

## (1) Evolving Global Context and International Trends in Development Cooperation

The international community now stands at a turning point in history and is confronted with complex crises. Threats and global issues that demand collective action by the international community, such as poverty, conflicts, human rights suppression, infectious diseases, and environmental issues, are on the rise.

At the same time, the international order is under severe strain. As the global balance of power shifts and geopolitical competition intensifies—evident in Russia's aggression against Ukraine and mounting tensions in the Middle East—the risk of division in the international community is becoming more serious. This is an era in which confrontation and cooperation are intricately interwoven in international relations. In this context, emerging and developing countries, collectively referred to as the Global South, are becoming increasingly prominent. By 2050, it is projected that countries in the Global South will account for two-thirds of the world's population.

To navigate today's complex crises, the international community must move beyond division and confrontation and be guided toward cooperation. Japan, which has contributed to global peace and stability for the past 70 years as a peace-loving nation since the end of World War II, is well-positioned to play a leading role in this endeavor. Fulfilling this responsibility will require deeper engagement with emerging and developing countries, collectively referred to as the Global South. In this context, ODA serves as an important tool of its diplomacy. Given its significance to Japan's own long-term interests, it must continue to evolve in response to the changing global landscape.

In light of these significant changes, Japan revised its Development Cooperation Charter—a policy document that constitutes the foundation of its development cooperation policy—in 2023, setting forth a commitment to implement development cooperation more effectively and strategically than ever before. Since then, in 2024, which marks the 70th anniversary of ODA, it has been working to implement the revised Charter.

## (2) Implementation Status of Policies Promoting Solidarity and Co-creation, and the Future Direction of ODA

### ■ Co-creation for Common Agenda Initiative

The new Development Cooperation Charter identifies “solidarity to realize co-creation” as one of the evolved approaches to implementing development cooperation more effectively and strategically. It aims to engage a wide range of partners—such as private companies, other countries and international organizations, Japanese NGOs and local governments, universities and research institutions, individuals with deep interest in and understanding of Japan, and people of Japanese descent living abroad. By bringing together their respective strengths through dialogue and collaboration, the Charter seeks to create new solutions jointly (For details on solidarity with diverse partners, see Part V, Section 1 on page 128).

As the needs of developing countries shift from focusing solely on economic growth to addressing broader social challenges, the problem-solving capabilities of Japanese companies have become increasingly important. For example, when Japanese companies are uncertain about making overseas investments, investment environment improvements through ODA mechanisms, such as grants and technical cooperation, can serve as a catalyst for companies to expand overseas. By leveraging ODA to mobilize private capital and thereby maximize development impact in ways that encourage private sector investment, Japan can help address social challenges in partner countries while advancing its own economic growth.

A key strength of Japan's ODA lies in its ability to promote autonomous development through dialogue, based on equal partnerships with developing countries. Japan's approach combines not only structural aspects such as infrastructure and equipment but also on non-structural aspects such as human resource development tailored to local contexts. It carefully integrates loan aid, grants, and technical cooperation in a coordinated manner. Today, as many developing countries have achieved significant economic growth, some countries are now facing challenges common to Japan, such as green transformation (GX) and digital transformation (DX). In this context, the concept of “co-creation” —

working together as equal partners to address social challenges, rather than maintaining a giver-receiver relationship—is becoming increasingly important.

The revised Development Cooperation Charter builds on these strengths to promote the “Co-creation for common agenda” initiative. A key feature of this initiative is to propose the cooperation menus that leverage Japan's strengths, and jointly formulating projects in partnership with the partner countries.

Specifically, Japan publishes the strategy document that identifies priority areas and publicly sets out approaches to achieve goals in each area. This enhances predictability of project implementation, encourages the active participation of various actors such as private companies and international organizations, and combines various forms of cooperation to maximize development impacts.

Starting with the launch of this initiative with Cambodia in December 2023, Japan has agreed to pursue this initiative with Fiji, while also considering the possibility of promoting cooperation under this initiative with Laos (For details on the implementation status of the initiative, see Part V, Section 2 (2) on page 145).

### ■ Mobilization of Private Financial Resources

From the perspective of developing countries, the composition of external financial flows has been changing over time. In the 1990s, ODA was the dominant source. However, since the 2000s, foreign direct investment (FDI) and remittances from migrant workers have grown substantially, surpassing ODA. In 2022, FDI was approximately 2.5 times the volume of ODA, and remittances about 2.8 times, indicating that private financial flows now exceed ODA by far.<sup>8</sup> As private capital accounts for an increasing share of financial inflows to developing countries, the positioning of ODA has become relativized. Many countries are now showing greater interest in attracting businesses rather than aid. This shift underscores the growing need for diverse actors to collaborate in addressing development challenges. In other words, relying on ODA alone is no

longer sufficient to tackle the development challenges facing developing countries.

The role of private capital in developing countries is becoming increasingly important. In particular, sustainable finance—investment not only seeking profit but also addressing social challenges, including those related to the environment, society, and governance—is gaining unprecedented significance. In response to this trend, the Advisory Panel on New Financing for Development was established under then Foreign Minister Kamikawa in March 2024, and discussions took place from March to May. In July, then Minister Kamikawa received recommendations<sup>9</sup> outlining the potential catalytic role of ODA in this evolving financial landscape from the panel (see also “Development Cooperation Topics” on page 14).

The recommendations state that both ODA and sustainable finance are future-oriented forms of “problem-solving finance.” They share a common purpose: helping address challenges embedded in today's economic and social systems, with the goal of shaping a more inclusive, sustainable, and resilient economy and society. The panel also points out that by taking risks that cannot be taken in the private sector through ODA and strengthening collaboration between public and private sectors, there is significant potential to foster cooperation toward a better future for the global economy and society. When positioned as a catalytic tool, ODA can help create and expand an “ecosystem” in which diverse stakeholders—including private companies and investors—engage in economically rational investments that ultimately support the growth of developing countries. As concrete proposals, the panel recommends expanding JICA's risk-taking functions, for example, by providing guarantees for projects in developing countries and purchasing green and social bonds issued by local entities. In response to these proposals, the Government of Japan will continue its review of the ODA mechanism with a view to enhancing its alignment with new development finance approaches.

<sup>8</sup> “World Development Report (WDR) 2023: Migrants, Refugees, and Societies” <https://www.worldbank.org/en/publication/wdr2023>

<sup>9</sup> Recommendation paper “Toward Contributing to a Sustainable Future and Creating a Virtuous Cycle of Growth” <https://www.mofa.go.jp/mofaj/gaiko/oda/files/100697332.pdf> (in Japanese only)



## New Approaches to Development Finance Mobilization in the Changing Era

From March to May 2024, under the leadership of then Foreign Minister Kamikawa, the Advisory Panel on New Financing for Development was convened three times and in July, the panel submitted its recommendations to the Minister, entitled “Contributing to a Sustainable Future and Creating a Virtuous Cycle of Growth.”<sup>\*1</sup>

In this column, Professor Emeritus OHNO Izumi of the National Graduate Institute for Policy Studies and Chair of the panel, and committee member KANEKO Tadahiro, Executive Officer of Sumitomo Mitsui Banking Corporation, shared their perspectives on the future of ODA, drawing on the panel’s discussions and recommendations.

### ■ OHNO Izumi, Professor Emeritus, National Graduate Institute for Policy Studies (GRIPS)



For more than 70 years, Japan has significantly contributed to economic and human resources development in developing countries through ODA. It is particularly worth noting that Japan, having reemerged as a peaceful nation after World War II, has built broad trust in the international community through non-military development cooperation.

Japan, once a non-Western latecomer to development, has the dual experience of being both a “learner” and a “provider” of development knowledge. Based on this experience, Japan’s development cooperation respects the uniqueness and ownership of each partner country, takes a human-centered approach, and emphasizes support that is closely aligned with local needs. This approach has been widely appreciated by many governments, organizations, and people in developing countries.

At the same time, the international development landscape is undergoing significant transformation, necessitating a paradigm shift in development cooperation “from aid to co-creation.” This shift is driven by several factors: (1) development challenges are becoming more complex, requiring mutual learning and joint problem-solving between developed and developing countries; (2) private investment in developing countries has surpassed ODA in scale, expanding opportunities for public-private partnership to build sustainable societies; (3) collaboration with countries that have graduated from ODA recipients and with emerging countries is becoming increasingly important; and (4) Japan’s domestic context—marked by a declining birthrate and aging population—is broadening the scope of international cooperation to include areas such as coexistence with foreign workers within Japan.

Especially in the private sector, sustainable finance with an emphasis on ESG (Environmental, Social, and Governance) factors is growing. The key will be to build an ecosystem in

which ODA acts as a catalyst, enabling diverse actors to collaborate and promote private investment that leads to solving global issues and advancing development in partner countries. We hope that Japan’s development cooperation will maintain and strengthen its existing positive aspects, while evolving into a model better suited to the era of “co-creation.”

### ■ KANEKO Tadahiro, Executive Officer, Sumitomo Mitsui Banking Corporation

In recent years, as the impact of climate change is becoming serious, contributing to a sustainable society has become a corporate responsibility, and sustainable finance has increased significantly, particularly in developed countries. However, in developing countries, providing private capital is challenging due to political instability, creditworthiness issues, and the lack of entities to implement projects. To address global challenges such as climate change and biodiversity issues, funding and support for developing countries are essential, and ODA plays an important role in this effort.



The Advisory Panel on New Financing for Development discussed the potential for working together in creating a sustainable future by strengthening linkages between ODA and sustainable finance. The Panel made concrete recommendations, such as strengthening risk-taking through ODA, aiming to build an ecosystem in which ODA acts as a catalyst for diverse actors to collaborate and in which investment activities by the private sector and investors lead to development in developing countries.

Sumitomo Mitsui Banking Corporation (SMBC), in collaboration with JICA, established the “SMBC-JICA Sustainable Finance Framework” to strengthen risk-taking through risk diversification. Through this framework, we support projects aimed at improving financial access in the agricultural sector in Cambodia and facilitating the implementation of infrastructure projects such as those of renewable energy in South Africa.

Going forward, it is important to continuously accumulate achievements of tangible projects through collaboration between ODA and sustainable finance. By leveraging frameworks such as the “Asia Zero Emission Community (AZEC)”<sup>\*2</sup> promoted by the Government of Japan, we hope that concrete actions will be promoted through an all-Japan approach in order to contribute towards a sustainable future, create a virtuous cycle of growth in Japan, and realize a sustainable society.

<sup>\*1</sup> Recommendation: Contributing to a Sustainable Future and Creating a Virtuous Cycle of Growth <https://www.mofa.go.jp/mofaj/files/100697332.pdf> (in Japanese only)

<sup>\*2</sup> See Part III 3 (1) on page 64.