

# Recommendations by the Advisory Board for ODA

November 28, 2018

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## Introduction

Japan's Development Cooperation Charter decided by the cabinet in 2015 as the revised form of the previously upheld Official Development Assistance (ODA) Charter clearly states the concept of human security, which pursues each person's right to exist happily with dignity, free from fear and want, through their protection and empowerment, as one of the basic philosophies underpinning Japan's development cooperation. In addition, the Charter affirms the importance of mobilizing diverse forces in light of the increasingly important roles played by a wide range of entities, including private companies, local governments, and non-governmental organizations (NGOs), in addressing development challenges and promoting sustainable growth in developing countries, and it encourages mutually beneficial partnership with various entities so that ODA can fulfil its role as a catalyst in facilitating such collaboration.

It is difficult to claim that the significance of the Charter is shared by the entire Japanese citizen. Furthermore, there are constant needs to confirm how ODA should be operated in order to effectively address the dramatically changing international situation that have occurred in recent years and global challenges such as refugee and humanitarian crises that have reached their peak since World War II, without falling into the trend of isolationism that is spreading around the world.

There is no question that ODA is one of important tools in Japanese diplomacy. It is, however, also clear that the ODA budget will not increase significantly given Japan's current fiscal condition.

In light of this situation, we need to re-examine what needs to be done to broadly share the philosophy and current status of Japan's ODA and utilize the limited ODA budget most efficiently and effectively without being bound by the traditional, fixed ideas. For this purpose, we also need to review the roles each entity involved in the implementation of ODA should perform utilizing their respective characteristics, and the best ways to strengthen such characteristics.

This Advisory Board recognized the current status of the implementation structure of ODA in Japan in which the Japan International Cooperation Agency (JICA) plays the main role, and discussed the possibility of all entities playing a larger role, including JICA, NGOs, private companies, procurement agents, and international organizations.

To enhance the implementation structure of Japan's ODA, we make the following recommendations to the Minister for Foreign Affairs concerning the roles each implementing entity should play and the measures needed to enhance their capabilities.

## **I. Current status of Japan's ODA implementation structure**

Japan's ODA can be roughly divided into bilateral assistance between two countries and multilateral assistance provided through capital subscriptions and contributions to international organizations. Of these, bilateral assistance can be further divided into the

following categories: “technical cooperation”, whereby Japan’s technology and know-how are used to support the development of human resources and institutions for the social and economic development of developing countries; “grant aid”, whereby funds are provided to developing countries without repayment obligation to assist development of infrastructure, materials, and equipment, including schools, hospitals, wells, and roads, which are necessary for the social and economic development of the recipient countries; and “loan aid”, whereby loans are provided under supportive terms and conditions with a long maturity and low interest rate to assist in the building of large-scale infrastructure such as ports, airports, and railways.

In 2016, Japan provided a total of approximately 1,828.7 billion yen in ODA (fourth largest in the world), combining both bilateral and multilateral assistance. Of this amount, bilateral assistance accounted for approximately 1,462.2 billion yen, while multilateral assistance consisting of capital subscriptions and contributions to international organizations stood at approximately 366.5 billion yen. Bilateral assistance can be broken down further into approximately 854.8 billion yen in loan aid, which will be repaid in the future, approximately 305.4 billion yen in grant aid, and approximately 30 billion yen in technical cooperation.

Currently, the Ministry of Foreign Affairs designs policy and each implementing entity carries out actual projects. Looking at the amount of ODA expenditure allocated to each implementing entity, JICA was responsible for approximately two thirds of technical cooperation (approx. 207.5 billion yen), about 30% of grant aid (approx. 83.9 billion yen), and almost all of loan aid (840.8 billion yen). International organizations received approximately 535.2 billion yen through capital subscriptions and contributions in multilateral assistance, and through bilateral project-based assistance. Procurement agents were responsible for approximately 12 billion yen in grant aid. Japanese NGOs involved in international cooperation were allocated approximately 11.6 billion yen in grant aid and approximately 800 million yen in technical cooperation (amounts allocated to NGOs involved in grassroots technical cooperation and so on).

While some of the projects implemented by these entities create a competitive relationship between JICA and international organizations, it is difficult for the principle of competition to function among the entities due to differences in their characteristics, organizational size, and other attributes.

## **II. Current status of each type of implementing entities**

### **1. JICA**

As mentioned above, JICA is an implementing agency that is responsible for most of Japan’s ODA. Their activities attract both positive and negative opinions from other implementing entities.

Negative comments regarding JICA’s activities include the following:

- There is no clear understanding of what specific functions JICA alone can play. Although JICA is responsible for most of Japan’s ODA, this is not subject to sufficient evaluation.
- Because there is only a small number of agencies that can replace JICA’s functions at present, JICA does not face fierce competition in Japan, which may make it difficult to raise JICA’s capabilities.

Positives points regarding JICA’s activities include the following:

- JICA has offices in many developing countries and has continued performing the interface function with governments and implementing agencies in developing countries.
- JICA operates three schemes, namely, loan aid, grant aid, and technical cooperation, in an integrated manner, which generates synergies and results in efficient project execution.

The Board's discussion on JICA canvassed both the impact of this integrated operation and the need to ensure competition by allocating JICA's operations to other implementing entities.

## **2. NGOs**

Japanese NGOs (referring to NGOs incorporated and registered in Japan as corporations engaging in specified non-profit activities or public interest corporations) provide support at the grassroots level in developing countries. In comparison with NGOs in Europe and the U.S., many Japanese NGOs are smaller and still largely unrecognized and unknown, and have limited contact with society. As a result, their financial foundation is often vulnerable. In many cases, salary levels they offer are also lower than those paid by European and American NGOs, international organizations, and so on. This has often resulted in unstable employment conditions where human resources developed in NGOs move to other organizations that offer better conditions, and where staff members are employed for specific projects in an ad-hoc manner because the lack of funding limits the number of staff members that can be employed on a permanent basis. In addition, NGOs tend to prefer work-ready people and thus often recruit mid-career people. Consequently, there are very limited job opportunities for students who have studied international cooperation at graduate schools or other institutions.

The ratio of funds allocated to NGOs in the overall ODA of the Japanese government is smaller than those in Europe and the U.S. That each country has different approaches and philosophies concerning ODA, makes a simple comparison difficult. However, many strong voices are heard from Japanese NGOs, demanding for an expansion of the budgets allocated to them based on a review of the distribution of ODA funding. In addition, for NGOs to obtain more funds from the public and private sector, it is important that they fulfill their accountability to the people of Japan in implementing ODA projects and raise the profile of NGOs' activities in Japanese society. It can be said that Japanese NGOs do not enjoy the same level of recognition in society on the whole as their European and American counterparts do.

With respect to expanding the size of the NGOs, many Japanese NGOs focus their activities on specific regions or areas of their strong interests, and not necessarily all NGOs aspire to increase in size. During the Board's discussion, it was stated that Japanese NGOs' diversity, which is one of their characteristics, should be respected, and that not only large NGOs, but small-scale NGOs with agility should also be respected.

While various opinions on NGOs as indicated above have been expressed, some Board members have requested an increase *general administrative expenses*, which are allowed to be included in the budget when implementing ODA projects. Currently, 5% of project expenses can be budgeted as general administrative expenses in "Grant Assistance for Japanese NGO Projects" and other ODA projects in which Japanese NGOs are involved. This does not adequately cover indirect costs for the implementation of projects. This means that the more ODA projects NGOs implement, the worse their financial condition becomes. There is therefore a strong argument that the ratio of general administrative expenses should be raised to around 15%.

To improve the level of recognition of NGOs and to overcome the financial vulnerability as mentioned earlier, it is arguably important to increase funds that can be used for projects as well as for securing personnel that will improve recognition such as evaluation and PR. However, one opinion was that certain criteria should be established for supporting NGOs because it would not be healthy to normalize the use of the ODA budget to support the enhancement of NGOs' structure. For instance, such criteria can ensure that support is only given to NGOs that can present a long-term financial plan spanning three to five years, and that are likely to be autonomous or fulfil their accountability as an organization.

From the viewpoint of expanding the scope of projects implemented by NGOs, it was also suggested that collaboration between NGOs and the United Nations should be strengthened. Although some Japanese NGOs work with international organizations under an implementing partner (IP) agreement, the number of Japanese NGOs that can collaborate with international organizations overseas in a wide range of areas remains small. Some NGOs participate in JICA's technical cooperation projects as the main contractor or a partner in a joint venture. However, it is still difficult for smaller NGOs to become the main contractor because technical cooperation projects require expertise and extensive logical and management capabilities.

### **3. Procurement agents**

Procurement agents are responsible for assisting in the procurement of materials, equipment, and so on in grant aid projects on behalf of the recipient government within the budget determined by an international agreement between the recipient and donor governments. They manage the overall implementation of projects, including the management of funds, tenders, and vendor contracts.

The items procured consist of materials and equipment such as road-building machinery, medical equipment, disaster prevention equipment, counter terrorism and security equipment, vehicles, agricultural machinery, and fuels. In some cases, detailed investigations or designing in advance, are required, while in other cases, only equipment is supplied. In the latter case, a decision to provide support is made faster after receiving a request than in grant aid projects, which require detailed investigations and designing by JICA.

In fiscal years 2016 to 2018, Japan International Cooperation System (JICS) and Crown Agents Japan worked as procurement agents.

### **4. International organizations**

International organizations have expertise and networks, and implement in a prompt manner initiatives that aim to tackle global issues (e.g. disaster prevention, health, women) and achieve sustainable development goals (SDGs). Collaboration with international organizations that have established a long-term local presence and the ability to continuously implement projects is especially important in providing support in regions that are not easily accessible for JICA due to the high level of risk. These include countries experiencing humanitarian crises such as refugee problems and countries that have recently experienced conflict.

On the other hand, when providing support through international organizations, it becomes a challenge to publicize effectively Japan's financial support to their activities and to ensure the visibility of Japan in the developing countries where assistance is provided or in the donor or international community. For this reason, it is necessary to identify the international organizations that can become a catalyst for efficiently and effectively

implementing Japan's ODA projects. In this process, consideration should be given to the completely different operation format and size of each international organization; the collaboration potential with Japanese NGOs, private companies, and JICA; and the presence of Japanese staff members. Based on such consideration, the target organizations need to be identified, and then ways to approach them need to be examined.

## **5. Private companies**

Currently, private companies actively participate in ODA projects in general (technical cooperation, grants aid, loan aid), mainly as contractors. Of private sectors, construction companies and trading companies are involved in grant aid and loan aid. In addition, in general, development consultants handle work on the ground in ODA projects and participate in ODA projects in the areas of technology transfer to the recipient government in technical cooperation and designing and construction management in grant aid and loan aid. As public-private collaboration in ODA has become more important, a growing number of private companies outside the ODA industry currently participate in ODA projects. In providing ODA, collaboration with private companies is anticipated to become more important in the future from diverse perspectives such as future market creation, growth of local employment, and development of human resources, instead of simply pursuing short-term benefits.

## **III. Recommendations**

### **1. Examine the optimal allocation of roles among implementing entities and strengthen competition and collaboration within the overall picture of Japan's development cooperation.**

The significance and purpose of development cooperation stipulated in the Development Cooperation Charter has not changed much to date. With respect to its implementation, however, it is necessary to understand local needs as appropriate and comprehend a bigger overall picture that encompasses both public and private sectors to determine what support Japan is providing and what impact its support has had in order to appropriately address the ever-changing international situation.

For instance, efforts should be made to enhance a network of entities involved in development cooperation locally such as Japanese embassies, JICA, international organizations, private companies, NGOs, and procurement agents. The Japanese embassies should make more effort to actively gather information. The Ministry of Foreign Affairs should compile information thus obtained from the public and private sectors, draw a bigger overall picture of development cooperation based on it, and clearly explain the information to each implementing entity. This will nurture a common perception about the kinds of projects that should be implemented in ODA for the development of developing countries and for the benefit of local communities, residents, and taxpayers, rather than the projects that each implementing entity wishes to promote. Through this process, roles that should be allocated to each entity and issues that require their collaboration will also become clear.

The Development Cooperation Charter advocates collaboration among implementing entities. However, there is no discussion on how specifically such collaboration can be achieved. As a result, no specific actions have been taken in individual countries or regions. Due to differences in the characteristics of each implementing entity, competition among them does not arise easily. However, it appears to be possible to create a competitive relationship that can make up for respective strengths and weaknesses and enable a collaborative

relationship when needed. The Ministry of Foreign Affairs and JICA should discuss how specifically collaboration among implementing entities can be achieved and work toward generating a positive outcome in individual countries and regions based on specific action plans so that each implementing entity will compete and collaborate with other entities to form efficient and effective projects, and the Ministry of Foreign Affairs, which draws up policy, can select optimal projects and implementing entities that will implement them with ensuring transparency and accountability.

Currently, ODA is evaluated from various angles at the policy, program, and project level. However, these are often piecemeal evaluations and lack an across-the-board and comprehensive evaluation of projects by each implementing entity. It is important to review the current evaluation structure to provide substantial evaluations.

## **2. Improve Japanese citizens' understanding and recognition of ODA and endeavor to increase the value of NGOs as intermediary.**

Secondly, it is necessary to improve Japanese citizens' understanding and recognition of ODA to ensure that each implementing entity can fulfil their roles in the place of development cooperation. In particular, it is essential that the value of ODA as an "investment in the future" to create a better world is explained to and recognized by citizens broadly, given that the Development Cooperation Charter advocates the importance of mobilizing diverse forces and the role of ODA as its catalyst. For this purpose, the Japanese government should provide an easy-to-understand explanation of the overall picture of development cooperation and how Japan's ODA has in the past helped developing countries as suggested in Recommendation 1 and develop to further raise the understanding and awareness of ODA. Furthermore, each implementing entity should make efforts to improve the understanding and awareness of ODA in their own position as the entity carrying out ODA.

In doing so, Japanese NGOs which have created their own network in communities and society have the potential to act as a *window* or *entrance* for civil society's participation as the recipients of their donations, in addition to acting as a place to volunteer where they can utilize their knowledge and abilities, and as intermediary. In addition, it is necessary to first ensure that the activities and value of NGOs, which other entities such as administrative organs and companies do not have, are widely recognized and supported in Japanese society so that Japanese NGOs can become an attractive employment option.

To achieve this, it is necessary to create a system to appropriately evaluate NGOs' projects on the basis of outcomes by third-party as practiced in other ODA projects and to make their outcomes more visible in order to clarify the value unique to the NGOs. Through this process, the trust that NGOs gain in Japanese society will eventually grow.

Next, to disseminate their value to Japanese society and to raise awareness about them, NGOs themselves need to actively utilize opportunities such as events organized by themselves, the Ministry of Foreign Affairs, JICA, local governments, and private companies; increase contacts with other sectors; and explain the value of the NGOs. At the same time, the Japanese government should promote the understanding of development cooperation based on the concept of "human security" and raise citizens' awareness that the activities of NGOs can help solve social issues.

To obtain broader support from citizens, we underline that it is important for NGOs themselves to work hard and improve the quality of their activities and accountability.



### **3. Strengthen the financial foundation of NGOs —Increase general administrative expenses.**

To create the environment described in Recommendation 2, it is essential that NGOs can utilize time and human resources for evaluation and public communication. For this purpose, NGOs' financial foundation must be strengthened. On this point, the Board's discussion centered on increasing general administrative expenses. If indirect expenses necessary for the implementation of ODA projects can be sufficiently covered by government funds, NGOs will be able to use their own funds which have been used to cover indirect expenses, for other activities such as evaluation, public communication, operation improvement, and so on as suggested in Recommendation 2. In addition, investing their own funds in personnel expenses will help NGOs secure a larger number of competent staff members.

From these viewpoints, raising general administrative expenses in Grant Assistance for Japanese NGO Projects for NGOs that have a will to strengthen their structure is an urgent policy issue. On the premise that the outcomes of NGOs' projects are appropriately evaluated and made visible as proposed in Recommendation 2, an increased ratio of general administrative expenses should be examined with 15% as one benchmark based on the objective of and opinions expressed in this Board after an accurate analysis (the appropriateness of this increase should be verified later based on outcomes).

Furthermore, NGOs need funds that they can use at their own discretion to a certain extent in order to enable them to operate their activities with more flexibility. It will be necessary to consider raising the ratio of funds allocated to NGOs in the overall ODA budget.

### **4. Enhance funding sources to support international cooperation by diverse entities —Establishment of the public-private matching fund.**

Given that Japan's ODA budget is not growing due to the country's difficult fiscal condition, it will naturally be necessary to seek the source of funding for the implementation of international cooperation by each implementing entity more broadly including, for instance, funds from the private sector, instead of always relying on government funds.

For instance, it will be necessary to launch a public-private matching fund as a new source of funding. For such funds, citizens play a central role in supporting NGOs' activities, and each entity contributes a certain share based on the awareness of citizens nurtured in Recommendation 2. In addition, an increase in the funds that NGOs can use at their own discretion based on Recommendation 3 is expected to generate synergies such as allowing NGOs to spend time and money on activities to raise funds from the private sector such as crowd funding.

Furthermore, the creation of funds by the government, companies, foundations, and so on, such as the Global Health Innovative Technology Fund (GHIT Fund) and investing in areas with less marketability may lead to the creation of markets in the future. Adoption of the matching fund method should be considered in areas other than global health so as to utilize companies as "financiers" or "service providers" instead of simply deeming them as "ODA contractors".

In doing so, consideration should be given to issues such as cost sharing and conflicts of interest between the government and private sector or between civil societies in terms of organization. It is important that each player can share the benefits. In addition, it is important not to transfer final decision-making and risks to the government and to operate projects while constantly being aware of "what one should do in Japanese society".

From the viewpoint of exploring every possibility, close attention should be paid to discussions on Implementing Partner Contracts with international organizations, international solidarity tax, and inactive deposits and the possibility of their future use as the source of funding for ODA. At the same time, expansion of the existing preferential taxation treatment in terms of income taxes and others should be considered.

## **5. Develop human resources for development cooperation**

The development of human resources to carry out development cooperation is an urgent task to efficiently and effectively implement Japan's ODA. In addition to people with extensive on-the-job experience, those with organization management skills are also needed. To develop such human resources, measures to facilitate personnel exchanges between different implementing entities should be considered. To attract excellent people, it is desirable if implementing entities can work as a revolving door of human resources, instead of keeping people tethered to one workplace once they are employed. The Ministry of Foreign Affairs and JICA are also required to take the initiative in examining the acceptance of capable personnel from each implementing entity and the private sector, referring to initiatives in other Ministries and Agencies.

Furthermore, it seems necessary to make implementing entities attractive (in terms of their salary as well) so that they can be seen as potential employers for students who are learning about international cooperation. People who have been involved in assisting developing countries and have hands-on experience in recipient countries are also considered valuable for Japanese companies due to their familiarity with countries that can become their future market.

## **IV. Other discussion points**

In the meeting, the Board focused on the issues and recommendations stated above due to the time restriction placed by the stated goal to have these recommendations reflected in the fiscal year 2019 government budget proposal. In addition to these issues and recommendations, the Board identified the following points as issues that should be discussed by the Ministry of Foreign Affairs in the course of its discussions.

1. Examine long-term initiatives to enhance "Visible Japanese Development Cooperation" on multiple levels including local, policy, and other levels.

The Board members stated the following opinions in relation to the need to enhance "Visible Japanese Development Cooperation" on multiple levels.

It is important that a clear path is indicated for a strategic shift in the implementation of ODA projects in each area and region to ensure "(1) Japan as a visible donor." To make "(2) Japan a visible donor at the local level," it is necessary that each implementing entity can see each other and that staff on the ground who are involved in collaboration are given an increasing level of decision-making power and authority. To ensure "(3) Japan as a visible donor to society" and "(4) Japan as a visible donor in the overall picture," it is important to enhance communication with outsiders and to use evidence-based policy making (EBPM), rather than using a simple evaluation method. EBPM is a policy making method and needs to be understood well.

2. Improve projects on protection measures for refugees seeking asylum.

Due to time and other constraints, the Board did not have in-depth discussions on this issue, but a member submitted a proposal to improve projects concerning the diversification of implementing entities, including NGOs, and the budget measures. During the interviews with NGOs conducted on October 30, similar recommendations were made by the NGOs themselves. In the interviews, it was pointed out that the ODA budget was small compared to the number of asylum seekers, and currently, NGOs and other entities were supporting them using their own funds. It was proposed that the budget be increased and a structure be created to make it easier for NGOs and other entities to participate in tenders. A member expressed the opinion that improvement of this project should be discussed with relevant organizations, including NGOs, with a view to the supplementary budget, although it would be difficult to reflect this issue in the initial budget proposal for FY2019 at this stage.

## Conclusion

The Board's discussions looked at diverse implementing entities in particular, including NGOs and private companies, outside the bounds of the traditional, fixed concept. ODA is financed by public funds, and as such, it cannot be effective unless it helps eventually achieve the public purpose. However, there is no simple answer to what "achieving the public purpose" specifically means for the Japanese government. This is why no clear path is shown for the allocation of roles and collaboration among diverse implementing entities and between the public and private sector.

The Development Cooperation Charter explains the long-term significance of ODA by stating as follows:

"In today's international community, it is no longer possible for any nation to secure peace and prosperity by itself. Under such circumstances, the path Japan should take to continue developing a prosperous and peaceful society lies in making a serious effort to tackle various global challenges in cooperation with the international community, including developing countries, for a peaceful, stable and prosperous international community, and in this process, to build solid and constructive relationships with various actors therein. Development cooperation provides one of the most important means for Japan in its agile implementation of such diplomacy; it carries significance as an 'investment for the future.'"

Based on this, the Japanese government needs to properly fulfil its responsibility to explain its approach to its citizens, taxpayers, and the broader international community.

In addition, there needs to be an awareness concerning "for whose benefit ODA is provided". In short, the significance of ODA is to create a better world through providing support to people in developing countries. Neither people in Japan nor in developing countries should be left out. On the other hand, what must not happen is "to provide ODA only for certain entities". ODA does not exist for specific organizations such as the Ministry of Foreign Affairs, JICA, or NGOs. It is important to remember that ODA is currently supported through borrowing from future generations. If investments for the world's future are made at the expense of Japan's future children, it is self-evident that ODA activities should be carried out more efficiently and their fruit should be utilized to the fullest.

All actors who are involved in ODA, including the Board members, wish to take further actions to enhance recognition of the significance of ODA in Japan.