

**【Press Release】**

Last-minute ODA: What happened to the budget screening conclusion, ‘No grant aid for large-scale infrastructure’?

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Last-minute ODA!

What happened to the budget screening conclusion, ‘No grant aid for large-scale infrastructure’?

The construction of Second Mekong Bridge in Cambodia is likely to receive grant aid.

The possibility for the construction of Second Mekong Bridge in Cambodia to receive Japanese grant aid is increasing. It was only last month that a Democratic Party representative concluded in the budget screening that ‘grant aid for construction of buildings should be cut down by one-third of the requested amount and aid for economic infrastructure should be in the form of loan.’ If a large amount of grant aid was allocated to a large-scale economic infrastructure project such as building the bridge between main highways in South East Asia, it goes so much against the conclusion that it makes the screening pointless. The grant aid is a ‘last-minute ODA’ which makes DPJ’s budget screening self-defeating. It is also a betrayal to people’s appreciation of the budget screening.

The construction of Second Mekong Bridge is a project to build a 5,420 m bridge from the point where Cambodia’s National Road No. 1 meets the Mekong River. Total construction cost is estimated at US\$ 74 million (approximately ¥ 6.5 billion) according to The Study of the Construction of Second Mekong Bridge in The Kingdom of Cambodia, Final Report, 2006. Grant aid is usually offered to projects with the scale of several hundred million yen. It is also ‘basically given to projects with low profit margins in the Basic Human Needs (BHN) fields which include medicine and health, sanitation, primary and secondary education and farms and agricultural development. Or, it is given to projects in the field of environment and human resource development. It aims to improve the standard of living in the recipient country, according to the Ministry of Foreign Affairs.

The following criticisms have been made regarding the grant aid for the construction of Second Mekong Bridge:

- The project is profitable enough for lending (“yen loan”) judging from the development report in 2006. The Final Report provides financial analysis and suggestions based on loan.
- Total construction cost is US\$ 74 million (approximately ¥ 6.5 billion), which is way over the usual scale of grant aid projects<sup>1</sup>.
- Residents have been involuntarily resettled from their homes for another project along

National Road No. 1<sup>2</sup>. Problems related to their removal such as recovery of their livelihood have not been solved yet. It is questionable for Japan to offer new grant aid before these problems are solved.

The Government Revitalization Unit of the Japanese Cabinet conducted another budget screening last month. At this screening, participants discussed issues such as the unclear standards the Ministry of Foreign Affairs uses to decide whether to provide loan or grant. They also discussed the problem of 'tied' aid. Some aid projects are 'tied' to Japanese companies which will be granted the business created by the projects and, therefore, increasing their profits. Such ties have increased the amount of aid granted. A DPJ representative who presided at the screening announced clear conclusions such as 'grant aid for building construction should be cut by one-third', 'aid should shift from "hard" industry to "soft" industry', and 'economic infrastructure should be supported by loan aid instead of grant aid'.

We call the grant aid for Second Mekong Bridge 'last-minute ODA' because it will be paid from this fiscal year's budget instead of next fiscal year's budget which will be bound by the budget screening conclusions. It will be counted as an expenditure for this fiscal year because it is unlikely to pass the screening for the next fiscal year. This is an outrage to nullify the efforts made by the Government Revitalization Unit and many others who made bold decisions in order to address the financial crisis.

The true value of Prime Minister Hatoyama's Cabinet, which adopts a slogan, 'politician-led politics', is being tested in this grant case.

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<sup>1</sup> The average amount of grant aid given to general projects in FY 2007 was ¥ 470 million. The largest grant was ¥ 2.273 billion which subsidised the second-phase on Cambodia's National Road No. 1.

<sup>2</sup> There has been an increasing number of cases in Cambodia in which residents were violently relocated and were pressured not to speak out against their forced removal. Given these circumstances, it has been debated whether Japan should award grant aid.

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