whether only "chocolate projects" had been chosen.[159] MOFA explained this by saying that, traditionally, negative

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[156]Gaimusho, Keizai Kyorouku Hyoka hokokusho, annually. For a record of evaluations since 1981 see MOFA, 1991: 163. The numbers also include some of JICA's evaluations.

[157]Interview with a JICA official, 1992

[158]Gaimusho, Annual Evaluation report, 1990: 2.

[159]See Nuscheler, 1990: 72.

evaluations of domestic public works projects were not published and that increasing frankness on evaluation results would erode public support in an area that is already under heavy criticism.[160]

The criteria for MOFA's evaluations are derived mainly from the project design. MOFA states: "Successful projects are numerous and diversified. The primary reason for such success as pointed out by each evaluation is that the projects were fully implemented in accordance with the initial programs. Whether or not an aid project has been implemented in accordance with its original plan is an important criteria for evaluating it."[161] Whether the plan as such was appropriate is not considered seriously, which can be referred to as **immanent evaluation**. The appropriateness of the project approach is justified by stating the obvious effects of the project in question or the priority within the recipient development plan. The question of whether other projects approaches may have been more appropriate has not been addressed seriously. While within MOFA, several third party evaluators ensure a critical attitude towards the project, JICA's evaluation mission consists of JICA personnel, line ministry staff and members of the domestic advisory committee.

For the selection stage, it has been observed that Japanese project selection is not goal-oriented. While this does not automatically mean that goals of projects are not stated, that is the case in the Japanese development administration. In a separate report on evaluation methods, MOFA admitted that the overall goal of the project is not always clear and that, among current Japanese projects, neither the macro-goal nor concrete values are stated.[162] When the goals of a project remain unclear, no yardstick is available with which the results of the project can be measured. Sato et al, for instance, find that "since it was unclear what to transfer, how to transfer, and to what extent transfer was possible, the circumstances did not allow the establishment of a standard for evaluation."[163]

Consequently, the results of **impact assessments** are likely to be meaningless when they are compared to the general and broad objectives that leave room for

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[160]Interview with a MOFA official, 1992.

[161]Gaimusho, Annual evaluation report, 1990: 5.

[162]Kokusai kyōryoku suishin kyōkai, 1984: 162.

[163]Sato et al, 1988: 91.

subjective interpretations. In many of MOFA's evaluations, this ambiguity has been used to present cooperation in a positive light. Moreover, the evaluation division of MOFA has not developed a framework or criteria for the evaluation of environmental, institutional, or social impacts and it does not involve sociologists, ecologists, or anthropologists. In fact, most evaluations still only consider cost efficiency and make only broad and general conclusions about impact. The even broader scope of **systems orientated assessment**, for a better understanding of complex socioeconomic systems, is not part of MOFA's evaluations.

The major focus of JICA's evaluations is an assessment as to whether the cooperation should be extended or followed up. Therefore, these evaluations are conducted six months prior to termination. Another important function of JICA's evaluations is to summarize the numerous sources of information on the project. Yet JICA tries to broaden the scope of its evaluations, which is part of its strategy to make its activities more professional. In 1992, the JICA evaluation division was trying to conceptualize a methodology on how to draw lessons from project evaluation and apply this to the country guidelines, since the aggregation of results for feedback to future cooperation is yet unresolved. Nevertheless, JICA's country guidelines include a section which lists important comments from previous ex post evaluations.

In MOFA, feedback is not facilitated by an aggregation of the results on a country or sector basis, and at times it is difficult for JICA to gain access to MOFA's original, unpublished evaluation reports. No formal links are institutionalized between the evaluation results and early phases of the project cycle. MOFA may be more interested in justifying its activities to the domestic and international public. Yasutomo suspects that the main objective of MOFA's evaluations "was to convince the public that their taxes were being used abroad effectively."[164] In order to convince the donor community and the DAC that Japan is a serious donor, the number of the evaluations, which are explicitly stated in each annual report, is important. Furthermore, the evaluation results have to be positive if they

[164]Yasutomo, 1986: 61. One JICA staff member even went as far as to say "what private sector firms call a marketing department, MOFA calls evaluation department." Interview with a JICA official, 1992.*

are to convince the Japanese public that their taxes are being spent effectively.[165] The preface of MOFA's evaluation report in 1988 ends with the sentence: "We hope that this report will prove useful for a better understanding of Japan's current efforts on ODA."[166] That may explain not only the objective of the report, but the goal of MOFA's evaluations in general.

Despite the fact that systematic evaluations have been difficult because of the lack of clearly defined objectives, JICA is attempting to use the results constructively. JICA's country guidelines incorporate the lessons learned from past evaluations and, as such, represent a type of institutionalized feedback. It would be even more effective if shared with the recipients.[167] Yet even now JICA's evaluations are much better adapted to the relevant external environment than those of MOFA, which primarily focus on justification.[168]

### 3.8 Termination/Follow-up

Having recognized the importance of sustainability, the explicit planning of how and when donor funding should be terminated is crucial. During the preparation stage, the major issues concerning the project are identified in different dimensions. When this has been done, an appropriate project design must be developed. For instance, within the sociocultural dimension, the acceptance of the project by the intended beneficiaries has been emphasized. The more important the endeavor is for the target group, the more likely they will be willing to bear additional follow-up costs. If the project is not accepted, the chance of survival is small, and it can only survive "artificially" through external financing.[169]

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[165]Actual evaluation procedures do not support the view of a strong interest in institutional learning. One third-party evaluator complained: "They did not even give me the terms of reference for the project before I left. There was no cooperation on the team in the field. Afterwards I wrote a very critical evaluation and insisted on not rewriting it or using more positive terms. Therefore, I do not expect to be asked to go on another one." Interview with a former evaluator for MOFA, 1991.*

[166]MOFA, Annual Evaluation Report, 1988: Preface.

[167]Theeravit notes that for Thailand "in any case, the Japanese evaluations and progress reports were done in Japanese. The Thai officials never had a chance to study them." See Khien Theeravit, 1984: 67.

[168]This is the only project cycle phase where a direct comparison between the implementation level and the ministry level in Japan was possible. While the ministry level showed a clear misfit, the relevant environment seemed to be much more important for JICA's activities. Chapter five will take a closer look at the question of whether this is a tendency that is generally valid.

[169]Weiland, 1984: 133 f.

In the financial dimension, the project should be designed to ensure that the revenue generated by the project will cover the costs and that adequate working capital will be available to cover all current operational requirements. However, even if planned perfectly, the project might run into a deficit after the donor withdraws. The project environment may change, the acceptance of the target group may erode, and the revenues from the project may not be sufficient to cover recurrent costs. At this point, the question arises as to how to deal with the resulting financial problems. The alternatives for the donor are not to deal with terminated projects anymore or to have an aftercare program that addresses such problems. Hence, a high number of follow-up projects may reflect either deficiencies in the early consideration and planning of the sustainability of the project or be an indicator of an intensive aftercare program.

### 3.8.1 Extended External Financing Versus Complete Termination

**(a) Extended External Financing**

In principle, when a project is terminated, the responsibility for financing recurrent costs shifts to the recipient government. Often, such a permanent increase in the budget for the respective sector is impossible. Alternatively, funds can be shifted from other activities in the same sector, which may or may not be beneficial for the country as a whole. If, for instance, funds from the national health sector are shifted from rural to urban areas to finance recurrent costs of new hospitals given as grant aid, the consequences may be disastrous. If no national funds are available, the project will be discontinued. Gow notes that "the development landscape is littered with the remains of projects that died when donor funding ended."[170] In these cases, a complete halt of the project or other negative consequences could have been prevented by an extension of external financing by the donor.

According to Weiland, in some cases this has led to a permanent rotation of donors.[171] The results of a questionnaire sent to persons responsible for development projects financed by the German government reveal that in almost 40% of all projects there has been a similar project by a different donor before. There have been projects that were handed over from one donor to the next for almost 30 years. The questionnaire furthermore reveals that externally ensured

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[170]Gow, 1988: 1413.

[171]See Weiland, 1984: 131.

aftercare of projects is seen as absolutely necessary in 31.4% of all projects and desirable for an additional 46.5%. Of all project managers 54.6% are in favor of external participation in the financing of recurrent costs and only 37.2% are against it.[172] If the aftercare period is limited, it may help to save the resources invested before. Several authors have considered an average time period of five years insufficient and suggested that projects should be designed for longer periods of time from their inception.[173]

**(b) Complete Termination**

There are also arguments supporting the discontinuation of donor financing after the funding period has ended. First, the autonomy and independence of the recipient country is jeopardized if donors stick to a project for an infinite period of time. Second, ODA funds would be tied up if financing too many ongoing projects. This would mean that a flexible response to current problems would become more difficult. Third, the reliance on recurrent funding may work as a disincentive with respect to sustainability, especially when there is a routine aftercare program. Experience shows, that a project not becoming sustainable after 10 years will usually not become so thereafter. A relatively early shift of responsibility for the project to the recipient is a necessary condition for successful projects.

There are several alternatives to substitute the financing provided by development assistance. [174] For instance, costs could be saved by involving the local population in the project and by local cost financing. If the project provides goods or services that are in the direct interest of the local population, they may be asked to make a direct resource contribution to it and bear a part of the cost in the form of user charges. However, in regions with low purchasing power, this option may be limited. Therefore, local government funding would be an another source of financing for projects that provide services in a local area. To increase their financial resources, governments should be encouraged to make better use of their taxing authority. Overall these arguments point to the advantages of strict termination of donor financing after the first project period has ended.

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[172]Koch, 1984: 172-174.

[173]Weiland, for instance, argues that projects should run 8 to 12 years in order to ensure that the process of adaption and the identification of the target group with the project actually takes place. See Weiland, 1984: 144, and Neun, 1985: 275 f.

[174]Gow, 1988: 1414.

### 3.8.2 Perception in Japan

In order to avoid development ruins, MOFA takes a clear position on the need for follow-up assistance. Follow-up survey teams should be dispatched, and "if it is deemed necessary, supplementary assistance will be provided for the expansion of facilities or the supply of equipment, including spare parts for machinery that was provided previously. Japan places a high priority on this kind of assistance as a means of enhancing the continuity and effectiveness of aid provided in the past. (...) This kind of follow-up assistance is as important as funding of new projects in the sense that it helps to ensure the long term effectiveness of past projects, thereby yielding major benefits in return for relatively small expenditures."[175] The next section will show whether this view of the relevant environment has led to an appropriate organizational design.

### 3.8.3 Actual Operations

There are two types of JICA missions to determine whether follow-up or aftercare is necessary. An evaluation mission is conducted six months prior to termination of the project in order to decide whether an extension of the project is necessary. An aftercare mission is supposed to visit each project three years after its termination. Unfortunately, such aftercare missions are only available for a limited number of projects. In fiscal year 1991, 25 "project-type technical assistance" projects were due for termination. The evaluation missions suggested follow-up measures for 19 of them and only six projects were terminated. While this procedure is relatively easy for technical assistance, for grant aid it is more difficult. Only eight grant aid projects received a JICA evaluation, while an evaluation is conducted as a matter or course for all project-type technical assistance projects. Moreover, the strict budget regulations for grant aid hinder follow-up. While JICA has some limited resources for the follow-up of grant aid[176], in most cases a separate request through official channels is required for a grant aid follow-up project.

Insufficient consideration of sustainability aspects for the project in earlier stages of the project cycle leads to a large number of follow-ups. In fact, a second project phase has become the normal case and can be expected "under normal

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[175]MOFA, 1990: 59.

[176]Approximately 10% of JICA's grant aid administration budget, counted as technical assistance, can be used for follow-up measures of grant aid.

circumstances."[177] There are many follow-up and aftercare projects, and this number is expected to increase in the future. This can be interpreted as a concession to the fact that the transfer to local administration was not well prepared in earlier stages of the project cycle. It may also be attributed to changing circumstances. In many projects, an extension is perceived as "natural," since the detailed design of the grant aid often overlaps with the implementation stage of technical assistance and the objectives of the project became clear relatively late in the process. Despite the fact that the large number of follow-up and aftercare projects in the technical assistance program indicates the need to address the preparation of termination in the initial planning more explicitly, the activities are in line with the perception of the relevant environment. For grant aid, however, this is only partially true.

### 3.9 Conclusion for the First Working Hypothesis

This chapter showed that the research method developed on the basis of contingency theory is a useful tool in evaluating the institutional setting in development administrations. The two dichotic approaches developed for each project management phase were helpful to characterize the mode of cooperation. By assuming that the relevant external environment determines the approach, a theoretical prediction could be formulated after the Japanese point of view was analyzed. A comparison with the actual operations suggests that the project management methods are not always adapted to the external environment. Because the existing procedural structure is not always suited to the environment as it is perceived in Japan, the first working hypothesis has to be rejected. These results fit to an assessment from the recipient side "that if appropriate planning was done and the resources received were efficiently executed, the same amount of material, capital and technical assistance could have brought better results."[178]

In the identification stage, despite the fact that an active approach is perceived as necessary, the official Japanese sector has started activities before the official request only recently, and still lacks an efficient comprehensive approach. Instead, the private sector is much more active, in some cases with the support of the ministries. The resulting problems, however, would be limited if in the appraisal stage a strict, multidimensional analysis would be conducted. In reality, however,

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[177]Interview with a JICA coordinator in Thailand, 1992.

[178]Khien Theeravit, 1984: 231.

environmental, sociocultural and institutional dimensions have often been neglected, which conflicts with the perceived need to consider them. One reason why these standards have been compromised is that many projects are approved without any feasibility study having been done.

This may be used as an indicator that such criteria may not be so important for the decision. In fact, the selection of projects is not goal-oriented and cannot be so, given the dispersed administrative structure. While this contradicts the prediction of contingency theory, the problem is moderated by the fact that incremental planning dominates the detailed design. The incremental approach fits to what contingency theory suggests, and many decisions will be made in the field once implementation has started. Unfortunately, the institutional setting reinforces target-oriented implementation, so that institutional learning for the recipients in the field often remains limited, despite contingency theory suggesting otherwise.

The culturally embedded unfamiliarity with control-oriented concepts is relevant for the monitoring stage and, therefore, for monitoring functions as a mediator mechanism. This fits the Japanese perception of the relevant environment. The lack of clearly defined goals as diagnosed in the selection phase and the existing institutional setting limit the pursuit of an institutional learning approach to evaluation. MOFA's major objective is to justify its activities and expenditures, which contradicts the perceived need for evaluations focusing on a feedback of the lessons learned. In this respect JICA's evaluations are more advanced but are still at a beginning stage. The perception of the problems of the complete termination of projects has, as contingency theory suggested, led to increased efforts for the extended external financing of projects.

More often than not, a discrepancy has been observed between the procedural institutions and the relevant environment. The next two chapters will try to give an answer why the first working hypothesis could not be confirmed, first theoretically, then empirically. The second approach to institutional analysis, new institutional economics (NIE), will not be applied to assess whether or not the institutions are appropriate, since this chapter already provides a sufficient conclusion to that question. Rather, NIE will be used to gain understanding of the reasons for these results. By changing the perspective from the external to the internal environment, the question arises as to whether this setting is also inappropriate from the viewpoint of individuals inside the organization. Having understood their rationale, suggestions for institutional innovations can be made.

# 4 THE NEW INSTITUTIONAL ECONOMICS APPROACH

## 4.1 The Need for an Extension of Contingency Theory

The last chapter demonstrated that there is a discrepancy between the actual operations of the Japanese development administration and the approach that fits the environment. The evidence presented suggests that the first working hypothesis, which was based on contingency theory, is not valid. This chapter elaborates the theoretical reasons for that. In order to do this, the question of which problems are related to the use of contingency theory is posed. Is the theory based on assumptions that do not hold for our case? If so, how can the hypothesis be reformulated to reflect the evidence presented by empirical cases in development administration?

### 4.1.1 Assumptions of Contingency Theory

The situative determinism of contingency theory implies that organizational structures have to be as they are because context factors are as they are. Thus, a change in context factors accordingly implies a variation in the structure of the organization.[1] In other words, the organizational design is assumed to be contingent to the external environment, which implies that the organization as a whole reacts rationally to environmental demands. This determinism does not work if the rational alternative maximizing the adaptability of the organization is not chosen.

Pfeffer writes that "... a focus on explanation of behavior in the conditions and constraints of the environment saves the analyst from the often intractable task of exploring internal decision-making processes and, in particular, of trying to build a theory of organizational action premised on rational, decision-making theory when there is clear evidence that the production of organization-level rationality is quite problematic and can certainly not be assumed."[2] In fact, by focussing on environmental factors, clear assumptions about the behavior of the individual organization members were often neglected. Ebers, for instance, alleges that "within contingency research there was no room for managers..., their actions were not necessary to explain the concept."[3] According to Pfeffer, "it should be noted that those who are unwilling to treat the organization as a black box, using conditions of the context to account for the behavior, inevitably shoulder the burden of developing theories that indicate how micro behavior within

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[1]See Sydow, 1985: 277.

[2]Pfeffer, 1982: 179.

[3]Ebers, 1985: 10.*

organizations get aggregated to produce organizational-level rational or quasi-rational decisions. This is an obligation that almost no theories operating at this level have thus far shown much willingness to address."[4]

Therefore, the question is what assumptions were made about the individuals in contingency theory? Contingency theory implies that the individuals act collectively to perceived environmental changes. Theoretically, this could be explained in two different ways:

- First, the individuals share a common goal and there are no differing interests among them. This behavioral assumption that individuals **want** to act in the interest of the organization will be discussed in section 4.2.
- Second, even if the individuals have different interests, bureaucrats may not have the discretionary power to pursue them. If bureaucrats have such power, this latitude of choice will be described by the word discretion. According to Weber, however, in the bureaucracy there is no discretion and organizational rationality is possible because there is a system of rules and controls that ensures that employees **must** work for and in the interest of the organization.[5]

In sections 4.1.2 and 4.1.3. the appropriateness of these assumptions for our case will be discussed and questioned whether the development administration represents a perfect hierarchy in which political tasks can be delegated among different hierarchic levels without any 'leakage'. If the result of this analysis is that there are different interests among bureaucrats **and** discretion within the bureaucracy, then the assumption that only the external environment has to be considered as relevant does not hold. This could explain why the conclusions of contingency theory did not hold for the empirical case.

Moreover, it would necessitate an extension of contingency theory by a theory concerning the variables that determine the decisions of the individuals. For this

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[4]Pfeffer, 1982: 179.

[5]See Pfeffer, 1982: 130, Kieser and Kubicek, 1983: 391. An interesting parallel arises when the concept of transaction costs is used to describe this assumption. The fact that there is no discretion implies that zero transaction cost were assumed between the politician and the bureaucrat. Thus, the politician can acquire information about the bureaucrat's action at zero cost and can enforce his decisions at zero cost. It follows that the bureaucrat will always behave efficiently. If the concept of transaction cost is introduced and the transaction cost is above zero, the behavior of the bureaucrat may change considerably and he might not be efficient anymore. Section 4.4 will analyze transaction cost more in detail, which will lead to a more satisfying theory and explanation of why bureaucrats may behave inefficiently in terms of contingency theory.

purpose, the unit of analysis must be shifted from the collective organizational level to methodological individualism in order to take the different interests and goals of organization members into account. This refers to the first chapter, in which reference was made to the basic difference between two research programs. While organization theory is based on methodological collectivism, the basic unit of analysis of New Institutional Economics (NIE) is the individual. The following will show that NIE is necessary to explain why the first working hypothesis was rejected and how the framework of contingency theory can be supplemented.

### 4.1.2 Discretion of Bureaucrats

An important characteristic of traditional administration science is to understand bureaucracy only as an executing organ of what has been politically decided by legislature. Its paradigmatic core is to conceptualize administration by a model of legislative program control: policy as decision-making, administration as decision-execution. It was argued that in administration science this separation was used to justify the depoliticization of administration science.[6] The administration stands for the straightforward transformation of political input into specific output. Consequently, it concentrated on the achievement of preformulated goals and the most efficient organizational structure to achieve them. When there were deficits in the mechanistic execution of political input, deficiencies within the instruments employed had to be analyzed and became the starting point for any innovation.[7] Political science also accepted this paradigm. Scharpf has the impression that political science respects the dividing wall that has been erected and therefore neglects administration as being of no political interest.[8] Does this perspective represent sufficient conceptual complexity to analyze development administrations in the real world today?

Many authors have argued that the scope for decision-making within the administration is much greater than assumed by administrative science. They argued that this disciplinary paradigm does not allow for the adequate

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[6]See Schimank, 1983: 272 ff, Scharpf 1973: 9-32.

[7]Esman writes that "the instrumental function has been the main concern of academic observers associated with the discipline of public administration - how to enhance the effectiveness and efficiency of program managers." Esman, 1991: 41.

[8]Scharpf, 1973: 14.

conceptualization of the subject and that there is no clear distinction between political decision maker and an administration.[9] The main reason for bureaucratic discretionary power is that politicians have neither the necessary expertise, nor the experience in execution, nor the detailed knowledge of the environment that are necessary for planning. This gives an administration the freedom to make decisions that involve more than the apolitical execution of given orders. Scharpf explains that "formally the ministers, cabinet and parliament make the decisions, but the content of the decision was influenced by the information, perspective and goals of the bureaucracies."[10] In fact, often the initial stages of a new policy are prepared by an expert who suggests different ways of making it operational. These alternatives are then discussed within the bureaucracy and one developed into a bill and presented to the legislature, which may approve it.

These conclusions are confirmed by the analyses of the Japanese administrative system. Wolferen writes: "According to the constitution, executive power is vested in the cabinet. But most Japanese cabinet ministers do not run the departments whose portfolios they hold. They tend to have little or no influence within their ministries. (...) If cabinet members were to insist on exercising the kind of power the formal rules give them, they would in nearly all cases run into insurmountable bureaucratic sabotage. (...) In the everyday business of governing Japan, groups of officials, especially those in the Ministry of Finance, International Trade and Industry, Construction, and Post and Telecommunications, wield a great deal of power, definitely more than they are theoretically authorized to exercise. They make nearly all laws - which, if not everything, is quite something in terms of measurable power. These laws are always rubber-stamped by the Diet, and the bureaucrats typically proceed to use them as a means to achieve their own cherished aims. Their informal power, moreover, because it is not exposed to debate about its merits, is very open-ended."[11] Whereas many policy issues are decided ceremoniously in cabinet meetings, often they are completely developed in the bureaucracy. In interviews, ministry officials often claimed that the power of the administrative elite has been waning gradually since the mid-1970s. Koh, however, finds that senior bureaucrats have by no means

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[9]See, for example, Schimank, 1983: 275 f, Esman, 1991: 41 f, Scharpf, 1973: 17 ff, Mayntz, 1985: 191 f., Crozier and Friedberg, 1979: 25.

[10]Scharpf, 1973: 17.*

[11]Wolferen, 1988: 32-33.

relinquished their power. In his opinion, they continue to play a pivotal role in policy formulation, while virtually monopolizing the power of policy implementation.[12]

### 4.1.3 Discretion in Development Administrations

Development administration has been described as a distinctive and relatively young field in the administrative system. Is the dichotomy between administration and policy inappropriate for this type of bureaucracy as well? Clearly the answer is yes according to White, who bluntly claimed that "the makings of an aid policy lie in the hands of those who actually administer it."[13] Glagow states that for development administrations, because of the increasing complexity and contingency of environments, the political decision premises are too abstract to have the character of rules. In a recent study, he showed how the German development administration generated its institutional rules by itself within a politically prescribed purpose. He thus suggests referring to a self-programming administration, whose decisions have to be oriented to a professional rationality as well as to a bureaucratic rationality.[14]

Esman points out that "more sophisticated observers have long recognized the political function of senior public administrators, including development managers. Through their 'advice' to political superiors, their technical and managerial expertise, their control of vital information, and their ongoing contact to the relevant public, they influence the policies and the content of programs for which they are responsible. In the implementation of programs and in their application to specific circumstances, they decide what information is relevant, and they 'interpret' policies and rules in ways that make important differences to members of the public."[15] Claus states that, in development administration, the chances of monitoring the implementation of parliamentary decisions are limited. "As a rule, the parliaments' involvement is confined to discussing budget estimates in plenary and in the committees."[16]

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[12]Koh, 1989: 257.

[13]White, 1964 : 3.

[14]See Glagow, 1989: 5-91.

[15]Esman, 1991: 41.

[16]Claus, 1989: 40.

A number of other studies concluded that the role of the parliament in the Japanese development administration is similar. A member of the Japanese Diet wrote: "When I eventually raised my voice on the matter in the national Diet, the official from the Ministry of Foreign Affairs who fielded my query brushed it off lightly, saying that nobody - either ruling party or opposition - had ever opposed ODA. He even warned me that to do so might damage my reelection prospects."[17] According to Yanagihara, the Diet plays virtually no role in the process of decision-making on aid. It is empowered to pass the annual budget allocation for aid, though the legislature has never used this authority to examine aid plans and programs or to evaluate aid outcomes.[18] As a consequence, much of the politics of foreign aid takes place in the bureaucracy, as noted by Forrest, who states that "due to the lack of close oversight by legislators, details of official policies, procedures and goals of developing financing are left almost exclusively for Japan's career bureaucrats to decide by themselves."[19] Consequently, the Diet becomes only involved in the formulation of ODA policies when public attention concerning specific problems is especially high. The fact that the problems and forms of aid have become far too complex to permit decision-making by anyone but experts has enabled the Japanese development administration to effectively protect itself against influences from outside and guaranteed an even higher level of discretion than in most other fields of bureaucracy.

### 4.1.4 Extension of Contingency Theory

The previous analysis demonstrated that it is reasonable to join other, more general assessments which state that within bureaucratic organizations an important degree of choice is available between different modes of organization. Ebers and others claim that in contingency theory the process of choice itself is neglected and that there is a need to analyze these choices.[20] The assumption of a direct link between situation and structure will need to be modified by the introduction of individual decision-makers who enjoy a certain amount of latitude for acting and carrying out strategies.

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[17]Motoo, 1989: 19.

[18]Yanagihara, 1991: 58. Compare also May, 1989: 113, Orr, 1990: 12, Rix, 1980: 15.

[19]Forrest, 1989: 25. The same reason was given by Yasutomo. "That the bureaucracy plays a pivotal role in aid is only natural. Politicians lack the technical knowledge to assess aid projects and impact. Aid is far down on the priority list since it produces few votes in the polls." Yasutomo, 1986: 67.

[20]Ebers, 1985: 76, Sydow, 1985: 281 ff.

Kieser/Kubicek refer to these constraints as "dimensions of internal situation" as opposed to the "dimensions of external situation."[21] If pure contingency theory is supplemented by a theory including discretion of the individual decision-maker, it can be freed of the criticism that it is deterministic. Then structure does not always follow the context as a mechanism, but it follows both the context and the strategy of individuals. The purposeful action of decision-makers intervenes between the "if-component" (environment) and the "then-component" (structure). Although situative factors limit the options of organizational design, they do not determine it because the decisions of individuals are restricted by secondary conditions from the internal environment. When the importance of the internal environment is recognized, contingency theory needs to be extended by an analysis of the decision-makers' discretion, constraints and needs in order to formulate assumptions about individual behavior.

### 4.2 Different Behavioral Assumptions and Their Consequences

The last section showed that in bureaucracies, in general, and in development administrations, in particular, discretion may be used in ways not foreseen by their political decision-makers. In order to predict individual behavior, an assumption needs to be made about how discretion is used. If it is assumed that individuals **want** to use their discretion in the interest of the organization, contingency theory would still hold. In that sense, contingency theory assumes as Weber did that there is no difference between individual and organizational goals. Breton and Wintrobe note that "these scholars in fact assume that bureaucrats always behave as true subordinates, single-mindedly pursuing the objectives and implementing the decisions of their superiors. This view, that bureaucrats are neutral, must in turn be based on the assumption that bureaucrats have no interests of their own that are different from those of superiors ..."[22] To think of an apolitical administration that simply executes orders and to focus on rational management techniques is a bias that has been reinforced by much of the literature in administrative science.

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[21]Kieser/Kubicek write that internal situation refers to all characteristics of an organization that can explain differences between formal structures and that can be influenced by the organization itself. Kieser/Kubicek, 1983: 222.

[22]Breton and Wintrobe, 1982: 2.

**4.2.1 Behavioral Assumptions of New Institutional Economics (NIE)**

NIE argues that, since the assumption of individuals pursuing **self-interest** in the private sector is widely accepted, it is not convincing to assume that an individual becomes altruistic as soon as he enters the public sector. Niskanen, for instance, claimed that activities in the public interest and other social functions "are usually the byproducts, and private ambitions the ends of human actions."[23] Individuals are assumed to pursue self-interest in the political arena or any other field just as they do in the marketplace. This may even involve opportunism. The individual will try to maximize his utility even if the damage to the principal is greater than his individual advantage. This does not imply that the agent deliberately wants to harm the principal, he is just indifferent to the utility of the principal. Given this perspective, relationships between principals and agents can be modeled as **relations of exchange** and do not need to be viewed in terms of authority. These exchanges are bound to transaction cost. The better the institutional arrangement fits to the characteristic of the transaction, the lower the transaction cost will be.

Based on the assumption that individuals have discretion, NIE furthermore claims that the individual should be the basic unit of analysis, the so-called **methodological individualism**. While sociology assumes that organizations determine the behavior of individuals, in neoclassical economics, not systems or organizational goals are the basis for decisions, but rather "social phenomena are always the result of individual decisions, actions, and perceptions."[24] That does not mean that only individual activities can be analyzed. The behavior of collectives of any sort can be understood through the analysis of the relationships between individuals, their preferences, and the existing institutions. Groups can be taken as entities when they are sufficiently homogeneous. Yet it is necessary that the behavior of groups is derived from individual decision-makers.[25]

Furthermore, in economic theory the assumption of **rationality** provides the basis for most models. "The individual is assumed to be rational in the sense of responding in a systematic and, hence, predictable way to incentives: courses of

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[23]Niskanen, 1983: 113.

[24]See Clapham, 1989: 18.* On this issue Niskanen states that "the compositive method of economics, which develops hypotheses about social behavior from models of purposeful behavior by individuals, contrasts with the collectivist method of sociology, which develops hypotheses about social behavior from models of role behavior by aggregate ideal types." Niskanen, 1971: 5.

[25]For criticism of the methodological individualism see Schäfer, 1989: 107-115.

action are chosen that yield the highest net benefits according to the individual's utility function. Contrary to what nonspecialists often believe, it is not assumed that individuals are fully informed."[26] Individuals are acting rationally when they maximize those individual utility functions whose arguments reflect their goals and other secondary conditions such as administrative, legal, economic and political restrictions and incentives. The desired behavior will only be followed if the institutional context is designed to provide incentives for it. Negative incentives can restrict undesired behavior. Such incentives are established through the institutional setting and shapes the individual motives and preferences. Then "...the individual's behavior is explained by concentrating on the changes in the constraints to which he or she is exposed; that is, the preferences are assumed to be constant. Individuals are assumed to be capable of comparing alternatives, of seeing substitution possibilities, and of making marginal adjustments."[27]

### 4.2.2 The Principal-Agent Problem

Based on these assumptions of NIE, the coordination system "hierarchy" does not work perfectly anymore. Now a discrepancy between bureaucratic action and political will, a "slippage" between organizational goal and output can occur. Such problems can be conceptualized within a principal-agent framework which focuses on the relationship between the two economic actors.[28] It models an economic system in which the principal pays the agent to provide a service for him. Jensen and Meckling defined an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent."[29] The special characteristics of this relationship is that "...the agent must choose an action from a number of alternative possibilities. The action affects the welfare of both the agent and the principal."[30]

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[26]Frey, 1991: 220.

[27]Frey, 1991: 221.

[28]A similar problem is addressed by the rent-seeking literature and the literature on directly unproductive profit-seeking (DUP) activities. Both focus attention upon individual or group economic behavior which reduces rather than enhances the resources available to society. See Rowley et al, 1988: 15 ff.

[29]Jensen and Meckling, 1976: 308.

[30]Arrow, 1985: 37.

If principal and agent have diverging interests, the agent could decide to provide unproductive discretion in terms of the principal's objectives. "By this decision-making, the agent does not only influence his own welfare but also that of the principal. (...) In other words, the external effects of the agent's decision-making are negative: those modifications of his actions which are preferred by the principal yield disutilities to the agent."[31] For example, effort is a disutility to the agent, but it has value to the principal because it increases the probability of a beneficial result for him. The problems that arise in the bureaucratic context also exist in other contexts and are referred to as the principal-agent problem. In the literature different terms for such a relationship between the two economic players are used: superior-subordinate, legislator-bureaucrat, sponsor - servant, patron - client, manager (employers) - employees, sovereign - politician, decision-maker - instance.[32] For reasons of consistency and clarity only the general terms "principal and agent" and the terms "legislator and bureaucrat" will be employed in this study.

Shirking responsibilities is only possible if the principal cannot monitor the actions of the agent to some extent. Thus he does not know whether the agent will choose the alternative that serves his interests best. This is referred to as **asymmetric information**. "Relationships vary in the degree of informational asymmetry they involve. At one extreme we have the fabled perfect-market transaction, with standardized products and all information fully shared. At the other end of the continuum are situations in which the agent has full discretion and is not observed at all by the principal."[33] The more information the principal has to control the agent, the less the agent will be able to pursue his own interest.

The consequences of such an imperfect hierarchy can be divided into two central problems. Tullock referred to them as a communication and a control problem.[34] Arrow (1985) separated them into the more general terms of "hidden action and hidden information." In the case of **hidden action**, the agent may choose among different alternatives, but the principal cannot observe these decisions. Such monitoring problems may make it possible for the agent to avoid delivering

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[31]Spreemann, 1987: 6.

[32]See, for instance, Laux, 1990: 11, Tullock, 1965: 51.

[33]Pratt, 1985: 4.

[34]Tullock, 1965: 180.

contracted services to their full extent. **Moral hazard**, for instance, can arise whenever risk-averse individuals acquire risk insurance but their activities to avoid accidents cannot be perfectly monitored. The "moral risk" can range from ignoring measures for protection against damages up to deliberately causing damages. The outcome, which obviously decreases the principal's utility, can be excused by adverse circumstances.

Tullock recognized the hidden action dilemma in the bureaucracy and labeled it a communication problem which may lead to a situation in which "... most of the members of the hierarchy may be doing things that are either opposed to his (the sovereign's) desire or, at best, neutral."[35] The unclear formulation of orders always provides a convenient excuse.[36] Tullock notes that "the amount of error (noise in the communications terminology) would increase potentially with the increase in the number of persons in the transmission chain and with the complexity of the message transmitted. It should be noted that the cause of this phenomenon is not really the use of oral rather than written transmission. There are probably some errors of simple mistakes in understanding, but the main distortions arise within the brain of each man."[37] Even in the absence of inefficient behavior, some information will be distorted through natural entropy. But this natural distortion can be increased or decreased by bureaucrats. Yet the superior is often not able to blame the agent, since it is often difficult to know whether the inefficient behavior was willful or a genuine mistake or which of the agents was responsible.

**Hidden information** refers to a situation in which the principal can observe the actions of the agent, but does not have enough information to determine whether they are appropriate. "In hidden information problems, the agent has made some observation that the principal has not made. The agent uses this observation in making decisions; however, the principal cannot check whether the agent has used his or her information in the way that best serves the principal's interest."[38] In fact, agents typically know more about their tasks than their principals do. For instance, in the physician-patient relationship, the patient cannot know whether the

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[35]Tullock, 1965: 132.

[36]See Downs, 1967: chapter 10-12.

[37]Tullock, 1965: 137.

[38]Arrow, 1985: 39.

actions of the physician are really necessary or whether they are only used to increase the physician's fee. Tullock referred to this as a control problem ("control loss"), which refers to problems in the flow of information from lower to higher levels. It is difficult for the principal to receive all information necessary to control the agent. The agent can also deliberately monopolize information or only give distorted information to higher levels in the hierarchy ("hierarchical distortion").[39]

One consequence of hidden information is the problem of **adverse selection**. The agent uses his superior information to make selections that are not desired by the principal. Ackoff's "lemons principle" can be used to illustrate the problem. When new cars are produced, a certain percentage of them will turn out to be bad cars also known as lemons. The current owner might act opportunistically and describe the lemon as a good car when he wants to sell it. Since buyers know about the probability of buying a lemon without prior knowledge, they will discount the prices of all cars. Owners of good cars, therefore, will not bring a good used car onto the market since they will not receive the full value. Thus "the bad cars tend to drive out the good ones,"[40] an assumption which also applies to some insurance markets.

The principal-agent paradigm provides the appropriate terminology in describing the problems that arise when it is assumed that bureaucrats have discretion and may use it in their own self-interest. Unproductive discretion, such as hidden action and hidden information, decrease the legislator's utility its major characteristic being asymmetric information among the participants. When the damage to the principal is larger than the bureaucrat's individual advantage, welfare losses can occur. Therefore, the core of any organization problem should be seen in the efficient coordination of the interests of all participants in order to minimize this damage.

### 4.3 Economic Bureaucracy Theories

When the assumptions of Weber's model and contingency theory are replaced by those of NIE, the typical principal-agent problems which occur in hierarchies come into view. If individuals want to act in their own interest and have the

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[39]Tullock, 1965: 137 ff.

[40]Akerlof, 1970: 489.

discretionary power to do so, contingency theory needs to be extended by an analysis of the variables that determine how this discretion is used. By applying both contingency theory to analyze the relation with the environment, and NIE to analyze how discretion is used in the organization, a comprehensive description of bureaucratic behavior should be possible.

Even before NIE became prominent, economic theories on bureaucracy challenged Weber's perspective. They started to emerge when Tullock (1965) and Downs (1966) published their studies on that topic. Both analyzed the internal processes within organizations and recognized the inevitable principal-agent problem associated with bureaucratic organizations. Yet a comprehensive theory on bureaucracy based on the assumptions of NIE was not available until 1971 when Niskanen completed his book. Despite the fact that these studies addressed the very principal-agent problems as explained in the previous section, the principal-agent theory and its terminology was not applied. Still, Niskanen's approach dominates economic bureaucracy theory even today.[41] Therefore, in the following, the Niskanen model and other models in the Niskanen tradition will need to be analyzed with respect to the question as to whether these theories are useful in explaining bureaucratic behavior in our case.

### 4.3.1 Niskanen's Model

Assuming that a bureaucrat maximizes his personal utility, Niskanen asked which variables enter the bureaucrat's utility function. It may include among other factors, patronage, output of the bureau, public reputation, prestige, security, career promotion, salary, power, perquisites of office, ease of making changes, and ease of managing the bureau.[42] Niskanen assumed that all except the last two were a monotonically increasing function of the total budget of the bureau.[43] He explained that an increased budget often facilitates increases in personal income, increase of power, prestige, etc. Referred to as the rationality argument, the maximization of the budget (B) was seen as a good proxy for the maximization of the bureaucrat's utility (U), $U = U(B)$.

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[41]For example, Wyckoff, 1990 is based on it.

[42]For a more detailed discussion of each of the variables, see Offermanns, 1990: 96 f.

[43]See Niskanen, 1971: 38.

The survival argument[44] reinforces the budget maximization assumption. The employees of a bureau have a similar interest in larger budgets. The subordinate bureaucrats assert pressure on the chief bureaucrat to increase the budget. Therefore only a chief bureaucrat who tries to maximize his bureau's budget can survive within the bureau. Based on these two arguments, Niskanen claimed that "a complete statement of the central motivational assumption of this theory is the following: Bureaucrats maximize the total budget of their bureau during their tenure."[45] It has the major advantage that only a one-dimensional variable remains to be maximized.

There are, of course, constraints on how much budget the bureau can get from the principal. Niskanen assumed that bureaucrats know how much legislators are willing to pay for a specific level of output (Q) and summarized it by what he termed "budget output function B(Q)." Any point on this function represents the maximum budget the principal is willing to grant to the bureau for a specific, expected level of output (Q).[46] After some point, the principal is indifferent to further output increase and will not pay for more. The budget output function B(Q), as shown in figure 4-1, can mathematically be described by the function $B(Q) = aQ\text{-}bQ^2$.

While in the relevant range ($0 \leq Q < (a/2b)$) the principal is willing to grant a higher budget (the first derivative of this function is positive), this willingness to pay for an additional unit of output increases underproportionally (the second derivative is negative). The marginal benefit function MB(Q) to the principal, as observed by the bureau, is $MB(Q)=a\text{-}2bQ$. Accordingly, the area under the MB curve indicates how much the principal is willing to pay. The maximum is achieved when the marginal value to the principal is zero, which refers to the quantity Qd in figure 4-1.

The other constraint on the bureau is its budget limitation: The bureau has to cover the cost of producing the output with the available budget; deficits are not allowed. To analyze these costs, Niskanen introduced the cost output-function C(Q) relevant to the bureaucrats. "Any point of this function represents the

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[44]Niskanen, 1971: 39.

[45]Niskanen, 1971: 42.

[46]Niskanen, 1971: 25.

minimum total payment to factors necessary to produce a given output, given the factor prices and available production."[47] The cost-output function is described as $C(Q)=cQ+dQ^2$, and consequently the marginal cost curve refers to $MC(Q)=c+2dQ$.

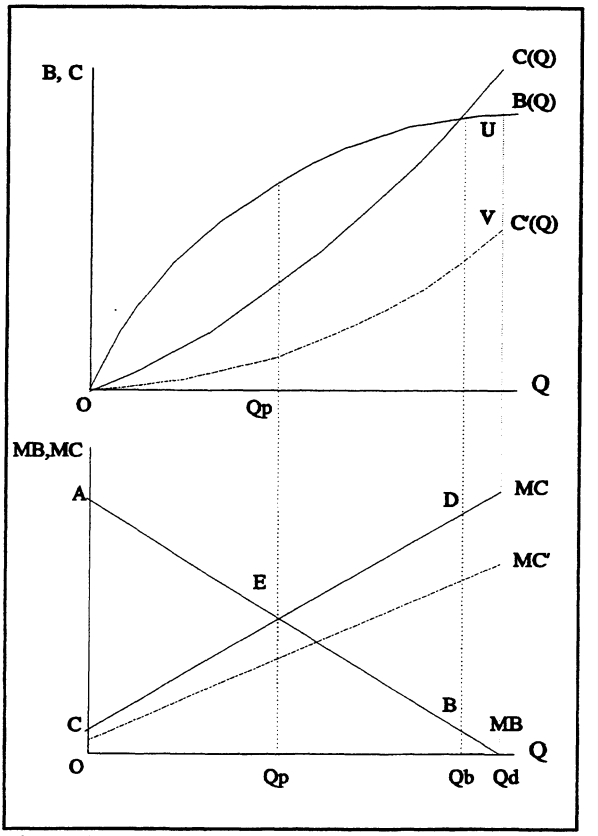


Figure 4-1: Niskanen's economic bureaucracy model

The Pareto-optimal budget (Qp) would be achieved by increasing Q up to the point at which the marginal benefits equal the marginal costs. In figure 4-1, the benefit is depicted by the area OAEQp. After subtracting the cost of OCEQp, the net benefit of the bureaucratic activity refers to CAE.

Mathematically, the Pareto-optimal output can be described as:

$$MB(Qp) = MC(Qp)$$

$$a-2bQp = c+2dQ$$

$$Qp=\frac{1}{2}\frac{a-c}{b+d}$$

However, Niskanen claimed that bureaucrats can achieve a much higher budget because they are monopolies. "Both profit-seeking and bureaucratic monopolies,

[47]Niskanen, 1971: 32. Actually, bureaucrats will demand even more. "With full consideration for probable reductions made by the sponsor's review process, the bureaucrat will submit a budget-output proposal which maximizes the expected approved budget subject to the constraint that the approved budget must be sufficient to cover the costs of the output expected by the sponsor at that budget level. (...) A bureau's proposed budget will be based on what the bureaucrat expects will be approved plus the normal reductions made by the sponsor's review." Niskanen, 1971: 46.

however, do not offer a specified amount of output at a given price, and thus do not directly reveal their minimum cost conditions. The profit-seeking monopolist makes a joint price-output decision, and the bureau makes a joint budget-output decision."[48] In other words, the bureau proposes the combination of a single budget in exchange for a specific output level to its principal. The principal can accept or reject the proposal in favor of the alternative of budget and output levels of zero. Given this monopoly power, bureaucracies are able to attain a budget larger than the Pareto-optimal budget Qp. When bureaucrats are aware of the principal's B(Q) and also know their cost-output function C(Q), they will make a "take-it or leave-it" offer for the amount of Q where the budget offered by the principals exactly covers their costs. This is referred to as the **budget-constrained** maximal budget Qb. Under this assumption a non-Pareto-optimal output level will be realized as follows:

$$B(Qb) = C(Qb)$$
$$aQb-bQb^2 = cQb+dQb^2$$
$$Qb=\frac{a-c}{b+d}$$

Given this form of B(Q) and C(Q), the realized budget Qb in the budget-constrained case is twice the Pareto-optimal budget Qp: $Qb=2\cdot Qp$. Figure 4-1 shows graphically that, by overproducing, the surplus (ACE) will be used for the oversupply of output (BED). This refers to the hidden information problem in the principal-agent terminology. While the principal can observe how much output the bureau promises to produce, he does not have the information to evaluate whether this amount best serves his interest.

If bureaucrats can produce output at lower costs than in the example above, their new cost-output function may be as depicted in C'(Q). In this case, the total budget is larger than the total costs ($C'(Q) < B(Q)$) at any point below Qd. Hence, the budget-constraint will not be relevant. This is referred to as the **demand-constrained** situation. The equilibrium output will be at the point where MB(Q) is zero, that is, at Qd. When the cost of producing Q is less than the proposed budget, the bureau will have a surplus equal to UV in Figure 4-1. Since bureaucracies are by definition nonprofit organizations, the surplus cannot be used directly to increase the personal incomes of bureaucrats. Hence, it is disposed of by employing nonoptimal input combinations. Thus the "bureau has no incentive

[48]Niskanen, 1971: 32.

to be efficient, on the contrary, it should be expected to seek out expenditures beyond those minimally required in order to exhaust the approved budget."[49] These waste-producing operations, of which the principal is unaware, are exactly the same as that which was called "hidden action" by Arrow (1985).

The budget-maximizing bureaucrats try to reach the demand-constrained situation (Qd) since it represents a greater budget than Qb. The position of the cost curve determines whether the situation will be budget-constrained or output constrained. For Niskanen, this fact represents an incentive for bureaucrats to shift the cost curve down, e.g., to decrease the slope of their MC(Q) curve until they produce at minimal costs. Until Qd has been reached, the budget just covers the bureau's minimum cost and implies that the bureau is technically efficient. After Qd has been reached, further possible cost decreases (such as depicted by C'(Q) in figure 4-1) will not be realized, since they would not cause further budget increases.

To summarize, given the assumptions of budget-maximizing bureaucrats who have monopoly power, the bureau output is predicted to be beyond the Pareto-optimal level maximizing the net benefit to the principal. Yet, since the bureaucrats seek to attain the demand-constrained situation, production takes place at minimum costs until Qd has been reached. In the demand-constrained situation, a further cost decrease would not increase the budget, and thus remaining budget funds are used up by producing "waste." This result corresponds to Parkinson's Law of Bureaucratic Imperialism. Parkinson's classic humorous, yet academic work suggested that a bureau expands uncontrollably until it achieves an upper limit dictated only by a maximum ratio of administrators to be administered.[50] Two of Niskanen's central statements were heavily criticized: the assertion that bureaucrats produce at minimal cost and the assumption that bureaucrats want to maximize their budget. A review of that criticism in the next section will help to assess whether Niskanen's position holds for our case.

### 4.3.2 Criticism of Niskanen's Model

#### 4.3.2.1 Production at Minimal Cost

To clarify the criticism of Niskanen's model, two different forms of inefficiency need to be identified. **Pareto-inefficient production** refers to the inefficient

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[49]Niskanen, 1971: 48.

[50]Parkinson, 1957: 13.

allocation of resources in which too little output is produced in comparison to alternative allocation of the same resources. Pareto-optimality is realized when it is no longer possible to enhance the society's welfare by a change of resource allocation because that would cause a larger welfare decrease than welfare increase. This allocation can be achieved under the assumption of perfect competition. That is why the terms allocative efficiency and Pareto-efficiency can be used interchangeably.

**X-inefficient production** refers to a situation in which the welfare could be increased by changing the production conditions. According to Leibenstein, "X-inefficiency in the firm essentially means that the resources available to the firm are not utilized as well as they could be."[51] When resources have been wasted due to technical inefficiency, it would have been possible to produce more output with the same amount of resources and the same allocation.

Niskanen claims that in a budget-constrained situation, the bureaucracy supplies its services at minimum costs. "At the equilibrium level of output, there is no fat in this bureau; the total budget just covers the minimum total cost, and no cost-effectiveness analysis would reveal any inefficiency."[52] Since this is seen as the more general case, Niskanen's main conclusion is that the supply of bureaucracies is Pareto-inefficient, but X-efficient. Administrative reforms decreasing X-inefficiency would completely miss the point. It has been maintained that both in the market organization and in bureaucratic monopolies production will be at minimal cost, although for different reasons.[53]

This result contradicts the conclusions of other studies. Leibenstein noted that "if we assume that there is some degree of discretion available with respect to the use of effort in the firm, then it is possible that the effort will not be used most efficiently without pressure. In some sense, pressure has to be felt at every point

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[51]Leibenstein, 1989: 1364.

[52]Niskanen, 1971: 47.

[53]This argument is not valid for the demand-constrained case, in which the minimum cost for the production of maximal demand does not exceed the available budget even at maximal output. Here the bureaucracy can use up the maximal budget only by being X-inefficient, thus the supply will be allocative inefficient and technical inefficient. However, without explicitly stating so, most criticism of Niskanen's theory is based on the budget-constrained case. See, for example, Borcherding, 1977: 232.

where discretion exists."[54] Consequently, the more difficult it is to measure the output, the more likely X-inefficient production will become. Most outputs of public administration are obviously difficult to measure. Thus it can be argued that the assumption that bureaucracies always supply services in a technically efficient way is not realistic. Several comparative studies between the supply of private and public sector organizations have shown that the productivity of public organizations is lower in most cases.[55] Breton and Wintrobe argue that bureaucrats will not behave Pareto-inefficient because it is easier for principals to discover it. To detect X-inefficient behavior, however, is a much more difficult task for principals because they would need a comparison for minimal costs of production, which they do not have.[56]

#### 4.3.2.2 Budget Maximization

According to the survival argument, the other bureaucrats want the chief bureaucrat to demand larger budgets. The argument does not explain why there should be force in **maximizing** the budget. Moreover, the pressure for higher budgets may depend on how the greater budget is used. If it does not increase the prestige or position of the other bureaucrats there may be little interest in the expansion. Hiring new bureaucrats or labor-saving equipment that endangers the bureaucrats existing position may be strongly opposed. Such practical considerations do not suggest pressure on the chief bureaucrat to maximize the budget. Depending on how the additional budget is used, bureaucrats may not even want to increase it.

The rationality argument explained the desire for budget maximization by pointing out that most of the arguments of the bureaucrats' utility function are positively correlated to the budget. It is assumed that an increased budget size increases the chances of making expenditures that take individual motives and preferences into account. However, in the budget-constrained case, funds are only spent for production at minimal costs; their use is only correlated to an increase in production and not to the arguments of the bureaucrats' utility function. Such budget increases cannot lead to "waste", which is preferred by bureaucrats.

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[54]Leibenstein, 1989: 1364.

[55]See Mueller (1989). While this could be explained by the bureau being in the demand-constrained situation, most scholars assume that the budget-constraint is more realistic. See Roppel, 1979: 123.

[56]Breton and Wintrobe, 1975: 202.

Therefore, it can be concluded that both the survival and the rationality argument do not represent a conceptualization of the facts as they exist.

### 4.3.3 Extensions of Niskanen's Theory

The criticism concerning Niskanen's model has motivated other studies dealing with the same topic. Most writers since Niskanen have concentrated on the budget-constraint scenario to simplify the formal problem. Based on criticism of the Niskanen model, the theory of Migue and Belanger concerning managerial discretion rejected the conclusion that budget maximization is equivalent to output maximization. In the Niskanen model, the output is produced at minimal cost in order to achieve the maximum budget, but the other objectives of the bureaucrats are not taken into account. Migue/Belanger call this an "ironic outcome," since the total rent will be used for budget maximization and a zero rent would remain for other utility dimensions specified by Niskanen.[57]

Migue/Belanger's theory was stimulated by the Williamson (1964) model of the neoclassical firm. According to this theory, managers appropriate part of the difference between revenue and costs by producing above minimum cost. This discretionary budget can, for instance, be used to expand staff size, which increases the utility for the managers. Likewise, bureaucrats may have a choice to either maximize output or to maximize the discretionary budget. In other words, Migue/Belanger added X-inefficiency to the list of possible bureaucratic goals. Motive can be leisure, salary, perquisites, or risk aversion.

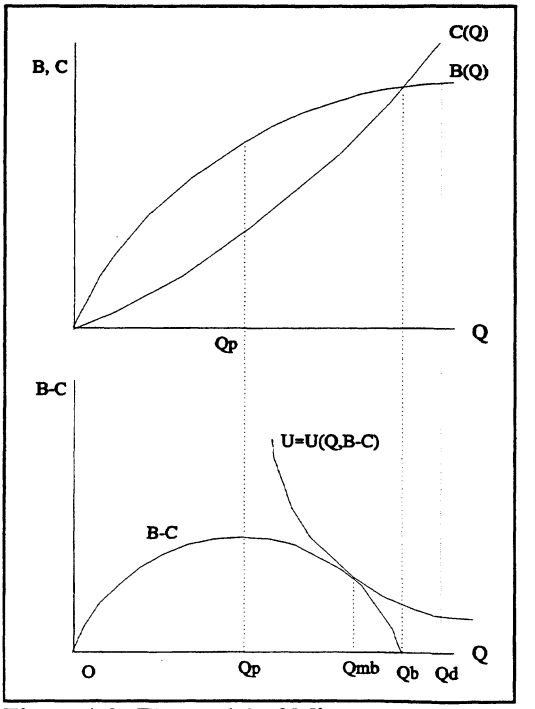


Figure 4-2: The model of Migue and Belanger

[57]See Migue/Belanger, 1974: 29.

Such a motivation can induce bureaus to resist risky projects desired by the principal in order to avoid potential criticism that the project was not successful. Another motive might be the creation of other income sources such as corruption or payments to lobbyists supporting the bureau. In any case, the cost curve of the bureau is raised without an increase in output. The discretionary budget (B-C) refers to the difference between the budget the bureau receives to finance the promised output Q and the minimal cost C that is required to produce Q.

Consequently, the utility function of Migue/Belanger's bureaucrats is Ub = Ub(Q,B-C). Figure 4-2 shows that while the Niskanen bureaucrat would produce at Qb to maximize B(Q), the Migue/Belanger bureaucrat would choose Qmb. The bureau's preferences are represented by U (Q, B-C); it is indifferent between different combinations of Q and B-C. The tangent between this curve and B-C determines the budget Qmb. While Migue/Belanger's bureau produces less than Niskanen's (Qmb < Qb), it still leaves no surplus for the principal. Unfortunately, Migue/Belanger did not describe the determinants of the position of the indifference curve.

The Leibenstein bureaucrat is again different and prefers even higher levels of X-inefficiency. His indifference curve would therefore be parallel to the abscissa, whereas Niskanen's (and Parkinson's) bureaucrats are only interested in Q and have an indifference curve which is parallel to the ordinate. The Migue/Belanger bureaucrat is in between, being indifferent to various combinations of allocative and productive inefficiency. The three disparate indifference curves cause differences in the comparative statics. When the legislators demand increases, the bureaucrats can attain ceteris paribus a higher indifference curve. While Niskanen's bureaucrat would respond to a demand increase by expanding the output, the Leibenstein bureaucrat would only increase the discretionary budget. The Migue/Belanger model predicts that the budget increase would be associated with an increase in both unit cost and the budget.

What Migue/Belanger called discretionary budget was taken up by other analysts, who referred to it as fiscal residuum[58] or organizational slack.[59] The major dissimilarity between the models was the kind of non-productive items the

[58]Orzechowski, 1977: 232.

[59]Wyckoff, 1989: 35.

bureaucrats purchased for the difference between revenue and minimum cost of production. Orzechowski extended the Migue/Belanger model, assuming that bureaucrats exhibit preferences for personnel. Based on Parkinson's notion of a strong preference for staff, he assumed that bureaucrats use their discretionary budget to hire more labor (L). His utility function U = U(Q,L) represents only a special case of Migue/Belanger's utility function with the discretionary budget used completely for increase in staff.

Peacock's utility function U = U(N,L,S) included the number of administrative-grade officials under a bureaucrat's command (N), on-the-job leisure (L) and a surplus (S) above the wages. In this model, "the upper limit of output expansion is determined by the loss of utility from leisure marginally induced by an expansion in administrative staff. (...) Technical inefficiency via excessive leisure and fiscal residuum objectives clearly is a predictable outcome of this bureaucratic monopoly model."[60] Except for the variable to be maximized, all these models are essentially like Niskanen's and there is no major difference in their welfare implications. Unlike Niskanen's bureau with its single budget maximization objective, the models of Migue/Belanger, Orzechowski, and Peacock conceptualize a different trade-off between various uses of their discretion.

#### 4.3.4 Remaining Criticism of the Models in the Niskanen Tradition

Despite the fact that the models introduced above improved Niskanen's model concerning the criticism of production at minimal costs (4.3.2.1) and the budget maximization (4.3.2.2), other criticism of the Niskanen model was not integrated in their extension of the original theory. The following three assumptions were retained: the assumption that bureaus are supply monopolies, that discretion is invariably used unproductively and the paradigm of passive politicians.

##### 4.3.4.1 Monopoly Assumption

The first assumption of Niskanen's theory was that government bureaus are monopolies. He wrote that "the primary reason for the differential bargaining power of a monopoly bureau is the sponsor's lack of a significant alternative and its unwillingness to forgo the services supplied by the bureau."[61] This induces two questions. Firstly, do most bureaus in public administration, and especially

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[60]Rowley, 1988: 276.

[61]Niskanen, 1971: 25.

development administration, have supply monopolies, and are legislators really dependent on them? Secondly, do bureaus in fact have such superior bargaining power that they can control the agenda?

**(a) Supply Monopoly**

Breton and Wintrobe give several examples of why, in their opinion, the supply monopoly is not realistic in general. They point to the fact that many bureaus overlap in their function and that central agencies often duplicate studies made by other bureaus.[62] Esman notes that the relative autonomy of vertical, functionally specified structures, including their inclination to maintain tight boundaries in relation to other bureaucracies performing complementary activities at the same time, produces one of the classical dilemmas in modern public administration. "Though the single-agency perspective continues to dominate teaching and writing in public administration, many government-sponsored policies, programs and projects overlap the boundaries of a single functionally specialized bureaucratic agency."[63]

The fact that bureaus or ministries may overlap in their functions is also shown by Wolferen for the Japanese case of territorial claims between the Ministry of Construction and the Ministry of Transport.[64] Likewise, there has been competition about the postal savings system between the Ministry of Finance and the Ministry of Post and Telecommunication. It is safe to say that the monopoly assumption does not hold for the Japanese development administration. ODA in Japan is not provided by one single bureau; there is fierce competition within 18 ministries to receive a part of the ODA budget. The term 'conflict' has often been used for descriptions of the Japanese development administration. This study replaces the concept of conflict with the economic term competition to illuminate the effects of this institutional setting.

**(b) Agenda Control**

Niskanen furthermore assumed that bureaucrats have an extremely strong agenda-setting role since they can make take-it-or-leave-it budget proposals. "Bureaus do not, in fact, present their principals with an all or nothing choice. But the offer

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[62]Breton and Wintrobe, 1982: 91.

[63]Esman, 1991: 74.

[64]See Wolferen, 1988: 124 ff.

of a total output for a budget, under many conditions, gives them the same type of bargaining power."[65] Thus, bargaining between bureaucrats and the principal does not proceed on a per unit basis but rather on the basis of a total budget. "The primary difference between the exchange relation of a bureau and that of a market organization is that a bureau offers a total output in exchange for a budget, whereas a market organization offers units of output at a price."[66] This ensures that the alternative most preferred by the agenda setter is chosen. However, according to Eavy, "competition among the agenda setters will shift the outcome away from the agenda setter's preferred alternative back to the sponsor's preferred choice."[67] To what extent this is possible depends on the level of communication among agenda setters and on the institutional structure. In this sense, the supply monopoly issue is obviously related to the agenda control issue. If the former is not accepted, it also weakens the agenda control argument.

#### 4.3.4.2 Consistently Unproductive Discretion

Is the discretion always used in a way detrimental to the principal's utility or are there cases in which bureaucrats willingly forgo the chance to provide unproductive discretion? Based on the assertion of superior monopoly power, Niskanen, Migue/Belanger, Orzechowski, and Peacock assumed that bureaucrats can and do behave inefficiently.[68] These theoretical models cannot explain why bureaucrats would willingly provide productive discretion.

However, Esman and others pointed out that bureaucrats may as well use the discretionary power productively. "In the hands of incompetent, unmotivated or corrupt personnel, development management can add up to a net burden on the society, consuming in resources more than it provides in benefits; in the hands of committed and highly motivated professionals, even under unpromising political conditions, it can make a decisive contribution to sustained and broadly based

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[65]Niskanen, 1971: 25 (footnote 2), see also Roppel, 1979: 106 ff.

[66]Niskanen, 1971: 25.

[67]Eavy, 1987: 511.

[68]The only difference in their models is how bureaucrats extract the rents. While the budget maximizers in the Niskanen model always chose to take their monopoly rents in the form of larger budgets, the Migue/Belanger bureaucrats can choose between different ratios of Pareto-efficiency and X-inefficiency, and Leibenstein bureaucrats can choose only X-inefficiency. Orzechowski's bureaucrat could choose between output or staff increase, and Peacock's bureaucrat has the choice between the number of administrative grade officials under his command, job leisure, and surplus after the wages.

social and economic development."[69] That means, in some cases, bureaucrats may try to achieve compatibility in terms of contingency theory. According to the concept of self-interest, they would only do so if it is in their own interest. This interest is not only limited to budget maximization; besides budget-correlated objectives, personal rewards or sanctions represent other important arguments of the utility function of bureaucrats. Models neglecting to address such incentives may not be realistic for most empirical cases.

#### 4.3.4.3 Passive Politicians

Implicitly, Niskanen, and the other models in his tradition assumed that the principals will accept the unproductive discretion of their agents without taking countermeasures. However, principals may in fact be very active since the output of the bureaucrats is important for increasing their own utility. For politicians, the chances of reelection are increased if the ministries provide efficient services to the public. If they do not, it will be easy for the opposing party to come to power by promising a better control of bureaucratic production. That means, while bureaucrats are interested in being inefficient, politicians have a strong interest in keeping the bureaucrats efficient. Hence, legislators use "antidistortion devices" to make bureaucrats work efficiently, mainly through promotions for efficient services and sanctions against inefficient services. In Migue/Belanger's terminology, this means that politicians can influence the position and shape of bureaucratic indifference curves. Then the bureaucrat faces a different set of constraints that affect his utility. When he decides to supply unproductive discretion, his utility may increase through budget-correlated benefits, but it may be decreased through possible sanctions. He may decide to do his job at least as good as he is expected to and advance the interests of the organization. Providing such productive discretion may decrease the bureaucrat's budget-correlated benefits, but his overall utility may still increase by receiving rewards.

### 4.4 A Principal-Agent Approach to Bureaucracy

In this section, a new model based on the principal-agent approach will be developed. The criticism of the existing economic bureaucracy theory in the last section provides a useful starting point for this. The model differs from that of Niskanen (unproductive discretion) and Weber (productive discretion) because the bureaucrat has the explicit choice between the two alternatives. The model

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[69]Esman, 1991: 35.

furthermore clarifies what determines these behavioral differences. It modifies the assumptions found inadequate for analyzing empirical cases.[70]

While economic bureaucracy theory dealt with the principal-agent problem, the insights of NIE and the principal-agent theory have not yet been applied to it, since legislators were assumed to be passive. The missing piece in the theoretical puzzle was the recognition that the principals are not passive and can influence the choice of the agents through the design of institutions - a paradigm which is actually the core of the principal-agent theory. Jensen and Meckling state that the challenge of the principal agent theory is "to establish incentives such that agents, in pursuing their self-interest, achieve the objectives of the principal. In addition, the principal may incur monitoring and bonding expenditures in an effort to limit the divergence of the agent's interests from that of the principal."[71] The following model has been developed to analyze the institutional setting and the incentives and motives behind efficient or inefficient bureaucratic behavior. It should be noted, however, that the objective is not to generate a normative theory, but rather to focus on developing a positive theory of the behavior of agencies related to development administration.

Four assumptions of economic bureaucracy theory have been modified, producing a model more able to describe real world phenomena, e.g., the situation of the Japanese development administration.

- Agents have the choice of whether to provide productive or unproductive discretion.
- Legislators are active and may use control devices or incentives to reduce unproductive discretion and thus assumptions as to how the bureaucrats use their discretion are not necessary.
- The form of incentives is irrelevant to the model and thus assumptions about a bureaucrat's utility function are not necessary.
- There is competition among ministries and thus the assumption that they represent supply monopolies is not necessary (section 4.5.).

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[70]This includes the assumption that bureaucrats always use their discretion in a way not desired by the principal. Furthermore, the unrealistic assumptions of production at minimal costs, superior monopoly power, and passive politicians discourage the application of economic bureaucracy theories to empirical cases.

[71]Jensen and Meckling cited in Pratt/Zeckhäuser: 153

### 4.4.1 Agency Theory and Agency Cost

The landmark American Economic Review Article "Production, Information Cost, and Economic Organization" by Alchian and Demsetz (1972) marked a starting point for the principal-agent theory, and it was further developed by Jensen and Meckling (1976). Whereas much of the relevant literature focuses on the separation of ownership and control (Fama and Jensen 1983, Jensen and Meckling, 1976) or on explaining various organizational forms (Fama and Jensen 1984), the agency theory can also be used to explain relationships within organizations. Much of the literature focuses on the private sector and how to cope with the principal-agent problem through mechanisms of sanctions and control.[72]

There is also a distinction between the normative principal-agent literature and the positive principal-agent literature. While the normative principal-agent literature focuses on the analysis of decisions between principals and agents using mathematic formulas to express various types of interactive behavior, the positive principal-agent literature concentrates on theories explaining observed phenomena in complex organizations. Eccles points to the divergence between mathematical solutions and what is actually done in practice and suggests that "institutional evidence should not be ignored simply because it is difficult to express in quantitative terms."[73] Because of its relation to empirical organization research, this study focuses on the second school of thought.

Any assignment in a principal-agent relationship causes **agency costs**, which can be used to measure the consequences of asymmetric information. Their reduction represents the efficiency criteria of the institutional design of any assignment, while high agency costs signal inappropriate institutions. The agency costs are defined as the sum of:[74]

- **Monitoring costs** which refer to the expenditures of the principal for devices reducing welfare loss. These costs were recognized by Downs, who called the different possible mechanisms "antidistortion devices."[75]
- **Bonding costs** refer to expenditures of the agent to promote his credibility.

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[72]See Alchian and Demsetz (1972), Jensen and Meckling (1976), Laux (1990).

[73]Eccles, R.G., Transfer pricing as a problem of agency, in: Pratt/Zeckhauser: 154.

[74]See Jensen, Meckling, 1976: 308.

[75]Downs, 1967: 118 ff, chapter 12.

- **Residual loss** which refers to the monetary equivalent of the reduction in welfare experienced by the principal due to the divergence between the agent's decisions (hidden action / hidden information) and those decisions that would maximize the welfare of the principal. What constitutes these costs has been described in detail in chapter 4.2.2.

The models in the Niskanen tradition assumed politicians were passive, i.e., that the agency cost equaled the residual loss, while bonding and monitoring costs were at zero. Niskanen furthermore assumed that residual loss can only be caused by allocative inefficiency, whereas Leibenstein assumed it was induced by X-inefficiency. In the following model, the form of agency cost is irrelevant and thus no specific assumption about the utility function of the bureaucrat is required. While it could refer to budget increases, it could also refer to any other argument of the utility function of bureaucrats such as security, perquisites, promotion, responsibility, prestige, etc. This view is supported by Wyckoff, who states "that there is surprisingly little empirical difference between slack-maximizing and budget-maximizing bureaucracies, so that in many circumstances it will not be necessary to pin down the bureaucrat's motives to predict his behavior well."[76]

### 4.4.2 Institutional Devices for Reducing Agency Cost

According to New Institutional Economics (NIE), institutions function to minimize agency cost.[77] Hence, in the following pages, the institutions within the bureaucracy will be analyzed with respect to that function. According to NIE, relationships between individuals can be portrayed as relationships of exchange. Legislators are paying fixed salaries, and bureaucrats may use their discretionary power to provide or not to provide the formal services agreed upon. Since "active legislators" have recognized this principal-agent problem and have a strong interest in receiving productive discretion, they will establish **formal antidistortion devices** such as control mechanisms and penalties for unproductive discretion.[78] Legislators also may offer additional rewards to encourage bureaucrats to use their discretion productively. Since in public administration

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[76]Wyckoff, 1990: 36. See also Breton and Wintrobe, 1982: 19 suggesting that thick carpets and beautiful secretaries may also be considered.

[77]See, for example, Schmid, 1988: 3 ff.

[78]Downs, 1967: chapter 12, Tullock, 1965: 194 ff.

such legislative incentive structures are not formally accepted, they will often be **informal antidistortion devices.**

**(a) Formal Antidistortion Devices**

Every organization has a level of performance that can be expected by virtue of contractual arrangements, job descriptions and other organizational rules that regulate the interaction among organization members. Both monitoring and information devices can decrease the unproductive discretion by uncovering deviations between bureaucratic actions and the organizational goal. **Information devices** refer to the use of information systems to make the actions of the agent more transparent. Institutional innovations can facilitate information about the productive discretion of the agents and are thus a substitute for direct monitoring.[79] **Monitoring** is often performed by legislators who are assigned to oversee committees. Yet these committees are also agents of the legislators and, therefore, may also provide unproductive discretion. Furthermore, given the hidden information problem, it may be difficult for principals to receive any detailed information since the agents control it. Therefore Niskanen was skeptical about such control devices and concluded that "under such conditions, the committee review process is a farce."[80]

The first to challenge that skeptical view were Breton and Wintrobe (1975). They argued that legislators can, in fact, use control devices to reduce unproductive discretion, even though marginal benefits of such activities are rapidly decreasing. The MB curve in figure 4-3 refers to the marginal benefit to legislators per unit of control device achieved by reducing unproductive discretion. The maximal benefit through control devices (equal to the area OJA) equals the total residual loss. Breton and Wintrobe accepted Niskanen's budget-maximizing paradigm and argued that the maximal benefit is comparable to the total additional budget bureaucrats take above the Pareto-optimal budget (in fig. 4-1 area EDB). Since, in our model, no specific assumption is made about the form of bureaucratic inefficiency, it could arise either from reductions of Pareto-inefficiency or X-inefficiency.

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[79]Such an institutional change will be discussed in the introduction of the Goal Oriented Project Planning Method (ZOPP) in chapter 5.

[80]Niskanen, 1971: 153.

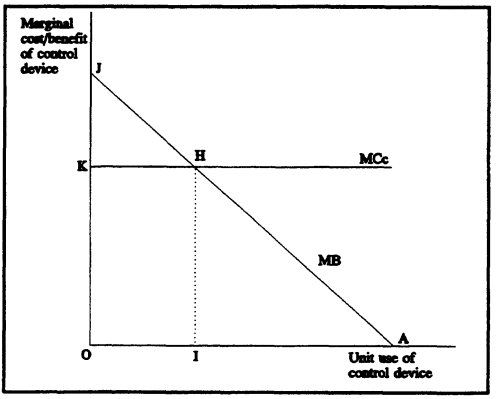


Figure 4-3: Budget with active politicians using control instruments (Source: Breton and Wintrobe, 1975: 200)

Assuming that the marginal costs of control (MCc) do not change, the MCc curve is parallel to the abscissa. Since control devices use up resources, the principal will apply them only as long as marginal control costs are lower than marginal benefits from the reduction of the residual loss, i.e., until the point at which the marginal cost of the control device equals the marginal reduction of the residual loss. Unproductive discretion will be eliminated to the extent it pays to do so. Total control cost is OKHI, which decreases the residual loss by the equivalent of the area OJHI. The residual loss has decreased from OJA to IHA. The legislator's agency cost is control cost OKHI, plus the remaining residual loss for the bureaucrats IHA.

Breton and Wintrobe's analysis also helps to explain the differences between Weber's and Niskanen's perspective. Weber believed that bureaucrats always supply efficient services; the implicit assumption was that control costs and MCc were always zero. In Niskanen's view, inefficient supply can be explained by the assumption that control costs are always higher than the marginal benefits of their use and MCc is so large that it does not intersect with MB.

**(b) Informal Antidistortion Devices**

Breton and Wintrobe's paper only conceptualized control devices for reducing unproductive discretion and subsequent penalties for unproductive discretion. Besides such negative incentives, Tullock and others showed that positive incentives also represent an important means for decreasing unproductive discretion.[81] In bureaucracies, informal incentives are frequently used to reduce agency cost. Once sufficient trust between principal and agent has been developed, informal incentives can be a powerful tool for ensuring that the agent acts in terms

[81]Tullock, 1965: 122 ff, 186 f. For the Japanese case, Koh notes that intangible long-term rewards, such as subsequent career advancement, play a larger role in the Japanese incentive structure than any other formal financial rewards. Koh, 1979: 223.

of the principal and pecuniary incentives will play a minor role. Mayntz states that vertical, trust-based relationships may "fill the gaps in the formal rules, adjust the formal rules to the demands of the situation, make bureaucrats do more than officially can be expected, so as to ignore time consuming rules that are unnecessary ...."[82] When it is expensive or impossible to enforce a formal contract, the obstacles may be overcome by informal commitments and trust which replace explicit legal contracts. It is crucial to understand cultural values of the society, since such institutions will only work if they do not contradict the background of the individuals within that society.

What is the major difference to formal antidistortion devices? North writes that for formal contracts, "the costs of transacting can be high because there are problems in both measuring the attributes of what is being exchanged and problems of enforcing the terms of exchange; in consequence, there are gains to be realized by engaging in cheating, shirking, opportunism, etc. As a result, in modern Western societies we have devised formal contracts, bonding of participants, guarantees, brand names, elaborate monitoring systems, and effective enforcing mechanisms. In short, we have well-specified and well-enforced property rights."[83] Exchange is only possible with the help of a third party (usually the government) which specifies property rights and enforces contracts by legal devices. In the case of informal incentives, such legal enforcement is not possible. Instead, trust is institutionalized. Thus, informal personal networks based on trust can be compared to markets based on legal rights. The degree of trust is the major determinant whether informal trade can develop.

Within bureaucracies, both principal and agent can increase their welfare by informally trading with each other. The agent's decision to provide productive or unproductive discretion is determined by the benefit of being unproductive and the additional reward offered by principals for efficient services. When the bureaucrat agrees to the principal's offer, this process could be described as an informal trade which influences the provision of the formally agreed services. These informal trades are also bound to agency cost, namely, those required to build up trust. Since they are not supported by legal devices, the agent needs to trust that he will receive payment. Thus, the accumulation of trust is an important requirement for

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[82]Mayntz, 1985: 113 f.*

[83]North, 1989: 1320.

informal trades. [84] The decision for the amount of investment in trust will be determined by the profitability of the informal trades and by the costs of accumulating trust.

A trust-based relationship generates strong incentives not to provide unproductive discretion, as Offermanns explains. "By breaking the rules, that is, by breaching trust, a short-term profit can be realized, but trustworthiness is lost. This is very expensive for two reasons. First, one cannot participate in the informal interactions of informal groups, which reduces welfare. Second, it is expensive to recreate trust. This requires many preinvestments."[85] The high cost when one's reputation is damaged is an important reason for providing productive discretion and consequently causes a reduction of agency costs. North writes that, in this situation, "cheating, shirking, opportunism, all features that underlie modern industrial theory, are limited or indeed absent, because they simply do not pay. Under such conditions, norms of behavior are seldom written down. Formal contracting does not exist, and there are few formal specific rules."[86]

### 4.4.3 Agency Cost of Control Versus Incentive Strategy

The last section showed that positive incentives are important and that, in bureaucracies, they will most often be informal. Therefore the importance of trust has been emphasized. These characteristics will now be incorporated into Breton and Wintrobe's model, presented in figure 4-3, which only focused on formal control devices. For the extension of the model, it is assumed that the legislator can spend the resources for antidistortion devices either for incentives or for control mechanisms. For each directive, one or the other strategy can be chosen. In figure 4-4, MCc refers to the cost of incremental uses of control devices as in figure 4-3. Likewise, the MB curve corresponds with the marginal benefit to legislators per unit of antidistortion device achieved by reducing unproductive discretion.

If the legislator decides to use the resources for paying incentives to the bureaucrats instead of using it for control devices, the marginal costs are depicted

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[84]Luhmann notes that trust functions to reduce social complexity by generalizing behavioral expectations and replacing missing information through internal guaranteed security. See Luhmann, 1989: 105.

[85]Offermanns, 1990: 184.*

[86]North, 1989: 1320.

by MCi. MCi is the minimal compensation the bureaucrat wants to receive for productive discretion and thus reflects the bureaucrat's opportunity cost (the amount of extra compensation required to draw these resources from alternative uses). In figure 4-4, it is assumed that MCi is below MCc, which is a reasonable assumption when the control costs are extraordinarily high because output and per unit cost are not measurable. In later parts of this chapter, the determinants of the differences of the relative position will be discussed in detail.

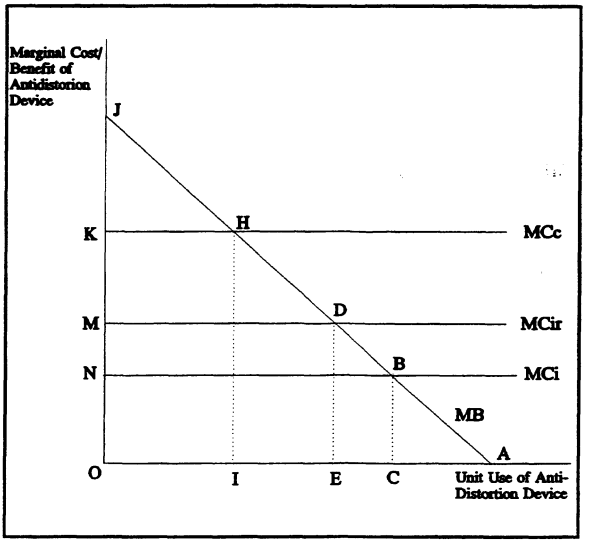


Figure 4-4: Budget with active politicians using control and incentive instruments

The legislator offers incentive payments as depicted by the area ONBC. If the bureaucrat agrees, an informal trade may take place. The residual loss that can be appropriated by the bureaucrat decreases to CBA. Additionally, the bureaucrat receives the incentive payment ONBC. Thus the agency cost is reduced to ONBA, compared to OKHA for the control strategy. However, the agency contract has a rigid theoretical structure as figure 4-5 illustrates. Wiggins writes: "The heart of contractual relationship is stages B through E, wherein a bonus is offered (B), the worker supplies effort (C), uncertainty is realized (D), and the payoff is made (E). Agency theory has traditionally focused on whether the worker will renege at C, while assuming the performance of the contract at stage E is automatic; accordingly the output is "contractable" while effort is not. In other words, the standard agency problem makes a strong assumption about the credibility of these two parties, and this assumption drives all results."[87]

Wiggins refers to the problem that in such informal trades the bureaucrat risks not receiving the reward ONBC promised for the productive discretion. The perceived

[87]Wiggins, 1991: 646.

probability of receiving payment is determined by the amount of vertical trust (Tv), which refers to the degree of trust between legislators and bureaucrats. Thus, if Tv is absolute, the "insurance cost" would be zero. However, if Tv is not absolute, part of the legislator's payment will be used as risk compensation, which can be viewed as the agency cost of the informal trade. The perceived probability of receiving the promised payment from the legislator is represented by q, where q is a function of Tv ($q=q(Tv)$, $0<q<1$). The risk-adjusted payment which bureaucrats can expect will only be $q\cdot(ONBC)$. Since the agents want to be sure to receive the full amount of ONBC, they will demand an additional risk compensation on top of the promised payment. This risk premium is reflected in the higher position of the MCir curve. Its vertical difference to MCi represents the compensation for the risk depicted by q.

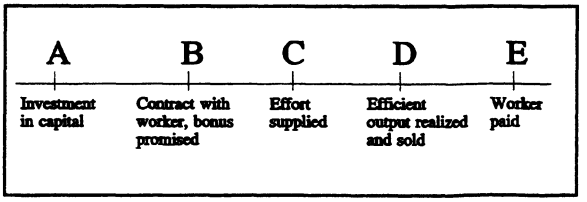


Figure 4-5: Basic assumptions of the agency contract (Source: Wiggins, 1991: 648)

If, bound by an informal trade with the legislator, the agent provides productive discretion, the residual loss is reduced from IHA to EDA. Instead, the agent receives the risk-adjusted payment promised by the legislator for the productive discretion $q \cdot (OMDE)$. The bureaucrat increases MCir until $(EDA + q\cdot(OMDE))$ is larger than IHA. That demonstrates that it may be in the interest of the bureaucrat to provide productive discretion if sufficient Tv has developed. This also shows how informal trades based on trust can reduce agency cost. By using control instruments, the agency cost was OKHA (OKHI for control cost, IHA for residual loss); by using the incentive strategy, it can be decreased to OMDA (OMDE for incentive payment, EDA for residual loss). Therefore, the incentive strategy would be beneficial to both principal and agent. This is only valid, however, when a sufficient amount of Tv has developed, otherwise a high risk compensation may cause MCir to be above MCc.

### 4.4.4 Multiple Agencies

What changes in the model if the monopoly assumption, which was found inappropriate for the empirical case, is also dropped? The problem of multiple

agencies has only been explored very little so far.[88] No major change occurs when the institutional setting assigns clear tasks to the ministries. When the tasks are clearly delineated and do not overlap, there is little competition among the ministries. The situation in Japan, however, is different; 18 ministries compete to increase their territory in the field of ODA. Their tasks are not clearly delineated and there is hardly any control through local government or other concerned parties as in domestic administration.[89]

A major advantage of the multiple agency system is the potential **decrease of monitoring costs**. After multiple agencies compete for providing a service, the minimal cost combinations can be compared among the competing agencies by monitoring the prices at which they offer their services. Thus direct monitoring of the agent's activities becomes less important since the competitor's prices reveal information about minimal cost combinations.[90] Analytically, MCc in figure 4-4 should decrease. If MCc decreases below MCir, the legislator can decide for the control strategy. This would force all agents to supply their services at prices close to their marginal costs and the agency cost would be lower than in the single agency case.

However, the functioning of the market mechanism is an important assumption for this effect. It will not work well if there is uncertainty about the quality of the services exchanged, the outputs are difficult to measure or the unit prices are not comparable. Such types of results were termed by Wolf nonmarket outputs: "Nonmarket outputs are usually hard to define in principle, ill defined in practice, and extremely difficult to measure."[91] This definition clearly applies to the characteristics of ODA. Kirsch finds that to institutionalize competition between bureaus is a good idea as long as the performance of bureaus can be identified,

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[88]Arrow, 1985: 46 explores a special case. Here the agencies will be rewarded only if all of them provide productive discretion.

[89]Interestingly, the same situation applied to German aid to the states of the former Soviet Union. The compromise was that the Ministry of Economic Cooperation is responsible for the Asian states, and the Ministry of Finance is responsible for the European states. Similarily, the Far Eastern Economic Review revealed that efforts to improve Japan's intelligence gathering efforts are hampered by interagency competition. See Far Eastern Economic Review, 16 July 1992: 28.

[90]Except when there are negotiations among the agents, which is not assumed for this case.

[91]Wolf, 1979: 113.

as it depends only on their own efforts and capabilities.[92] For nonmarket outputs, however, the price competition will obviously not be relevant. Legislators will not be able to obtain data about the different cost conditions since the ministries will not offer a price per unit but rather a total output against a total budget. Then there is no information about output prices and per unit costs. Any comparison among the agents is furthermore complicated by product differentiation strategies. In this case, MCc does not change when competition among agents is allowed and remains on a high level.

Another potential advantage of the multiple agency system is the **specialization benefit**. Since the different agencies can specialize on their sectoral tasks, they can provide their services with a higher efficiency. However, in chapter three it was argued that the expertise the ministries derive from their domestic activity may not work if applied in a different, complex environment, such as in developing countries.[93] Therefore, the specialization of the ministries more often proves to decrease efficiency in terms of contingency theory and, consequently, the specialization benefit will be almost nonexistent or even negative.

Besides the potential benefits, there are also additional costs after competition is introduced. Up to a certain point, the ministries will perceive a need to market their services to the principals, which will cause **promotion cost**. Breton and Wintrobe state that "if consumers pay a cost to learn the prices charged by different firms, there is clearly a role for entrepreneurship in advertising or disseminating information about prices. If the postulate of perfect homogeneity of products is also dropped, there is a further role for entrepreneurship in terms of quality competition and selection of product lines. And if the technology of production and organization is not fixed and known, the role of entrepreneurship may be expanded to include innovation."[94]

This applies to the bureaucratic multiple agency setting as well. Major innovations will result in the implementation of new programs, policies, regulations, or the creation of new branches within bureaus, just as in the market sector. According to Roppel, "the bureaucracy has an interest in increasing the demand for its

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[92]Kirsch, 1983: 118.

[93]See chapter 3, section 2.

[94]Breton and Wintrobe, 1982: 109.

services by 'political advertisement'. Obviously budget resources are required for such innovations. That means that the bureaucracy will use a portion of its budget in the short term to increase its budgets in the long term."[95] One strategy is to convince the legislator that a ministry has some specialized aspects that the other ministries do not have and that all policies pertaining to these specialized factors benefit the legislator. When legislators lack the expertise to evaluate these marketing strategies in terms of contingency theory, marketing strategies which focus on the comparative advantage of the ministry but not on the relevant environment may be successful.[96]

Furthermore, the multiple agency system requires additional resources for coordination of activities, which can be referred to as **coordination cost**. Scharpf distinguishes between positive and negative coordination.[97] In **negative coordination**, all agencies work according to their own "rationale." "The initiative for problem analysis is started by one specialized agency, the content will be limited to the scope of this agency."[98] Other agencies examine the proposal as to whether from their perspective potential negative effects exist. This leads to a reduction of the alternatives and leans towards incrementalism. The agency that created the proposal has a strong incentive to use the "iceberg strategy," i.e. to cover the whole extent and effects of the initiative so as to avoid jeopardizing its own project.[99] This form of consensus bears high indirect coordination cost and is clearly suboptimal when compared to the results achieved by positive coordination.

**Positive coordination** is characterized by the fact that in all agencies all possible alternatives are analyzed. If they are oriented according to the same rationale, decisions can be made that are mutually enforcing and solutions that reflect the

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[95]Roppel, 1979: 128.*

[96]To illustrate that issue, an example from the Japanese case may be used. When Japan doubled its aid expenditures in a short period of time, the pipelines were full and capacities exhausted. Quick disbursement and the achievement of a quantitative target became an important argument for the ministries in promoting their services. Yet capital-intensive projects and ignorance concerning small scale development projects often creates a discrepancy in terms of contingency theory. See for a similar argument Weiland, 1984: 147.

[97]Scharpf, 1973: 85 ff, see also Glagow, 1983: 240.

[98]Scharpf, 1973: 87.*

[99]Scharpf, 1973: 89.

individual problem emerge. This, however, is associated with increased direct coordination costs. The concept of coordination cost should be understood in a broad sense. It does not matter whether the agents bear the costs and have, therefore, fewer resources which they can channel to the recipients (direct coordination cost), or whether these costs are externalized (indirect coordination cost) by providing uncoordinated projects less effective than they could be. It is likely that bureaucrats try to balance the direct and indirect coordination cost in order to avoid detrimental consequences from either side.

Since the benefits from decreased monitoring costs and specialization are negligible in the case of developmentadministration they are overcompensated for by high promotion and coordination costs. The ministries will not want to finance the additional resources required by the multiple agency system by themselves, but rather, they will transfer the cost to legislators and increase MCir. In order to maintain the same utility, the cost is added to MCir, leading to a new marginal cost curve (MCirn). Figure 4-6 shows that if MCc is still above MCirn, the agency cost will be increased by at least MLFD, which represents the competition cost that the ministries shifted to legislators.[100] This model shows that the multiple agency system in the case of nonmarket outputs increases agency cost. Even though the legislators demand that agencies supply efficient services contingent to the relevant environment, it pays more for them to focus on the legislator and other agencies. This increases agency cost and decreases efficiency in terms of contingency theory.

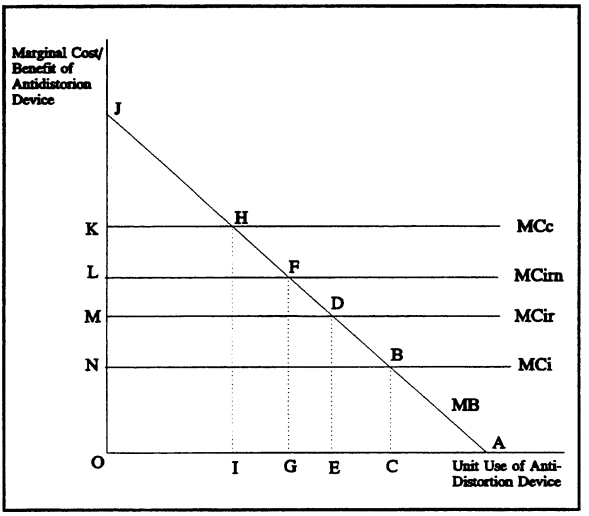


Figure 4-6: Budget with active politicians using control and incentive instruments including competition

[100]This additional agency cost arising from multiple agencies might be even larger. It might be that essential cooperation is avoided, leading to an increase in OJA in the multiple agency case. While keeping this in mind, the model will assume that the residual loss in the multiple agency case matches the residual loss of the single agency case. Thus the size of OJA in figure 4-6 does not change.

### 4.5 Conclusion

This chapter tried to assess whether approaches based on New Institutional Economics can be used for the purpose of this study. The first section showed that there is a strong need to complement organization theory with an approach based on New Institutional Economics and methodological individualism. Contingency theory neglects individual interests, yet bureaucrats have discretionary power that they can use to promote their own interests. Hence contingency theory can only be a normative model and hypotheses derived from it can only be verified in extreme conditions.

Economic bureaucracy theory focuses on the internal environment, while contingency theory tried to explain the structure of an organization by its external environment. The assumption that individuals and groups in the organization rationally pursue their self-interests was interpreted by the models in Niskanen's tradition to mean that bureaucrats supply inefficient discretion whenever possible. This explains why the first working hypothesis based on contingency theory did not hold and revealed why a discrepancy was concluded.

However, for most empirical cases the assumptions of economic bureaucracy theory are too restrictive. Depending on the incentive structure, bureaucrats may very well supply efficient discretion. Based on that criticism, a new model has been developed in which bureaucrats are defined as behaving selectively efficient or inefficient, depending on the institutional setting. Legislators actively try to design the institutional setting in ways to maximize productive discretion using either control or incentives. The main value of this model is to clarify potential mechanisms and effects concerning behavior in legislator-bureaucrat situations. The model shows that there will always be a certain degree of unproductive discretion, limited by either informal incentives or by control. It also includes the fact that tasks often overlap between ministries and that they do not have supply monopolies. The model suggests that, if nonmarket outputs are produced, agency costs are higher in a multiple agency system than in a single agency system.

For the empirical case of this study, higher agency costs could conceptualize the discrepancy observed in the third chapter. To test the theoretical results for the case of the Japanese development administration, the **second working hypothesis** has been formulated as follows: **In development administrations which are characterized by nonmarket outputs, a multiple agency system increases agency costs.**

The model also provides conclusions as to how trust influences the bureaucrat's decision to provide productive or unproductive discretion. If a trust-based relationship has not been developed, bureaucrats face a high risk of receiving no compensation for having abstained from unproductive discretion. If the risk is too high, no informal trade will take place. The total resources required for informal trade, including insurance costs, will be higher than the costs for the control strategy. In this case, the incentive strategy of the model would not be pursued, and the control strategy would always require less resources. Before applying the model to an empirical case, the role of trust needs to be addressed to determine whether both control and incentive strategy can be pursued.

# 5 THE MULTIPLE AGENCY SYSTEM IN JAPAN'S DEVELOPMENT ADMINISTRATION

The theory presented in the fourth chapter raises several questions to be investigated empirically. Does the second working hypothesis hold for our empirical case? How does the multiple agency system function in the concrete case of the Japanese development administration? Is the agency cost in the Japanese development administration higher than in a single agent system? Before addressing these questions, the role of trust as an institution within the Japanese development administration needs to be discussed. Only if the institution trust plays a significant role can informal trade take place and the complete theoretical model be applied.

## 5.1 The Importance of Trust and Informal Trade in Japan

### 5.1.1 Administrative/Organizational Culture in Japan

What determines whether the role of trust within an organization is important? Hofstedde states in his seminal work that an often forgotten - but crucial - factor is culture. He compares the culture of a collective with the personality of an individual. While the personality influences the identity of an individual, culture influences groups of people. Values and norms are one essential part of culture. Hofstedde states that "culture is defined as collective programming of the mind. The word is reserved for entire societies; for groups within societies, the term 'subculture' is used."[1] In other words, culture can be divided into organizational culture and country culture. Organizational culture influences, as an internal variable, the behavior of its members.[2] Yet the culture of the country or region also has a strong impact on the organization members. Illy found that the values and norms of the society shape the administrative culture, the policy, and organizational, procedural, and technological preferences for the administrative system.[3]

In the 1980s, the success of Japanese companies prompted a number of comparisons between Japanese and American management methods.[4] Most important were the significant differences in the cultural environment in Japanese and Western organizations, e.g., differences in the homogeneity, in stability and in the collective orientation of society. While this section is based on such cross-

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[1]Hofstedde, 1980: 13 ff.*

[2]Staehle, 1990: 477.

[3]See Illy, 1985: 196, see also Keller (1982).

[4]For example Ouchi (1981), Hofstedde (1980), see also Staehle, 1990: 473.

cultural management research, it is beyond the scope of this study to address all of the multidimensional aspects shaping Japanese administrative culture. In the following, four cultural aspects that influence the role of trust as an institution in Japanese organizations are briefly examined; these pertain to the education, promotion, decision-making, and retirement systems.

**(a) Education System**

In Japan, the prestige of the university attended traditionally plays a more important role than the area of study or the final grade point average earned. Thus admission to a prestigious university already assures entry into preferred companies or the bureaucracy. Since entry exams for the best universities are extremely difficult, pressure is already felt in secondary school, even extending to special entrance preparation courses in kindergarten. An enhanced education early on determines a child's chances for admission to a good university, its job choice, and retirement options.

Almost all upper level bureaucrats are recruited from the prestigious University of Tokyo *(Todai)*. Wolferen writes that "graduating from the University of Tokyo, especially its law department, means being automatically hooked up to a huge network of connections that is easily activated at any time. It is not the academic qualities of the *Todai* law department that make it the undisputed summit of the Japanese education system, but the fact that traditionally its graduates have entered the highest administrative ranks, which means that the new graduates can readily plug into the established alumni network."[5]

This fits exactly to Breton's theoretical analysis of how the education system can be used to strengthen trust-based networks. He states that "the extent of network truncation can be reduced by the existence of schools from which all or most senior bureaucrats are recruited. In some countries, such as France, schools exist for the express purpose of preparing the *'grands commis de l'etat'*, whereas in other countries, such as England, recruitment to the higher civil service is restricted de facto to a small number of schools."[6] Besides France and England, the recruitment policy of the Japanese bureaucracy obviously increases the relevance of trust-based relations to former classmates.

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[5]Wolferen, 1988: 111.

[6]Breton, 1982: 86.

**(b) Promotion and Nonspecialized Career Paths**

For the first ten years of their work, government officials in Japan receive the same promotions as all others who entered the bureaucracy at the same time. Koh notes that "the members of the same year of entry *(nenji)* in a given ministry are promoted to the next higher level at roughly the same time until they reach that of assistant chief *(kacho hosa)*. From then on, further advancement is contingent upon a combination of factors, of which seniority is but one."[7] Further up the ladder, mobility is influenced by preentry records, on-the-job performance, and by personal ties to superiors. While this may increase the role of vertical trust, most promotions are still based on seniority. Incentives for obvious self-betterment are low, and there is hardly any competition to advance one's career at the cost of anyone else's. The lack of competition makes it possible for trust to develop among bureaucrats.

This is reinforced by the fact that officers rotate their position every two or three years. While this may cause an imbalance between career structures and the need for expertise, it leads to extraordinary coordination capabilities across different functions. Someone in every department will know the personnel and the procedures of another given department. Because officials have moved through a large array of common functions and experiences, the underlying premises are clear to everyone in the organization. According to Ouchi, "the organizational culture consists of a set of symbols, ceremonies and myths that communicate the underlying values and beliefs of the organization to its employees."[8] In many cases, the process is not guided by formal written regulations, as a JICA official explained: "One of the most important things for foreign researchers to learn in Japan is that they need not take written guidelines at face value."[9] While the importance of formal control mechanisms and operational targets decreases in such an environment, the strong role of informal regulations requires trust because legal enforcement is impossible.

**(c) Decision-Making in the *Ringi* System**

The consensual approach to decision-making has been institutionalized by the *ringi* process. The first draft of a new proposal is prepared by an official who lacks any

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[7]Koh, 1989: 130.

[8]Ouchi, 1981: 41.

[9]Interview with a JICA official, 1991.*

decision-making authority. He formulates his written proposal by interviewing the major members of the organization. The results are discussed informally and the department head approves it on the recommendation of his subordinates. While this system enables participation of many officials in the decision, it is more time consuming than a topdown approach.

According to Ouchi, a key feature of this system is the intentional ambiguity of who is responsible for what decisions. This leads to a participative approach to decision-making, producing higher loyalty and lower dependency on individuals. "Decision-making is embedded in a complex of parts that hang together and rely upon trust and are subtly developed through intimacy."[10] As a consequence personal interaction becomes most important, side payments become possible, and trust develops.

**(d) Retirement and Reemployment System**

While formal incentives in the bureaucracy are limited, an important type of reward is the opportunity for a second career *(daini no jinsei)*. Such reemployment opportunities are particularly important because Japanese upper level civil servants retire at the age of 55 or earlier and their retirement income is often insufficient. Aoki notes that "the more political powerful the ministry and the more instrumental the roles these bureaucrats have played in it, the better their chances in postretirement positions..."[11] The Ministry of International Trade and Industry (MITI), for instance, can place its retirees in prestigious posts in commercial banks. Bureaucrats of the Ministry of Finance (MOF) have virtually no choice limitations. This transfer from the elevated position of an upper level civil servant to an employee of a private, profit making firm is known as a "descent from heaven" *(amakudari)*. In fact, it is most often an ascent, and financially the retired bureacrat may actually be better off than before. Some critics contend that official service has become nothing more than an "apprenticeship for the big payoff years of retirement."[12]

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[10]Ouchi, 1981: 46, see also Wolferen, 1988: 338 f.

[11]Aoki, 1988: 272.

[12]See Johnson, 1978: 109, Koh, 1989: 235. In other cases, the retired bureacrat remains in a public corporation owned by the government which is referred to as *yokosuberi*. If the retired bureacrat experiences such changes more than once, he is known as a migratory bird *(wataridori)*. See Koh, 1989: 230 ff and Johnson, 1978: 101 ff.

This retirement practice has enormous consequences for the administrative system in Japan. It leads to a clear stratification among employers, which is also reflected by the universities from which they were recruited. By using networks established during their tenure at a ministry, the *amakudari* bureaucrats have access to information which is not publicly available. This is the most valuable asset they can bring to private institutions after retirement from public service. For the ministries, as well, the *amakudari* bureaucrats represent an important contact point. After retirement, most *amakudari* officials will have almost twenty more working years to help ensure smooth communications between ministries and the private sector. The bureaucrats have a strong motive for establishing a good reputation in the course of their career: retirement opportunities. Under the notion of the public-private realm, Wolferen notes that "personal acquaintances with government officials and a close familiarity with bureaucratic priorities are almost indispensable in reaching agreements in order to adjust policy. Thus the *amakudari* bureaucrats bypass any official channels in their effectiveness in maintaining the flow of information between bureaucracy and enterprise."[13]

Koh notes that this retirement system also provides an incentive for Japanese officials to engage in unproductive discretion to assure a good retirement post for themselves. "*Amakudari* may compromise the independence and integrity of government bureaucrats, breed corruption, and confer unfair advantages on the firms that hire retired civil servants. It also has demoralizing effects on those members of the private firms whose promotional opportunities are undercut by the lateral entry of outsiders."[14] Prasert, a Thai specialist on Japanese ODA, thus suggests prohibiting high ranking officials to join a private company's executive board.[15] Since the potential for corruption in ensuring "soft *amakudari* landing spots" was recognized, the National Service Law has prohibited former bureaucrats from accepting a position in a private corporation for the first two years after leaving public service. Nevertheless, the Personnel Authority can make exceptions, and other effective informal solutions have been found to circumvent this legal restriction, too.[16]

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[13]Wolferen, 1988: 45.

[14]Koh, 1989: 246.

[15]Prasert, 1989: 52.

[16]See section 2.2 on quasi nongovernmental organizations *(gaigaku dantai)* in this chapter.

Four examples shall be sufficient to show that culturally embedded characteristics enforce and require a high level of trust. The education system links each bureacrat to a strong, established, personal trust-based network. The promotion and decision-making systems reinforce trust among officials. The retirement system encourages bureaucrats to build up trust with outside contacts if they want to have an adequate income after retirement. It therefore can be concluded that, in Japanese organizations, the role of trust is important and, therefore, most bureaucrats are willing to make high investments in trust.[17]

This has significant consequences concerning the use of control devices. When economic relations are characterized more by trust than by competition, allocation will not always be Pareto-efficient. Besides the price, personal relations and trust become important criteria for the allocation of resources. Agents will feel obligated to be productive and innovative, which leads to increased X-efficiency; they essentially control themselves. Analytically speaking, the positions of the MCi curve and the MCir curve do not diverge to a great extent in a trust-based setting, and principals prefer informal incentives to the control strategy.

### 5.1.2 Informal Trade in Japanese Organizations

When the institution trust plays an important role, informal regulations exist that are unofficial but acknowledged and followed by all members of an organization. In Japan, for instance, application procedures to a new organization are often not formal. Instead, an applicant will first seek informal contact through the alumni of the same university who are now working in the office in question. For promotions, after a certain point it is important to have established a network, which is strengthened by "conducting informal trade" within the organization. Decision-making processes are not rigidly structured according to given bureaucratic rules. Instead, these processes tend to be guided by the character of

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[17]A wide range of literature supports the conclusion that relationships between individuals and mutual trust are the basic building blocks for behavior in Japanese bureaucracies. Befu, for instance, states that "in Japanese bureaucracy, any superior and his or her subordinates are likely to be bound together in generalized exchange, and strong commitment develops between them. Given this commitment ... subordinates are likely to manifest compliance to their leader, whether or not his demands are strictly based on the regulations of the organization. (...) This leader, too, is a subordinate in the organization to a higher level supervisor, to whom he is also bound by a trust relationship of a generalized exchange nature. Thus the dynamic obtaining between the lowest level and its immediately higher level is repeated up the hierarchy until the top level is reached. The sort of commitment described here of a subordinate to the superior is often interpreted as a group orientation or loyalty to the organization." Befu, 1989: 46. See also Crozier et al, 1979: 114, White, 1987: 122, Mueller, 1986: 48.

specific relationships among the bureaucrats involved. Finally, the *amakudari* system is a strong incentive for engaging in informal trade with trading partners outside the organization in order to establish a strong network of mutual commitments. Lifson believes "that networks are more extensively used as a basic mechanism in the economy of Japan on a larger scale, and with more regularity than practically anywhere else."[18]

Informal networks in Japan, known as *jinmyaku* and *kone* (an abbreviation for connections), are crucial to life in Japan at all levels of society. According to Wolferen, "most Japanese are thoroughly indebted in this sense to numerous other Japanese, and others in turn are indebted to them; one of the main characteristics of Japanese life is an unremitting trade in favors. In the upper levels of society, the *kone* multiply to form networks of special relationships. These may derive from one-time favors, school ties or shared experiences, or may involve intricate mutual back-scratching deals. They are referred to as *jinmyaku-jin*, meaning personal and *myaku* a vein such as is found in mineral deposits, so that jinmyaku means a vein or web, of personal connections running through the fabric of society. Jinmyaku are much more widespread, and of incomparably greater importance, than old-boys' networks in the West."[19] Wolferen concluded that, for a change in the situation and adaptation to Western countries, actions are needed that "encourage the substitution of legal regulations for *jinmyaku* relationships, and of legally safeguarded processes for the system's informality."[20] Unofficial discussions before official meeting *(nemawashi)* are an important form to discuss the conditions of the informal trade.

An example of institutionalized informal trade in public administration is *gyousei shidou*. Foljanty-Jost points out that there is no translation for this word and states: "The common denominator for the different forms of influence of the administration put into this category is that individuals or organizations are offered non-binding incentives to behave in a way that the objectives of the administration

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[18]Lifson, 1989: 67.

[19]Wolferen, 1988: 109 f. Wolferen furthermore notes that "without informal contacts, the top administrators cannot fulfill what they are expected to accomplish. The actual power of a highly placed Japanese depends on his *jinmyaku*. A bureaucrat without an elaborate *jinmyaku* cannot climb to great heights." (Wolferen, 1988: 110.)

[20]Wolferen, 1988: 433.

can be achieved."[21] Legal means of enforcement are not available, yet the negative consequences of betraying trust are great. Foljanty-Jost estimates that more than 50% of all activities in the public administration can be categorized under the notion of *gyousei shidou*.[22] It suits the tendency of the Japanese to replace decision situations, in which formal positions are decisive, by informal consultations before a formal meeting *(nemawashi)*. The main source for the efficiency of *gyousei shidou* is a consensus concerning the need for action and a common interest in informally approaching it. Yet Foljanty-Jost points to the danger that, in this system, "politics without politicians" may become possible.[23] When informal rules dominate decision-making in public administration, control by the legislators becomes difficult.[24]

In conclusion, trust-based informal trades are the primary solution to the principal-agent problem in Japan. The frame of formal and hierarchic structures is complemented by a strong network of personal interactions. These networks cannot be based on formal contracts; rather, they are relationships based on mutual trust. Thus, in private and public organizations, trust is strategically emphasized and such investments in trust lead to a high commitment to the job and may even result in more efficient services than formally expected. Therefore, in Japan, control traditionally plays a minor role. Instead, informal incentives and implicit rules regulate the behavior of the participants within and between organizations. The principal-agent problem is limited by the fact that both economic parties are bound by a complex and enforced network of mutual commitments.

Cultural differences such as the importance of trust and informal trade can create great differences in the behavior and structure of organizations. Trust also influences the presumably clear-cut relationship between context factors and structural characteristics as assumed by contingency theory. The new model

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[21]Foljanty-Jost, 1989: 172.*

[22]See Foljanty-Jost, 1989: 175.

[23]Foljanty-Jost, 1989: 187.

[24]This fits to the results of chapter 4, sections 1.2. and 1.3. for the development administration. Rix also noted a strong emphasis on face-to-face communication and coordination through personal ties and informal meetings. (See Rix, 1980: 98, 146.) This underscores that investigations in this environment will be impossible without the personal presence of the researcher in the relevant institutions.

developed in the last chapter can conceptualize these differences. In a country where trust is less important, MCirn might be consistently above MCc, making the second part of the model which focuses on informal trust-based trade irrelevant. The problem with informal structures, however, is that they do not lend themselves very well to scientific analysis. In the next section, both the formal and informal functional structure will need to be analyzed in order to estimate the agency cost involved in the multiple agency situation. While some of the analysis is based on written sources, details concerning the informal structure could only be derived through personal interviews.

### 5.2 Organizations Responsible for Grant Aid and Technical Assistance

This section will portray the complex network of the multiple agency system for Japanese ODA administration. The analysis of the interactions between the organizations and their partial interests will allow an assessment of the agency cost involved. Figure 5-1 represents the formal outline of the responsibilities of the ministries. In the previous section, it was argued that formal structures are complemented by a network of informal interactions. This is very true for the case of the development administration. Rix presumed that "on paper, the outline of the aid administration minimized overlapping responsibilities, but the practice of managing aid was very different."[25] Likewise, Johnson suggests that "the formal structure of Japanese institutions is a poor guide to how the Japanese political economy actually works."[26]

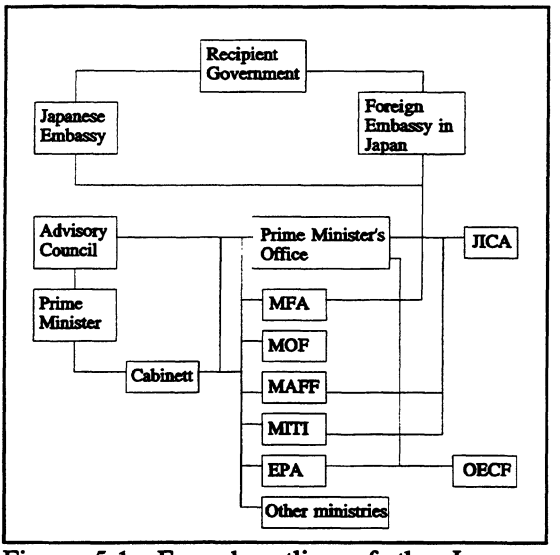


Figure 5-1: Formal outline of the Japanese development administration

[25]Rix, 1980: 118.

[26]Johnson, 1978: 11.

Thus this section intends to go behind the formal characteristics of institutions to their practical day-to-day interactions. The results of the analysis are graphically summarized in Figure 5-2, which differs significantly from figure 5-1.[27] The analysis is divided into three interacting levels:

- the ministry level (5.2.1),
- the implementation level in Japan (5.2.2) and,
- the Japanese organizations in the recipient country (5.2.3).

While the recipient government also represents a complicated institutional network, it will not be analyzed in detail.

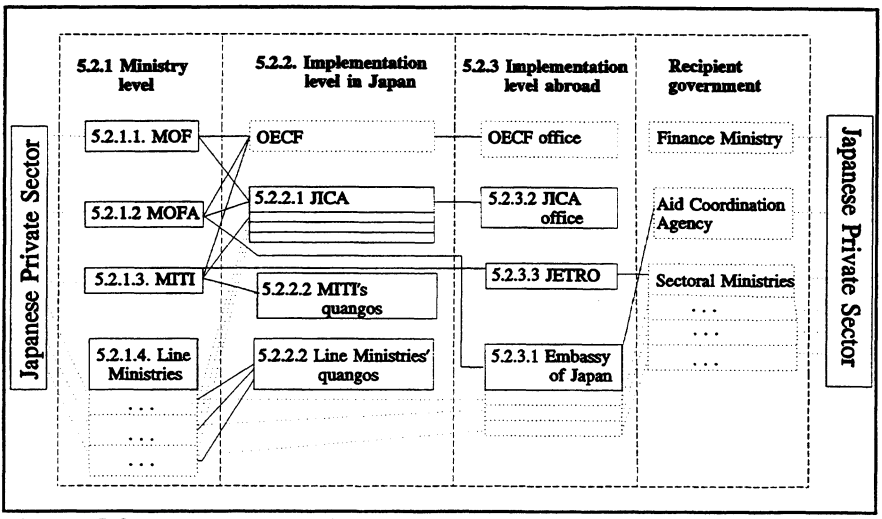


Figure 5-2: Actual network of the grant aid and technical assistance administration

### 5.2.1 Ministry Level

While the grant aid budget is given only to MOFA, the ODA budget for technical assistance is more flexible and all ministries can apply for it. The rapid expansion of the technical assistance budget has prompted an increasing number of ministries to initiate an interest in ODA. Since the share of technical assistance as a percentage of total ODA increased from 23.8% in 1986 to 28.4% in 1991, the growth rates of the technical assistance budget have outperformed the already

[27]Figure 5-2 does not include the prime minister's office, the advisory council, the prime minister and the cabinet because, as argued in chapter 4.1.3, their influence on the actual operations is relatively low. The Economic Planning Agency (EPA) and the Overseas Economic Cooperation Fund (OECF) have been excluded from this analysis since they are related only to loan aid.

large growth of the total ODA budget. Therefore this budget was of intense interest to the ministries, especially when most other budgets had no or even negative growth rates. As table 5-1 shows, in 1991, the number of competitors for a bigger piece of the pie increased to 18 different ministries and agencies.

| | | | | | |
|---|---|---|---|---|---|
| Ministry of Foreign Affairs | 182530 | Ministry of Health and Welfare | 710 | Ministry of Post and Tele-communication | 240 |
| Ministry of Education | 29250 | Ministry of Finance | 570 | Environment Agency | 240 |
| Ministry of International Trade and Industry | 27790 | Science and Technology Agency | 520 | Economic Planning Agency | 140 |
| Ministry of Agriculture, Forestry and Fishery | 4470 | Ministry of Justice | 460 | National Police Agency | 90 |
| Ministry of Labor | 1680 | Ministry of Transportation | 440 | Ministry of Home Affairs | 20 |
| General Affairs Agency | 1580 | Ministry of Construction | 430 | National Land Agency | 20 |

Table 5-1: Distribution of the technical assistance budget in 1991 in million Yen (Rounded figures, Source: JICA)

Compared to the budget of the Ministry of Foreign Affairs, the other ministries budget may seem small. The impact of these funds, however, depends very much on how they are used. The technical assistance budget can be used for financing country studies and project finding missions which are crucial to identifying new projects in the preferred sector for the other forms of aid, as well. The larger the percentage of the budget used in this way, the higher the leverage effect and the significance for quantity and direction of other forms of aid. Furthermore, table 5-1 shows only the budget of each individual ministry, independent of its involvement in JICA. The ministries additionally influence the activities of JICA and can promote projects for development studies in JICA. Having full discretion over their own budget and influence on JICA policies, the actual influence of the line ministries is greater than their budget share reveals.

The annual budget negotiations among the ministries start between July and September for the upcoming fiscal year, which begins in April. All ministries submit a proposal explaining their portion of the total aid program. These

proposals are discussed in interministerial negotiations overseen by the Ministry of Finance (MOF). By the end of December, MOF finalizes its draft budget and submits it to the Cabinet for approval. After Cabinet approval, the budget is sent to the Diet early in the calendar year. The Diet usually approves the budget after it is slightly amended. The items for the ODA budget are not listed by country but rather by implementing agency. The country allocation is decided in the ministries after the Diet has approved the aid budget. As a result "de facto authorizations" are made during budget preparation before Diet consideration.[28]

The aid program is not separated from the single-year budgeting process which hinders flexibility in aid programming. This encourages incrementalism in aid planning and also limits Japan's ability to coordinate aid program implementation with recipients because funds cannot be guaranteed beyond the present budget. According to the results of a questionnaire put out by the *kaigai konsarutingu kigyou kyoukai* in 1989, 70.7% of all consulting firms complained about ineffective work from April to July due to budget amendments.[29] While each ministry's budget in general is oriented to its share in the preceding fiscal year, larger changes are also possible. According to Rix, "success in achieving increased aid budgets was often dependent on the ministries' ability to build within the government a climate favorable to aid."[30]

The increases of each ministry's technical assistance budget may be used as an indicator of the success of such activities. Figure 5-3 shows that budget increases between 20% and 80% annually are not unusual. Line ministries that have only recently established an ODA section may have an advantage. The budgets of the new competitors grew much more quickly than the average technical assistance budgets. The "budgetary performance" of JICA, however, has constantly been below average. This resulted in a steady, relative decline of JICA's portion of the budget. Despite the fact that it is supposed to be the major agency for the implementation of technical assistance, its share of the total technical assistance budget rapidly declined from 62.6% in 1986 to 53.3% in 1991.

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[28]Rix, 1980: 151.

[29]Kaigai konsarutingu kigyou kyoukai, 1990: 149.

[30]Rix, 1980: 175.

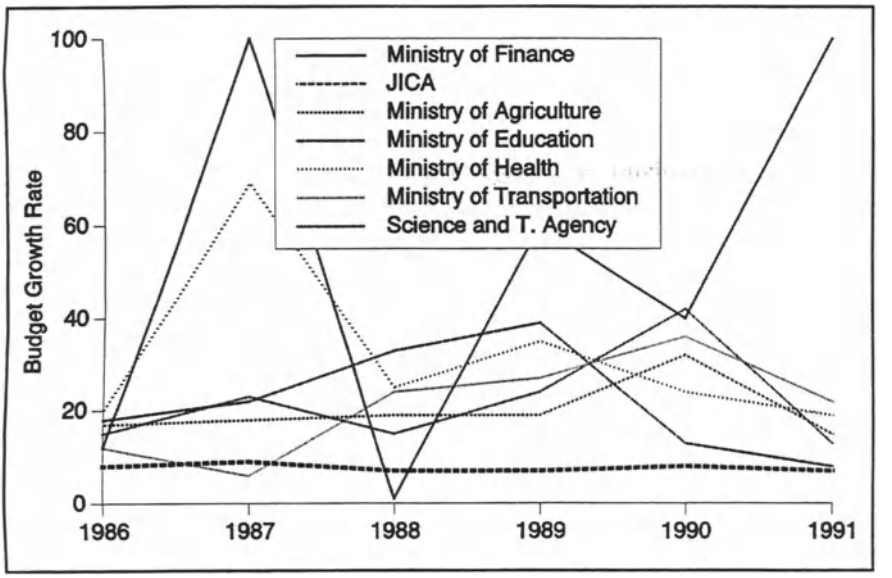


Figure 5-3: Growth rate of the technical assistance budget of major ministries and agencies (Source: MOFA)

Due to obvious limitations of time and space, this study cannot analyze all ministries and their policies in detail. It will focus on the role of the Ministry of Foreign Affairs (MOFA) and the Ministry of International Trade and Industry (MITI). Additionally, the important role of budgetary and overall political decisions of the Ministry of Finance (MOF) is examined.

#### 5.2.1.1 Ministry of Finance

Ministry of Finance (MOF) bureaucrats are regarded as the most elite group within the Japanese establishment, and MOF officials can expect to receive the highest retirement positions available in the private sector. Its function allows the MOF to control all other ministries, since they must submit their budget requests for MOF approval. Within the MOF, three bureaus have divisions concerned with aid: the International Finance Bureau, the Financial Bureau, and the Budget Bureau.

The **International Finance Bureau** is viewed as the most liberal concerning aid requests. Since it is concerned with Japan's foreign exchange and balance of payments surplus, it was often referred to as the international faction. It is seen as a supporter of increased aid spending and is against tied aid. The bureau's overseas investment division has jurisdiction over issues related to multilateral

finance institutions and favors multilateral aid, arguing that it is more quickly disbursed. The bureau also controls the activities of the Export-Import Bank, which is responsible for loans with a grant element below 25% and the recycling program.[31]

The **Financial Bureau** is in charge of compiling the Fiscal Investment and Loan Program (FILP), which is used as a supplement to the national budget. FILP usually constitutes about 40% of the regular ODA budget in the form of loan aid and includes government pensions, postal savings, national insurance funds, etc. In the fund planning and operation division the allocation of the financial resources is decided. The bureau is primarily concerned with the overall rapid increase of ODA expenditures.

The **Budget Bureau** is responsible for budget appropriations and is predominately interested in making ODA expenditures as cost-effective as possible and reducing overall government spending. It prefers not to change funding ceilings and, therefore, opposes staff increases and the establishment of new programs. Since its staff members have limited experience in foreign countries, it is referred to as the domestic faction. The budget bureau is considered as lacking appreciation for the significance of developing countries' needs. Aid policy is viewed mainly as an extension of domestic, public and social welfare policies. The bureau's control also extends to implementation agencies such as JICA. Before signing an international contract, a Plan of Operation document has to be submitted to the budget bureau. In this sense, the budget bureau of MOF provides the only comprehensive coordination of the total aid program. Its human resources, however, are too limited to effectively manage this task. Only the largest projects are analyzed and rejections or suggestions for redesign are rare.

Intrabureau discussion within the MOF takes place on an ad hoc basis. Relations between the bureaus become rather hostile, with each attempting to realize its own interest. Overall, the Budget Bureau's stand seems to dominate the ministry's position. Yanagihara states: "In practice, the ministry is particularly critical of staff increases and new programs, since these are difficult to cut once in place, and therefore takes a conservative position in the allocation of budgetary

[31]Japan's huge trade imbalances have led to pressure to reinvest its funds. This led to the commitment to channel $65 billion through the Export-Import Bank to developing countries until 1994. Since these funds have a grant element below 25%, they do not count as ODA, and have therefore not been considered in this study.

resources. In some sense, MOF's attitude may appear detrimental to a quick and flexible response to emerging needs, thereby creating inefficiency in the allocation of ODA."[32] As a result of MOF's insistence on budget austerity, the Japanese development administration is small compared to the amount of aid it administers. The average amount of aid processed by a Japanese official is 2.6 times larger than that of his counterpart in the US, and 3.5 times higher than the figure for the United Kingdom.[33]

#### 5.2.1.2 Ministry of Foreign Affairs

The Ministry of Foreign Affairs (MOFA) approaches ODA from the perspective of foreign policy and aims at improving Japan's image abroad. Thus it is most sensitive to foreign criticism, particularly from the US.[34] It has also been the major force promoting quantitative and qualitative DAC standards in Japan and often "used" the DAC to support its preferences against the other ministries. While such political considerations may have a positive influence when other donors or the DAC criticizes Japanese aid, often gift diplomacy *(omiyage gaiko)* is used for grant aid projects in order to enhance bilateral relations to recipient countries. Many such projects are viewed from the perspective of their contribution to bilateral political relations, while efficiency in terms of contingency theory plays a minor role.

While MOF has its lobby mainly in the financial sector of the business world, MOFA's position is bolstered by a lobby in political circles. Rix, for instance, writes about MOFA's Policy Division: "Not only had it encouraged September statements by the Advisory Council and the *Keidanren* on the need for more positive government response to aid policy, but had also worked with reporters from the *Nihon keizai shinbun* and *Asahi shinbun* attached to the MOFA to publicize Japan's low aid commitment and loan disbursement, in an effort to prevent MOF from using these figures as a pretext for cutting budgets. The resulting articles brought a sharp unpublished reaction from the MOF and an official response in a counter article."[35] Furthermore, MOFA often uses arguments pertaining to international diplomacy to support its position.

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[32]Yanagihara, 1991: 56.

[33]See MOFA, 1991: 56.

[34]See Orr, 1990: 103- 137.

[35]Rix, 1980: 176.

Due to MOFA's competitive efforts, Japan is the only country that produces two separate aid reviews. Originally only MITI published an annual review of ODA. Since 1978, MOFA has competed for public attention with its own publication on aid. According to Yasutomo a "MITI member noted that there is a tendency to counterbalance any major theme of the moment. When comprehensive security appeared too dominant an approach to aid in the early 1980s, this official relates, MITI balanced its visibility by downplaying it in its economic cooperation white paper."[36] However, these are not the only activities that were aimed at gaining a better position in the multi-ministry system. According to Orr, "MOFA has been in the forefront of the aid policy making community in attempting to be innovative with overseas assistance."[37] Frequently, innovations such as more involvement of non-governmental organizations, more active aid formulation, more local cost financing and the establishment of a development university as an expert pool are published in the annual aid review or special reports.

While the other ministries have designated ODA issues to divisions within bureaus, the Economic Cooperation Bureau of MOFA deals exclusively with aid-related issues and represents the largest section in any of the ministries. Interestingly, more than half of the staff of this bureau is (informally) borrowed from other ministries. While this is supposed to guarantee that the necessary expertise is available, it also protects the interests of the ministries that send the officials. There are seven divisions in the economic cooperation bureau. The aid policy division is in charge of overall and long range policy planning and final aid responsibility and is assisted by the research and planning division.[38] Four other divisions deal with the different forms of aid: multilateral aid, loan aid, grant aid and technical assistance. Additionally, the development cooperation division is responsible for development studies. While the development study represents only a preparatory step in the project cycle of the four forms of aid, the development cooperation division views its task as a separate form of aid. Therefore, the development study is viewed as a project that has its own project cycle from identification to evaluation. This is confusing for those outside the Japanese aid system.

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[36]Yasutomo, 1986: 69.

[37]Orr, 1990: 39.

[38]According to an interview, there is no clear distinction between the tasks of the two divisions.

This separation of the different forms of aid and the rather ineffective interbureau coordination hinder effective integrated approaches.[39] This division of tasks has frequently stymied recipient countries. The requests from recipient governments must specify which form of aid is desired. If the respective department in MOFA finds it inappropriate, a request is occasionally returned to the requesting party without consulting other departments for which the request may be more appropriate. The same problem can be found in the other ministries in which administration is divided according to the form of aid.

#### 5.2.1.3 Ministry of International Trade and Industry

The Ministry of International Trade and Industry (MITI) advocates the use of ODA funds in the context of international trade and investment. MITI states that "while Japan's ODA is given over a wide range of fields ... the main concern of MITI lies in industrialization, especially in mining, manufacturing and energy, including hydropower and thermal power."[40] The informal and personal relations between MITI and large corporations can be compared with that of the MOF and the banks.[41] Being viewed from this angle, ODA is important in securing stable external relations and economic security, building overseas markets, and assisting Japanese industries in obtaining resources, but also in generating aid-related business opportunities. According to Yasutomo, "the problem is MITI. MITI has always viewed aid as a means of benefiting Japanese companies, and this thinking still remains. Strategic thinking hasn't penetrated that ministry."[42] In terms of budget size, MITI plays a minor role since it disposes only 6% of the budget appropriations. In terms of personnel, MITI seems to be in a weaker position as well. Nonetheless, much can be learned about how available resources are used at maximal efficiency, whereby efficiency is defined as gaining comparative advantages over the other ministries. MITI can be used as a representative case since other line ministries operate similarly.

By cooperating with the private sector, the ministry can utilize its budget with a high leverage effect. Orr notes that "because of MITI's commercial emphasis with

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[39]Miyoshi notes that "there exist few opportunities for coordination among different MOFA departments, and hence among the four aid groups." Miyoshi, 1991: 7.

[40]Kokusai kaihatsu janara sha, 1984: 13.

[41]See Wolferen, 1988: 125.

[42]Yasutomo, 1986: 69.

respect to aid, it enjoys the strong support of business circles. No other ministry has such an extensive and well established network with the private sector as MITI. Not surprisingly, MITI prefers aid that will help to promote Japanese commerce rather than aid as a means of assisting the development of LDCs. If a major Japanese industry or trading company becomes particularly interested or involved in a certain large-scale aid project, MITI often becomes an ardent advocate for that commercial enterprise in the decision-making process."[43] Loan aid policy is largely formulated in the Economic Cooperation Department of the International Trade Policy Bureau. Despite the fact that MITI has no official ODA budget for loan aid, the Economic Cooperation Department is almost as big as the Technical Cooperation Department. Besides these two, there are five more departments within MITI which receive part of the ODA budget and which operate quite independently from each other.

While MITI's commercially oriented view is entirely different from MOFA's diplomatic perspective, both support increased aid volumes. However, the ministries had major differences as to what kind of aid should be increased. The well-established private sector network explains why MITI has been skeptical of the basic human needs approach, been reluctant to eliminate the practice of tying aid, and has preferred large scale loan aid projects instead. MOFA criticized this approach as being no longer appropriate since the development paradigm changed from growth to basic needs. Orr notes that, as a consequence, MITI often opposes aid to countries that do not fit into what the ministry perceives as Japan's economic interest. "MITI has frequently been an opponent of increasing aid to Africa since much of that assistance is earmarked for basic human needs projects or emergency food aid, neither of which is on the ministry's policy agenda.[44]

Since MITI's position has increasingly eroded, it has implemented several initiatives in order to reverse that trend. One strategy was the promotion of the New Asian Industrial Development Plan ("New AID Plan") in 1986. It focused on the support of Japanese investment and private industries, especially in Asian countries, and promoted the export of manufactured goods from that region. Orr commented on the New AID plan: "A major aid initiative heralded by MITI that involved very little planning with the Foreign Ministry, and for that matter the

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[43]Orr, 1990: 36.

[44]Orr, 1990: 37.

basic intent of the policy lacked the ministry's support."[45] Viewing the interaction between the ministries as competition rather than conflict can explain why it did not do so: planning with the competitor would erode the innovative effect for MITI. Another MITI program, started in 1989 aimed at the study of infrastructure, working conditions, and development needs which would provide important information for investors in the Asian countries. Furthermore, MITI supported the foundation of the Japan International Development Organization (JAIDO), which was created by 98 larger companies in 1989. It specifically focuses on better coordination between ODA projects and private sector investments.

#### 5.2.1.4 Line Ministries

The other ministries use similar strategies to promote their budget requests, in spite of constant MOF reservations. In 1988, the Ministry of Construction established a "Global Super Project Committee" which is currently chaired by the former Minister of Foreign Affairs. The objective is to finance surveys for not yet implemented super-projects in the world. The project proposals included the Gorges Dam on the Yangtzu river in China, the Kra Channel in Malaysia, the second Panama Canal, and the Gibraltar tunnel between Spain and Morocco. Furthermore, the Ministry of Construction has formulated an "International Construction Exchange Promotion Program" to encourage social infrastructure improvement and technical cooperation in developing countries.[46]

The Ministry of Health and Welfare emphasized the health aspect of aid and established a special program directed at basic human needs. The program mainly competed with MOFA's activities, and the Ministry of Health and Welfare claimed that it has more expertise in this field. Eduction, as well, proved to be a successful field for budget promotion. In 1990, four ministries requested budget to establish a new development university for education and manpower training in Japan. Since then, two have been established: the Foundation for Advanced Studies on International Development (FASID) and the Japan Society for International Development (JSID).

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[45]Orr, 1990: 38.

[46]See Japan's ODA outlook, December 1988: 3, November 1990: 3 and November 1989: 5.

In 1989, several ministries discovered the environment as an important issue. MITI established two offices for environmental conservation, the Global Environmental Affairs Office and the CFC Policy Office, in order to strengthen and expand measures protecting the global environment. It was later announced that the Agency of Environment decided to establish a Global Environment Department in 1990 to centralize environmental responsibilities. Since that time, the Agency of Environment prepares its own country studies. Yet MITI set up an office of overseas environmental cooperation and the appropriation of part of the ODA budget was directly stated as one of the primary tasks of this innovation.[47]

Meanwhile, the Ministry of Transportation created a new section called the Global Environmental Preservation Planning Office which promotes global environmental preservation and seeks ways to curb carbon dioxide pollution.[48] The Far Eastern Economic Review commented that "with pollution and related issues gaining increasing attention, 'green' aid has become the subject of intensive competition among the various ministries involved in foreign assistance. (...) Critics say MITI's environmentalism is an attempt to bolster its waning influence over foreign aid policy. (...) The environmental agency is the weakest of all players in Japan's aid game, despite its obvious expertise. In an attempt to gain a bigger slice of the new green-aid budget, it has proposed a plan to transfer environmental-protection technology to Asian countries over the next decade."[49]

#### 5.2.1.5 Judgment of the Situation at the Ministry Level

The views on ODA are significantly different in each related ministry. This is due to the fact that development projects are administered as a specific segment of the ministries' domestic tasks. In order to maximize its influence on policy, each ministry tends to promote sectoral approaches dictated by its constituency. This concern is reinforced by the fact that the ODA budget is the only budget that increases at high rates, while other sectoral budgets hardly increase or even decrease. It is rational for competitors to focus energies on this "growing market." The phenomenon of trying to increase a ministries' sphere of influence by any means is well know in Japan under the concept of *nawabari arasoi*. The ministries not only want to maximize their budget, they want to maximize aid in their sector,

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[47]See Japan's ODA outlook, July, October and November 1989

[48]See Japan's ODA outlook, April 1990: 6.

[49]Far Eastern Economic Review, March 12, 1992: 39.

their territory or the relevance of their territory, as well. For this purpose, the ministries have developed several strategies to stress the importance of their sector.

In some cases the consequences of this competition among the ministries may be severe. Ampo, for instance, writes: "If, for example, the first ministry or agency to gain information on a subterranean water project in a given country happens to be the MAFF (Ministry for Agriculture, Forestry and Fishery), then even if there is no land nearby suitable for cultivation, the project will be handled as an agricultural development project. Even though the actual uses for subterranean water are almost all as tap water, the ministry will propose to use it as irrigation water for just a few farms in order to make the project a legitimate agricultural development undertaking. Projects like this one end up doing nothing for the intended recipients, but sadly this sort of thing is happening all the time, making the whole operation quite a mystery."[50] Likewise the diplomatic perspective of MOFA led to compromises between contingency considerations and the ministry's interests, especially in the case of grant aid. MITI's close ties to the private sector and the recognition that resources spent in early stages of the project cycle have a leverage effect resulted in a situation in which MITI was a strong promoter of private sector involvement in all stages of the project cycle, especially in the identification stage. The other line ministries are also eager to promote their own sectors.

Sectoral competition has made it difficult for the government as a whole to sustain a clear-cut policy. While for domestic projects it is easier to draw a line between sectoral responsibilities but still integrate them in a unified overall policy, coordination becomes extremely difficult when aid is given to a steadily increasing number of developing countries. As a result, aid policy is more a collection of individual programs without a coordinated strategy for each country. Allocations are overly determined by the ministries' competitive efforts, with less relevance to the actual needs and conditions of specific countries. The only consensus that could be achieved on a broad basis is the recognition of the essential virtue of large expenditures for development assistance. The more sensitive issues concerning the details of each ministry's program are often not addressed directly. The lowest common denominator may then be to approach issues for which consensus can be achieved relatively easily. This explains part of the low

[50]Ampo, 1990: 15.

innovative capacity of the system which was reinforced by the MOF's insistence on annual budgeting, limiting the size of aid bureaucracy, and by its bureaucratic requirements for approval of each implementation measure.

In order to compete more effectively, the "market" for the ODA budget has been organized according to different forms of aid. Different sets of ministries have access to different budgets depending on the forms of aid. While this clear-cut separation between loan aid, grant aid and technical assistance facilitates budgeting in Japan, it causes almost no integration of the three forms of aid. The missions for annual consultations with the recipient governments, for instance, are separated into loan aid and grant aid/technical assistance. The fact that aid is divided into different sectors and is furthermore separated according to the form of aid, makes positive coordination among the various institutions responsible an almost impossible task. It does not allow an integrated country approach which would only be possible with a regional separation of the responsibilities.

From the perspective of interest groups outside the bureaucracy, the multiple agency system has a clear advantage in that its complex system offers many leverage points for specific interests. Pressure groups established to promote specific sectoral interests will find open doors at the ministries. In return for considering such interests, ministries request detailed information about the sector in question. The goals of such interest groups may be quite different from what is needed in the relevant environment in the recipient country. When the profit-seeking interests of the private sector and the interests of a ministry competing to ministries shape the actual operations, obviously the relevant environment as defined in chapter two is not a major factor for them.

### 5.2.2 Implementation Level in Japan

#### 5.2.2.1 Japan International Cooperation Agency

The main responsibility for the implementation of grant aid and technical assistance lies with the Japan International Cooperation Agency (JICA). It was initiated when both MAFF and MITI requested funds for a new aid implementation agency. This was opposed by the Economic Planning Agency and MOFA. MOFA had initially wanted to create a unified aid structure; however, when a ministerial post for aid was discussed, the minister of MOFA opposed it, claiming that double diplomacy would create even larger problems.[51] In 1974,

[51]For a detailed description of JICA's history, see Rix, 1980: 49-81.

the conflict was eventually resolved by the compromise of the establishment of JICA by law No. 62 (JICA law) in the national Diet. The compromise included the merger of the Overseas Technical Cooperation Agency (OCTA), the Japan Overseas Cooperation Volunteers (JOCV), the Japan Overseas Development Cooperation and the Japan Emigration Service.[52] However, the departments for Emigration and JOCV have been independent from most other JICA activities until recently.

Article 42 of the JICA law requires four ministries to confer regarding JICA's budget:

- Ministry of International Trade and Industry (MITI),
- Ministry of Agriculture, Forestry and Fishery (MAFF),
- Ministry of Finance (MOF), and
- Ministry of Foreign Affairs (MOFA).

While MOF can influence JICA through its approval function, JICA is directly supervised by MOFA. MITI and MAFF have stationed some of their staff in JICA and participate in joint meetings. JICA drafts requests in June based on meetings between the divisions of MOFA, MITI and MAFF and the corresponding JICA departments, and agreement among these ministries is necessary. In these meetings, JICA has recently developed a strong informal influence by using its increasing professional knowledge concerning both regional and sectoral issues. Other line ministries also have influence on JICA. JICA recruits experts from all ministries; and there are joint decision committees and technical support committees comprised of experts selected by the line ministries.

Another part of the compromise in the establishment of JICA was that, while JICA presidents usually come from MOFA, the managing directors *(bucho)* of the departments come from different ministries. The managing director is the highest position within a department.[53] Table 5-2 shows that only nine departments are

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[52]JOCV sends Japanese volunteers to developing countries, similar to those of the Peace Corps or the German Volunteer Service (DED). The initial work of the Japan Overseas Development Cooperation, the financing of the Japanese private sector to set up pilot projects in recipient countries, represents only an insignificant part of JICA's tasks. This function has been completely taken on by MITI.

[53]The next step above the managing director is the position of the executive director *(riji)*, the two vice presidents and the president. Three of these positions are given to MOFA staff; two come from MOF, MITI, MAFF and JICA. The Ministry of Construction (MOC) and MOF have one representative each. While they do not participate in the day to day decisions, they support the

headed by JICA's own personnel (which still reflects an improvement of the situation from 1989 when only six managing directors came from JICA). Each of the ministries acts as a principal for its respective directors in JICA which institutionalizes negative coordination even **within** JICA. The high number of "parachute staff" has a detrimental effect on the motivation of the career staff members, since it limits their opportunities for advancement.

The following analysis of JICA's function will be organized along the departments presented in table 5-2. There are four administrative departments: general affairs, planning, finance and personnel. The general affairs department is responsible for broader questions concerning JICA, such as its overall structure or staff size of different departments. The main function of the planning department is to coordinate JICA's overall activities. It summarizes the requests of the other JICA departments in order to formulate a comprehensive budget request to the MOF; however, this summary refers only to a listing of requested projects by JICA departments expressed in a lump sum and does not yet include a regional analysis.

For the **technical assistance** program the four basic components of the former Overseas Technical Cooperation Agency (OTCA) were directly adopted by JICA.
(a) Acceptance of trainees from recipient countries.
(b) Dispatch of Japanese experts to recipient countries.
(c) Supply of equipment to recipient countries.
(d) Conducting of development studies. Development studies refer to the missions sent before the implementation of a project, whereas the expert dispatch program refers to members of the project team during the implementation of a project. The original organization chart of JICA's predecessor OTCA had only one development study department without a sectoral division.[54] Except for the Health and Medical department, it is now divided into sectoral departments responsible for development studies (marked by (ds) in table 5-2).

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managing directors from their ministries and are an important gateway for high level information flows between JICA and the respective ministries.

[54]See Seifert, 1973: 119.

| Department *(Ka)* | Managing director *(Bucho)* |
|---|---|
| General Affairs | MOFA |
| Planning (regional) | MOFA |
| Finance and Accounting | MOF |
| Personnel | JICA |
| (a) Training Affairs (regional) | JICA |
| (b) Experts Assignments (regional) | JICA |
| (c) Procurement | JICA |
| (e) Social Development Study (ds) | Ministry of Transportation |
| (e) Social Development Cooperation (im) (regional) | JICA |
| (f) Medical Cooperation (regional) | Ministry of Health and Welfare |
| (g) Agriculture, Forestry, and Fishery Study (ds) | Ministry of Agriculture, Forestry and Fishery (MAFF) |
| (g) Agricultural Development Cooperation (im) | MAFF |
| (g) Forestry and Fishery Development Cooperation (im) | MAFF (Agency of Forestry) |
| (h) Mining and Industrial Study (ds) | MITI |
| (h) Mining and Industrial Development (im) | MITI |
| (i) Grant Aid Planning and Study Department (ds) | JICA |
| (i) Grant Aid Project Management Department (im) (regional) | JICA |
| Disaster relief | JICA |
| Emigration | JICA |
| Japan Overseas Cooperation Volunteers (regional) | MOFA |

Table 5-2: JICA departments and origin of managing directors (Source: Interviews)

The first three main categories of technical assistance require separate request and approval procedures and are provided to recipients separately. The "project-type technical assistance" combines the three kinds of technical assistance (a+b+c), which is more consistent with the general use of the term "technical cooperation." Project-type technical cooperation has no separate budget title. Only internal JICA documents reveal how much of the project-type cooperation was spent for each of the first three categories. In the 1988 fiscal year, 72% of JICA's total expenditure for trainees was spent within the project-type cooperation program, while 28% were supplied seperately from other JICA programs. For equipment and for experts 68.8% and 52.3% were used within project-type cooperation. Although

not shown in JICA's budget, project-type technical cooperation represents a far larger share of the budget than the individual provision of its three elements.

The pertinent departments for its implementation are divided into four sectors marked by **(im)** in table 5-2:
(e) Social development (Technical Cooperation Center Program, mainly infrastructure such as roads, bridges, telecommunication, etc).
(f) Health and Medical (also responsible for the Population and Family Planning Program).
(g) Agriculture, Forestry and Fishery.
(h) Mining and Industrial development.

Unlike the German GTZ, where a reorganization into regional division facilitates an integrated country-based policy, JICA is mainly organized by sectors to simplify coordination with the ministries. Coordination among the sectors is weak, and the need for a change to regional division has been recognized. JICA established three regional sections within the planning department in the 1991 fiscal year.[55] Although this reorganization decreases the problems resulting from sectoral line ministry viewpoints, further plans for reorganization would conflict with the interests of the line ministries. Therefore, a quick reorganization of the departments under line ministry control cannot be expected in the near future.

In 1978, a law for the partial revision of JICA was put into effect and the implementation of (i) **Grant Aid** was added to JICA's services. Again there is a separate department for the development study related to grant aid **(ds)**, and the implementation of grant aid (im). Within the grant aid program, equipment is donated to recipients and usually costs more that one billion yen. This is the major difference to the equipment supply technical assistance program in which the costs for one project are between five and fifty million yen. In general, the grant aid program does not involve further interaction between Japan and the recipient after the delivery of equipment has been made.[56]

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[55]Additionally, the training department, expert assignment department, the medical cooperation department and the JOCV department were divided according to regions after the 1992 fiscal year. In fiscal year 1993, the reorganization of the Social Development Cooperation department is planned.

[56]In the grant aid program, JICA acts as the implementing agency and selects the suppliers. Six different programs are distinguished:
(1) General grant aid: most often used for social infrastructure projects that do not generate profits by themselves.

The JICA budget is confusing since it is separated into the categories listed under (a) to (i).[57] It does not show how much was spend on project type technical cooperation and it is unclear, how much each sectoral department spends on the four major categories of technical assistance. Internal documents show that in 1990, 28% of JICA's funds were spend on development studies, 23.6% on sending experts, 17.8% on trainees and 16.4% for equipment. These percentages have been relatively constant: Since JICA was established development studies averaged 29.5%, experts 24.7%, trainees 16.6% and equipment 16.9%. The large number of development studies is sometimes referred to as survey pollution *(chosa kogai)*.

A major reason why development studies represent the largest items of expenditure is because this type of technical assistance is used as a preliminary stage to all forms of aid projects, no matter whether they are for technical assistance, loan aid, or grant aid. In the 1988 fiscal year, 11.7% of the development study budget was spent for project-type cooperation, 53.8% was spent for loan aid, and 34.5% for grant aid. The fact that more than half of the missions are used for loan aid proves that, within the technical assistance program, the most important preliminary steps for loan aid are taken. As a consequence, from time to time there are as many as 90 people on missions at one of the JICA offices in a larger recipient country. This causes staff at the JICA office to busy themselves with organizational work for the mission, leaving even less time for tasks necessary in a decentralized development administration. Since the missions are usually scheduled for no more than two weeks, time often only allows the attendance of meetings with high officials on the recipient side. Interviews in JICA suggest that the missions are often used as an incentive by the managing directors of each department.

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(2) Assistance for fishery projects.
(3) Aid to increase food production.
(4) Food aid.
(5) Disaster relief.
(6) Support for cultural institutions.
Until 1988 the aid for food and the increase of food production was part of MOF's budget. After 1989 it was included in MOFA's grant aid budget. The last three categories of grant aid are managed directly by MOFA, while for the other categories JICA acts as the implementation agency. This creates problems especially in the field of disaster relief, since the technical assistance for disaster relief is managed by JICA and the disaster relief grant is managed by MOFA. Plans exist that after 1993 that all grant aid (except a small portion of cultural grant aid) should be administered by JICA. Even more, the Somucho suggested the complete grant aid should be transferred to JICA's budget. See Somucho, 1989: 94.

[57]See Joho kigaku kenkyujo, 1992: 221 for detailed budget figures.

The separation in sectoral departments controlled by the relevant ministries does not allow the integration of two different sectors into one project. Until now, all JICA projects are single sector projects. The problem is not only limited to sectoral separation. While the integration of grant aid and technical assistance seems reasonable and obvious when both forms of aid are administered by the same organization, the reality in JICA is different and riddled with problems. The line ministries, which are often responsible for the formation of their "pet technical assistance projects," need to find consensus with MOFA, which is responsible for the major decisions on grant aid.[58] The request forms and the subsequent procedural responsibilities are different. This criss-crossed responsibility for grant aid and technical assistance is the reason that "there is no project in which no problems arise when grant aid and technical assistance are combined."[59]

Nevertheless, JICA is increasingly trying to combine grant aid and the technical assistance program, and in 1988, 55% of all technical assistance projects were combined with grant aid.[60] This link has several consequences. Firstly, private sector project finding becomes relevant for technical assistance. Technical assistance in itself would be less attractive to the private sector since the amounts and the profit margins are low. Secondly, changes within technical assistance, such as the introduction of a new project cycle management system, will also influence grant aid. For grant aid, the major decisions are made by MOFA, and gift diplomacy *(omiyage gaiko)* not based on target group's needs will become more apparent. Yet the effective integration of the two programs will only be possible if the entire grant aid budget is given to JICA. Then the equipment supply program for technical assistance and grant aid could be integrated and the artificial distinction between the two forms of aid discontinued.

#### 5.2.2.2 Quasi-Nongovernmental Organizations

While JICA as the regular governmental implementation organization has similar counterparts in the European or American development administration, other organizations concerned with the implementation of ODA projects are specific to Japan. They are public corporations, companies which are mainly or completely

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[58]See Kaigai konsarutingu kigyou kyoukai, 1990: 49.

[59]Interview with a JICA development specialist, 1992.

[60]Kokusai kyoroku jigyodan, Projekto hoshiki tebiki, 1990: 4.

owned by the government. Rather than making profits, their objective is to follow public policy. This institutional form has the advantage that it clearly defines the share of government subsidy, which can furthermore be separated from a general account budget. Moreover, it is not subject to the restricting rules of the bureaucracy. According to Johnson, in Japan, this flexible organizational form of carrying out government tasks has been utilized and varied more than in any other society. The official categorization is confusing; Johnson claims that this serves in part to cloud the actual circumstances, "so that outside observers will not easily grasp what is going on."[61]

The special legal entities *(tokushu houjin)* represent the most important category. The special legal entities are defined as corporate enterprises created by a special law and designed by the government as public enterprises. They are subdivided into several forms; most important are the public units *(koudan)*, enterprise units *(jigyoudan)* and the 'auxiliary organs' *(gaigaku dantai)*. While the *gaigaku dantai* are private nonprofit organizations, they, in fact, act as semigovernmental organizations. They can, therefore, be referred to as quasi-nongovernmental organizations (quangos). These quangos are divided according to their legal status into incorporated associations *(shadan houjin, kyoukai)*, incorporated foundations *(zaidan houjin)*, or unions *(kumiai)*.[62] Often, ministry officials are lent to quangos for two or three years in order to ensure close cooperation with the Japanese bureaucracy.

The major function of the quangos is to mediate between public sector and private sectors. With financial contributions from both sides, they are important centers for communication and coordination. To reinforce that function, the quangos also serve as retirement havens for *amakudari* officials. Since they are public sector corporations, the two years' waiting period for *amakudari* officials (see 5.1) does not apply to them. Thus the legal waiting period can be bridged by being located in a quangos until it becomes acceptable to "descend" to a private business. Johnson considers the need of the ministries to create and control *amakudari* landing fields as one reason for the large number of Japanese government corporations. According to Johnson, 76% of all executive positions in these

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[61]Johnson, 1978: 38.

[62]Since the legal differences between the different forms of quangos are not important for their actual activities, they are not explained in detail here. For more detailed information, see Institute of Administrative Management, 1982: 42 ff.

organizations are held by former high ranking government officials. He furthermore states that "informal norms have developed governing the assignment of available positions in a single corporation to various ministries. (...) These assignments are, of course, well known to vice ministers and chief secretaries as they plan their annual job allocations for their classmates and juniors."[63] For the development administration, two major roles of quangos can be distinguished: project finding and implementation.

**(a) The Role of Quangos in Project Finding**

The chairman of the Development Assistance Committee of the OECD remarked: "A number of aid donors are giving increasing consideration to raising domestic aid procurement by a variety of methods. These range from increased formal tying and the combination of aid with export credits to more informal arrangements, such as the encouragement of domestic procurement through project selection and design."[64] In this context, again the concept of **informal** arrangements applies especially to the Japanese case. Each of the major ministries uses a considerable part of their budget for technical assistance to conduct their "own" country studies and project finding missions. This fact proves how important a clear understanding of technical assistance is for an analysis of the total ODA system in Japan. While the funds invested here are relatively small compared to the budget for loan aid or grant aid, they determine the direction, size and quality of loan aid and grant aid flows. This is underscored by the fact that MITI, for instance, is spending almost the same amount of its technical assistance budget for project selection and design as for the implementation of actual projects.[65] These funds are usually contracted out to a related quangos. As table 5-3 shows, they can be distinguished between institutes responsible for country studies and consulting associations channeling the ministries' funds to consulting firms for project finding missions.

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[63]Johnson, 1978: 112 f.

[64]OECD, Development Cooperation, 1984: 93.

[65]Compare MITI's ODA budget in kokusai kaihatsu janaru, 3/1992: 107.

| Ministry | Institutes for Country Studies | Consultants Associations for Project Finding Missions |
|---|---|---|
| Ministry of Foreign Affairs (MOFA) | International Development Center of Japan (IDCJ), Association for Promotion of International Cooperation (APIC), Institute for International Cooperation (IFIC) | N.A. |
| Ministry of Finance (MOF) | Japan Center for International Finance (JCIF) | N.A. |
| Ministry of Health and Welfare (MoHaW) | Japan International Cooperation of Welfare Services (JICWELS) | N.A. |
| Ministry of Agriculture, Forestry and Fishery (MAFF) | International Development Center of Japan (IDCJ), Japan Agricultural Land Development Agency (JALDA), Association for International Cooperation of Agriculture and Forestry (AICAF) | Agricultural Development Consultants Association (ADCA), Japan Overseas Forestry Consultants Association (JOFCA), Overseas Fishery Cooperation Foundation (OFCA), Institute for the Development of Agricultural Cooperation in Asia (IDACA) |
| Ministry of International Trade and Industry (MITI) | International Development Center of Japan (IDCJ), Institute of Developing Economies (IDE), Metal Mining Agency of Japan (MMAJ) | Engineering Consulting Firms Association (ECFA), Japan Consulting Institute (JCI) |
| Ministry of Transport (MOT) | International Development Center of Japan (IDCJ) | Japan Transport Consultants Association (JTCA) |
| Ministry of Post and Telecommunication (MPaT) | Japan Telecommunications, Engineering and Consulting Services (JTEC) | Japan Telecommunications, Engineering and Consulting Services (JTEC) |
| Ministry of Construction (MOC) | International Development Center of Japan (IDCJ), International Engineering Consultants Association (IECA) | Japan Construction Consultants Association (JCCA), International Engineering Consultants Association (IECA) |

Table 5-3: Major ministries and related quangos for country planning and project finding (Source: Somucho, 1989: 189 ff, Somucho, 1988: 313 f, Somucho, 1989: 38 ff, Kaigai konsarutingu kigyou kyoukai, 1990: 95. Somucho lists how much budget is given to each quango.)

Country studies are usually oriented toward the sectoral interests of each ministry. An independent inspection of the Administrative Management Bureau of the General Affairs Agency *(Somucho)* complains that there is hardly any coordination of the country studies and no exchange of information among the ministries.[66]

[66]See Somucho, 1989: 195.

Consequently, bits and pieces of information about recipient countries are found everywhere in the Japanese ministry system, while there is no integrated overview that includes all aspects. Obviously, given the large number of related organizations, a systematization would involve a high, direct coordination cost. As a result, coordination is not done, and most of the studies represent an isolated view of one sector in the recipient countries. The fact that they cover only one aspect of a complex system is not taken into account. Thus, in specific cases, projects may, despite improving the sector in question, destabilize the system as a whole, or in other words, incur high indirect coordination costs.

The same argument applies by and large for the consulting associations which function as information centers and mediators between the interests of private consulting firms and the ministries' interests. Most ministries have established direct contacts to 'their' consulting associations and finance project finding missions. The *kaigai konsarutingu kigyou kyoukai* concludes that the consulting associations are the ideal means for the line ministries to control the identification process through the private sector and to ensure that they will receive the relevant information before other ministries get to know about it.[67] The General Affairs Agency *(Somucho)* adds: "However, not all of the results of these project finding missions financed by the line ministries are shown to MOFA. It is therefore becoming important that the government as a whole selects the projects, establishes country plans and becomes active."[68] Likewise Forrest complains that this institutional setting can lead to unproductive competition and states that "government agencies routinely withhold relevant information from other government agencies."[69]

Through the Japanese retirement system, most consulting associations are headed by former government officials. Besides maintaining close relations with the Japanese government, the associations collect and disseminate information, conduct research and promotion, and channel the funds for project finding to the individual consulting firms. The associations provide landing fields for *amakudari* officials, which again serves the interests of both sides. They constitute an efficient informal "old boys network" *(jinmyaku)*. Ampo, for instance, notes that

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[67]See Kaigai konsarutingu kigyou kyoukai, 1990: 58.

[68]Somucho, 1988: 315.*

[69]Forrest, 1989: 25.

"not only do they come bearing newly awarded contracts, but they continue to wield influence, both morally and materially, back at the old office, particularly if their former subordinates have since been promoted to top positions."[70]

**(b) The Role of Quangos in Implementation**

Even more confusing than the quangos for selection and design are the numerous quangos for implementation activities. Again, each ministry has established its own network of quangos for implementation. No public information is available about the large numbers of quangos. Therefore, this section only covers MITI's quangos for implementation. Similar institutions can be found for the other ministries.

The activities of the technical cooperation department of MITI is divided into a government-based and a private-based cooperation. The rationale for the private-based cooperation is that, if the target group is mainly in the private sector in the recipient country, it is much more effective to involve private Japanese firms. For ODA which aims at the public sector, a government-based institution such as JICA, is more appropriate for implementation. The private sector cooperation uses the dynamism of the private sector in Japan and the recipient countries, and projects include between 25% and 75% funds of the Japanese private sector. Therefore, most project outputs will be used jointly by recipients and the Japanese private sector. To ensure open communication, there are bimonthly meetings between the private sector and MITI. MITI has a comparative advantage in this field because of its well-established network in the private sector in the relevant industries.

All of MITI's government-based cooperation is entrusted to JICA and used for project selection and design. The private-based cooperation funds used for project implementation are channeled through MITI's own quangos, as shown in table 5-4. Besides the dispatch experts and the invitation of trainees, a third program is referred to as research and development cooperation.[71] The primary objective of this program is to promote joint research and development activities between research institutes in Japan and developing countries, especially in fields in which

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[70]Ampo, 1990: 11.

[71]Kokusai kaihatsu janaru sha, 1984: 67.

developing countries have a research need but are lacking technical capabilities or know-how. The fruits of innovation are supposed to be shared by participants on both sides. There are three different stages of cooperation: laboratory level research, pilot plant and demonstration plant.

| | |
|---|---|
| Dispatch of experts | Japan Overseas Development Cooperation (JODC), Oisca |
| Invitation of Trainees | Association for Overseas Technical Scholarship (AOTS), Oisca, Interchange Association, Japan Thailand Economic Cooperation Society (JTECS) |
| Research and Development | Institute for Transfer of Industrial Technology (ITIT), Private Sector Organizations |

Table 5-4: MITI's quangos for project implementation (Source: Kokusai kaihatsu janaru sha, 1984: 13 ff, MITI Annual Report, 1989: 822 ff and 136 ff.)

Official channels can be bypassed, and recipients may directly request assistance from these implementing organizations. Therefore, in most cases, the other ministries do not have detailed information about these activities. It has the advantage, however, that it is much quicker and more flexible than official channels. However, even within MITI, activities are not coordinated. There is no country plan that directly states objectives for the cooperation with individual recipients. It is clearly a case by case approach.

The fact that none of the quangos on the implementation level cooperate with each other or with JICA indicates that coordination with other, similar institutions is almost impossible. As a result, the part of the technical assistance funds that are not entrusted to JICA runs totally separately from the other ODA activities, and there is hardly any coordination with the other ministries' programs or with JICA's activities. In 1991 JICA was responsible for only 53% of the total technical cooperation, the rest was mainly channeled through quangos related to line ministries.

#### 5.2.2.3 Judgment of the Situation at the Implementation Level

The need to promote each ministries' services in this competitive setting is the major reason why the network on the implementation level became so complex. Each ministry has its own territory, and this makes it possible to develop, but also necessitates a complicated network of organizations. There is a large number of different organizations established for the purpose of increasing a ministry's territory. Each implementation organization has specific loyalties to a ministry and

ties its own interests to the interests of a ministry for mutual benefit. Coordination on the implementation level is impossible, unless the ministerial level would oblige their related organizations to do so.

JICA is often presented as the organization that coordinates technical assistance and grant aid at the implementation level. The analysis above shows that this statement is far removed from reality. Competition among the ministries and the resulting institutional problems are replicated within JICA. The analysis of the department structure of JICA, as shown in table 5-2, reveals that its institutional structure is shaped primarily by different ministerial interests. JICA is not a homogeneous agency; each ministry has secured influence in its own sector. This influence is directly related to the discrepancy in JICA's activities observed in chapter three and many of the problems identified are a consequence of the interest structure multiple agency system.

In the **identification** stage not only JICA is responsible to pursue an active role. The ministries employ several semigovernmental and private sector organizations to increase the number of requests in their sector. While it is rational for each ministry to do so in order to increase its comparative advantage, the involvement of the other organizations adds yet another group of interests in the identification of new projects. The weaknesses of JICA's **appraisal** system will in many cases not allow to identify when requests are shaped by interests different from those of target groups. The lack to address that problem suggests that consensus among the ministries in Japan may be at least as important as the appropriateness of the project. As a result, the **selection** cannot be oriented at the same goals for a given recipient country. Each ministry has it own goals and feasibility in the Japanese environment may be seen as a stronger limitation than feasibility in the recipient country.

In the **detailed design** stage, JICA is obliged to employ the sectoral expertise of the involved ministries. This determines a focus on technical expertise and reduces the importance to involve target groups. While the blueprint design of the equipment components of projects emerges from this, the activities of technical assistance cannot be addressed by the ministerial experts and is postponed to the implementation stage. However, even in the **implementation** stage, the technical experts of the line ministries are primarily concerned with achieving the immediate goal of technical transfer. Often they do not have the development and management expertise necessary to recognize the importance of institutional

development. MOFA's concern for the justification aspect of its **evaluations** is a good example, indicating that the ministry level is mainly concerned with the promotion of its activities. This may have had an impact on JICA's evaluations which only recently have started to focus on feedback and institutional learning.

The problem is not only limited to JICA. Roughly half of the total technical assistance is not channeled through JICA. The fact that each ministry has its own quangos unrelated to the others shows that a unified approach would incur immense direct coordination costs. Due to this, no coordination takes place and high indirect coordination costs are incurred. The foundation of the quangos is more likely related to each ministry's interests rather than being generated by the recognition of a better adaptation to the requirements of the relevant environment. This tendency toward uncoordinated growth in the development administration has been reinforced by the efforts of higher officials eager to secure comfortable *amakudari* positions both in the private sector and in public corporations.

### 5.2.3 Japanese Organizations in the Recipient Country

The Japanese development administration is heavily centralized in Tokyo. The offices in recipient countries serve mainly logistic or liaison purposes, which is reflected in the relatively low number of staff stationed abroad. Table 5-5 shows that the number of staff stationed abroad for Japanese development administration is much smaller than in the US. In comparison to the number of officials of the Japanese private sector, this looks even more unfavorably.

| Number of staff | Japan | USA |
|---|---|---|
| Domestic | 1252 | 2252 |
| International | 477 | 2260 |
| Ratio | 2.6 | 1.0 |

Table 5-5: Manpower in the development administration of Japan and the US in 1990 (Source: JICA.)

The *kaigai konsarutingu kigyou kyoukai* estimates that roughly 15,000 people work for the twelve largest *shosha* in developing countries. Many of them have close ties to the local government which allows them to efficiently collect relevant

information.[72] Furthermore, personnel from official institutions stay for a shorter time in each country. Therefore, the personnel of a *shosha* have the opportunity to develop strong personal networks and, in most cases, are better acquainted with the language, culture, and economy of their host countries than the ODA officials.

Nevertheless, the logistic function of the public sector offices is important for each ministry to be able to effectively pursue its interests. The centralized structure has generated the need for a large number of missions, mentioned above under the notion of survey pollution *(chosa kogai)*. To effectively support their missions abroad, each ministry was eager to set up a foreign office. As a result, several ministries set up offices abroad: MOFA naturally is responsible for the embassy, MOF is related to the OECF offices, MITI has close ties to the JETRO office and the line ministries expatriates are supported by the JICA office. In the following, these offices will be briefly analyzed.

#### 5.2.3.1 Japanese Embassy

The Japanese embassies in large recipient countries have a unique structure. There is one coordinator of development assistance and two officials in charge of loan aid and grant aid/technical assistance. Below that are the sectoral attachés from the respective line ministries in Japan. They are in a difficult position, since they have a split loyalty to the home ministry to which they will eventually return, and the embassy. Often, this results in frequent informal contacts between the attachés and their home ministries, while on the formal level, contacts with MOFA are more visible. The same applies to the recipient side. In the countries where there is an agency responsible for coordinating aid, such as the Department of Technical and Economic Cooperation (DTEC) in Thailand, it is the official counterpart for the respective staff of the embassy. Aside from these formal contacts, the attachés frequently maintain close informal contacts with the respective line ministries in the recipient country which may create a situation in which the coordinating organizations on both sides, MOFA on the Japanese side and DTEC on the Thai side, can be effectively bypassed by informal contacts. This is depicted by the dotted line in figure 5-2.

The agricultural, financial, trade, and other attachés at the embassies are seconded from the respective ministries. According to Hofmann, this implies a clear disadvantage. "All applications or ideas for projects are examined at the embassies

[72]See Kaigai konsarutingu kigyou kyoukai, 1990: 96.

before being forwarded to the Gaimusho (MOFA). That the comments on such projects are made by civil servants with specialized knowledge undoubtedly has many advantages. However, this division of labor may well hamper country-based development cooperation: as the various attachés are not specifically trained in development affairs and return to their ministries after their tour of duty, they are inclined to overemphasize Japanese experience or to represent specific domestic interests."[73] Until 1992, no specialist ODA staff was posted in the embassies. Despite the fact that the capability of the embassies to influence aid policy is limited, this institutional setting may be disadvantageous since personnel posted from the various ministries may focus on the needs and interests of their respective ministries. Again, as found in the case of JICA, within the embassies the competition between the ministries shapes part of its activities. Thus, in many cases, the competition over aid proposals dominates other concerns such as contingency considerations.

#### 5.2.3.2 The Local JICA Office

To supplement the embassies' work, JICA maintains 49 offices abroad which are directly controlled by JICA headquarters.[74] They mainly function as liaison offices between Tokyo, the counterparts and the recipient government. The most important function is the logistic support of the missions. The expansion of their functions to more analytical tasks is limited by the available manpower. JICA president Yanagiya stated that "... the staff members (of JICA offices) do not have time for in depth studies since they are too busy fielding requests for information or other general assistance."[75] JICA admits that the majority of JICA offices "have been small ones with no more than one or two staff. As such, they have only been able to act in a logistical capacity as convenient aid supply points, or as passive liaisons. The truth is that they have not been well enough equipped to take a positive role regarding the substance of operations."[76] JICA intends to

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[73]Hofmann, 1984: 20.

[74]Not all of them are in developing countries. Besides the offices in Toronto, Washington, and Paris, a new office is planned in London. While their functions were not so clear in the past, the existence of related offices in the other ministries provide part of the rationale for their establishment. In the future, these four offices will have the major task of coordinating aid to Latin America, French-speaking Africa (Paris), and English-speaking Africa (London).

[75]Yanagiya, 1989: 11.

[76]JICA, Overseas Offices General Management Division and Strengthening of Office Functions, in: Technology and Development, No. 4, January, pp. 88-89, 1991.

increase the local staff in order to solve that problem, but due to the manpower limitation of MOF, a change has been difficult in the past.

The discrepancy between the obvious need for information and the inadequate capacity of the embassy and the JICA office is filled on an ad hoc basis by numerous survey teams sent by the ministries. The short-term survey mission is the most common form of contact between Japan's aid staff and recipients, and it is often referred to as survey pollution *(chosa kogai)*. The staffing of these missions is not an easy task since ministry competition can be felt even at the project level. Neither projects nor missions have a chance of effectively achieving their objectives when they are staffed by experts from different ministries competing with each other. To prevent such problems, missions are conducted by "neutral" JICA staff and personnel of the related ministry.[77]

#### 5.2.3.3 Japan External Trade Organization (JETRO)

MITI's relationship to JETRO is similar to the MOFA-JICA relationship. Half of the JETRO officers are active-duty MITI bureaucrats, and, in fact, JETRO can be considered a detached bureau of MITI.[78] When JETRO was established in the 1950s, its objective was to promote Japanese exports, and the JETRO law refers only to this function. However, when Japanese exports started to increase and produce constant surpluses, JETRO had to change its function. Its new focus, therefore, became import promotion, thereby ensuring balanced trade flows between Japan and other countries. Now JETRO promotes new foreign products in Japan, analyzes foreign markets, takes part in international trade expositions, and provides intelligence services for foreign and domestic entrepreneurs. While

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[77]In almost all cities where JICA has its offices, an office of the Overseas Economic Cooperation Fund (OECF) can also be found. While JICA is responsible for technical assistance and grant aid (including identification and appraisal of loan aid), OECF has the sole responsibility for implementing loan aid. Despite the fact that loan aid has not been treated in this study, there is an obvious need to integrate this form of assistance with grant aid and technical assistance. Yet there is hardly any cooperation between JICA and OECF. An OECF official mentioned that they "get better cooperation with USAID than we do with JICA." (Cited in Orr, 1990: 50.) The president of JICA stated that "there is also a need for better coordination among the implementation agencies for the various forms of assistance. We have sent out JICA experts to study some proposed project, only to have them come back and tell us that the project is already receiving support in the form of, say, a yen loan. A certain amount may have been inevitable so far, since we have all had so much work to do, but now I would say it is time for all the aid agencies to get their act together." (Yanagiya, 1989: 11.) While OECF is responsible for loan aid with a grant element above 25%, the Export-Import Bank is responsible for the other official flows (OOF) with a grant element below 25%. Again the Export-Import Bank's activities are not coordinated with other operations of the ODA system.

[78]Johnson, 1978: 52.

this partly overlaps with the large number of Japanese chamber of commerce offices in foreign countries, JETRO claims that its scope is much larger and not only limited to Japanese member firms.

On the contrary, in many developing countries, JETRO has focused explicitly on the task of improving the export capabilities of local firms. It cooperates with the recipients' Board of Investment, the Ministry of Commerce, and with local businesses directly. As a consequence, the overlap with the Japanese chamber of commerce is much lower than the overlap of JETRO's and JICA's activities. While this overlap started much earlier, since 1982 JETRO has officially received part of the ODA budget through MITI. Thus JETRO can support MITI's projects during the identification and implementation phases. Coordination with JICA's activities, however, does not take place.

#### 5.2.3.4 The Japanese Private Sector

A specific characteristic of Japanese firms is the close ties among them. While the banks secure financing, trading firms *(shosha)* represent the organizational core. The term "trading firm" should be understood in its broadest sense; the shosha import and export almost any good or service supplied or demanded by Japan. Also within Japan, they organize the exchange of various economic goods, financial funds, information, raw material, services from one party to another. They are comprehensive intermediators from the earliest transactions concerning raw material import and processing, through all stages of production, until the distribution to the end user.

This enables the *shosha* to have a central intelligence function in the ODA business. Through their worldwide network, they gain knowledge about potential projects in recipient countries; through their domestic network in Japan, they know the requirements and specifics of the ODA administration. The *shosha* also know important suppliers such as manufacturers and consulting firms. Through combinations of transactions, profitability can be increased and markets can be opened up that would not be profitable for individual firms. Because of their large size, *shosha* can take high risks and use long-term approaches. Furthermore, the established trust relationship between participating organizations is a strong incentive in supplying their product to the best of their ability, replacing the control function.

ODA business is among the riskiest of *shosha's* transactions. While investments often end up in complete losses, the profit margin for successful contracts is large. The commission for domestic transactions is less than 1%; for ODA contracts it is usually ten times higher. Yet, although this business is perceived as a "nice risk diversification opportunity," it represents only a small portion of the total turnover of the *shosha*. However, besides direct profit, *shosha* have a vested interest in a stable and well-functioning global infrastructure. "Nonoperable infrastructures can hinder trade flows. So ODA money is often used to oil the machine."[79] Furthermore, the ODA business was referred to as a domestic business, since only in the initial stage are branch people involved and the rest of the business is in Japan.

As shown in the first section of chapter three, *shosha* tie up with Japanese consulting firms. The role of the consulting firms is mainly limited to the assessment of technical feasibility and the determination of technical specifications. Accounting for approximately a quarter of their total sales, the ODA business is much more important to the consulting industry than to the large trading firms. Rimmer notes that because "Japanese consultants grew on aid, and aid grew because of them, any proposed redirection in its flow is of immense importance to the industry."[80] This indicates that the consulting industry may be quite dependent on good relations with the *shosha*. According to Ampo both the *shosha* and the manufacturer, rich in capital and manpower, exercise influence over the consulting firms. "With such a vast amount of data available to them, companies have the advantage to pick and choose which projects they want to promote; their choice are invariably those projects that promise the most benefit for their companies. As they cannot openly participate in project planning, during the drafting stage they cleverly supply the development consulting firms with information that favors their own positions. If the government accepts the projects, then their company will have the best chance of being chosen to handle the implementation."[81] The strong involvement and high success rate of the private sector is only possible in the multiple agency system. It created another variable of interest which reinforced the deficiencies of that system.

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[79]Interview with the representative of a *shosha*, 1991.*

[80]Rimmer, 1986: 46.

[81]Ampo, 1990: 13.

#### 5.2.3.5 Judgment for Japanese Organizations Abroad

The multiple agency system has created a situation where the image the development administration presents in the recipient country is almost incomprehensibly complex. Should the official of the recipient government contact the embassy, the JICA office, the OECF office, the Export-Import Bank, JETRO, the chamber of commerce before approaching his domestic coordination agency? Which is the appropriate institution to refer to and which informal channels speed up the recipient's request? This led to a great deal of confusion for anyone in the recipient country who came into contact, but was not familiar, with the Japanese system and has hindered effective planning and implementation of aid. It enhances the role of the Japanese private sector, since recipients often need to cooperate with a Japanese partner who understands the system.

Cooperation among these institutions abroad has been impossible because each of them has remained loyal to its ministry. Administrative reform aiming at improved cooperation between the JICA office, the OECF office, the JETRO office, and the embassy would be desirable. A concentration of functions combined with a decentralization of power from Tokyo to the local office could significantly reduce the number of costly missions and the number of costly local offices. This may not be in the interest of line ministries in Japan since the proximity to sectoral ministries of the recipient countries allows that formal channels are overlapped by a large number of informal channels between the different interest groups in the Japanese public and private sectors. As shown graphically in figure 5-2, in this setting official coordination bodies can be bypassed and particular interests more effectively pursued.

While this study focuses on the institutional analysis of the donor side, similar institutional problems on the recipient side may furthermore prohibit compatibility in terms of contingency theory. Several studies such as those of Israel (1987), Esman (1991), White (1990) and others have pointed to the importance of institutional problems in recipient countries. While they suggest that, theoretically, the recipient country should be responsible for coordination, institutional weaknesses on the recipient side render it impossible. The problem, therefore, is that a weak institutional system on the recipient side has to cooperate with a weak institutional system on the donor side, which means that the overall results are not adapted to the relevant environment.

### 5.3 Conclusion to the Second Working Hypothesis

While the first working hypothesis based on contingency theory was helpful in evaluating the procedural structure, the model based on New Institutional Economics was useful to explain its deficiencies. This chapter showed that the multiple agency system in the Japanese development administration is bound to high agency cost. While the costs cannot be expressed in concrete numbers, the analysis of the functional structure on three levels revealed that the disadvantages of this system are greater than the benefits. In the multiple agency system, neither a specialization benefit nor a reduction of control cost was observed. The evidence suggests, however, that bonding and coordination costs are large. The second working hypothesis is therefore valid: The multiple agency setting increased agency costs in the case of the Japanese development administration.[82]

When the ODA budget is allocated, the former achievements of the ministries and agencies and the degree of productive discretion in terms of contingency theory are not compared since such data is not available. A reduction of monitoring costs through direct comparison of the outputs of competitors as in the market sector is therefore not possible. On the contrary, the larger number of participating organizations tends to increase these control costs. A specialization benefit was not achieved either. In many cases the inclination for monosectoral projects has made it difficult to deal with multidimensional problems in the developing country. This involves the danger to destabilize complex systems in recipient countries if activities are not coordinated. The fact that the ministries are not used as advisors but as decision-makers renders the specialization benefit to be negative.

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[82]This conclusion is also supported by the German case, where until 1961, ODA was administered in a multiple agency system, as well. Only the Economic Ministry and the Foreign Ministry had larger competencies of overall coordination; the other ministries participated via interministerial meetings *(Interministerielle Referentenausschüsse)* and an interministerial coordination body *(Lenkungsausschuß)*. Glagow writes that "this form of coordination was found inadequate for the problem, since first the coordination needs increased numerically, second, the *interministerellen Referentenausschüsse* in this form was not flexible enough, and third, the competencies between the Economic Ministry and the Foreign Ministry were not delineated clearly, which led to a steady conflict between the ministries." (Glagow, 1990: 24*) Likewise, Dennert diagnosed that this system was dysfunctional by stating that "each single question was subject to a complicated coordination process. Who leads the mission to A? Which ministry filled an important post in the international organization B? Who is responsible for managing project C? It is impossible to describe such conflicts in detail. It should be enough to state that since 1956 there have been hundreds of cases like that. Each single one had to be resolved by talks and meetings." (Dennert, 1968: 33*) The competition among the ministries paralyzed German development activities. Eventually, parliament recognized the opportunity to become active when the bureaucracy blocked itself. In 1961, the Ministry of Economic Cooperation (BMZ) was established, representing a compromise within the coalition of the Christian Democratic Party (CDU) and the Liberal Democrats (FDP).

Many examples show that the interests of the ministries have led to high bonding costs. Each ministry invests resources in demonstrating its importance and comparative advantages. Most of the identification activities aim at increasing the number of requests in the sector, thereby underscoring a ministry's importance. For this purpose, several organizations are financed to generate new project ideas and promote them. Also there are informal strategic alliances between ministries and the Japanese private sectors. Some of the activities even aim at hiding relevant information from other ministries. This can lead to a redundancy of tasks performed in each ministries and a lack of a comprehensive overview of the situation in a given recipient country.

The competition at the ministry level *(nawabari arasoi)* requires and necessitates a large number of separate implementation organizations according to sector and type of aid. Even within JICA as the major organization for technical assistance and grant aid, competition among the sectoral departments is institutionalized. In each implementation organization, projects are approached from a single sectoral viewpoint without considering other sectors or forms of aid. Coordination in this system is obviously difficult and a coordinated approach would carry high coordination costs. The manpower of the finance ministry it too limited to take on this task.

Often the overall high agency costs lead to projects less effective than they could be. Many of the discrepancies observed in the third chapter can be related to these large agency costs. This institutional structure enables interest groups to pursue their bureaucratic, economic or political interests. They can find support in the wide functional institutional framework, and institutional devices in the procedural level cannot limit them effectively. The actual needs of potential beneficiaries are often filtered through the recipient government agency, the coordinating agency for aid in the recipient country, the Japanese private sector and the Japanese ministry level. Initial project ideas may be distorted in each stage to make it compatible with the organization's interest. In that sense, the disperse system of aid functions hinders the development of policies tailored to the needs and conditions of specific countries. Therefore, in the next chapter, an innovation will be analyzed that may allow JICA to get direct access to the needs of target groups.

The approach based on NIE is helpful to explain the discrepancy between the expectations of contingency theory and the actual operations observed in the third chapter. Bureaucratic self-interest, which is not assumed by contingency theory, leads to a compromise between the adaption to the relevant environment and the motivation of the participating individuals and organizations. While the first working hypothesis based on contingency theory shows the desirable adjustment to the external environment, this chapter explained how self-interest can work against that. In the multiple agency system such interests can be pursued most effectively by participating organizations.

## 6 THE EFFECTS OF INSTITUTIONAL INNOVATIONS

Claus et al confirm the results of the last chapter when they state how they perceive the ideal development administration: "As development policy should in any case be regarded as an aspect of foreign policy, responsibility for development cooperation should rest with the Foreign Ministry, where a (small) department should do the groundwork on the policy. The actual planning and management of development cooperation should be left to an agency, which though subordinate to the Foreign Ministry, enjoys considerable autonomy. It should also be responsible for the implementation of development cooperation measures and provide the staff for the external offices, which should do the preliminary work for it and act on its behalf. (...) Specialized ministries should be involved only when their expertise is needed."[1] Likewise Glagow concludes that a multiple agency approach bears the danger of a "systemic self blockade."[2] Schimank warns that "development fails to the extent the genuine development oriented rationality is dominated by diplomatic or trade-related rationality."[3] That means, while a single agency or ministry is obviously desirable, at best it should also be independent of the Foreign Ministry.

In Japan, the Economic Planning Agency (EPA) had been designated to take over the main responsibility for loan aid to eradicate the competition between the ministries. This was opposed by several powerful ministries, and officials referred to the measure as "erecting a roof on a building" *(okujofu)*. Thus, instead of having centralized the administration for loan aid, this endeavor added yet a new player to the ODA game.[4] In MOFA, though, the drawbacks of the system are recognized, too. It writes: "Among the principal donors, only France has a system similar to the Japanese system in which various ministries participate in ODA administration. In the other countries, either the MOFA, or a single ministry or a special agency plays a leading role. (...) There is no denying, however, that this system is complicated and difficult to understand because of the large number of ministries participating in the process. Furthermore, rapid response is sometimes

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[1]Claus, 1989: 44.

[2]Glagow, 1983: 32.

[3]Schimank in Glagow, 1983: 63.*

[4]MOFA still used this argument in its 1990 annual report. "Some areas of domestic administration involve a number of ministries. This situation is quite natural, and the real question is how the activities of these various ministries can be efficiently coordinated. The establishment of a new department, such as an aid agency or ministry, would simply add another layer to the structure, thereby contradicting the aims of administrative reform." (MOFA, 1990: 38.)

hampered by the need to gain consensus."[5] But ultimately MOFA defends the status quo. "There is also strong support for the unification of aid administration under a single aid agency. This argument is based on the view that there is a structural problem in the present implementation system, which causes a lack of coordination in aid administration. However, Japan's aid administration is firmly unified with respect to its relation with recipient countries."[6]

Even though it is desirable, the establishment of a Japanese Ministry of Economic Cooperation is not foreseeable in the near future. Political decision-makers may not be strong enough to bring about such a change, and the ministries are not willing to relinquish any power. Therefore, in this chapter the impact of an institutional innovation will be assessed which could at least improve the situation, even if it cannot solve the basic problem. The goal of the innovation is to restructure procedures and has been promoted by JICA under the name Project Cycle Management (PCM) since the beginning of the 1990s. It addresses some of the discrepancies observed in chapter 3, and it may enable JICA to get a better, more direct understanding of the needs of the target groups.

According to contingency theory, any innovation will have an impact on the relationships with the relevant external environment. Yet the same innovation will also affect the internal environment and the interest structure, which can be analyzed with the help of New Institutional Economics (NIE). Most studies focus on one viewpoint or the other. This chapter will show that the combination of contingency theory and NIE allows a more comprehensive evaluation of institutional innovations. First, the introduction of PCM in Japan will be described; then the effects of this innovation will be assessed from the perspectives of both contingency theory and NIE. The effects of such administrative innovations should not be underestimated; they may be very consequential even though not much information about them is available to the public.

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[5]MOFA, 1988: 104. Likewise the annual evaluation report in 1987 commented on the coordinated implementation of different projects. "In general, Japanese assistance tends to strictly define the subject sector for the cooperation (i.e., agriculture, forestry, mining, engineering, health care, etc.) and each project is scrupulously implemented in accordance with its original plan. (...) It appears that the need for connecting existing projects, providing measures to deal with the effects of specific problems on related fields and for the coordinated, as well as combined, implementation of different projects is increasing." (MOFA, Annual evaluation Report, 1987: 69.)

[6]MOFA, 1990: 143.

### 6.1 The Introduction of Project Cycle Management (PCM) in Japan

In 1984, MOFA did a study on aid evaluation and the potential introduction of the Logical Framework Approach.[7] Despite its recommendation to implement the Logical Framework Approach, it was not further pursued until, in 1989, JICA approached the German Gesellschaft für Technische Zusammenarbeit (GTZ) for information relevant to the potential introduction of ZOPP in Japan.[8] In 1990 and 1991, several missions were sent from Japan to GTZ headquarters in Eschborn and German experts were invited to come to Japan. Most of the available papers on ZOPP were translated from German into Japanese within one year. The Foundation for Advanced Studies on International Development (FASID) was assigned to study the potential adjustments of ZOPP to Japanese technical assistance. The modified version of ZOPP was called Project Cycle Management (PCM) thereafter. FASID set up the first draft of the PCM guideline in close cooperation with JICA's Institute for International Cooperation and the JICA planning department.[9] The guidelines were finished by April 1992 and were eventually approved by the board of JICA's managing directors in November 1992. They are limited to project-type technical assistance; guidelines for the other

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[7]Kokusai kyouryoku suishin kyoukai, 1984.

[8]ZOPP is the abbreviation for the German term 'Zielorientierte Projektplanung' - goal-oriented project planning. It was developed after the basic human needs strategy was introduced, focusing on food, health, housing, education and working conditions combined with a target-group oriented approach. The multidimensional objectives plus the focus on target groups required different planning techniques. Instruments were sought to establish means-objectives functions when there was no single economic goal anymore. The "management by objectives" method was used as a starting point. It obliges the planner to first specify the primary objective of the project and then work out the best strategy of cause-effect relationships in order to achieve that goal. Later the Logical Framework Approach (LFA) was adopted which is based on the Management by Objectives philosophy but distinguished different levels of objectives. The logical framework was designed for USAID by a management consulting firm to formulate projects more rational and comprehensive. The German GTZ tested the Logical Framework between 1979 and 1981. In its development into ZOPP, the formulation of the objectives was enhanced through a participation, problem and objectives analysis before setting up the logical framework. In ZOPP, the participation of the target group was emphasized and teamwork became the guiding principle in the process. ZOPP has been used since 1983 for all German technical assistance projects and has since then been considered as the standard in the field of planning techniques. Meanwhile, several European and non-European countries have adopted ZOPP. In 1992, the European Community, UNIDO and the World Bank became interested in the potential introduction of ZOPP and approached the GTZ for an introduction into method and training. The private sector in Germany started applying the ZOPP method for strategic decisions as well.

[9]Kokusaikyoryoku jigyodan, JICA purojecto saikuru manejimento maniaru, 1992.

forms of technical assistance and grant aid were yet to be established.[10] FASID began in the fiscal year 1991 with formal PCM training and the application to concrete cases. The (trial) implementation of the new system is planned in the 1993 fiscal year with full implementation after 1995. The description of the methodology in the next section will be followed by an analysis of how it is integrated into the project cycle.

### 6.1.1 PCM Methodology

The PCM and the ZOPP methodology consists of five elements:

- Participation Analysis,
- Problem Analysis,
- Objectives Tree,
- Alternative Analysis, and
- Project Design Matrix.

Since these analytic tools have been adopted by JICA from the German ZOPP system without significant changes, the same arguments apply for both the PCM and the ZOPP methodology.[11] The teamwork approach of PCM suggests that these tools are used within workshops, but the German experience showed that the effectiveness of these workshops depends on how well the members are prepared. Therefore, from case to case, a less formal use of the tools even outside workshops may be more appropriate. While the tools are often applied in the sequence presented here, in some cases it may be necessary to retrace one's steps. The methodology should not be rigidly adhered to; instead it should be applied as needed in the process to prevent it from becoming an inflexible, technocratic waste.

In the **participation analysis**[12], all persons and institutions directly or indirectly involved in the project are identified in a brainstorming process: people who actively work in the project, people who are passively affected by the project, people who work in the same field, i.e., competitors, other donors, etc. Next,

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[10]In Germany, ZOPP is only used in the GTZ and has no relevance for other institutions or forms of aid. In Japan, OECF is not considering the introduction of PCM for loan aid. Only a test of the logical framework is planned.

[11]Nevertheless, in this section, reference will be made only to PCM to facilitate better understanding in the context of the whole chapter.

[12]See FASID, 1992: 16 ff

they are categorized into different interest groups by analyzing how they will be affected by or involved in the project. Here potential supporters and opponents of the project can be identified.[13] There should be agreement as to whose viewpoint should guide the problem analysis. The identification of the interests of individuals and organizations is important since they will often be more relevant in guiding the project than the actual problems.

Nevertheless, the actual problems should be decisive. Therefore, the **problem analysis** is used to clarify all links among the various problems relevant to the project.[14] When used within a workshop, each participant writes the problems or issues perceived as most relevant on flash cards. After anonymously collecting the cards, they are hung up on the wall. Since there may be up to 200 cards, the moderator tries to sort out the cards with the same problem. Subsequently, the cards are arranged such that multilevel causal linkages are created; the causes below the core problem and the effects above. The key problem is identified first and situated in the center. A practical example of the Japanese PCM pamphlet is seen in figure 6-1. While it greatly simplifies the practical procedures, it is helpful as an introduction for those who are not familiar with the method. Interestingly, the same transportation project example had also been used in the German guidelines.

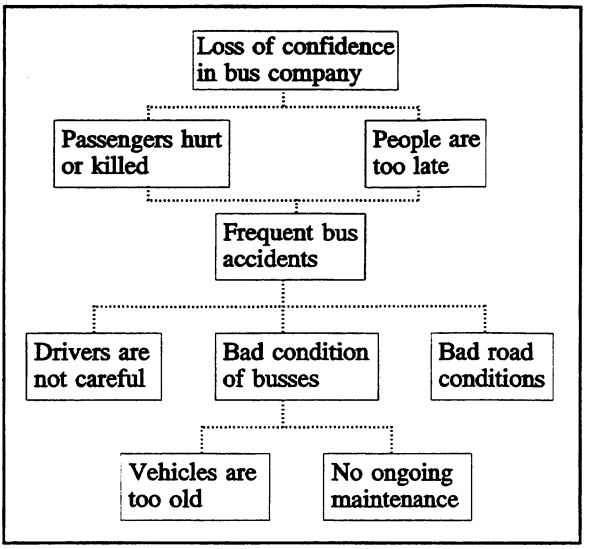


Figure 6-1: Problem analysis (Source: FASID, 1992: 25)

[13]The results can be summarized in an "interrelation map" or an "interrelation matrix."

[14]See, FASID, 1992: 22 ff

The negative statements of the problem analysis are then changed into positive statements of the future objectives.[15] By doing so, the cause-effect hierarchy is transformed into a means-objective hierarchy and the derived project objectives become visible. Figure 6-2 shows an **objectives tree** for the same example. If the sequence of the steps is strictly followed, the creativity of this method is limited since it is impossible to identify potentials or resources that are not properly used if they have not been previously perceived as a problem.

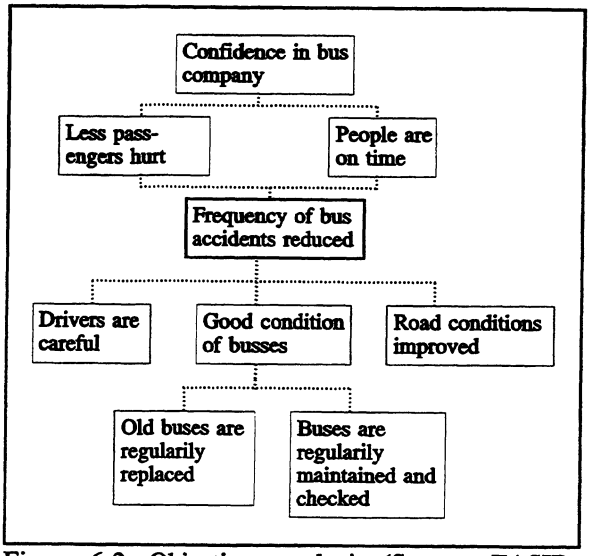


Figure 6-2: Objectives analysis (Source: FASID, 1992: 27)

In the **alternative analysis**, the decision is made as to how the project will be approached.[16] The objectives tree covers too many potential objectives to be incorporated into one project, since available resources are limited. Methods allowing a scientific comparison between the different approaches need to be applied when evaluating alternative project designs. Besides the cost-benefit viewpoint, the criteria include expected risk, specific experience of the implementation agency, institutional competence, follow-up costs, environmental impact, other side effects, technical feasibility, and the relevance for specific target groups. It is often difficult to analyze all alternatives in detail. Thus, in most cases, "common sense" governs the methods developed in the social sciences. Kohnert, for instance, notes that, naturally, everybody roughly knows the size of the available resources from the beginning, and logically this knowledge is part of the frame of planning.[17]

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[15]See FASID, 1992: 26 ff

[16]See FASID, 1992: 28 ff

[17]Kohnert, 1992: 13.

| Summary of objectives/ activities | Objectively verifiable indicators | Means/sources of verfication | Important assumptions |
|---|---|---|---|
| *Overall Goal*<br>Passengers use public transportation | Number of passengers increased a% | Documents of bus company | Passengers consistently use buses |
| *Project Purpose*<br>Bus accidents are reduced | Number of bus accidents is reduced by b% | Documents of traffic police | Traffic does not increase |
| *Results/Outputs*<br>1. Drivers are trained better<br>2. Condition of busses improved | 1. Results in driving schools improve by d%<br>2. Level of technical problems in the regular inspections are reduced by e% | 1. Documents of driving school<br>2. Books of the inspecting service station | 1. Ministry of Transportation improves road conditions<br>2. Newly trained drivers still work in this company |
| *Activities*<br>1. Improve training for drivers, introduce driving schools<br>2. Improve facilities of repair centers, and regular inspections | *Inputs*<br>Donor: Project Manager x months<br>Experts y months<br>Equipment z Yen<br>Recipient: Training Facilities<br>Counterparts | | Input is available on time<br>*Preconditions*<br>Labour union is not against the project |

Figure 6-3: Project design matrix (Source: FASID, 1992: 49)

The **project design matrix** resembles the logical framework on which ZOPP was historically based. It summarizes all important elements of the project plan and is arranged as a 4x4 matrix, as shown in figure 6-3.[18] The most important information and the project's logical structure is displayed in the matrix. In the first column, the objectives are described: activities, output, project purpose, overall goal. These four levels correspond to the objectives tree. The "causative linkages" imply that the next higher level of the project design matrix will be automatically reached if the plan has materialized at each level.

Activities refer to the measures that are necessary to achieve the results. The first link (activities -> results) is assumed to be under the direct influence of the project team. If it can ensure that the inputs are available and used appropriately, the results can be realized. The second link (result -> project purpose) is not within the scope of the project team, and is therefore referred to as the first development hypothesis. The second development hypothesis is that fulfilling the project purposes will contribute to the achievement of the overall goal. The overall goal summarizes the development objective to which the project is assumed to contribute and represents the link to the national development plan, thereby

[18]See FASID, 1992: 33 ff

assuring the consistency of national development planning and the project approach.[19]

Yet at the same time, a stipulation for the causative linkages is that the assumptions hold. They include socioeconomic, political, and ecological factors and are addressed explicitly in the fourth column. They include those branches of the objectives tree that cannot be addressed by the project. Because they are beyond the control of the project's management, their relevance and risk need to be estimated. The project design has to be changed until assumptions that could "kill" the project disappear. The second and third column of the project design matrix outline the indicators for each objective and the sources of verification. These objectively verifiable indicators (OVI) are especially important since they serve as a basis for monitoring and evaluation.

### 6.1.2 Integration of the ZOPP and PCM Methodologies in the Project Cycle

While the methodologies of PCM and ZOPP are similar, the Japanese revision includes major changes as to how its fits into the overall project cycle. In order to elucidate the differences, the sequence of the ZOPP stages will be compared to the PCM system. The steps are summarized in table 6-1.

The first step in PCM is identification. Interestingly, FASID had no mandate for this step, for two reasons. Firstly, the identification process touches the interests of the line ministries; secondly, in the beginning PCM was only seen as being valuable in the evaluation process. For the identification stage, separate guidelines were designed by JICA's planning department that did not take the PCM methodology into account. They were included in the PCM guidelines after preparation for the other steps was finished. According to the PCM guidelines, four types of survey teams are assigned the task of analyzing the problems and generating project proposals and a list of desired projects.[20] The participation of

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[19]In its strict application, this link represents a solution to Knall's criticism that "often large development projects are drafted without analyzing their mutual interdependence in detail and without examining to what extent the primary and secondary effects of such projects are consistent with the results of sectoral programming. The necessity of integrating project programming into sectoral programming and, furthermore, within the macroeconomic frame is generally accepted today. Yet much intensive research will be required to operationalize this principle." (Knall, 1969: 294.*)

[20]The four missions refer to: Identification survey, request survey, development plan survey and selection survey. See Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 21, 22.

the target groups is not provided for in this step, nor the integration of the influential Japanese private sector, which means that its involvement will remain unofficial.

| ZOPP System | Responsible Group | PCM System | Responsible Group |
|---|---|---|---|
| | | Identification | JICA (Planning Dept.) |
| ZOPP I | GTZ (Regional Dept.) | | |
| Approval | GTZ (Halfa) | | |
| Appraisal Order | BMZ | Appraisal Order | MOFA |
| ZOPP II | GTZ (Sectoral Dept.) | PP 1 | JICA (Sectoral Dept.) |
| | | Project Concept Survey | JICA Local Office |
| | | Approval | JICA (Executive Directors) |
| ZOPP III | GTZ (Appraisal Team), Counterpart Organization | PP 2 | Appraisal Team |
| | | Preparation of Project Design Matrix | JICA (Sectoral Dept.) |
| Approval | GTZ (Halfa) | Final Check | JICA (PCM Bureau) |
| Selection | BMZ | Selection | Interministerial Meeting |
| International Contract | BMZ | International Contract | JICA, Embassy |
| ZOPP IV | Project Team, Counterpart Organization, (Target Group) | Implementation, PP 3 | Project Team, Counterpart Organization |
| ZOPP V | Project Team, Counterpart Organization, (Target Group) | | |
| | | Monitoring | JICA |
| | | Evaluation, Follow-up, Aftercare | Unclear |

Table 6-1: Different responsibilities and project management phases covered by ZOPP and PCM (Source: Kokusaikyoryoku jigyodan, Purojecto saikuru manejimento maniaru (1992), GTZ (1989) and interviews).

Identification is not within the scope of ZOPP.[21] The official ZOPP procedure starts after the request is presented to the German Ministry of Economic Cooperation (BMZ). If the request is in accordance with German principles of technical cooperation and conforms to the development priorities of the partner country, the BMZ requests the GTZ to prepare a preliminary commentary. For this purpose, the five analytic tools of the ZOPP method are used in the respective regional department of the GTZ to systematically analyze the request, which is referred to as **ZOPP I**. The available information is reviewed to assess whether it is plausible that this request be established in a participative process and whether the effects of the projects are sustainable and likely to be in the interests of target groups. The reformulation into standardized ZOPP terminology and structure furthermore facilitates access to the project content for the large number of officials that will eventually deal with it. Subsequently, the results of ZOPP I are presented to the GTZ decision-making body *(Halfa)*. After approval by *Halfa*, the project documents are returned to the BMZ, which decides whether or not to "order" an appraisal. If the decision is positive, the GTZ is commissioned to carry out the appraisal.

In the ZOPP I phase often there is not enough information available to operationalize all of the five tools. In some cases, the participation analysis and the problem analysis may not be feasible. If there is furthermore uncertainty about the implementation organization in the recipient country, the information basis for an appraisal may be too weak. To prevent an appraisal from being based on guesstimates, the GTZ introduced the "open orientation phase" in 1992. Instead of an immediate appraisal, an orientation mission can be sent to the requesting agency to assist in clarifying the project approach and/or the institutional setting.

In Japan, after MOFA receives the official request from a recipient country, informal discussions between MOFA and the related line ministries take place. On this basis a preliminary selection is made. JICA's comments are not officially considered, and since ZOPP I has not been adopted, JICA's expertise is not taken into account in the decision as to whether resources should be invested for an appraisal. In PCM, furthermore, there is no open orientation phase. At the beginning of each fiscal year, MOFA gives a list of the preliminarily selected projects to JICA. The respective sectoral department in JICA is responsible for the preparation of the project concept. In order to do so, a 'miniworkshop', called

[21]This does not mean that there are no identification activities by the GTZ, but they are not made explicit in the ZOPP guidelines.

**Participative Planning (PP1)** is conducted. Based on the project proposal and related information, the project concept is drawn up and unclear issues identified.[22] Three to five JICA officials and experts summarize the terms of reference for a survey to be implemented by the local JICA offices with the assistance of planning personnel and local consultants.
After the results of this survey are reviewed in the respective department, the information is presented to the board of executive directors of JICA *(rijikai)*. If it is not approved, the project is canceled.[23] On this basis, the terms of reference for the feasibility study are prepared by the department, with consensus among the related ministries. The recruited survey personnel contacts the embassy and the recipient government and then conducts the second workshop **Participative Planning (PP2)** in the recipient country. Its results are summarized in a 'memorandum of understanding' (MOU). The respective department in Japan then prepares the project design matrix. After a final check in the PCM bureau, the information is presented to the interministerial meeting and approved.[24] The international contract is settled through JICA or the embassy of Japan.

In the GTZ, the criteria and items to be addressed in the appraisal (terms of reference) are defined in **ZOPP II** at GTZ headquarters and discussed with the mission members. Potential external evaluators are invited to the GTZ to present their ideas on how to remedy the lack of information and how much this would cost. After the mission members (GTZ official, German consultant or local consultant) are chosen, the **ZOPP III** mission can leave for the developing country. While the members of the appraisal mission focus on fact finding, a close dialogue with the officials of the implementation organization is important. The viewpoints of the target group need to be heard at this time. Usually a workshop structured with the tools of ZOPP concludes the mission. The results of ZOPP III are presented to the *Halfa* and form the basis for the GTZ proposal to the BMZ, which then makes the final decision for or against the project. The exchange of notes (E/N) officially seals the agreement for the cooperation between the two countries. **ZOPP IV** takes place after the German experts have arrived in the developing country. Since it usually takes 18 to 24 months until the project team is selected and all other preparations are finished, it is necessary to examine

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[22]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 28.

[23]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 29.

[24]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 30.

whether the information and the assumptions on which ZOPP III was based have changed. However, at this stage it may be difficult to change the project design matrix significantly because this would require reformulating the international contract. Thus the major focus is on the operationalization of the project design matrix and the setting up of the plan for the first funding period (2-4 years). If the target groups are directly involved in the project, they will participate in ZOPP IV. During **ZOPP V** the plan of operation for the next funding period is set up or modifications are made due to changes in the project environment.

In the implementation section of the PCM guidelines, the activation of the three components of project-type technical assistance is described. The experts are selected from the related ministries, from a pool known to JICA, through public advertisement, or through recommendations from the committee head. The equipment suppliers are contracted, and preliminary arrangements for the invitation of trainees are made. The aid recipient must request all three components separately.[25] The establishment of the monitoring system is also described in this section. A JICA mission *(keikaku utchiawase)* holds a third workshop **Participative Planning (PP3)** together with the project team and the implementation organization and prepares the plan of operations and the annual work plan. At this time, the particulars of monitoring and evaluation are jointly agreed upon and summarized in the memorandum of understanding. This is signed by both sides and the Japanese team leader and then approved by the interministerial meeting in Japan.[26]

The formal ZOPP procedure does not systematically cover implementation, monitoring, evaluation, and termination, despite the fact that the GTZ's ideas were originally much broader. ZOPP was meant to be the core of an integrated cyclic system of planning, implementation, and evaluation new projects within technical assistance. The BMZ urged a much stronger control function of the new method, while the GTZ demanded more autonomy for incremental changes. ZOPP was a compromise in which the BMZ made concessions regarding its desired control orientation, and the GTZ limited itself to innovation in the planning stage.[27] Wheatly notes that "at least for the GTZ, it has become distinctly clear

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[25]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 50.

[26]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 51.

[27]Kievelitz and Tilmes, 1987: 133

that adoption of the tools only in the planning phase of the project cycle was at best a temporary measure. Within a matter of months the pressures mounted to extend the use of the tools to the complete project cycle, and to supply the full array of associated management instruments appropriate in the later project phases."[28] Despite the fact that these issues were addressed in a guideline published in 1987[29], the GTZ still dealt separately with them. This is underscored by the fact that in 1992 a separate guideline for monitoring and evaluation was published.[30]

In Japan, although the design of PCM aims at covering all phases of the project cycle, evaluation, follow-up and aftercare are summarized on only one page.[31] In fact, the methodology for these steps and its integration in the PCM framework is not yet developed. While the indicators and the terms of reference for monitoring and evaluation have been established, the guidelines do not comment on the procedures for implementing them. ZOPP V, the replanning step, has been dropped, although, at least formally, this is a useful mechanism for changing a project design if necessary.

In conclusion, there are three major differences as to how PCM and ZOPP are integrated in the project cycle:

- First, while ZOPP is limited to the planning stage, PCM aims at covering the complete project cycle. This ambition, however, was severely limited by the restrictions of the existing system in Japan and the fact that the PCM guideline closely followed its predecessor ZOPP. For identification, monitoring and evaluation, the PCM guidelines do not explain how to use the ZOPP tools.
- Second, the fact that ZOPP I and ZOPP V are not included in the PCM procedure was explained by the limited manpower available in the Japanese development administration. The consequences of this may be serious. If ZOPP I is excluded, JICA's development expertise cannot be officially involved in the assessment of the project request. By excluding ZOPP V, a

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[28]Wheatley, 1984: 193. Likewise Bernecker suggested an integrated project planning and management-approach that combines ZOPP, monitoring and evaluation to cover the complete project cycle. (Bernecker, 1984: 204.)

[29]English version: GTZ, Managing On-Site Project Implementation, 1989

[30]GTZ, Monitoring und Evaluierung in Projekten der Technischen Zusammenarbeit, 1992

[31]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 59

formalized replanning step is not institutionalized in PCM. Yet experience shows that it is very difficult to reform a project design matrix once it has been written down.

- Third, when ZOPP was first instituted in the GTZ, each of the five ZOPP steps were referred to as workshops. The realization that this is not a practical concept induced the GTZ to change this and refer to a process of which the actual workshop is only one component. PCM, however, is still based on this narrow definition and refers to each of the steps only as workshop.

### 6.2 PCM and Contingency Theory

Obviously an assessment of PCM is difficult and premature due to the fact that its implementation has just started. Yet is seems worthwhile to apply the criticism of the ZOPP methodology to PCM, since there is hardly any difference between ZOPP and PCM methodology.[32] Furthermore, in the last section major differences between ZOPP and PCM concerning their integration in the project cycle were pointed out. What do these differences mean, then, in terms of contingency theory?

#### 6.2.1 Identification

Unlike ZOPP, the PCM procedure formally covers the identification of new projects. However, since the guidelines for this step have been prepared separately from the rest of the PCM guidelines, it does not apply the tools of the PCM methodology. It does not include target groups, nor does it address the strong role of the Japanese private sector or identification activities of the line ministries. Hence the introduction of PCM in Japan will not address the discrepancy in this stage.

Commitments made in bilateral talks between the two governments and the fact that many parties have a strong interest in the project will make it difficult to reject one project approach in favor of another. A dismissal of the project would jeopardize good relations to the partner country. Kohnert states that the counterpart organization and the GTZ are often under pressure to compromise project design with the satisfaction of particular interests.[33] Then, consistent objective hierarchies must be created to the predetermined goals and standardized

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[32]For example, Kohnert et al (1992) contain a number of critical articles on ZOPP.

[33]Kohnert, 1991: 5.

in the project design matrix.[34] One way of addressing this problem was to introduce the open orientation phase in the GTZ, which is not yet reflected in the PCM method. In Japan, the introduction of a PP0 stage was discussed, in which formulation missions try to identify projects in conjunction with target groups.[35]

A positive effect of the introduction of PCM even without PP0 or an open orientation phase is that the requests can be standardized in the form of the project design matrix for all different forms of aid. Most development administrations in recipient countries are familiar with this format. It makes a comparison of later changes to the original request easier. Moreover, when the request procedures are similar for all different forms of aid, the advisory function of the Japanese private sector would decrease. Even more important may be the standardization of terminology and procedures. In JICA, many different people are involved in the process of one project, and different programs use different names for similar procedures. Standardization of these procedures would increase efficiency and improve compatibility - this is especially true for grant aid and project-type technical assistance projects which are frequently combined but administered separately. It would become easier to recapitulate projects, which is an important issue for the institutional memory. Although further improvements are desirable, the suitability of the project management to the relevant environment in the identification stage will be improved through the introduction of PCM.

### 6.2.2 Preparation

PCM, like ZOPP, does not dictate that all six dimensions specified in chapter 3.2 be considered. While in the GTZ there are simple checklists for environmental impact assessment, women in development, and the institutional capacity of counterpart organizations, several writers have criticized that such analyses are not actually performed. Kievelitz and Tilmes state that, on the one hand, the planning documents show a high technical level, but on the other hand, important issues

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[34]Neun, 1985: 269. In Germany, cynics have, therefore, reversed the abbreviation ZOPP to PPOZ, referring to Project Plan Oriented Goal Adaption (Projekt Plan Orientierte Zielanpassung).

[35]Alternatively, such activities could be contracted out to the private sector. If the identification activities of the private sector are modified from informal to formal procedures, the process would become more efficient. It is possible to design institutions that force the private sector to be concerned with contingency questions. Each firm may receive a lump sum if its project is chosen, but it must not participate in subsequent bidding. By paying a flat fee to the private sector for project finding, their worldwide network could be used, but contingency considerations would dominate the identification. Yet neither this discussion nor an open orientation phase is reflected in the PCM guidelines.

such as target groups and institutions are not considered in the analysis.[36] The German Ministry for Economic Cooperation admitted that several evaluations indicated that many projects focus on technical and economic-financial aspects, while socio-cultural and ethnic factors were neglected.[37] Given that, it is reasonable to assume that the application of PCM does not automatically solve the problems diagnosed in the preparation stage.[38]

The problem, however, may not be the method. If the assumptions for each project are analyzed in detail, automatically all six dimensions have to be addressed. This could be encouraged by introducing a mandatory comparison of the anticipated assumptions and the actual circumstances after the project has been terminated. However, PCM does not prescribe indicators and sources for indicators for the assumptions. Therefore, Wheatley suggests adding another column to the project design matrix to encourage measurement and monitoring of the assumptions, equivalent to what the indicators column provides for project activities.[39] In practice, many of the assumptions may be extremely difficult to operationalize with indicators. However, even if only a qualitative assessment of the assumptions were included in the guideline, it may oblige officials to take the assumptions more serious.

Again it can be concluded that the suitability of project management to the relevant environment in this stage will be increased after the introduction of PCM. However, much will depend on the commitment of the staff and how the formal prescriptions are interpreted in the actual day-to-day operations. It is important to make the requirements of this stage more explicit in the formal guidelines.

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[36]Kievelitz and Tilmes, 1987: 136.

[37]BMZ, Aus Fehlern lernen, 1986, 9f.

[38]Another point of criticism is the simplification of the problem through the method. While the problem and objective hierarchies make the problem more visible and comprehensive, linear conclusions drawn from a simplification of complex problem structures may be wrong. This reductionistic view is especially problematic in complex regional development programs. In these cases, there is a need for a flexibility that enables the inclusion of experience, intuition, feelings and creativity and more holistic thinking. For the workshop, the selection of the participants is important. By including participants sensitive to socio-cultural, institutional and ecological issues in the interdisciplinary workshops, radical simplifications will be more difficult. It is unclear, however, whether this is compatible with the sectoral views represented by the ministerial system responsible for ODA in Japan.

[39]Wheatley, 1984: 195.

### 6.2.3 Selection

The ZOPP method's name implies that the decisions should be made according to a goal-oriented approach rather than being an inductive one. However, when the rationality of the internal environment dominates the decision-making in Japan, its influence cannot be decreased just by ignoring it.[40] Rationalist solutions focussing on the goals to be achieved will therefore fail if they do not take into account the rationality and values of the political processes and the incentive systems these imply.[41] In principle, the ZOPP/PCM methodology addresses both types of rationality. The participation analysis provides the framework for addressing the rationality of the internal environment; the other tools address the rationality in terms of contingency theory. If the participation analysis is done in detail, there is a chance to understand the motivations and interests of the different participants. Unfortunately, the German experience shows that this is rarely done and the participation analysis is often no more than a listing of the different participants.[42] This points to the danger that, while the formal procedures of PCM address the requirements of the external environment, the lack of actively considering the rationality of the internal environment, which is different, may hinder major changes. Despite the introduction of PCM, the actual selection process may still not become a goal-oriented one.

### 6.2.4 Detailed Design

ZOPP was designed to promote effective project management in Germany and is bound to the cognitive assumptions that prevail there.[43] In PCM, the analytical

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[40]Heaver notes that "the apparently unplanned, haphazard outcomes of much bureaucratic activity in fact suit important political interest groups, and are hence not as random as they seem." (Heaver, 1982: 13.)

[41]Rondinelli warns that "when many divergent views exist, the possibility of establishing well-defined goals that satisfy everyone becomes much more difficult. Even the process of spelling out goals may result in considerable conflict as each contending faction struggles to place its own preferences high on the list of objectives. Vague and ill defined goals are an equivalent to having secret goals. As long as goals are secret, it is possible for competing groups to pursue their own ends without necessarily encroaching on each other." Rondinelli, 1983: 15.

[42]This may lead to strategic behavior of the participants. For example, according to ZOPP/PCM guidelines, the decision for the project approach is made within the alternative analysis. In many cases, however, time does not allow an in detail survey of all alternatives. Thus the decision is often based on agreement about the 'guesstimates' of the participants. This deficiency invites strategic behavior to promote the own interests. Participants in workshops may quickly learn that they have to report problems in their sectoral area in order to be able to be considered in the subsequent alternative analysis.

[43]See Lang, 1989: 17 f.

breakdown of relationships makes for a more holistic approach. The different contexts are judged according to the contribution they make to a planned objective and their input requirements. This implicitly requires that people and things and reasons and motivations are viewed as separate issues. It is assumed that development hypotheses can be formulated to make plans for the future. Moreover, PCM assumes that the teamwork approach is feasible and that work can be carried out in a nonhierarchical atmosphere in which all assumptions and interests are disclosed. These assumptions may not hold in non-Western cultures, which raises the question whether such methods can be used in different cultural settings without adjustment. There are two dimensions to this problem: the application of ZOPP in Japan and the application of PCM in a recipient country.

**(a) Cognitive assumptions in Japan point more to an incremental approach, while PCM promotes advance blueprint planning**

According to the ZOPP method, concrete changes to be brought about are defined in detail in the planning phase. This implies that accurate information about all requirements necessary for reaching the goal is available and that the development hypothesis will hold. A plan based on this is determined in advance and only needs to be monitored during implementation. The regulations between MOFA and JICA reflect the assumption that it is possible to determine the goals in the first step and implement the plan in the second step.[44] However, as already seen in chapter 5, much more autonomy on the side of the implementation agency would be required to enable flexible adjustments during the second step.

Experience shows that if a project design matrix has been set up there is less flexibility during the implementation phase. There is also strong evidence that once the project design matrix is set up, it is hardly modified. For the German case, Lang states: "Should it be necessary to replan basic project planning, the GTZ and its superior organization (BMZ) and the project executing agency and superior institutions in the partner country must always be incorporated in the coordination process."[45] Therefore, the project design matrix is almost never changed from its setup in ZOPP III until the first implementation phase is finished. This advance blueprint planning contrasts with the perceived need for an incremental approach in Japan, as shown in chapter 3.4.

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[44]See Weiss, 1989: 68 for the same criticism referring to the German Ministry of Economic Cooperation and the GTZ.

[45]Lang, 1989: 43.

**(b) In different cultural environments, the method may reinforce a topdown approach**

When using PCM together with target groups in recipient countries, the different cognitive assumptions may prevent them from directly participating. The "flash card didactics" of PCM is seen as a major advantage since the cards are written anonymously. Hence hierarchic structures can be overcome and even shy individuals can participate. However, this may not always be so. In a German project in Thailand, counterparts mentioned that the terminology of ZOPP cannot be translated into their language. The German groups dominated the workshop and so the Thais did not articulate their real preferences. Hence the Western way of thinking, on which the method is based, may promote Western dominance in the planning process.

The participation of the target groups is not addressed in the PCM guidelines and JICA has not begun with the translation of the PCM guidelines in other languages. JICA officials claim that this issue will be addressed after PCM has been implemented successfully. In the GTZ this problem is also far from being solved. Lang states that "often, to save time or finances, or because of organizational or political limitations, only individual representatives - if at all - of the target groups or selected key or resource persons can actually participate in the planning workshop. When representatives of the target groups cannot participate in the planning workshop, or if this would not be expedient for any reason, information on the problems, viewpoints, objectives and needs of the target groups should be collected in the scope of an intensive discussion process through micro-surveys, village visits, field inspections, informal discussions with groups or individual persons, etc. and the information obtained in this way brought into the planning process by the project staff or other resource persons."[46] If the intercultural problems and the difficulty of target group participation are not made explicit, improvement cannot be expected through the introduction of PCM. Its introduction, however, involves the danger that incremental planning may become more blueprint-oriented and thereby decimate the existing compatibility with the environment.

### 6.2.5 Implementation

According to Bolay, a clear definition of technical targets involves the risk that implementation is target-oriented and that the learning effect for the recipient is

[46]Lang, 1989: 44.

lost sight of.[47] The structure of the project design matrix supports the tendency to reduce the desirable to the measurable. Indicators for institutional development are extremely difficult to establish and measure. Thus, according to the motto "you can't manage what you can't measure,"[48] there is the tendency to pick goals that lend themselves easily to being measured.[49] The pressure to produce quick, measurable results obviously conflicts with endeavors to institutionalize improved problem-solving capacity and sustainability.

Although this may be a problem, the PCM guidelines constitute an important improvement as well. It explicitly incorporates different alternatives to recruiting experts for projects.[50] This represents a starting point for the discussion as to what kinds of experts are most appropriate for development projects. If it is followed up, there is potential to decrease the existing discrepancy. If not applied by devoted development specialists conscious of the importance of institution building, however, planning with PCM involves the danger that the project will focus on achieving easily measurable targets.

### 6.2.6 Monitoring

The project design matrix supports control-oriented monitoring by setting quantitative goals in the form of mandatory identification of objectively verifiable indicators (OVI). It has been observed that monitoring in Japan is more a mediator mechanism. JICA's monitoring has focused on the implementation process since objectives are not clearly stated before a project is begun. If monitoring were changed into a control mechanism, there would be detrimental consequences to the trust-based relationship among the participants. This may be one reason why the existing PCM guidelines are not very specific as to how monitoring should proceed and by whom. While it is suggested that the local JICA offices should be responsible for it, the current staffing of these offices does not allow for any additional activities.

Furthermore, the expansion of ZOPP into a comprehensive project cycle management system may have negative consequences. The initial project plan

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[47]See Bolay, 1989: Q48.

[48]Wheatley, 1984: 188.

[49]See Bolay, 1989: Q65.

[50]Kokusaikyoryoku jigyodan, purojecto saikuru manejimento maniaru, 1992: 41.

should only be seen as a working hypothesis for the project. If it is combined, however, with monitoring and evaluation and is its primary measure, the hypothetical nature of the plan changes into a blueprint that promotes concentration on short-term goals. The project team is inclined to "polish" the indicators to get good marks from the monitoring mission. If the guidelines do not explicitly state a different, specific objective for the monitoring mission and monitoring and evaluation are closely related to the initially planned project design matrix, the introduction of PCM would decrease the compatibility with the perceived environment.

### 6.2.7 Evaluation

The quality of evaluations can be increased if objectives are clearly stated and indicators are defined. A real improvement, however, would require the willingness to use evaluations as an instrument for institutional learning. The advantage of integrating planning, monitoring, and evaluation is that the link to the identification/planning process can be more easily institutionalized. This institutionalization has not yet been addressed in the PCM guidelines. Assuming that this will happen soon, the feedback from monitoring and evaluation findings will be greatly improved and an institutional memory created.

While this represents an advancement to the donor administration, the consequences for the recipient side have not been considered. The integration of planning, monitoring, and evaluation forces the counterpart institution to adjust its own control system to the procedures of the donor organization and so parallel control systems might exist until donor support is terminated. This undermines the objectives of institutionalization of higher problem-solving capacities in the donor administration. It is therefore desirable to analyze the existing control system in the counterpart organization in order to adjust the donor's evaluation procedures to that of the recipient and not vice versa.

There is yet another danger. The existence of indicators and sources for verification makes it easy to disregard transcendental evaluation. Thiel observed that the evaluator only needs to check the given points of the project design matrix and is not expected to address what really happens in the project and the target group.[51] The evaluation of the assumptions, which is often the cause of problems, is not implicit in the system. However, despite these critical comments,

[51]Thiel, 1991: 35.

there is no doubt that through the introduction of PCM the quality of evaluations can be greatly improved and become more suitable to the perceived environment.[52]

### 6.3 PCM and New Institutional Economics

Rational institutional reforms such as PCM focus on redesigning rules relevant to the provision of formal services. Kieser/Kubicek state that explicitly or implicitly it is assumed that the behavior of organization members can be controlled like the 'behavior' of the individual parts of a complicated machine. If every organization member sticks to the rules, and if there are no mistakes in the construction of these rules, then the organizational goal will automatically be reached.[53] A rational reform would thus intend to 'repair' mistakes in the construction of such institutions. Contingency theory, as seen in chapter three, can easily accommodate suggestions for organizational reform through rational administration. In fact, that is what the perspective of administrative science and organization theory tends to do.[54]

However, one important implicit assumption is rarely mentioned. Since such innovations are only changes in formal prescriptions which may leave some latitude for decision, discretionary power is assumed to be used productively. Scharpf warned that rational reforms do not always bring such results. "Vested interests will be effective restrictions in decision-making processes. Thus it would be a technocratic illusion to expect improved capacities through an improvement of the decision and planning technology. (...) The improvement of rational 'decision-making technologies' would be at most irrelevant, in the worst case they could help perpetuate the fundamental irrationalities of the prevailing system."[55] Through more unproductive discretion bureaucrats may either reject the rational reform, adopt it but pay only lip service, or adopt a redesigned version that serves the informal goals of the organization members. Heaver notes that limitations become clear in practice when 'informal' management systems short-circuit the

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[52]Since neither ZOPP nor the PCM guidelines address the issue of termination, it is impossible to comment on the consequences of the introduction of PCM. Therefore this step has been omitted in the analysis.

[53]Kieser/Kubicek, 1983: 395.

[54]See, for example, Diehl (1970). Diehl presented in his study a model by which the scarce resources of administrative skills can be allocated rationally.

[55]Scharpf, 1973: 75, 74, see also Offe, 1970: 156-171.

design of the organization chart. "As a result, structural reform is often mere symbolic action."[56] Thus suggestions for administrative reform tend to be ineffective if the interests and selective behavior of the individuals within the organization are not analyzed. This emphasizes the need to extend the analysis from organization theory to New Institutional Economics (NIE), as suggested in chapter 4.1.

The introduction of PCM makes deviations from desirable management procedures more obvious, and thereby also establishes some upper limits for the flexibility of the line ministries in pursuing their own interests.[57] Analytically, as a consequence of the improved information system, MCc would decrease. Consequently, the agency cost and the residual loss that can be appropriated by the bureaucrats decrease. This will cause fundamental resistance from those ministries suffering such losses through the innovation.

Individuals in the organization may oppose such changes, as well. Several officials in JICA and MOFA were concerned with the increasing work load due to the introduction of PCM. They felt that they had reached an upper limit. Without significant staff increases, they claimed, it would be difficult to 'really' implement PCM. While most of the JICA coordinators in Thailand found that PCM facilitates improved cooperation, some of the team leaders were seriously frightened facing a much closer control of the results of their work. Since many team leaders identify personally with their projects, they feel responsible for the then more obvious failures of 'their' projects, even if the problems are due to adverse environmental circumstances.[58]

Since not much experience with the problems of introducing PCM has been recorded yet, it might be useful to look at the parallels in the German case. How have the German bureaucrats reacted to the introduction of ZOPP? Bodemer

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[56]Heaver, 1982: 6. In fact, such instrumental suggestions can have the function of effectively protecting the organization from its critics. See Schimank, 1983: 283.

[57]In the MOFA, for instance, PCM would considerably limit the flexibility of gift diplomacy *(omiyage gaiko)*.

[58]Despite the introduction of improved project management methods, development projects remain bound to unstable environments. Better understanding of the problem should not result in blaming individuals. On the contrary, it will be important to find ways of motivating the staff to use PCM.

concludes that, in practice, ZOPP is often applied halfheartedly.[59] Bolay (1989) observed that counterpart organizations are only analyzed in exceptional cases. Wheatley found that, as a consequence of the increased transparency, "...project and organization managers can be held rigidly and literally accountable for producing precise results, and blamed mindlessly when shortfalls occur irrespective of the causes. This can lead to extreme reluctance by planners and managers to use the logical framework tools in good faith (or even at all), unless they are sure that superiors also understand the full logic and spirit of the approach, and will not punish them for the frank and total disclosure the method imposes."[60]

As a consequence, the thorough institutionalization of ZOPP required a long time. According to Wheatley, the full institutionalization at GTZ headquarter took more than two years. "Overcoming such organizational resistance may be even tougher in areas like a new planning methodology, since many professionals believe (rightly) that 'I already do good planning', and where some others simply prefer to avoid the hard thinking and work involved producing a rigorous plan when previously they could get by with improvisation or very unsystematic project design logic." Moreover, enormous efforts are required for the adaption of other administrative systems such as staff training, budgeting, internal and external reporting, data processing and data banking. While such modifications are required in order to realize all of the potential benefits of ZOPP, Wheatly notes that "at the GTZ, such reorganizational fall-out from the original ZOPP initiative is still very much in evidence."[61]

Besides these potential problems, the introduction of PCM may add a new dimension to competition among the ministries: the quality of the development effort. Marketing arguments relating to the recipient countries will become more important. The supplier of productive discretion will benefit; suppliers of higher unproductive discretion will face diminishing rents. The second group will have

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[59]Bodemer, 1988: 62. He states that ZOPP I is often abbreviated and sometimes even carried out by one person only. ZOPP II sometimes refers to a discussion with the evaluator only and there are cases where ZOPP III and ZOPP IV are not performed at all. See Bodemer, 1988: 20 f.

[60]Wheatley, 1984: 192.

[61]Wheatley, 1984: 192.

costs to demonstrate why unproductive discretion is good for legislators. This determines the potential supporters and opponents of this innovation.[62]

If PCM is taken seriously, it is incompatible with the existing sectoral organization system that facilitates the interests of the line ministries. In 1992, JICA devised a new department structure in order to address these problems[63] which has four different interacting levels with decreasing status and power:

- At the top are the regional divisions which are separated into (a) ASEAN, (b) the rest of Asia, the Pacific region, and Latin America and (c) the Middle East, Eastern Europe and Africa. The three regional divisions are responsible for country planning, appraisal, coordination, and evaluation.
- The cross-sectoral departments for environment, poverty and women in development are supposed to integrate special considerations concerning these issues.
- The sectoral departments are not changed and are responsible for surveys in their sector and technical consulting for the implementation.
- The lowest priority departments have the "form of aid divisions." They are divided among experts, trainees, project-type cooperation, development study, emergency relief, emigration, JOCV, and grant aid. The equipment part of technical assistance is planned to be integrated into the grant aid division.

This plan seriously conflicts with the interests of the line ministries, who dominate JICA's sectoral departments. Therefore an incremental strategy has been pursued. The regional separation has been implemented for six departments.[64] The other

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[62]Of course, the *tatemae* rationale for the opponents are arguments concerning the difficult applicability of PCM to the Japanese case. For example, participation in the planning stage is a new idea in Japanese aid. The experience with ZOPP IV shows that participative planning is relatively costly. Furthermore, it requires a decentralization of highly centralized decision making. PCM represents a more time consuming administrative procedure, which is difficult to implement in the overworked Japanese development administration. Such changes will not be easy and provide convenient arguments for opponents of ZOPP.

[63]Many of these efforts are summarized under the Strategic Information Systems (SIS) project, which officially focuses on computerization of JICA's logistic work but has lined out a de facto plan to reorganize JICA over the next eight years. It includes the reorganization of functional departments within JICA into regional organization, decentralization and strengthening manpower in overseas offices, and the strengthening of the coordination function of the planning department. The SIS project is contracted to a private sector management consulting firm. Unfortunately, the coordination between the restructuring activities of JICA's functional structure and the reorganization of the procedural structure through the implementation of PCM are less than perfect.

[64]See table 5-1.

14 departments are more closely controlled by outside interest groups so that reorganization may take more time. Meanwhile, the planning department is strengthened so that it can take over a real coordination role in JICA. While in 1989 it was staffed with 31 officials, in 1992, the number had increased to 46. If the planning department is powerful enough, its regional divisions could control the activities of the sectoral departments of JICA. This would require, however, that the planning department be given some authority over the sectoral departments.

Of course, these innovations also require some reallocations of the budget. After steady demands by JICA, in 1988 a new item called "promotion of aid efficiency" was added to JICA's budget. In the 1992 fiscal year it amounted to 181 billion Yen, which JICA's planning department can use independently from the ministries to directly address perceived problems. It is mainly applied for three purposes:

- Surveys for formulation, planning, and coordination of projects.
- Evaluation to increase the efficiency of future projects.
- Basic research such as country and sectoral studies.[65]

Moreover, a new research and development division was set up after JICA realized it should have a better research facility. It is based within JICA's Institute for International Cooperation and has completed country studies for 15 countries and sectoral studies on environment, women in development, poverty, and population. While the original purpose of the Institute for International Cooperation was the training of JICA experts, the focus was officially changed to that of a research institute in 1993. In the institute, 65 in-house specialists *(senmonin)* are employed on a contract basis.

The regional reorganization and the introduction of PCM may help to professionalize JICA.[66] In the long run, this may lead to more expertise in JICA, which may enable the organization to develop better arguments against the sectoral ministry interests and may well improve JICA's position in the development administration.

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[65]See JICA, Annual report, 1991.

[66]This trend can be observed for the case of the GTZ. In 1992, even more responsibilities were transferred to the GTZ, the major reason being its relative expertise.

### 6.4 Conclusion

The consequences of the introduction of PCM in JICA can be divided into two different dimensions which are closely interrelated. On the one hand, it modifies the suitability to the relevant environment; on the other hand, it changes internal incentive structures.

The insights of New Institutional Economics underscore the fact that formally prescribed changes in procedures can only lead to effective changes in day-to-day procedures if committed bureaucrats apply the guidelines properly. There is doubt as to whether this is realistic in Japan. A system will be replaced that has evolved over the last 20 years and therefore matched the incentive structure of the participating individuals and groups of individuals. PCM taken seriously is not compatible with the sectoral views represented by the ministerial system responsible for ODA in Japan. Furthermore, the rents for several ministries could be decreased after PCM is effectively introduced. To be able to deal with that resistance, the further adaptation of PCM to the unique Japanese development administration is extremely important, complemented by an adaptation of the development administration to PCM. It will also be necessary to establish incentives for accurate application of the new method by the individual official.

Concerning interactions with the external environment, the effects are mixed, but, overall, the positive effects outweigh the disadvantages. The introduction of PCM can facilitate the cooperation of a large number of different people involved in the process of a project by standardizing the terminology and the procedures. This will increase efficiency and the compatibility of the different programs, as in the case of grant aid and project-type technical assistance which are administrated separately. The formal PCM structure makes the problem and objectives analysis mandatory. In multidisciplinary workshops only single sector views will be impossible since through establishing a problem tree they must be seen in the context of other related problems. Evaluation procedures can be improved through PCM's explicit definition of goals and indicators. Another advantage is that external evaluations will become more feasible. In the preparation phase, while not explicitly prescribing it, PCM encourages addressing all six dimensions.

However there are still some problems. Although the five PCM steps could provide a clearer framework for the interaction between the political decision-maker and the implementation agency, their respective tasks are not clearly delineated in the new guidelines. Furthermore, PCM does not address the

discrepancy in the identification and termination stages. In other stages of the project cycle it will decrease the compatibility with the environment if not adjusted to it. The detailed design phase would change its incremental character and become more blueprint-oriented which would decrease JICA's flexibility in reacting to changes in the project environment. Monitoring would become control-oriented, endangering trust-based relationships among the participants. There is also the danger that, in the implementation stage, institutional learning and target group participation are disregarded.

If these problems are addressed in an update of the PCM guidelines and if the whole management method were to become more flexible in adapting to the people in developing countries rather than adapting the people to the management method, then it will in fact greatly improve JICA's project management procedures. The impact of higher professional standards may not only be limited to JICA, despite the fact that in 1992, JICA implemented only about 50% of the total technical assistance. The other ministries will need to adopt, at least formally, similar methods of proving themselves capable of effectively implementing ODA if they want to compete with JICA. In that sense, the impact of the introduction of PCM may not only be limited to JICA, but could be a starting point for major changes in the Japanese ODA system as a whole.

## 7 SUMMARY AND FINAL REMARKS

Despite the obvious need for institutional analyses of development administrations, there is no comprehensive theoretical framework for doing so. Most studies focus on a solitary case and are mainly descriptive in nature. Therefore this study started out to analyze which theoretical approaches could be used for institutional analyses of development administrations. Two research traditions based on different assumptions about the individual were identified as having the potential to guide the analysis of empirical phenomena in development administration: Organization Theory and New Institutional Economics (NIE). While both claim that their approach is more relevant, the results from one of the fields have hardly ever been used in the other.

While a number of different theories are grouped under the category of organization theory, contingency theory is the primary approach. Yet, its statements are too general to be useful for a concrete case and more research is desirable in this field. As a first step, this study elaborated this contingency theory to make it more operational so that it can provide a normative basis for each phase of the project cycle. By applying it to the empirical observations of the Japanese case in the third chapter, it was possible to identify structural problems in procedural management and delivery of aid. These results rejected the first working hypothesis based on contingency theory, which suggested that the organizational structure is determined by the environment.

An explanation of this discrepancy is only possible by going beyond contingency theory. The analysis of the assumptions about the individual in contingency theory revealed that they may not be realistic. Bureaucrats do have discretion and can use it unproductively according to their "own rationality." Therefore, a different method of modeling individual bureaucratic behavior and the underlying rationality is necessary.

Agency theory, one of the three major schools of thought in NIE, conceptualizes the results of unproductive discretion as agency cost. While not using this terminology, earlier economic models of bureaucracy showed how and in what form the bureaucrats appropriate such rents. This unproductive discretion directly provides a theoretical explanation for the discrepancy observed in the third chapter. Yet, bureaucracy theory has assumed monopolies and uniform, unproductive discretion, which was found to be too restrictive for most empirical cases. Therefore, the insights of agency theory were applied to the existing models of economic bureaucracy theory. In the resulting model, bureaucratic behavior is

described as contingent upon the institutional setting. When control costs are high and sufficient vertical trust has developed, it is beneficial for both the principals and the agents to exchange informal incentives for productive discretion. When the monopoly assumption is dropped, the model expands to describe multiple agency systems. The model shows theoretically that, in the case of nonmarket outputs, the benefits cannot compensate for the higher costs of the multiple agency system. This provides the basis for the second working hypothesis, which suggests that, in development administration, the multiple agency system increases agency costs.

A stipulation of applying the model empirically was to show that individuals in Japan tend to make high investments in trust. Incentive-oriented informal trade can dominate the control strategy only if such a trust basis prevails. The analysis in the fifth chapter showed that trust and informal trades are the primary solution to the principal-agent problem in Japan. Consequently, immense differences were found between the formal organization and the actual workings of the development administration, as graphically represented by the dissimilarity between figures 5-1 and 5-2.

The pluralistic administrative structure with aid planned and managed by different parts of the development administration led to distinct procedures in the management of loans, grant aid, and technical cooperation. Furthermore, these programs were implemented by different organizations according to the sector of aid. This resulted in a large number of different agencies being responsible for the implementation of aid, which explained the high direct coordination cost. Because of the competition among the different ministries in order to increase their territory *(nawabari arasoi),* there is no incentive for cooperation. On the contrary, each ministry tries to increase its comparative advantage by conducting its "own" country studies and project-finding activities. This results in little cooperation among government agencies, incomplete information, and low levels of expertise in each of the ministries. The resulting high cost of coordination is often not borne by the development administration in Japan, but rather by the recipient countries. Many of the deficiencies observed in the third chapter originate in this situation.

The multiple agency system also paved the way for strong involvement of the private sector, which was quick to fill the gaps resulting from the administrative structure. When it increases the comparative advantage of a ministry, strategic alliances are made between specific ministries and firms in the private sector that

serve the particular interests of both. Although this can increase the effectiveness of ODA, it involves the danger that deviating profit-maximizing interests of firms increase the inappropriateness of the administrative activities.

The analysis shows that the major reason for the observed discrepancy in terms of contingency theory is the multiple agency system. It serves the ministries' interests and is, therefore, rational from their point of view. Their focus on gaining comparative advantages often results in a disregard of the contingency of their activities. This does not harm their interests since quality, in terms of contingency theory, is difficult to measure and is not given consideration in the budgeting process. Both the theoretical model and the empirical findings indicate that the multiple agency system is not the ideal institutional setting for development administrations.

In the second chapter of this study, the appropriateness of addressing the problems in the recipient countries was emphasized. This focus on the external environment was rectified by the fact that ODA is supposed to improve the situation in recipient countries. Also the sources available to analyze the Japanese perception focussed on this aspect. A different definition of the relevant environment and a focus on the rationale of the internal environment would obviously change the conclusions of this chapter. No matter from which perspective the analysis is done, the separation of the two sets of environment is useful to assess the contradictory impact of both.

While a weak institutional system in recipient countries was frequently perceived as the major problem, this theory-guided analysis demonstrates that institutional problems exist on the donor side. The application of the theoretical framework to the Japanese case furthermore shows that the myth that Japan pursues hegemonic political or economic interests is inaccurate. While there are interest groups that would like Japan's ODA to be economically or politically oriented, the necessary assumption of consensus among all agents concerning the use of aid is far removed from the empirical facts. Not the country as a whole has such an interest, but specific groups within the country. This phenomenon is not limited only to Japan; such interests can be found in all donor countries. Nor is the problem the phenomenon as such, but the incapability of the existing institutions to deal with different interests. If institutions were designed to make it rational for the different interest groups to act in the interest of the relevant environment, then the interests of both parties could be addressed. The major reason why Japanese ODA has not

been as useful for the recipients as it could be is that the institutional framework is not appropriate to effectively address the interests inside and outside Japan. The existing multiple agency system and the procedural institutions have difficulties in dealing with the multiple interests of the system.

To improve the quality of ODA, a unified system is required that embraces broad policy planning; region, country and sector policies and integrated financial and technical assistance. While a single aid ministry for this purpose would be highly desirable, it is unlikely to be realized soon. The ministries are not willing to give up this important segment of their domestic power base. Reference is frequently made to the political impossibility of reorganizing the foreign aid system, and by downplaying the problems only marginal improvements are suggested. Therefore, the sixth chapter of this study provides an analysis of other innovations that, while not resolving the problem as a whole, may bring about major improvements.

Based on its German predecessor, Goal-Oriented Project Planning (ZOPP), JICA started to develop a new project management system called Project Cycle Management (PCM) in the 1990s. Again, the combination of agency theory and contingency theory proves to be a powerful tool in the analysis of this institutional innovation. Contingency theory showed that several of the discrepancies are no longer discernible after the introduction of PCM. It can increase the awareness of the suitability of ODA to the problems prevailing in recipient countries. This could make JICA an advocate of the external environment and counterbalance the rationality of the ministries. Through the introduction of PCM in Japan, the competition among the ministries could be better linked to the 'quality' of the efforts and unproductive discretion in terms of contingency theory become more transparent. More standardized uses of terms and procedures can facilitate coordination, thereby reducing large coordination costs.

Yet both the original ZOPP procedures and the Japanese version PCM have compromised with the interests in the internal environment, as shown by agency theory. Further improvements of the method are necessary in order to achieve what the new project management system has promised. Since the introduction of PCM is incompatible with a sectoral division of tasks, its effective implementation requires a major reorganization of the Japanese development administration. In JICA, such a reorganization is currently taking place. Step by step, the number of regional departments and the responsibilities of the planning department are being increased. All these changes increase the professionality of JICA and serve

to strengthen its relative position. By being able to put forward more professional arguments, the line ministries' project proposals that are inconsistent with the program for a given recipient country can be identified. Such an increase in JICA's influence may not only be limited to technical assistance. The fact that JICA has the official mandate for identification and appraisal for all forms of aid, including loan aid, gives it the opportunity to function as a major aid coordinating organization in Japan. JICA can now begin establishing closer ties between the different forms and sectors of aid on a regional basis. This may ultimately lead to a more unified aid structure in Japan, with JICA as the de facto command center.

These results show that the existing theory is helpful for guiding empirical research in this field. The empirical application of the theoretical approaches not only reveals new insights into real world phenomena, it also helps to develop theory itself. It became clear that, for a thorough evaluation of development administration, the combination of organization theory and new institutional economics is necessary. Isolated views from either field are not sufficient for a comprehensive analysis of such empirical phenomena. The behavior of an organization is explained by both the external and internal environment and both need to be analyzed because organizations have to adjust to both of them. This result helps to diminish the dichotomy between theoretical and empirical research by demonstrating that a combination thereof helps both. Of course, there is always a danger that theory-guided studies tend to overlook relevant empirical issues not covered by the theoretical approach. Likewise, the theoretical approach developed in this study may be shaped by the particularity of the Japanese case. Therefore, for further development of the theoretical framework, its application to other empirical cases would be desirable.

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