

Revision and Improvement of ODA Systems

In order to utilize ODA as an important tool of diplomacy with more efficiency within a limited budget the Ministry of Foreign Affairs (MOFA) of Japan makes efforts to improve ODA systems. In recent years, it has been carrying out the improvement of loan and grant aid with the aim of meeting the huge infrastructure demand in developing countries and formulating projects which will benefit Japanese companies as well.

●Loan aid

In May 2015 Prime Minister Abe announced the Partnership for Quality Infrastructure. Through this initiative, Japan will provide approximately \$110 billion (approximately ¥13 trillion) for quality infrastructure investment over the next five years from 2016, in collaboration with the Asian Development Bank (ADB) in order to meet the huge infrastructure demand in Asia. In November 2015, as follow-up measures of the initiative, Japan announced 12 measures for system improvement based on the pillars of (i) acceleration of assistance, (ii) encouragement of private investment and (iii) enhancement of the attractiveness of Japanese assistance.

As concrete measures, regarding ODA loans, for example, the Government of Japan will reduce the period of government-related procedures to provide Japanese ODA loans that normally require three years to approximately one and a half years at most for important projects and to approximately two years at most for other projects. Moreover, on the condition that JICA's financial soundness is ensured, the government introduced new ODA loan systems such as dollar-denominated forms of Japanese ODA loans, Japanese ODA loans for business/management rights, etc.

With respect to the Private-Sector Investment Finance (PSIF) implemented by JICA, Japan announced that it makes efforts for promotion of acceleration and expansion of the coverage of PSIF and reinforcement of the collaboration between JICA and other organizations. Japan also decided to introduce new initiatives including the regulation for JICA to start its appraisal process, in principle, within one month after an application was filed by private companies or other entities and for the government to enable JICA to co-finance with private financial institutions, or other institutions. Furthermore, taking the opportunity of the G7 Ise-Shima Summit in May 2016, Japan announced the Expanded Partnership for Quality Infrastructure that aims to provide financing of approximately \$200 billion as the target for the next five years from 2017 to infrastructure projects across the world, and to improve systems, including further acceleration of Japanese ODA loans, etc.

●Grant aid

With the aim to utilize grant aid more effectively from March to May 2016, interviews with consultants, construction companies and trading companies deeply involved in grant aid projects were conducted under (then) State Minister for Foreign Affairs Seiji

Kihara, and the report was compiled in June. In the interviews, there were a large number of views focused in particular on (i) formulating projects that are appealing to Japanese companies, (ii) problems relating to the exemption of taxes, (iii) matters for which the recipient governments bear responsibility and (iv) improvement of cost calculation, so Japan intends to make efforts in the following directions.

Firstly, regarding the formulation of the projects that are appealing to Japanese companies, the government will improve the medium- to long-term continuity and predictability by indicating the possible countries and areas in which grant aid projects will be implemented in the future. Furthermore, the government will proactively consider formulation of projects that can lead to future loan aid projects and projects which collaborate with other schemes, and will also encourage formulation of projects which are to be proposed by private sector.

In terms of tax exemption, the Government of Japan will conclude a verbal note with the recipient government, clearly stating the items and the scope exempted from taxes for new projects. Furthermore, if problems related to tax exemption occur between the construction or procurement companies and the recipient government after conclusion of Exchange of Notes, MOFA and JICA will endeavor to solve the problems by negotiating with the recipient government promptly.

The matters for which the recipient government bears responsibility are already clearly stated in the Grant Agreement. However, the government will strengthen the preliminary surveys, and in the case that the recipient government does not consent to the matters for which it bears responsibility, the government will take strict measures, including deferring the request of projects for a Cabinet Decision, and has already begun implementing these measures. The policy is that the local embassy and JICA office will ask the recipient government to take the necessary steps in the case that the matters for which the recipient bears responsibility are not complied with, and in cases that are judged to be truly unavoidable regarding the individual situation such as force majeure, reserve expenditure will be applied flexibly.

Finally, regarding the improvement of cost calculation, in order to prevent the bid failures and losses which are frequently occurring today, JICA will ensure the period and expenditure necessary for improvements of the calculation operation by consultants, while carefully examining the requested amount promptly after request for cooperation from the recipient government was made, and improving the precision of the anticipated cost by utilizing preliminary surveys.

MOFA will collaborate with JICA, the related government ministries and agencies, and the economic community, and other entities, and at the same time improve the ODA system and advance studies for further utilization measures, in order to strategically utilize ODA.