

Peer Review

JAPAN

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from the European Commission and the United States for the Peer Review on 12 December 2003.

LIST OF ACRONYMS

ADB	Asian Development Bank
AMS	Aggregate measure of support
APEC	Asia-Pacific Economic Co-operation
APIC	Association for the Promotion of International Co-operation
ASEAN	Association of South East Asian Nations
BSS	Basic Social Services
CAP	Country Assistance Programme
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DAC	Development Assistance Committee
EC	European Community
ECB	Economic Co-operation Bureau
FDI	Foreign direct investment
FTA	Free Trade Agreements
GNP	Gross national product
GSP	Generalised System of Preferences
HIPCs	Heavily indebted poor countries
HLM	[DAC] High Level Meeting
IDS	International Development Strategy
IFIs	International financial institutions
IMF	International Monetary Fund
JANIC	Japanese NGO Centre for International Co-operation
JATAN	Japan Tropical Forest Action Network
JBIC	Japan Bank for International Cooperation
JCCI	Japan Chamber of Commerce and Industry
JETRO	Japan External Trade Organization
JEXIM	Export-Import Bank of Japan
JICA	Japan International Cooperation Agency
LDCs	Least developed countries
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDBs	Multilateral Development Banks
METI	Ministry of Economy, Trade and Industry
MDGs	Millennium Development Goals

MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NEXI	Nippon Export and Investment Insurance
NGOs	Non-governmental organisations
ODA	Official development assistance
OECD	Overseas Economic Co-operation Fund
OECS	Overseas Economic Co-operation Operations
OOF	Other Official Flow
PRSPs	Poverty Reduction Strategy Papers
PSE	Producer Support Estimate
TICAD	Tokyo International Conference on African Development
UN	United Nations
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

Exchange rates (JPY per USD) were:

1999	2000	2001	2002	2003
113.9	107.8	121.5	125.2	120

Signs used:

()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

Japan's Aid at a glance

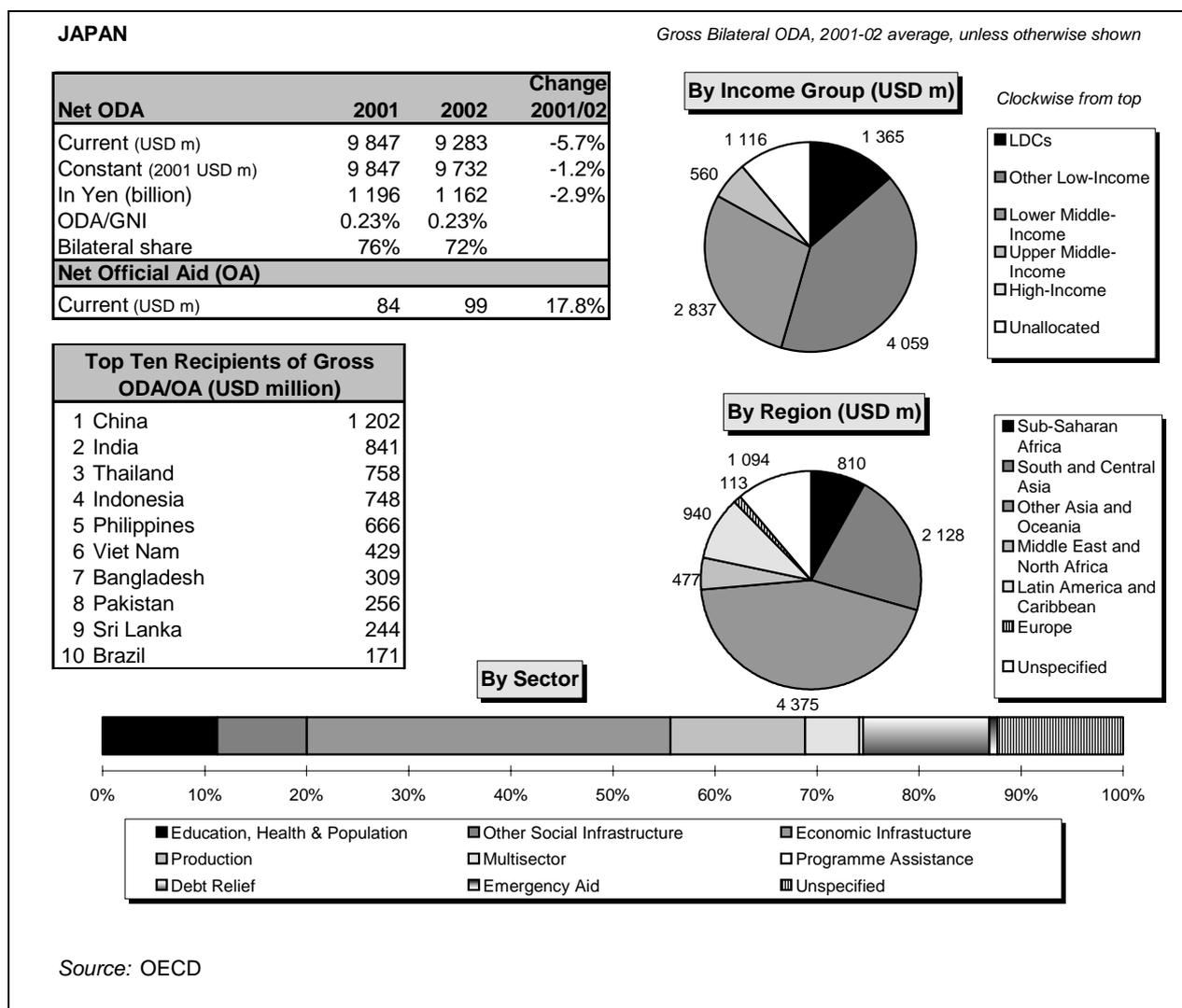


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

New developments, overall strategy, and the public

Japan's development co-operation programme has undergone major reforms and significant restructuring since the last Peer Review in 1999. Most importantly, its Official Development Assistance (ODA) Charter was revised to reflect changed domestic and international circumstances. In addition, the legal status of the Japan International Cooperation Agency (JICA) was changed in 2003 to make it more autonomous. The former Overseas Economic Cooperation Fund (OECF) and the Export-Import Bank of Japan (JEXIM) merged into the Japan Bank for International Cooperation (JBIC) in 1999. Also, the Ministry of Foreign Affairs (MOFA) has become the *de jure* co-ordinating body for the diverse implementing institutions of ODA. In the international arena, Japan has played a leading role in fostering new initiatives and in hosting major conferences on development issues.

The ODA Charter, revised in 2003 from the 1992 version, forms the policy basis of Japanese development co-operation. It proposes that the ultimate objectives of ODA are "to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity". For Japan, as for other DAC members, ODA is an integral part of its foreign policy. As such, it is important that narrower national interests do not over-ride the primary development objective of ODA.

Poverty reduction is listed in the Charter as one of four priority ODA issues. In practice, Japan needs to more fully mainstream poverty reduction and other cross-cutting issues throughout its development co-operation system though poverty reduction is addressed through interventions in various sectors. Past emphasis on economic growth has not always taken full account of the poverty reduction dimension, and Japan, with its experience, could usefully contribute to better document the relationship between economic growth and poverty reduction. While the ODA Charter recognises the common development goals of the international community, the achievement of the MDGs could be further elaborated in a statement of strategy.

There is clearly a sign of aid fatigue among the Japanese public. Although in part due to Japan's weak economic situation, the public is also becoming critical regarding the effectiveness of the aid programme and the commercial sector has become less supportive of aid. Simultaneously, the public is supportive of humanitarian efforts and responding to crises. While substantial effort is made to disseminate official development information, the public is only marginally influenced by it, is generally unfamiliar with ODA issues, and has misconceptions concerning the bilateral aid programme. Therefore, a recent decision to incorporate development education in school curriculums is encouraging as a way of broadening support. With better understanding of development issues from early formative years, the students will hopefully become the future supporters and participants of Japanese and international development co-operation efforts.

Recommendations

- In implementing the ODA Charter, Japan should highlight that the primary objective of ODA is for the development of the recipient country, and should ensure that narrower national interests do not over-ride this objective.
- Japan should develop a government-wide approach to mainstream cross-cutting issues, rather than treat them as separate sectors, particularly concerning poverty reduction as part of achieving the Millennium Development Goals.

Aid volume and allocations

In 2002, Japan's net ODA volume of USD 9.3 billion was the second largest among the DAC countries. In 2001, Japan conceded its status as the largest bilateral donor to the United States, a position it had held for a decade. However, Japan recorded an ODA/GNI ratio of only 0.23%. The continuing recession has had an effect on the gradually declining trend of ODA funds. At the 2002 Monterrey Conference, Japan was one of the few DAC members which was unable to commit to maintain or increase ODA. With loan repayments from developing countries steadily increasing, Japan may have to increase the ODA budget so as to maintain current levels of net flows.

A prominent feature of Japanese bilateral aid is the significant proportion of loans, representing 55% of total bilateral ODA in 2002. This is easily the most extensive use of loans of any DAC country. Japan's reason for focusing on loans is mostly due to its own experience of having had borrowed credit from the World Bank for its post-war reconstruction. The ODA loans are normally untied, with the recent exception of a short-term, tied Special Yen Loan facility (1999-2002) that was set up to help countries affected during the Asian crisis. As a result of providing large amounts of loans, Japan is by far the largest bilateral creditor to developing countries, including Least Developed Countries (LDCs). In response to the Heavily Indebted Poor Countries (HIPC) Initiative and other international efforts, Japan's involvement with debt relief is rising. As Japan continues to disburse ODA loans to low-income highly indebted countries, more attention should be given to debt sustainability issues.

Japan has a clear policy on priority attribution of ODA to Asia and some 74% of bilateral ODA is disbursed to the region. The top ten recipients of Japanese ODA in 2001-2002 were China, India, Thailand, Indonesia, Philippines, Viet Nam, Bangladesh, Pakistan, Sri Lanka, and Brazil. Six are Low Income Countries and the list includes the five countries with the most number of absolute poor. In addition, Japan is the largest donor in several African countries. This suggests that Japan could usefully clarify its policy on how it intends to focus on poor countries or the poor populations within countries.

Concerning sector allocations, only a small portion of Japanese resources in the social sector is actually directed towards Basic Social Services (BSS). As was noted in the 1999 Peer Review, Japan's allocation in the social sector tends to be directed to the tertiary levels, such as universities, research institutions, urban water systems or hospitals.

Recommendations

- Japan should make every effort to increase ODA levels as economic conditions improve, building broad-based public support to facilitate this.

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- Lessons learned from the provision of loans to indebted poor countries that resulted in large debt relief should be factored into future lending policies.
- The development of a clearer policy on how Japan intends to focus on poor countries or poor populations within countries should be considered.
- Japan should strive to achieve a more balanced sector portfolio in line with new ODA Charter directions, by focusing more investment in basic health and education services to reduce poverty.

Policy coherence

At the 2002 Ministerial Council Meeting, OECD Ministers recognized the need to bring greater coherence across a wide range of policies that impact on developing countries. Among the policies, trade and agricultural policy issues became the most urgent as a result of the Doha Development Agenda for negotiations at the WTO. Japan has promoted FDI into the Asian region, based on its view that economic growth is the main driver of development. The private sector role in FDI is facilitated by the Japanese government, using both ODA and non-ODA funding. The Japanese government is negotiating regional economic co-operation agreements and Free Trade Agreements, which are expected to be mutually beneficial to Japan and its partners. Japan is also carrying out capacity building activities, particularly in the APEC countries. Furthermore, JBIC has recently developed environmental guidelines for borrowers using ODA loans or export credits, which encourages coherence between the two instruments. At the same time, Japan needs to establish a system for monitoring compliance with codes of conduct by the private sector, covering social, environmental and governance issues.

Japan imports 60% (by calorific value) of its food and is the largest net food importer from developing countries. It does not provide export subsidies for agricultural products. Agricultural policies have addressed the decline of Japanese agriculture by promoting rural development, preserving the landscape and securing Japan's food supply, which are characterised as the "multifunctionality of agriculture." There are still import barriers to agricultural products, including high tariffs on rice, tariff escalation on processed foods; and other restrictions such as sanitary and phyto-sanitary procedures, and state management of certain agricultural products. Based on *Agricultural Policies in OECD countries: Monitoring and Evaluation*, (OECD, 2002), Japan's support remains among the highest in the OECD countries and is dominated by the most production and trade distorting measures. These barriers and restrictions make access to the Japanese market difficult for developing and other countries. To address the problems of LDCs, however, Japan has proposed an initiative for enhancing the Generalized System of Preference scheme. It covers 2 287 duty-free and quota-free products from 47 LDCs, including 436 from agriculture, forestry and fisheries. At the same time, significant challenges of market access remain for some commodities that are excluded from the scheme, notably rice and sugar.

The ODA Charter and institutional arrangements for co-ordination among ODA related institutions provide opportunities for enhancing policy coherence, but there is a need for an explicit government-wide statement on policy coherence for development so that the public is made more aware of the issues. There is a risk of incoherence if officials promote domestic interests at the cost of development of developing countries. Japan appears to do relatively little analytical work on policy coherence for development issues (a notable exception is a research programme with the OECD on East Asia) and should give attention to this issue. In this respect, MOFA, given its co-ordinating role, could take leadership in enhancing the capacity of the Japanese system to analyse policy coherence issues. Rather than promoting particular interests, MOFA could facilitate discussions on policy

coherence for development, including the possible long term mutual benefits to Japan's consumers and taxpayers as well as developing countries.

Recommendations

- The government of Japan should make a policy statement on coherence for development and seek ways to educate the public on this issue.
- The Japanese government should enhance analytical capacity on policy coherence for development in order to improve its ability to take appropriate policy decisions.
- Japan should establish a system for monitoring the environmental, social and governance aspects of FDI and of regional economic co-operation agreements.

Aid management and implementation

Important initiatives for the reform of ODA operations began in 2002 and have led to a variety of new options for future Japanese development co-operation, including pilot work at the field level in Vietnam and Tanzania. The current Japanese ODA management system is actually a locally co-ordinated network of separate ODA administrations. MOFA now plays a core role within the ODA organisational hierarchy, over which it was accorded the *de jure* responsibility for co-ordination in 2001, in addition to its responsibilities for policy formulation and provision of grant aid. Of the two implementation agencies, JICA undertakes about half of Japanese technical co-operation. The other agency is JBIC, which was formed in 1999 as the result of a merger of the former OECF and JEXIM. JBIC constructed an administrative firewall between the two functions of ODA loans and export credits, the administrative units for which report separately and maintain different sets of procedures. The Ministry of Finance also has an ODA role, mainly by passing funds to JBIC and through its liaison responsibilities with the IFIs. In addition, there are about 10 different ministries responsible for ODA operations, most of which is technical co-operation.

Within MOFA, the Economic Cooperation Bureau has responsibilities for ODA policy formulation, inter-agency co-ordination, and grant aid management. Bureau operations are largely organised around instruments (operation of grants and supervision of loans and technical co-operation) rather than on a country basis, which raises the issue of how to relate with the other geographic bureaus, the implementation agencies, and the field. The fact that Japan is now putting in place a country strategy and country-based team approach should help MOFA to move more rapidly to a more decentralised operational system. Also of particular interest to the future efficiency of Japanese ODA management is the division between grants and technical co-operation, both of which are so operationally related that the distinction between them often appears artificial. Operationally, the separate administration of MOFA grants and JICA technical co-operation can lead to transaction costs and difficulties in maintaining the linkage between strategy and implementation, not to mention confusion among development partners. To enhance system complementarity and synergy, the entire sequence of project planning and implementation of both grants and technical co-operation could be delegated to an experienced developmental agency like JICA. Such an arrangement would offer MOFA the advantages of ending its operational role and redistributing its limited resources toward the priority mandate of system co-ordination, strategy and policy development.

At the time of writing, Japan had a total staff level of 2 097 development professionals to manage its worldwide portfolio of USD 9 billion, an estimated 668 of whom were located in the field. Japan continues to be one of the more thinly-staffed systems among DAC members. Its overall human resource capacity is further reduced by the fact that MOFA development staff and those seconded by

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other ministries rapidly rotate out of development co-operation. As regards training, there is currently no requirement for specific experience or substantive formal development training for MOFA officials who work on development co-operation. MOFA is encouraged to consider establishing a career track in the “development” category, so as to attract and maintain high level staff that will be needed to carry out the current Ministry mandate in strategic co-ordination and policy.

Japan’s highly centralised administration and the special interests of the different ODA institutions have created bureaucratic obstacles to operational decentralisation. However, Japan is now slowly moving towards greater decentralisation through a new ODA Task Force team concept. The ODA Task Force is an all-Japan co-ordinating body in the field that can foster internal Japanese co-ordination around a common vision and build synergies among agencies dealing with grants, technical co-operation and loans. Japan is now testing in Vietnam and Tanzania the use of such an ODA field team to design the country strategy in a manner consistent with locally-owned national approaches, such as the PRSP. Nevertheless, Japan currently lacks a country-based budget approach, which would make its work more efficient and more easily understandable for its partners. It will be important to retain the current flexibility to respond to sudden needs. Although Japan continues to organise its programmes mainly on a project basis, it remains open to whatever modality seems to make the most sense, including sector programmes.

Concerning harmonisation policy, Japan is globally supportive of the harmonisation of its implementation procedures with other partners and has played a lead role in pilot loan harmonisation activities in Vietnam and elsewhere, and is Vice-chair of the DAC’s Working Party on Aid Effectiveness. At the same time, the practice of tying ODA grants to Japanese primary contractors, despite the extensive use of non-Japanese sub-contractors, remains under discussion in the context of the 2001 DAC Recommendation on Untying ODA to the LDCs.

Recommendations

- Japan should consider moving away from an instrument based co-operation system to a more country based approach, as well as establishing country budget envelopes. Japan should replicate more broadly its decentralisation pilot efforts, such as that of Vietnam and Tanzania, with special emphasis on an effective use of a country-based, all-Japan team and strategy approach.
- The Ministry of Foreign Affairs should consider delegating most grant management to the Japan International Cooperation Agency and focusing its energies on strategy, policy development and system co-ordination.
- More development co-operation staff are needed across the system, particularly if decentralisation is to succeed. An integrated ODA personnel policy should be established that includes planning and analysis of development staff levels and skills.
- Japan should work with the DAC on identifying concrete measures to progressively untie the use of grant funds for primary contractors in the spirit of the Recommendation on untying ODA to the least-developed countries.

CHAPTER 1

NEW DEVELOPMENTS AND OVERALL FRAMEWORK

New developments

Japan's development co-operation programme has undergone major reforms and significant restructuring since the last Peer Review in 1999 (see Annex I). Perhaps most importantly, its Official Development Assistance (ODA) Charter was revised to reflect changed domestic and international circumstances (see Annex II). In addition, the legal status of the Japan International Cooperation Agency (JICA) – which undertakes technical co-operation – was changed in October 2003 to make JICA more autonomous. The former Overseas Economic Co-operation Fund (OECF) – which manages the ODA loans – and the Export-Import Bank of Japan (JEXIM) were merged into the Japan Bank for International Cooperation (JBIC) in 1999. Other reforms include making the Ministry of Foreign Affairs (MOFA) the *de jure* co-ordinating body for the diverse implementing institutions of ODA; strengthening other co-ordination mechanisms; establishing decentralisation, and increasing transparency by facilitating participation of the public and non-governmental organisations (see Chapters 5 and 6).

In the international arena since 1999, Japan has played a leading role in fostering new initiatives and in hosting major conferences on development issues, including the initiatives for Human Security, and Consolidation for Peace (see Chapter 3), the Initiative for Development in East Asia – IDEA – and the Tokyo International Conference for African Development – TICAD (see Chapter 2). Japan's pro-activeness in organising these forums has been welcomed by all members of the Development Assistance Committee (DAC).

Japan's aid reforms, particularly revision of its ODA Charter, reflect, in part, increasing public concern regarding the efficient and effective use of aid, especially in light of reports of misuse of MOFA resources; the economic recession; the size of the fiscal deficit; and rising unemployment. All of these factors led to a decline in public support for ODA, as well as specific reductions in the ODA budget. As a result, in 2001, for the first time since 1992, Japan lost its position as the largest bilateral donor, in volume terms, and is now the second largest donor after the United States. Japan was also one of the few DAC members that did not pledge to maintain or increase ODA at the 2002 International Conference on Financing for Development in Monterrey. On the other hand, Foreign Direct Investment (FDI) has picked up, particularly to East Asia, indirectly due to the tied Special Yen Loan Facility (see Chapter 2).

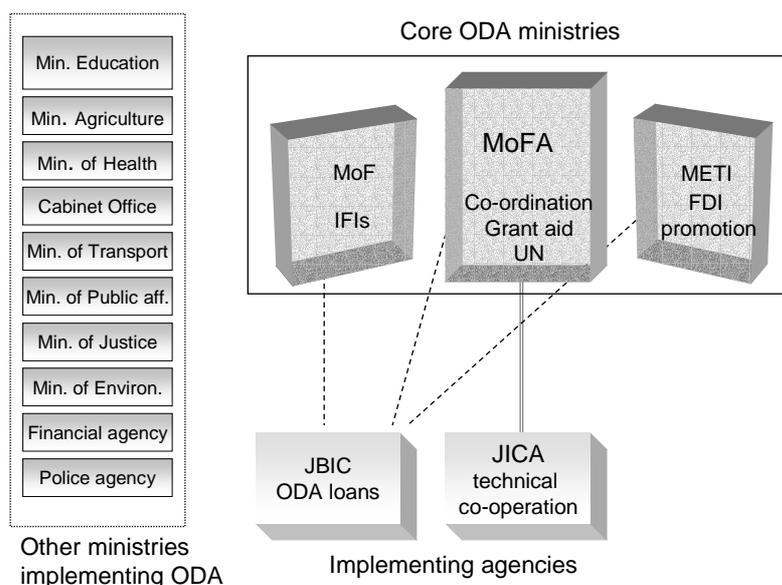
Overall aid administration structure

The overall structure of Japan's ODA administration has changed little since the last Review.¹ MOFA now has a *de jure* as well as *de facto* co-ordinating role, although it consults with the Ministry of Finance (MOF) and Ministry of Economy and Trade and Industry (METI) on ODA loans. MOFA remains the supervisory ministry for JICA and co-ordinates the ODA-related efforts of at least ten

1. Except the Economic Planning Agency was merged into the new Cabinet Office.

other ministries and agencies that implement ODA programmes (see Figure 1). In that respect, Japan's aid system remains one of the most dispersed and complex among DAC members, which presents clear challenges for co-ordination. Japan also maintains separate programmes for ODA loans, grants and technical co-operation. Some options regarding rethinking of roles within the ODA architecture are explored in this Review (see Chapters 3 and 5).

Figure 1. Japanese co-operation system



Source: OECD

The new ODA charter

In August 2003, Japan revised and updated the 1992 version of its ODA Charter. Although it was not approved by the Diet (Parliament), and thus does not have the force of law, the Charter was approved by the Cabinet, and thus forms the policy basis of Japanese ODA. The objective of the revision was to address new development challenges as well as to strengthen support for ODA and to make it more strategic, efficient and transparent. The year-long revision process was participatory and consultative with aid agencies, academia, civil society, and ordinary citizens involved. An ODA Comprehensive Strategy Board² was established and formal comments were submitted by the Liberal Democratic Party, Japan Federation of Economic Organisations (Keidanren) and non-governmental organisations (NGO) groups.

2. Established in June 2002, the Board's mandate is to strengthen MOFA's role in co-ordinating related agencies and to ensure further transparency in ODA operations. It consists of 18 members, including the Minister of Foreign Affairs as the chairperson and 17 members with representatives from academia, NGOs, press and the development and financial sectors.

In the Charter, the objectives of ODA are stated as “to contribute to the peace and development of the international community, and thereby to help ensure Japan’s own security and prosperity”. Other benefits to Japan through provision of ODA are mentioned as “promoting the welfare of its people”, “promoting friendly relations and people-to-people exchanges with other countries”, “strengthening Japan’s standing in the international area”, and “gaining sympathy and support from the international community for Japan’s position”. For Japan, as for other DAC members, ODA is an integral part of its foreign policy. Asia will remain the priority region since it has “a major impact on Japan’s stability and prosperity”. Although the term “national interest” is not used in the Charter, this concept has so far featured prominently in the Japanese aid programme, not necessarily in terms of direct economic benefits, but also through sharing Japanese experience and expertise, raising visibility of Japanese presence (“showing Japan’s face”), as well as ensuring national environmental protection and security.

There is a perception that Japan has at times used its development assistance also for various purposes other than those directly related to development. This should be seen in the context of the DAC definition of ODA – which Japan has agreed to – stipulating that the primary objective of ODA must be for the development of the recipient country. Moreover, gaining benefit for Japan does not appear to reflect the general sentiment of the Japanese public which considers that the objective of ODA is for the benefit of developing countries (see Box 1). All DAC governments, including Japan, need to be vigilant that narrower national interests do not supersede the objective of development of recipient countries.

The Charter’s principle for ODA implementation, which includes environmental conservation, non-military use, attention to recipient countries’ military activities, and democracy and human rights, remains basically the same as the 1992 version. At the same time, the last Charter has been applied in such a way as to allow the provision of aid to nuclear powers such as India and Pakistan (suspended in 1998 when both countries carried out nuclear weapons tests), one-party states such as China and Vietnam, and to military regimes such as Myanmar (though it is understood that Japan stopped funding new ODA projects in Myanmar in May 2003, in view of that country’s human rights situation). In 2001-02, over a third of allocable bilateral gross ODA was disbursed to these countries. How the new Charter would affect funding levels to these countries remains to be seen.

Basic policies in the Charter introduce new concepts such as “human security” which focuses on the protection and empowerment of individuals, and “fairness”, which addresses gender issues and the gap between the rich and the poor. Japan has hitherto been relatively reticent in applying these two concepts in its aid programme, and their future mainstreaming will be of interest. The new Charter also expresses more willingness to collaborate with the international community, which includes multilateral organisations, other donors, NGOs, and the private sector. While Japan’s position towards self-help efforts and respect for ownership through request-based proposals remains the same, the new Charter states the need for more active engagement in policy consultation before requests are made by developing countries. This may somewhat change the current approach of deciding on projects predominantly based on the request of the recipient country (see Chapter 3).

The Charter also calls for active engagement in policy dialogue; strengthening field missions; increased participation of civil society and the public; increased development expertise; promotion of intellectual assets in development; enhancement of development education; and transparency. These are positive directions which could improve the quality of Japanese aid significantly. While the Charter promotes enhanced synergies and collaboration within the aid system (termed “coherent”), the term “coherent” here does not mean “policy coherence for development” of non-aid policies. Japan could do more in this area, starting with a clear policy statement on policy coherence for development,

establishment of a system to enhance analytical capacity on coherence, and the creation of a mechanism to monitor environmental, social and governance guidelines in FDI (see Chapter 4).

In the Charter, poverty reduction is listed as one of four priority issues, the others being sustainable growth, global issues, and peace-building. Here, poverty reduction is not clearly stated as a cross-cutting issue but would be primarily addressed through direct forms of intervention such as education, health, water, sanitation, and agriculture. While mentioning that sustainable economic growth is indispensable for realising poverty reduction, the Charter treats sustainable growth as an independent priority issue in itself, not necessarily leading to the objective of poverty reduction.

In practice, Japan has yet to develop a system to mainstream poverty reduction in development co-operation, although its treatment varies widely depending on the three main aid implementing organisations (see Chapter 3) and there is some exchange of views among them. Japanese officials state that economic growth is an important means for poverty reduction. Past emphasis on economic growth has not always taken full account of the poverty reduction dimension, and Japan could usefully contribute to better documenting the relationship between economic growth and poverty reduction. Japan's promotion of economic growth is important in the international debate, but its links with poverty reduction could be clearer. While the ODA Charter recognises the common development goals of the international community, the achievement of the Millennium Development Goals could be further elaborated in a statement of strategy.

The Diet and other advisory bodies

Although legal, the Japanese Diet's influence over aid issues is generally limited to the approval of the ODA general budget, there has been growing political involvement in ODA matters. The Diet is increasingly raising questions, especially after recent revelations of misuse of funds by MOFA officials and certain politicians. It has also become more critical about Japan's substantial aid to China (see Chapter 2), especially in view of the latter's expanding economy and its effect on Japanese industries. In addition, the Diet requires MOF to consult on issues such as contributions to the Multilateral Development Banks (MDBs). The Cabinet also approves the list of ODA projects every few months, although this is more or less a formality.

On a more selective basis, the Diet Committee on Foreign Affairs and Defence which handles ODA issues, has promoted, for example, the delivery of medical supplies by NGOs to Kurdish refugees and the dispatch of the Self Defence Force to Iraq for humanitarian aid. The Liberal Democratic Party's ODA Reform Working Team also submitted a recommendation concerning the new ODA Charter before finalisation. Furthermore, some politicians pressure MOFA to try and intervene in project selection for their visiting or favourite countries or sectors. Special lobby groups such as the construction industry also try to mobilise Diet members to act on their behalf.

Japan has created several ad hoc groups consisting of a wide range of representatives from aid agencies, academia, mass media, NGOs, and the private sector to advise on various ODA matters. Examples include the Second Consultative Committee on ODA Reform³ and the ODA Comprehensive Strategy Board. Other specialised advisory groups include those on ODA Country Assistance Strategy, which reviews Japan's country strategies, and on ODA Grant Assistance, which reviews all grant proposals before submission to the Cabinet. There are many positive aspects to wide participation and

3. To follow up the discussion held by the First Consultative Committee of ODA Reform, MOFA established a second external committee where intellectuals discuss necessary changes in ODA for better use of limited resources. The committee is composed of academics, journalists and financial specialists.

transparency, including wider public understanding of ODA matters and increased accountability. On the downside, the burden of managing the consultative process by the already understaffed aid agencies (see Chapter 5) cannot be overlooked. Furthermore, with such wide representation, there may be a tendency for discussions to result in “constructive ambiguity”.

Public opinion

There is clearly a sign of aid fatigue among the Japanese population. According to the opinion polls of the Cabinet Office, which have been conducted annually since 1977, there is a noticeable decline in the proportion of people who believe that ODA should be augmented (41% in 1991 to 19% in 2002) and an equally clear rise among those who feel that ODA should be reduced (8% to 24%) or even abolished (1% to 5%). Although the proportion of those who responded that “the current ODA level should be maintained” has remained relatively constant at around 45%, the trend regarding the two extremes is worrisome. There was a slight increase in ODA support in 2001, attributable to the post September 11 effect, but it was not sustained in 2002.

Among those who preferred reduction or abolition of ODA, 75% attributed their choice to the deteriorated economic situation in Japan⁴ and 44% mentioned fiscal deficit - both slight increases compared to 2001. However, there were substantial increases in those who cited lack of transparency (27% in 2001 to 41% in 2002), unsatisfactory achievements (24% to 31%) and inefficiency (11% to 17%), which indicate that the public is becoming disappointed and critical regarding the effectiveness of the aid programme. At the same time, the commercial sector has become less supportive of aid. On the other hand, another survey shows that the public is supportive of humanitarian efforts and responding to crises (see Box 1), which indicates a possible disconnect with the ODA Charter. Surveys by the Ministry of Agriculture, Forestry, and Fisheries (MAFF) also show the public’s increasing interest in environmental issues.

Box 1. APIC Opinion Survey

The Japanese Association of Promotion for International Co-operation (APIC) carried out a survey on ODA in 2002, which showed that the public seemed to be more humanitarian minded and less concerned with national interests. Of those who were positive about ODA, only 15% (see footnote 4) responded that ODA should be for Japan’s benefit - to enhance friendship with developing countries, increase understanding of Japan by the developing countries, or secure food and energy. More than 56% considered it necessary for humanitarian reasons, 50% to help the economic development of developing countries, 31% to help world peace, and 15% as an obligation of an economically powerful country. Regarding regional preferences, 43% responded Asia and 24% Africa - compared to the actual disbursement of bilateral aid (75% Asia and 10% Africa). Preference for Africa is most likely due to humanitarian reasons.

The survey also showed that efforts on development information did not seem to be wide-reaching. Fifty-five per cent of respondents answered that they were not familiar with ODA whereas 44% were. Even those who were familiar had the misconception that ODA was mostly about the Japan Overseas Co-operation Volunteers, supporting NGOs, as well as activities in basic health and education, which are minor components of the Japanese aid programme. Generally, the public obtains information on ODA from the media, particularly TV programmes and newspapers.

Development information and education

Numerous official aid organisations continue to make substantial efforts in development education. APIC, which is subsidised by MOFA, runs an information centre to provide materials on

4. Respondents were allowed to choose multiple answers.

development co-operation in Tokyo and jointly with 40 local administrations throughout Japan. MOFA's annual ODA report also remains the most comprehensive among the DAC members⁵. At the same time, APIC's survey shows that the public is generally unfamiliar with ODA issues, has misconceptions of the bilateral aid programme, and does not usually obtain information on development issues from these public materials (see Box 1). Japan could carry out a comprehensive assessment of its development information activities so as to enhance support and appropriate understanding of ODA by the public.

Japan does not have a long-standing history of private humanitarian or philanthropic aid towards other countries (in comparison with its 50-year history of official development assistance). The NGO sector in Japan is young and small (see Chapter 5). Strong ODA supporters were hitherto mostly in the commercial sector, which started to wane as Japan untied its aid in the 1980s. Some critics say that since then, the government has not really managed to replace this support by capturing the wider public's interest in ODA matters.⁶

On the other hand, in the last decade, many academic courses in development co-operation at undergraduate and post-graduate levels have been established. This movement has been a response partially to the growing interest in development issues by Japanese adolescents who grew up in the relatively affluent period of the 1970s to the 90s that led them to broaden their views on the less fortunate parts of the world. The Kobe earthquake of 1995 is also said to have raised the interest of the youth in helping others in crisis and need. A major progress is Japan's decision to incorporate development education in elementary to junior high school curriculums, which was a recommendation by the Second Consultative Committee on ODA Reform. With better understanding of development and global issues from early formative years, it is hoped the students will become the future supporters and participants of Japanese and international development co-operation efforts.

Future considerations

- In implementing the ODA Charter, Japan should highlight that the primary objective of ODA is the development of the recipient country and ensure that narrower national interests do not override this objective.
- Japan could consider setting out a plan to inform the Japanese public of the policy and operational implications of the new ODA Charter, especially in light of the interest in increased aid effectiveness.
- Japan should assess its development information activities so as to enhance support and appropriate understanding of ODA by the public.

5. It serves as a best practice report that includes a wide range of data and topics from ODA general budget and disbursement details, descriptions of activities in regions, countries, and sectors, chronology of events, various DAC data, as well as ODA descriptions of other DAC Members. JICA and JBIC also publish various reports and informational materials, respectively.

6. Mitsuya Araki, "Who will Cheer for ODA?: Thoughts on the ODA Support Base for the Future" (In Japanese. OECD translation of title), *International Development Journal*, February 2003, p 6-7.

CHAPTER 2

AID VOLUME, CHANNELS AND DISTRIBUTION

Official development assistance volume and the economic situation

In 2002, Japan's net ODA volume was USD 9.3 billion and ranked second among the 22 DAC member countries. Since the previous Peer Review, Japan conceded to the US its status in 2001 as the largest bilateral donor, a position it had held since 1992. While Japan's net ODA accounted for 25% of total DAC ODA in 2000 (the highest figure), this proportion is now reduced to 16%. In terms of ODA/GNI ratio, Japan recorded 0.23% and was the 5th lowest among the DAC countries (see Figure III-1). In terms of per capita ODA contribution, however, with USD 97, Japan ranked 7th and was the highest among the G7 countries in 2000-01.

The continuing recession, following the burst of the economic bubble in 1990, has had an effect on the gradually declining trend of the ODA budget and net ODA disbursement. The difficult economic situation is inevitably causing challenges to organisational resources as well, such as administrative costs, staffing, and decentralisation. The exception to the decline is between 1997 and 2000 when Japan increased ODA in order to respond to the problems of the Asian Crisis (see graph in Table III-1). The short-term increase, however, was somewhat offset in 2001 when the Asian Development Bank (ADB) returned to Japan approximately USD 3 billion of the unutilised special fund⁷ that Japan had contributed from 1999, which was deducted from ODA flows.

Although Japan subscribed in 1970 to the UN target of 0.7% ODA/GNI ratio, this has long been put aside. The highest that Japan has ever achieved was 0.34% in 1984. At the 2002 Monterrey Conference, Japan was one of the few DAC members which did not pledge to maintain or increase ODA volume and the ODA/GNI ratio. With loan repayments steadily increasing from developing countries and amounting to USD 2.9 billion in 2002, Japan may have to further increase the ODA budget to maintain current net ODA disbursement levels. At present, there is no visible evidence to suggest that ODA budgets take into consideration expected repayment amounts from developing countries and the government does not disclose repayment projections to the public. According to MOFA's projections regarding Japan's ODA in 2006, Japan's ODA/GNI ratio may drop to between 0.14% and 0.21% and its ranking in ODA volume may become fourth or fifth among the DAC members.⁸ According to the aforementioned APIC opinion survey (see Box 1), the public regards the

7. Asian Currency Crisis Support Facility.

8. Under the scenario of (a) no increase or decrease; (b) 5% decrease annually; or (c) 10% decrease annually, the ODA/GNI ratio could be: (a) 0.21%; (b) 0.17%, or (c) 0.14% in 2006. Assuming that other DAC members keep their commitments of ODA increases made in various forums, MOFA projects that Japan's ranking in terms of ODA volume will become fourth amongst the DAC with scenarios (a) and (b) and fifth under (c). Source: MOFA paper presented to the ODA Comprehensive Strategy Board.

current ODA/GNI level and ranking to be appropriate and does not see the necessity of Japan being a leading donor like the US and certain European countries.⁹

Japan's economy is still in a serious deflationary state with recovery being narrowly based on exports and inventory correction. There is also continuing weakness in the labour market, which is restraining consumption growth. However, the economy recovered from negative growth by the end of 2002, and market consensus suggests that the growth rate could reach 2% for 2003. Furthermore, although the fiscal budget was cut 4.4 % between 2000 and 2002 in order to reduce the current large deficit, the 2003 budget remained the same as 2002. Therefore, given the state of its economy and fiscal situation, at least maintaining the current ODA level seems possible.

Bilateral aid

Loans

A prominent feature of Japanese bilateral aid is its large proportion of loans, which are concessional and administered by JBIC. In 2002, of bilateral ODA, the distribution was as follows: 55% loans¹⁰ (see Table III-2, although the percentages in the table are of total ODA and not of bilateral ODA), 19% technical co-operation, and 27% non-technical co-operation grants. Japan's proportion of loans was by far the largest among DAC Member countries – the loan share in Total DAC ODA was 19%, and would have been 8% without Japan. Although there has not been a noticeable proportional decrease for Japan since the last Review (56% in 1998), over the long run, it has decreased from a peak of 82% in 1975. The number of loan recipient countries has also decreased from a peak of 62 countries in 1989 to 52 countries in 2002. The proportion of loans in bilateral ODA differs according to geographical regions, for example, Asia had 71% loans while Sub-Sahara Africa (SSA) had only 10% in 2001. SSA had a higher proportion of loans peaking at 81% of bilateral ODA in 1975. There are also differences in loan provision according to income levels. In 2001, the share of loans in bilateral ODA was: 75% to Other Low Income Countries, 57% to Middle Income Countries; 10% to the Least Developed Countries (LDCs) and 0% to High Income Countries. JBIC has ceased providing loans to African LDCs since 1997.

Japan's reasons for focusing on loans is mostly due to its own experience of having had borrowed credit from the World Bank for its post-war reconstruction. It considers that loans promote "self-help efforts" that respect more ownership of the recipient country as opposed to grants that have no obligation of repayment. Loans could also finance large scale infrastructure projects which would be more difficult to justify with grants. Furthermore, although the loans are substantially concessional (over 70% grant element), they would be of less burden to the Japanese tax payers. Loan projects also tend to comply with the priorities of the recipient governments as they are selected more carefully. For example, in Indonesia, the Parliament has to approve loans whereas it does not for grants.

The ODA loans are normally untied. This is to be complimented since untied aid is generally considered to be more cost effective and allows for greater partner country ownership and for harmonisation of donor procedures. However, Japan established a short-term tied Special Yen Loan facility from 1999 to 2002 which aimed to help the countries that were affected by the Asian crisis and

9. Asked what they thought of Japan's ODA/GNI ratio of 0.23% in 2001 and the fact that Japan was 18th out of 22 industrialised country donors, the responses were: 48% appropriate, 19% too low, 10% should be lower, and 23% didn't know. Asked what ranking Japan should have in terms of ODA volume, 31% responded 4th, 17% 3rd, 12% 1st and 35% didn't know.

10. Called "non-grant bilateral ODA".

to simultaneously assist the ailing Japanese economy. They were used mainly for three priority areas: the establishment of infrastructure for an improved flow of goods (roads, ports, airports, bridges, railways); the strengthening of the production base (power stations, irrigation, natural gas pipelines, water supply); and counter-measures against large-scale disasters. As a result, the proportion of tied or partially tied ODA loans were 27% in 1999, 34% in 2000, 41% in 2001, and that fell back to 4% in 2002 on a commitment basis.¹¹

Debt relief

As a result of providing large amounts of loans, up to the end of 2002, the ODA debt owed to Japan by all developing countries amounted to USD 97 billion (including USD 8 billion to LDCs). This amount was over four times more than that of the second largest ODA creditor, Germany, at USD 22 billion. In general, Japanese officials expect loan recipient countries to repay loans punctually, as Japan did to the World Bank, and consider unconditional debt relief to cause “moral hazard”. Since most of the loans are generated from a separate source from the ODA’s general budget, namely, from the Fiscal Investment and Loan Programme, whose source is predominantly the postal savings account, it also makes debt relief somewhat difficult due to administrative and accounting complications to replace the foregone repayments. Nevertheless, with the Heavily Indebted Poor Countries (HIPC) Initiative and other international efforts, Japan has been carrying out its commitments to debt cancellation for poor countries.

Japan’s involvement with debt relief is rising. In 2001-02, this amounted to USD 1.3 billion or 13% of bilateral ODA, which was an increase from 4% in 1991-92 (see Table III-5). Between 1999 and 2002, Japan committed debt relief (including rescheduling) to 37 countries, particularly the following countries and amounts: Indonesia USD 1.3 billion, Pakistan USD 1.0 billion, Bangladesh USD 660 million, Tanzania USD 405 million, and Bolivia USD 334 million. During the same period, Japan continued to disburse the following amounts of loans to most of these countries: Indonesia USD 4.1 billion, Pakistan USD 804 million, Bangladesh USD 435 billion, and Bolivia USD 21 million.

Japan is committed to cancel all the HIPC claims when the debtor countries reach the Completion Point in the Enhanced HIPC Initiative. It has also contributed USD 256 million to the HIPC trust fund of the World Bank. Aside from ODA debt, HIPC countries owe Japan Other Official Flow (OOF) debt which include commercial debt. Under the HIPC Initiative, Japan has cancelled all these commercial debts in recent years, although it does not report the distinction between ODA and OOF debt cancellation to the DAC. For example, this amounted to about USD 360 million to Tanzania in 2000 and 2001, which were for Japanese commercial loans provided from the mid-80s and early 90s that were insured by METI [now by the Nippon Export and Investment Insurance (NEXI)] (see Chapters 4 and 6). The original contracts insured by METI were primarily for exporting vehicles, steels, and various machines by Japanese trading companies to the Tanzanian government or to a state corporation. While these contracts are commercial, the debt relief uses tax payers’ funds and is counted as ODA. At the same time, although the ODA Charter requires increased transparency, the Japanese government does not publish detailed information regarding the contractor due to business confidentiality rules. Japan is encouraged to carry out lessons-learned in having provided non-ODA loans and credits to poor countries that resulted in using public funds to relieve the debt.

Some aid officials realise that it is important to pay more attention to the debt sustainability of poor countries. Although Japan’s lending is based on its own experience of reconstruction, its post-war

11. *Source:* MOFA.

Peer Review of Japan

foreign debt service ratio to exports did not exceed 4%.¹² That of some other DAC members was also low.¹³ By contrast, Japan continues to lend to countries that have debt service ratios between 8% to 27% (e.g. Vietnam 8%, Bangladesh 9%, Sri Lanka 10%, India 13%, Philippines 14%, Thailand 16%, Indonesia 25%, Uzbekistan 26%, and Pakistan 27%).¹⁴ However, it can be noted that Japan has been a lender to some countries which have experienced rapid development and graduation from aid though their debt-service ratios were high: Korea 32% (1987); Malaysia 25% (1988). Japan's position is that it provides ODA loans to developing countries that it does not consider are facing debt repayment problems and that debt relief will be arranged within the framework of the Paris Club when debt repayment difficulties occur.

As described in the last Review, regarding HIPC countries and some eligible poor countries, Japan provided debt relief by first making the debtor country pay the amounts due and then giving an equivalent amount in grants. This was an attempt to enable the recipient country to maintain integrity and minimise the moral hazard. However, there was criticism over the cumbersome nature of the procedure for the recipient country, particularly in preparing the foreign exchange, for what ultimately resulted as financial equivalence. In response, Japan decided to change its modality to a straightforward debt cancellation like other DAC members, starting April 2003. The Japanese officials and population have had to come to terms with the fact that many developing countries do not necessarily have the same capacity as Japan in terms of ability and commitment to repay, recognising the impact of political instability, ethnic conflicts, primary commodity price declines and natural disasters. In general, although JBIC applies the IMF debt sustainability analysis, clear lessons-learned on providing loans to poor countries would seem to be essential in determining the future lending policies in Japanese co-operation.

Allocation by region and income group

In terms of substance, Japan has a regional perspective and has recently carried out some initiatives for Africa and Asia (see Box 2). In terms of quantity, Japan's bilateral regional and income level disbursements have remained more or less the same since the last Review. As suggested in the ODA Charter, the majority went to Asia at 70% in 2001 (Total DAC 39%), 11% to the Americas (Total DAC 15%), and 14% to Africa (Total DAC 33%), of which 10% was SSA (Total DAC 26%). In 2002, disbursements to Asia increased to 74%, of which most went to the Far East (see Table III-3). However, over the long term, this constitutes a reduction from 83% in 1976. With about USD 6.7 billion aid to Asia, Japan is still by far the largest donor, providing almost half of all DAC ODA to the region. Although the proportion of allocation to SSA is relatively small in real terms and has not increased despite the TICAD meetings, with its USD 722 million, Japan was the fourth largest bilateral donor to the sub-region in 2001.

The 2001 DAC High Level Meeting (HLM) statement mentions that "priority will be accorded to countries with low incomes. Some targeted assistance to other countries with a large proportion of poor people may also be provided". Although Japan has a clear policy on focusing on Asia due to geographic, economic, historic, and cultural reasons, it is yet to develop a policy regarding poor countries or specifically on the poor population. In 2001, of Japan's bilateral ODA, 16% went to

12. OECD estimate. Other data in this section are from MOFA.

13. In 1951, after World War II, Germany was asked to use 10% of its export earnings to repay the debts, but it renounced this ratio as unsustainable. Eventually, the Allies agreed on payments of 3.5% of export revenues. British repayment of debts owed to the US after World War II was capped at 4%. Source: Jubilee Research, <http://www.jubilee2000uk.org/opinion/archive/ghana.htm>.

14. *World Development Report 2002*.

LDCs (Total DAC 26%), 45% to Other Low Income Countries (Total DAC 33%), and 34% to Lower Middle-Income Countries (Total DAC 35%). Japan's disbursement to LDCs as a proportion of bilateral ODA is the fourth lowest among the DAC. The top ten recipients of Japanese ODA for 2001-02 were China, India, Thailand, Indonesia, Philippines, Vietnam, Bangladesh, Pakistan, Sri Lanka, and Brazil (see Table III-4); only Bangladesh was an LDC. However, six were Low Income Countries and the list includes the world's top five countries with the most number of absolute poor. In addition, Japan figured as the largest donor in 54 countries and as the second largest donor in 27 countries. Among African countries, Japan was the largest donor in seven countries. Japan could usefully clarify its policy on how it intends to focus on poor countries or the poor populations within countries.

Box 2. Examples of Japan's recent initiatives and conferences

TICAD: Japan hosted TICAD III in September 2003, a decade after the first conference. TICAD I contributed to raising the challenges of African development when many donors were shifting their assistance to post Cold War Eastern Europe. TICAD II adopted the "Tokyo Agenda for Action", a comprehensive strategy based on Africa's ownership and international partnership, which encompasses areas such as i) social development (e.g. education, health) and poverty reduction; ii) economic development (e.g. agriculture and private sector); and iii) good governance and post conflict development. TICAD III carried out stocktaking of TICAD I and II, including exploring concrete measures to support the New Partnership for Africa's Development. In the TICAD process, Japan has been especially promoting "Asia-Africa co-operation" so as to foster linkages and knowledge sharing between the two regions.

IDEA: In 2002, Japan launched a new initiative to consolidate the experience and knowledge accumulated through the economic growth in East Asian countries. A meeting was held in Tokyo with Ministers of foreign affairs and development from 10 ASEAN countries plus China and South Korea. A Joint Ministerial Statement was issued which recognised ODA as a catalyst in promoting investment and trade. Particularly deemed useful was the appropriate combination and sequencing of various ODA schemes, such as south-south cooperation and macro-economic assistance. The synergy between IDEA and TICAD III is currently being explored in order to enhance Asia-Africa Cooperation. The second IDEA meeting is expected to be held soon.

In 2001-02, Japan had a total of 144 recipient countries, a slight decrease from 152 in 1991-92. The top five¹⁵ have not changed for a decade and, in total, receive almost half of allocable bilateral ODA, which means that Japan's country distribution is relatively concentrated and stable. In 2000, Japan was the largest donor to 54 countries (20 in Asia, 15 in Latin America, 7 in Africa, 6 in the Middle East, 5 in Oceania, and 1 in Europe) in net disbursement terms. From this point of view, further concentration of recipient countries may not be entirely appropriate for Japan, but from a management perspective – particularly with understaffing (see Chapter 5) – the need for a Japanese presence in countries receiving small levels of ODA could be re-evaluated.

ODA to China alone amounted to USD 1.2 billion or 14% of allocable ODA in 2001-02. As mentioned in Chapter 1, aid to China has recently been under increasing criticism due to the country's rapid growth. In particular, some Japanese industries have suffered from Chinese competition, which the population often considers as a factor that exacerbates the recession. As a result, the government announced in 2001 a reduction of about 25% aid to China for 2002 as well as a change in the focus of its aid from coastal to the poorer inland areas - although the latter had been mentioned during the last Review (see China Report in the 1999 Review).

15. China, India, Thailand, Indonesia and the Philippines.

Sector distribution

A consistently prominent feature of Japan's bilateral ODA in terms of sector distribution is its relatively high proportion of economic infrastructure, which amounted to 37% (mainly through loans) in 2001-02 while the Total DAC for 2001 was 15% (see Table III-5) and unweighted average of 8%. The difference is more prominent if compared with the Total DAC without Japan figure of 10% and unweighted average of 7%. In particular, the road sector followed by the energy sector took up large shares.

The second largest category was social infrastructure and services at 21% (Total DAC 33%), of which education - mostly tertiary - was the highest at 8%. In 2000-01, Japan's allocation to Basic Social Services (BSS) was the fourth lowest among the DAC members at 7% (DAC average 15%). This also contrasts with the World Summit on Sustainable Development (WSSD) target level of 20%. While pro-poor economic growth is necessary for poverty reduction, there is also a strong link between effective commitments in BSS and achieving six of the MDGs, which requires specific resource allocations.

Japan could usefully rethink the fact that only a portion of resources to the social sector is actually directed towards BSS¹⁶ which would qualify for the WSSD 20/20 Initiative. As mentioned in the previous review, Japan's allocation in the social sector tends to be directed to the tertiary levels such as universities, research institutions, urban water systems, hospitals, and so on. Sustainable development would be impossible without access for the poor to adequate services for health, education, water, and sanitation. MOFA could revisit its position regarding Japan's commitment to the Copenhagen 20/20 Initiative and consider having a more balanced portfolio in Japan's aid programme. In particular, Japan has had strong national basic education and health care systems which would seem to give it an incentive for being engaged more in the software aspects of these areas.

Multilateral aid

Although there are some references to priorities in the ODA charter, Japan is yet to develop an official and comprehensive policy on multilateral aid. Nevertheless, as a leading contributor to international organisations, Japan is endeavouring to take greater initiative and to influence the management of these organisations in the direction of its basic policies, especially in the enhancement of their effectiveness and strengthening of their financial integrity. Japan also pursues collaboration and co-operation with organisations in areas where they are especially experienced and have comparative advantages, such as assisting countries that are difficult for Japan to reach. MOFA states that the budget allocation to multilateral organisations is decided under the following criteria, although not exclusively: efficient management; role and visibility; reflection of Japanese policies in the strategy; effort to increase Japanese staff;¹⁷ and effective utilisation of Japanese contributions.

Japan is the second largest donor of multilateral aid and contributed USD 2.7 billion to various organisations in 2002. At the same time, its proportion of multilateral aid in total gross ODA has generally been lower than Total DAC average. In fact, Japan's proportion was ranked the lowest among the DAC member countries in 2001 at 19% when the DAC's unweighted average was 34%.

16. Page 228 in the 2002 ODA Annual Report (in Japanese), which states that Japan has achieved the 20/20 Initiative from 1993 to 1998, may be inconsistent with the data it submitted to the DAC.

17. Japan is one of the most under-represented countries in international organisations compared to its funding levels.

Among the UN agencies, Japan provides relatively high levels of support to agencies such as the World Intellectual Property Organization (WIPO), the United Nations Development Programme (UNDP), the United Nations High Commission for Refugees (UNHCR), the United Nations Children's Fund (UNICEF), the World Food Programme (WFP), and the World Health Organization (WHO). In 2001, Japan was the largest contributor to the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations (UN) University, WIPO and the United Nations Industrial Development Organisation (UNIDO). The head of UNESCO is a Japanese national and the UN University is situated in Tokyo. WIPO is an important organisation for Japan as it gives assistance to developing countries in respecting intellectual property, which is vital for the Japanese commercial sector. UNIDO is also a key organisation for Japan since it promotes industrial and private sector development, technology transfer and FDI.

Concerning the International Financial Institutions (IFIs), Japan sees that these institutions have advantages in donor co-ordination and policy advice based on their wealth of experience, technical knowledge, and political neutrality. Japan tries to actively contribute to their activities, utilise their policy dialogue and aid co-ordination functions in its bilateral programme, and also have Japan's ODA policies and development philosophy reflected in their activities. Some examples of collaboration include support to the Asian financial crisis, Afghanistan reconstruction, and the report on the East Asian Miracle. As for the regional banks, Japan has clear preference for the ADB, but also contributes to the African Development Bank and the Inter-American Development Bank (the share of Japan's contribution is as follows : ADB 15.8%; EBRD 8.5%; AFDB 5.5%; and IADB 5.0%).

Domestic co-ordination on multilateral aid issues is improving. The MOF, which is the lead ministry for the IFIs, co-ordinates with MOFA on positions to take at the board meetings. MOF also meets with NGOs regularly to discuss, for example, Japan's positions on policies and projects of the IFIs and other macro-economic issues. In the Executive Board of IFIs, MOFA and JBIC staff are being seconded to provide technical support to assist the executive director sent from MOF. As for co-ordination with other DAC members in multilateral aid, there seems to be some scope for enhancement, as Japan has had a tendency to remain independent. Japan could try to join forces with other like-minded members, and help further shape discussions on issues such as on economic growth, infrastructure development, and the promotion of the private sector.

Future considerations

- Japan should make every effort to increase ODA levels as economic conditions improve, building broad-based public support to facilitate this.
- Lessons learned from the provision of loans to indebted poor countries that resulted in large debt relief should be factored into future lending policies.
- The development of a clearer policy on how Japan intends to focus on poor countries and poor populations within countries should be considered.
- Japan should revisit its definition and practice of support for Basic Social Services, which includes only basic health and education and poverty-focused water systems, as opposed to tertiary and urban level support which Japan is predominantly supporting in the social sector.

CHAPTER 3

SECTOR PRIORITIES AND POVERTY REDUCTION

Sector priorities

The overarching framework of Japanese sector priorities is the ODA Charter, from which a hierarchy of strategies cascade down through the Medium Term Policy, country programming, sector-specific initiatives and to detailed project design (see Chapter 5). The Charter shapes the new vision of Japanese sector priorities into the following issue areas:

- Poverty reduction (education, health, water and sanitation, agriculture).
- Sustainable growth (infrastructure, trade and investment).
- Global issues (environment, infectious diseases, population, food, energy, natural disaster, terrorism, drugs, organised crime).
- Peace-building (conflict prevention, emergency assistance).

In contrast, the current statement of Medium Term Policy on ODA (1999-2004) established a priority for sectors under seven broad themes, ranging from poverty alleviation to debt relief. In recent years, Japan has also attempted to use its ODA to flexibly address emerging global challenges and Japanese domestic perspectives, usually multi-sector in nature. They include the Koizumi Initiative on Sustainable Development, the Consolidation of Peace Initiative, Human Security (see Box 3), the Okinawa Initiative on Infectious Diseases, the Environment Conservation Initiative for Sustainable Development, the Initiative for Japan's ODA on Water, and Japan's Comprehensive Co-operation Package to Address the International Digital Divide. This multiplicity of sector themes and initiatives sponsored by Tokyo leadership also has had the side effect of further dispersing the operational focus of Japanese ODA agencies.

Box 3. Two major initiatives

Human Security: Human security is a concept that calls for the removal of various threats to human survival, livelihood, and dignity so that individuals can lead free and creative lives. Japan has promoted human security as a key issue in development co-operation since 1998, particularly emphasising areas such as poverty, health, refugees, environment or peace building. Japan played a lead role in establishing the Commission on Human Security in 2001. It also initiated a Trust Fund for Human Security to carry out UN agency projects in this area and contributed USD 170 million to it. Strategically, the “human security” concept covers many interconnected sectors and themes that overlap substantially with existing Japanese priorities. The Japanese Government has yet to elaborate a plan for mainstreaming the concept within its own bilateral ODA.

Peace Initiative: In May 2002, the Prime Minister announced Japan’s intention to “strengthen co-operation for the consolidation of peace and nation-building in countries suffering from conflicts”. Since then, this policy has become a new pillar of development co-operation and one which has already resulted in support for security, humanitarian and rehabilitation assistance in East Timor, Afghanistan, Sri Lanka, Aceh (Indonesia), Mindanao (Philippines), and Iraq. As an example of Japan’s commitment to the Peace Initiative, USD 450 million was allocated for Afghanistan after the International Conference on Reconstruction Assistance to Afghanistan in 2002 in Tokyo. The Afghanistan funds focus on infrastructure, but also support activities in disarmament, reintegration of ex-combatants, education, health, water, resettlement and gender. Japanese NGOs were provided some USD 4 million by the Japanese Government to implement emergency humanitarian activities. Japan also hosted the Donors’ Conference on Reconstruction and Development of Sri Lanka. In July 2003, the Japanese Diet passed a bill to dispatch the Japanese Defence Force to help rebuild Iraq through humanitarian and reconstruction assistance. The bill had met large opposition domestically, and from Japan’s former Asian colonies which feared the gradual re-militarisation of the nation.

As mentioned in Chapter 1, the Diet has become increasingly vocal in calling for a prioritised rethinking of Japanese ODA. Although the new Charter gives more strategic direction for the future shaping of Japanese ODA than did the 1992 version, to be effective, a more sharply defined and consistent sector prioritisation would be required through the Medium Term Policy, country strategy, sector and project level design. To move in these new directions, Japan would also need to re-examine the priority use of its ODA budget which is currently heavily oriented to economic infrastructure and other interventions that may not appropriately reflect the new spirit of the Charter priorities (see Chapters 1 and 2).

In practice, Japan has treated topics such as poverty reduction, gender, environment, and HIV/AIDS as specific sectors rather than cross-cutting issues. JICA is the exception and has developed some operational guidelines for dealing with the topics as cross-cutting issues within its own agency, such as poverty reduction (see Box 4). JBIC has treated them more as sectors.¹⁸ MOFA, which administers grants, is still at the stage of studying possible options (special units and guidelines) for its involvement. In other words, Japan has yet to develop government-wide and monitoring systems in order to mainstream these cross-cutting issues - particularly poverty reduction - throughout

18. JBIC’s main priority area (by the amount of funding) is infrastructure for economic growth, but other areas include poverty reduction, environment, global issues, human resources development, information technology, and provincial development. JBIC defines projects that target poverty reduction directly when a) the proportion of poor in the project target group is larger than the national proportion of the poor, or b) if more than half the target group is poor. In 2002, 13% of projects (in volume commitments) fell into this category. JBIC has recently issued a Handbook on Social Dimensions to address topics such as poverty reduction, health, social environment, gender, and so on, but the adherence to the guidelines is not mandatory. How to mainstream these issues throughout its ODA loan programme beyond just issuing a handbook would need to be elaborated. It has been announced very recently that the JBIC guidelines will take a proactive stance on the socially vulnerable, including the poorest, women and minorities.

the entire aid system. At a general level, Japan could better address these cross-cutting issues through a new system of inter-ministry co-ordination, described in Chapter 5. For this, MOFA, as the ODA institutional co-ordinator, has the main responsibility to ensure disciplined collaboration among all ODA actors.

Box 4. JICA: Guideline for Poverty Reduction

In accordance with the global movement towards a greater poverty reduction orientation, JICA has begun to place more emphasis on direct poverty reduction efforts. Based on the DAC's Poverty Reduction Guidelines, the Agency developed a guideline for poverty reduction in 2002 (previously there was a manual) which elaborates its basic approach. It includes facts and a definition of poverty, principles for poverty reduction, strategy, as well as steps to initiate and points to heed in implementing poverty reduction projects.

The guideline explains the multi-dimensionality of poverty following the recent international discussions. It divides the types of intervention into three categories: poverty reduction through direct aid to the poor (micro level), poverty reduction through aid to each region (meso level) and poverty reduction through engagement in specific policies (macro level). It also mentions the importance of supporting not only economic infrastructure, but also education, health care and political and social stability. The guideline clearly mentions that JICA will be actively involved in the process of developing Poverty Reduction Strategy Papers (PRSPs) and will be consistent with the strategy. It also states the importance of ensuring the reduction of income gaps. The guideline also gives detailed approaches and methods for poverty reduction in the field according to the project cycle and key issues in dealing with poverty in rural and urban areas, respectively, as well as HIV, gender and the environment.

Aside from poverty reduction, of particular importance is the cross-cutting issue of HIV/AIDS. While Japan has made major commitments to the Global Issues Initiative on Population and AIDS (USD 3 billion in seven years) and the Okinawa Initiative on Infectious Diseases (USD 3 billion in five years), it is still treating it as a discrete development challenge of funding related to the health sector, such as research, provision of equipment, counselling, and educational material development. In other words, Japan is yet to see HIV/AIDS as a cross-cutting development challenge that needs to be addressed systematically in many other areas such as agriculture, rural development, education, public administration, tourism, business development, and so on. In particular, with significant activities in road construction and transportation development, it is crucial for Japan to analyse the situation and estimate the impact of HIV/AIDS at early project design stages and ensure incorporation of measures to mitigate the spread. JBIC has assisted in developing guidelines to mitigate HIV/AIDS risks in a bridge construction project in Vietnam - these types of measures should be systematically considered in all appropriate projects. Japan is strongly encouraged to establish a mechanism for effectively ensuring a government-wide approach to mainstream the cross-cutting issue of HIV/AIDS.

Japan's approach to poverty reduction

At the High Level Meeting in 2001, the DAC members, including Japan, resolved "to ensure centrality of sustainable poverty reduction in development co-operation, particularly at country level". Japan was one of the promoters of the Shaping the 21st Century Strategy and is also officially committed to the MDGs. At the same time, poverty reduction has yet to be treated as a central objective in the Japanese aid programme, and while the MDGs are sometimes referred to, there is little correlation with projects and programmes. In the previous Charter, although poverty was referred to as a challenge in developing countries, poverty reduction was neither a clear objective nor a priority. In the new Charter, however, poverty reduction is now included as one of four priorities.

Some MOFA officials state that poverty reduction and MDGs are not the only concerns in development co-operation. Hence MOFA could clarify what else is important for developing countries

(in peaceful situations) as well as what it means for Japan to be “committed” to poverty reduction and achieving MDGs. It could also give a definition of development – how to measure it – and clarify how it could be sustainable if a large segment of poor, unhealthy, and uneducated people still exist. MOFA also mentions that countries need to “graduate”, but could elaborate on what this implies, especially since Japan still provides significant amounts of Official Aid to ODA graduated countries and territories such as Brunei, Hong Kong, Macao, and Singapore, in particular to Korea, which amounted to USD 206 million in 2000-02.

MOFA has been emphasising “economic growth” or “development” more than poverty reduction. Japanese officials often say that they are proud of having contributed to the growth of Asia, but rarely mention whether they have contributed to its poverty reduction. The DAC Guidelines on Poverty Reduction state that economic growth is important but that “it is not enough” and that “pro-poor growth” and “the quality of growth – its sustainability, composition and distribution – is equally important”. This implies that economic growth is a necessary but not a sufficient condition and that supplementary measures and prerequisites are needed in order to realistically achieve the objective of poverty reduction. As some MOFA officials and particularly JBIC and JICA staff are beginning to refer to “pro-poor economic growth”, the concept could be clearly defined and mainstreamed. As Japan holds the Vice Chairmanship of the DAC’s POVNET, it could also actively pursue this concept with other DAC members.

The DAC and partner countries are progressively recognising the importance of economic growth in poverty reduction and therefore Japan’s advocacy is a major contribution to the global debate. For example, both the Tanzanian and Vietnamese governments acknowledged the necessity of economic growth, which is reflected in their poverty reduction strategies. MOFA could substantially advance the discussion in development co-operation by focusing and linking growth clearly with poverty reduction, elaborating definitions, concepts, strategies on pro-poor growth, carrying out more empirical analysis, disseminating lessons learned from its extensive experience in Asia, and articulating what works and what does not. In particular, there are a growing number of studies and discussions among the Japanese implementing agencies, academia, and research institutions that MOFA could tap into as sources of information. As Japan aspires to take a more active role in the international aid community and in “strengthening Japan’s standing in the international arena” – mentioned in the new Charter – it could increase its influence by taking more intellectual leadership. The following are some topics that may be useful for Japan to examine in order to pursue the discussion on poverty reduction and economic growth.

Applicability of Japan’s development model

As mentioned in the last Peer Review, MOFA’s development philosophy is based on Japan’s own experience after World War II. It generally states that the nation developed itself rapidly by building infrastructure after borrowing loans from the World Bank and diligently repaying them. It therefore applies a similar principle in its aid programme, particularly to Asian countries, by supporting infrastructure development through mostly ODA loans and promoting FDI.¹⁹ However, not many Asian countries today have similar conditions as Japan did after the war.²⁰ As one indication, Japan’s

19. Frequently stated in Japan’s ODA annual reports.

20. In post-World War II, Japan had already had a relatively well educated population, strong administrative and governance structures and systems, as well as a burgeoning domestic private sector. In particular, the Japanese bureaucracy had enough capacity to clearly determine what it needed in order to reconstruct the nation. Furthermore, under the US occupation, Japan also carried out an agricultural land reform which gave small farmers land ownership and direct means to reduce poverty.

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post-war debt service ratio to exports did not exceed 4% while some of Japan's top loan recipients have ratios up to 27%, as mentioned in Chapter 2. Japan itself was also never dependent on FDI as it had its own capital and other domestic resources. In applying Japan's post-war nation building experience, clearer criteria regarding what pre-conditions must exist in the recipient countries, and what approaches are required when they do not, would seem desirable.

The Japanese government's request-based principle for project proposals – they are initiated by the recipient countries instead of being imposed by Japan – is commendable for respecting the sovereignty and ownership of the recipients. As explained in the last Review, this is also partially based on Japan's experience in nation building. The drawback is that good governance is a major bottleneck in many developing countries. Many observers have commented that project proposals generated from individual ministries of recipient countries are frequently influenced by Japanese trading companies, manufacturers, technical co-operation advisors or politicians who operate under objectives which may not necessarily coincide with national priorities of recipient countries and could possibly lead to stand-alone projects with limited prospects for sustainability. While further efforts are required, Japan holds policy consultations with partner countries which the new Charter aims to strengthen, in order to promote local ownership and partnership and prevent such situations.

In the last Review, it was mentioned that Japan was reconsidering this request-base principle. The new Charter confirms this and states that it will be essential for Japan to engage “actively in policy consultation before requests are made by developing countries” and that it will set out its assistance policies through dialogue. The Charter recommends that Japan support efforts to improve policies and systems, “including the ability to formulate and implement assistance projects” and to “take into consideration whether such efforts by developing countries are sufficient in the implementation”. While this pro-active approach could potentially lead to better project selection for poverty reduction, MOFA could clarify how it plans to balance respect for ownership, national interest, and the objective of poverty reduction.

Japan's comparative advantage in infrastructure - FDI model

Domestically, Japan has by far the highest per capita investment on general construction among the industrialised nations.²¹ This appears to have influenced attitudes with respect to the role of infrastructure in development and the share of Japanese ODA going to support infrastructure. Also, as a major donor by volume, Japan has the financial scope to support infrastructure investment in a meaningful way. Given the high proportion of bilateral allocable ODA going for this purpose (37%), the question regarding Japan's comparative advantage in promoting infrastructure in developing countries is of major significance. The ultimate success of infrastructure development in developing countries is not only dependent on the hardware and engineering finesse but also on the software and financial aspects, including cost recovery, availability of recurrent and maintenance financing, pro-poor user charges, as well as adherence to social and environmental standards such as appropriateness of resettlements, environmental impact, and capacity building. How Japan incorporates these factors into its work in the infrastructure domain is important in assessing effectiveness and as a source of lessons and good practice for other donors, especially since there is renewed recognition of the role of infrastructure in development.

Due to their visibility, large infrastructure projects inherently carry high risks of being criticised when problems occur - the Japanese government is currently being sued by residents of Kotapanjung region in Indonesia regarding an ODA loan financed hydroelectric power project. However, JBIC has

21. In 1998, Japan's per capita investment was USD 4 975, while Germany's was USD 3 838, and the US's was USD 2 411.

recently developed a guideline for environmental and social issues, which is considered one of the strictest guidelines among DAC members. This guideline is also applied to the export credit arm of JBIC, which is a good example of policy coherence (see Chapter 4). Regarding FDI, Japan's corporate management principles such as just-in-time delivery has also been adopted as a model in many South-east Asian companies. The guideline approach could be taken further; for example, MOFA could become more explicit on how ethical practices are applied to the private sector, such as attention to child labour, indigenous populations, gender equality, safety and health standards, and anti-corruption. MOFA could elaborate on where Japan is setting a leading example and has a comparative advantage, incorporating these issues, in promoting the infrastructure-FDI model (see Chapter 4).

Recurrent costs, opportunity costs, and debt sustainability

Whether economic infrastructure is provided by grants or concessional loans, there is nevertheless a cost associated for partner countries. The recipient country must generate recurrent and maintenance financing as well as human resources to manage the system. Poor countries often have difficulty in meeting these requirements. In Vietnam JBIC, together with the World Bank and ADB, is now supporting the establishment of mechanisms for maintenance capacity and corresponding budgets. Since resources are fungible, these partner country requirements for infrastructure also have a high opportunity cost with respect to spending for other important areas. Therefore, the expected economic, fiscal, and social returns from infrastructure development must be sufficiently high in order for them to be justified.²² When large-scale loans are provided – including for infrastructure – thorough analysis on debt sustainability is required (see Chapter 2). Close co-operation with the Bretton Woods Institutions is already carried out by JBIC staff, but MOFA could also build more capacity in economic analysis. As Japan is currently faced with carrying out massive debt relief to many countries including HIPC's, MOFA could elaborate on the lessons learned from its past loan programme which resulted in debt relief as well as plans to prevent creating heavy debt burdens and shortage of recurrent/maintenance financing of poor countries in the future.

Lessons learned from infrastructure development, economic growth and the Asian crisis

Assistance to induce growth through infrastructure development has been a key activity among DAC members since the 1960s. This is in line with repeated Japanese statements about the central role of economic growth for poverty reduction, however, general economic growth does not necessarily lead to effective poverty reduction. In this regard, MOFA could explain step by step how the large JBIC loans to support, for example, the subway (USD 1.6 billion) and airport (USD 277 million) in Bangkok, railway electrification in Indonesia (USD 338 million), and highway rehabilitation in western Turkey (USD 243 million) could effectively contribute to poverty reduction and reaching the global MDGs. In the meantime, JBIC has recently attempted to measure impact of its infrastructure project on poverty reduction (see Box 5). It has also initiated a joint study with ADB and the World Bank regarding, *inter alia*, the importance of infrastructure development in economic growth and poverty reduction. Japan is in addition, playing a leading role in the DAC's new work programme on economic growth and poverty reduction, in particular the infrastructure component of this work.

While economic growth in Asia has been remarkable, Japanese leadership could reflect on the question of how to direct future programmes to address poverty reduction. Rapid economic growth has raised additional challenges, particularly prominent in many Asian capitals which currently face enormous challenges in mega urbanisation, pollution, traffic jams, slum sprawls, and other environmental and health degradation. Japan has provided assistance to redress some of these

22. JBIC is introducing an ex-ante evaluation method for expected returns from ODA loans projects, which is accessible to the public.

emerging problems through urban environment and transportation projects, but it would also be useful to analyse whether these actions address the root causes of poverty. The 1992 Charter directed that “consideration will be given to redressing the gap between the rich and the poor and the gap among various regions in developing countries”. Some Japanese academics²³ encouraged Japan to take greater account of these disparities in the provision of its aid.²⁴ The new Charter repeats the “assurance of fairness” as an important aspect of current Japanese development co-operation. Japan now faces the challenge of documenting lessons learned in this area. Japan is helping lead a project, together with the OECD Secretariat, to evaluate policy coherence issues in the East Asia region. This project will throw light on lessons learned regarding the successes and failures of economic growth, the determinants of growth, the role of aid and a deeper analysis of what underlay the Asian crisis and what can be done to minimise future risks, as well as to address more directly pro-poor growth needs and issues such as environmental sustainability. The risk of FDI dependency, as opposed to aid dependency, could also be explored in light of the volatile global FDI climate.

Box 5. JBIC’s Impact Assessment of Transport Infrastructure Projects in Vietnam

While carrying out impact assessment of projects is extremely difficult, JBIC has tried a unique ex-post external evaluation that attempted to measure the impact of two transport infrastructure projects in Vietnam, which included effects on poverty reduction. The projects were: a) Rehabilitation of the national highway between Hanoi and Hai Phong (1994-2002, total cost USD 175 million) and b) Rehabilitation of Hai Phong Port (1994-2000 : Phase I completed, total cost USD 33 million) The assessment basically included a longitudinal and cross-sectional comparison such as the volume of cargo compared to 10 years ago, growth rate of gross regional product compared to non-project regions, increase in FDI, employment creation and so on. As for impact on poverty reduction, rates of reduction of poor households were compared between 1998 and 2000 based on the Vietnamese government statistics which showed that there were reductions along the highway, particularly in the province that included Hanoi. A household survey was also conducted that showed average per capita increases by communes and diversification of income sources. In addition, the evaluation analysed concurring interventions by the Vietnamese government that contributed to project outcomes, such as revision of the Foreign Investment Law, Doi Moi in agricultural policy, and expansion of agricultural extension and service credits.

JBIC sees the challenges of attribution and of evaluation design as significant, but nevertheless sees this as a valuable experience and example that is worth building upon, especially with an enhanced focus on the impact on poverty reduction.

Alternative model of economic growth through agricultural development

One of the key features of the MDGs is that each target has a timeline. This requires donors and partner countries to take necessary actions that would reach the goal most expeditiously and sustainably, for example, in halving poverty. While MOFA has been promoting the infrastructure-FDI model, particularly in Asia, it is somewhat reticent on the issue of growth through enhanced agriculture, though the majority of the poor in developing countries are rural farmers, even in Asia. Japan’s MAFF is involved in project selection to identify suitable projects, but also to ensure that the activities will not be in conflict with the domestic agricultural industry. Even in Africa, where Japan’s approach, stated in TICAD’s Tokyo Action Plan, is to promote economic growth through agricultural development, the actual proportion of bilateral ODA allocated to the sector is still smaller than economic infrastructure, though the assistance to the agricultural sector is the highest percentage among DAC members.

23. Hiroshi Nemoto, Journal of JBIC Institute #16, June 2003.

24. Between 1996 and 2002, among Laos, Thailand, Cambodia, Singapore, Indonesia, Vietnam, Philippines, and Malaysia, GDP growth has fallen in all countries except Cambodia and GDP per capita has fallen in all countries except Vietnam. Source: World Bank, IMF and ADB.

On the other hand, Japan is taking key actions in agriculture, and the assistance provided to the sector is the highest among DAC members. For example in Tanzania, JICA has carried out extensive capacity building in irrigated paddy farming, and in West Africa, it has promoted the development of a new type of NERICA (New Rice of Africa) rice that is suitable to the conditions of the region. JBIC also states that agriculture is the engine of growth and provides substantial support to the sector. Furthermore, Japan has opened up and expanded its market access for LDC products, including 436 items from agriculture, forestry and fisheries, which could potentially benefit many African countries. If MOFA is to promote the concept of pro-poor economic growth, it could also explore more possibilities in agriculture, including addressing the issue of policy coherence (see Chapter 4) as an effective means to support poverty reduction.

Future considerations

- Japan should develop a government-wide approach to mainstream cross-cutting issues, rather than treating them as separate sectors, particularly concerning poverty reduction as part of achieving the Millennium Development Goals.
- Japan should ensure the centrality of poverty reduction in its programmes and increase its influence in the global community by elaborating strategies on economic growth and poverty reduction, carrying out more empirical analysis, disseminating lessons learned, and articulating clearly what works and what does not.

CHAPTER 4

POLICY COHERENCE

The need to promote policy coherence for development

DAC documents emphasize that there are many areas where policies of industrialised countries can complement or frustrate development efforts²⁵ and the concept of coherence across a spectrum of policy areas has gathered increasing support at high level OECD discussions.²⁶ At the 2002 Ministerial Council Meeting, OECD Ministers recognized the need to bring greater coherence across a wide range of policies that impact on developing countries. These policies include trade, investment, agriculture, health, education, environment, fisheries, and security. Among these, the Doha Development Agenda for negotiations at the WTO makes agricultural and trade policy issues the most urgent, but the failure of talks at Cancún to resolve the conflict of interests between developed and developing countries show the challenges involved. The task is to identify and implement approaches that promote the mutual reinforcement of these policies to have a positive impact on development. At the same time, OECD member governments recognize that approaches are necessarily different; “one size does not fit all”.

Examples of policy coherence for development in Japan’s policies

Foreign direct investment

OECD considers FDI a major catalyst to development and suggests that developed countries can contribute to the promotion of these benefits by using ODA to leverage investments. It also advocates policy coherence for development more generally, for instance by facilitating developing countries’ access to markets and promoting the OECD Guidelines on Multinational Enterprises.²⁷ Japan has promoted FDI in the Asian region, developing its own model for enhancing economic growth by linking trade and investment policies with development co-operation. At the heart of this model is Japan’s belief in economic growth as the main driver of development. Other principles of its indigenous model, drawing inspiration from Japanese industrial practice, emphasize long-term partnership relations, regional clusters of suppliers, research and quality improvements, self-help and mutual benefit.

While the driving force behind FDI is Japan’s private sector, the government of Japan has played an important facilitating role in the expansion of FDI, using both ODA and non-ODA funding. Several government institutions are involved in promoting FDI, under the overall charge of METI. For example, the Japan External Trade Organization (JETRO) promotes trade and economic co-operation between Japan and other countries. Specific activities with developing countries include the promotion of industrialisation in selected countries, especially Asia, to assist the development of the “supporting

25. *Shaping the 21st Century* (OECD/DAC, 1996) p. 18.

26. *The DAC Guidelines: Poverty Reduction* (2001).

27. *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs* (OECD, 2002).

industries” that supply parts and components; exhibitions to help local suppliers find Japanese companies looking for sources; and human resource development. NEXI manages the Japanese trade and investment insurance, which insures both ODA and non-ODA investments, to reduce risks to Japanese firms involved in overseas transactions, and to deal with their diverse global finance needs.

The Japanese government considers that this outward FDI has benefits to the developing countries in the Asian region because of the impact on regional economic growth. OECD and Japanese studies show that this positive impact is achieved through the lifting of financial constraints leading to employment; enhanced access to Japanese and other markets resulting from intra-company trade; direct impacts on domestic and regional competition and enterprise development; and spillovers of technology and competences to the host economy. Japanese observers also point to the “graduation” of partner countries up the value chain.²⁸

The concept of mutual benefit has been central to the success of Japanese trade and investment policy in East Asia for some years. The importance of mutual benefits was reiterated in 1998 when, despite a policy to reduce ODA, Japan approved an emergency aid package for countries affected by the financial crisis - recognition that Japan’s economy is intertwined with the regional economy of East Asia. The package included special tied ODA Yen loans partially to encourage Japanese outward FDI in the region (see Chapter 2). Following this package, outward FDI recovered to Asia although the linkage was indirect. There is a significant risk, however, that the concept of mutual benefit will be eroded if the new ODA Charter leads to a narrow view of “national interest”.

East Asian countries are key trading partners for Japan yet, currently, simple average tariffs are high (China 10%, Malaysia 15%, Korea 16%, Philippines and Thailand 26%, and Indonesia 38%). The Japanese government is pursuing bilateral and regional Free Trade Agreements (FTA), with the support of the private sector. Japan’s priority is to move towards a Comprehensive Economic Partnership in the ASEAN region. These agreements deal with the overall trade policy context, and are expected to be mutually beneficial to Japan and its partners. The Japanese government considers that the advantages from increased competition from FTA are expected to outweigh negative impacts on domestic industries, which can be mitigated by economic reforms. It is interesting to note the contrast with the case of China - while the concept of mutual benefit is apparent in relation to ASEAN countries, Japan is challenged by the growth of China.

Some international observers have questioned the mutual compatibility of regional economic co-operation agreements and WTO disciplines, but Japan argues that it is aware of the necessity for WTO consistency. Japan has also been broadly supportive of the WTO agreements and negotiations, and would like to lower tariffs further on non-agricultural products in a multilateral deal. Along with other countries, Japan promoted these ideas at the Cancún meeting. The failure of these multilateral talks is too recent for a full appreciation to be considered. Japan could explain whether it will now more strongly pursue its bilateral regional economic co-operation agreements and FTA.

In recent years, several UN conferences (Millennium Summit, Doha, Monterrey, and Johannesburg) have called on countries to give importance to trade in promoting development. In this regard, developed countries have been criticised for not providing enough technical assistance to help developing countries to cope with the regulatory and institutional challenges they face when

28. See JBIC Institute (2002) “Foreign Direct Investment and Development: Where do we stand?”; (Research Paper 15); A. Kuchiki (2003) “Changing Industrialization Policy of East Asia under Globalization”, Nagoya University Discussion Paper No. 113; M. Kagami and M. Tsuji (2003), “Industrial Agglomeration: Facts and Lessons for Developing Countries”. Institute of Developing Economies, JETRO, and Kenichi Ohno (2002) “Development with Alternative Strategic Options”.

integrating into the multilateral trading system. In particular, the Doha Development Agenda was based on this adverse perception, and the setback at Cancún has reinforced it. In 2002, Japan provided USD 16 million for trade-related technical assistance and capacity building (TRTA/CB), which focused on trade policy and regulations. The aim was to assist developing countries to adapt to the new issues in the Doha agenda (such as investment, competition, trade facilitation, transparency in government procurement, and trade mainstreaming in PRSPs). This made Japan the third largest DAC member to contribute in volume terms on this issue.²⁹ Of this amount, Japan's contributions to LDCs on trade policy and regulations (Doha) amounted to USD 400 000. Japan also contributed USD 1 500 000 to the Doha Development Agenda Global Trust Fund, and a contribution of USD 500 000 to an Integrated Framework for LDCs.

According to MOFA, several developing countries have faced difficulties in meeting their obligations under WTO Agreements.³⁰ In this context, Japan launched its "Strategic Plan" for capacity building to help some APEC countries (*e.g.* Indonesia, Malaysia, Philippines and Thailand) implement WTO agreements and gain benefits from the multilateral trading system. For instance, Thailand faces significant constraints in developing its legal system to facilitate the private sector. Japan provides support for trade-related technical assistance and capacity building by JICA and other bodies, covering 4 500 people in the five-year period from FY 2000. This will supplement the work that JETRO does in training for developing countries. At the same time, METI is encouraged, through JETRO, first to increase support for mainstreaming trade into developing countries' development policies and poverty reduction strategies, and secondly, to supplement this capacity building with further work to address developing countries' supply side constraints, such as helping to raise product standards.

Japan has carried out studies of the East Asian experience and has indicated in various international meetings that the experience may have lessons for other regions, while recognising the challenges of applying this FDI model to other parts of the world. MOFA is encouraged, with JBIC, MOF and METI, to undertake an analytical review of the lessons learned from Japan's experience in this area and to work with other DAC members to reflect on this experience to apply elsewhere. Such a review might consider, *inter alia*, the risk to countries of FDI dependency.

Studies of FDI impact should also consider environmental and social effects, which are not generally addressed by regional economic co-operation agreements (though Japan-Singapore may be an exception).³¹ Some Japanese NGOs have claimed that forestry investments had resulted in negative effects but Japan has taken steps to address these issues (see Box 6). JBIC research considered whether there might be adverse environmental and social dimensions of FDI and examined if OECD-based firms move production to countries where there are lower environmental standards or where there is weak protection of core labour standards. Although JBIC concludes that there is no empirical evidence for this argument, it has recently developed guidelines for "Confirmation of Environmental and Social Considerations". It expects these to be applied to borrowers when recipient countries apply for ODA loans or where companies seek export credits, thus encouraging coherence between the two forms of support. At the same time, the borrower and related parties should supply the necessary information for JBIC to monitor the application of the guidelines. JBIC has established objection

29. TRTA/CB also includes work on trade development, for which Japan provided USD 35 million. This made Japan the sixth bilateral donor in volume terms for this category of technical assistance. Japan's contribution to LDCs for trade development (technical assistance/capacity building) was USD 2 million.

30. See <http://www.mofa.go.jp/policy/economy/summit/2002/policy-f.html>.

31. This issue was discussed at a presentation in September 2003 at the OECD by Shujiro Urata, "New Partnership Agreements and Development Strategy in East Asia."

procedures for outsiders and an Office of Examiners. When necessary JBIC also conducts its own investigations. Although problems in projects can affect future applications for loans and export credits, there is a need for a more rigorous monitoring system.

Box 6. Enhancing Environmental Controls on Japan's Forestry Investments

Japan is the world's largest importer of wood, pulp and paper products. In 1999, its total tropical timber imports – logs, sawn wood, plywood etc. (calculated in terms of roundwood equivalents) - accounted for 25% of world trade. Malaysia and Indonesia are the source of more than 80% of Japan's tropical timber.

In the past, many complaints were lodged against Japanese timber and trading corporations, but also against JBIC and JICA for providing ODA for the development of plantations and pulp mills in Malaysia, Indonesia and elsewhere. Japan Tropical Forest Action Network (JATAN), Greenpeace Japan, and Friends of the Earth Japan have claimed links with deforestation, illegal logging, environmental pollution and loss of local livelihoods in these countries. JATAN has also traced how Japan shifted its timber sources since the 1950s every time forest resources became depleted or action had been taken to curb logging.

In 2002, the Japanese Government stated its support for certification for wood producing countries through ITTO. Various importers, traders and users of tropical wood have also expressed their interest in forest-friendly certification. For example, the Mitsubishi group (and other large companies) have signed up to the Forest Stewardship Council's certification scheme, which audits forest management practices and certifies "well managed" forest areas. In June 2003, the Japanese Government signed the Joint Announcement on the Co-operation in Combating Illegal Logging and Trade in illegally logged timber and wood products with the Government of Indonesia. Japan has also promoted international efforts to tackle the problem of illegal logging, such as at the G8 Summit at Evian.

Governance is another area of concern in FDI for all OECD members. Japan has signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which requires countries to establish the criminal offence of bribing foreign public officials and to have in place reliable means for detecting the offence and adequate sanctions and enforcement. At the same time, MOFA and METI do not have guidelines on governance issues in export credit operations which appears to be an area for self-regulation by the private sector.³² In this respect, the Japan Business Federation (Keidanren) has a Charter on Corporate Behaviour, which stresses attention on environmental, social and governance issues. The private sector is concerned by such issues because they can affect the reputation of Japanese companies, with implications for future activities. Governance is often addressed in regional economic co-operation agreements, but this is usually in the context of the partner country's governance.

For all these environmental and social concerns and governance issues, OECD recommends the Guidelines for Multinational Enterprises, which represent standards for responsible corporate conduct. Therefore, Japan is encouraged to consider these issues in its regional economic co-operation agreements. In particular, the DAC encourages Japan to establish a convincing system for monitoring compliance with such a code of conduct, covering social, environmental and governance issues during the project identification and implementation phases. The system should be developed with the collaboration of implementing agencies and Japanese companies, and make clear the framework of sanctions to be applied in the case of non-compliance.

32. For ensuring good governance under ODA loans, JBIC has "Implementation Rules for Sanctions Against a Party Engaged in Corrupt or Fraudulent Practices under a Contract funded by JBIC ODA Loans".

Japanese food and agriculture policies and imports from developing countries

Recent DAC Peer Reviews have been critical of other DAC members providing export subsidies to their farmers since this can adversely affect developing country agriculture. Japan does not provide export subsidies on agricultural products and such a policy is not on Japan's agenda.³³ However, as with other DAC members, there is protectionism of the domestic agricultural market, which is effected through administrative prices and state purchases, trade protection and production limits. This protectionism has implications for imports from developing countries.

Agricultural policies have addressed the decline of Japanese agriculture by promoting rural development, preserving the landscape and securing Japan's food supply. Japan characterises these various aims in terms of the "multifunctionality of agriculture". Furthermore, the domestic food policy emphasises stable food supply, food safety, and facilitation of consumer choice by provision of information. The Basic Law on Food, Agriculture and Rural Areas (1999) sets out the framework for Japan to secure a stable food supply by managing domestic food production and imports, with an official policy target of producing 45% of total calorie intake by 2010. Japan's agricultural support is provided predominantly through price support and administered prices, underscored by restrictions on imports and supply management regimes; though the number of agricultural commodities subject to administered prices has declined and the remaining administered prices have been reduced or frozen since 2000.

Japan imports 60% (on caloric intake basis) of its food. In 1999, 45% of its imports of agricultural and fisheries products came from developing countries, an increase from 40% in 1990. Japan is the largest net food importer from developing countries (USD 15 billion),³⁴ representing USD 135 per capita in 1999. Fishery products comprise the largest category of imports from developing countries. On the other hand, the main exporters of key commodities (rice, wheat, and sugar) to Japan are developed countries. Nonetheless, liberalisation of Japanese agricultural markets could benefit several Asian developing countries and territories – particularly China, India, Indonesia, Philippines, Taiwan, Thailand, and Vietnam, although primary benefits might accrue to higher-income countries. South Africa and various South American and Pacific countries would also benefit on present trade patterns, and others could also benefit as production is stimulated by the opportunities offered by enhanced market access.

The 1999 Peer Review discussed import barriers to agricultural products, including high tariffs on rice, tariff escalation on processed foods, and other restrictions such as sanitary and phyto-sanitary procedures, and state management of certain agricultural products, such as rice, milk products, and raw silk. These barriers and restrictions are still applicable, including on several important agricultural commodities. One result is that Japanese consumers pay high prices for these commodities, especially for rice.

In recent years, there has been policy development aiming at setting the scene for agricultural negotiations in the WTO. The import quota on rice was abolished, as Japan moved to tariffication. There are two tariff levels - a very low one for the minimum access quantity and a much higher one for imports above the minimum. Japan implements Minimum Access rice importation in accordance

33. Japan does not generally export food, except under its food aid scheme. Japan uses a part of imported rice, as well as domestic rice, for food aid in response to requests by international organisations such as WFP. Japan exports some processed foods, but this is minimal.

34. The EU and US are larger gross importers with USD 34 billion and USD 21 billion respectively, but they also export significant amounts to developing countries.

with WTO rules to implement rice production adjustments inside the country. Imports of rice have barely exceeded the minimum access quantity, suggesting that the higher tariff is acting as a block on imports. In defending its policy in relation to WTO rules about agricultural liberalisation, Japan maintains that the multifunctionality of agriculture and food security should be considered, along with issues of benefits to developing countries and consumers.

To address the problems of LDCs, Japan has proposed a specific initiative for enhancing the Generalized System of Preference (GSP) scheme. With a view to further enhancing LDC access to the Japanese market, Japan expanded the coverage under duty-free and quota-free treatment for LDC products from April 2003 (see Box 7). This is a similar approach to those taken by the EU (Everything but Arms) and the US (African Growth and Opportunity Act) and the aims of the Japanese scheme to help the developing countries are equally welcome. At the same time, as in those other schemes, significant challenges of market access remain for some commodities that are excluded from the scheme, notably rice and sugar. These exclusions adversely affect developing countries with high proportions of low income employment in agriculture. There are also provisions for emergency suspensions of the scheme and for excluding certain products from certain countries, which could introduce unpredictability into the scheme. These provisions have been used in recent years, justified by food safety concerns, but it is important for Japan to avoid possible criticism that it uses these provisions for protectionist reasons. Japan is thus encouraged to reconsider these anomalies in its GSP scheme and to develop measures to help developing countries to reach the full potential (*e.g.* capacity building in production and marketing to meet Japanese standards, and promotion of good environmental, social, and safety regulations).³⁵

Box 7. Japan's Tariff Preferences for Agricultural Products from LDCs

From April 2003, Japan enhanced the terms of GSP for LDCs. It covered 47 LDCs and 436 agriculture, forestry or fisheries products out of 2 287. This includes duty-free and quota-free access of products originating from LDCs, which includes vegetable products, fats and oils, animal products, and marine products. Japan estimates that 93% of the value of all products imported from LDCs - both agricultural and industrial - will be covered by the new scheme (up from 83%). Specifically for agriculture, forestry and fishery items, the coverage is estimated to rise to 83% (up from 56%) of imports from LDCs for these items. Those agricultural, forestry and fishery items that remain outside the scheme include rice, specific forestry products, sugar, beans, and beef. These exclusions are because there would be "significantly adverse effect on the production of domestic farm products competing with such imports".³⁶

The WTO Agreement on Agriculture also committed Japan to reduce the Aggregate Measurement of Support (AMS) by 20% (against the 1986-88 level). After some initial efforts, support for some key products crept back up until 1999 when it became the same as before 1986 (Rice 88%, Wheat 88%, and Sugar 67%). In 1999, 65% of farm receipts came from support from government policies.³⁷ OECD estimates that Japanese agricultural support was USD 59 billion in 2001 (1.4% of its GDP, representing 59% of the value of the agricultural output).³⁸ OECD also concluded

35. OECD promotes full trade liberalisation as a more effective means than GSP to support LDCs in the long term.
36. MAFF (2000), The Basic Law on Food, Agriculture and Rural Areas, Article 18 (policies on imports/exports of farm products).
37. The average proportion for OECD countries is 40%.
38. Comparable figures in 2001 were for the United States USD 95 billion (0.9% of GDP, and 21% of value of output) and for the EU Member states USD 106 billion (1.4% of their combined GDP and 35% of value of output). Source: OECD (2002), *Agricultural Policies in OECD Countries: Monitoring and Evaluation*.

that the “support remains among the highest in the OECD countries and is dominated by the most production and trade distorting measures.” An earlier OECD report calculated the overall Producer Support Estimate (PSE)³⁹ for Japanese agriculture to be 63% during 1998-2000, and producer prices were about three times world prices in 2000, even though administered prices have been lowered. In contrast, Japan had significantly reduced its production support for beef and tariff protection; by 2000, the tariff equivalent for beef was about 39% (a fall from 50% in 1993). The result was that consumer prices had fallen and consumption had risen significantly. Japan has now imposed emergency restrictions, which raise its tariff up to the bound rate of 50% by responding to an import surge and were in place until March 2004. However, most beef imports originate from the US and Australia, and not from developing countries.

The Japanese government maintains that general liberalisation in Japan will mainly help developed countries, rather than developing countries. Japan argues that, within developing countries, China will be the most likely winner, while other developing countries will lose their preferential trading arrangements which help them to compete. LDCs will not benefit much at all, because of the lack of capacity to supply the needs of the Japanese economy. Other constraints are concerns over Japan’s high dependence on food imports and desire to maintain the multifunctionality of agriculture in society. The government also refers to public opinion to support its policies in these areas. For example, the public is wary of environmental damage caused by the liberal use of pesticides on crops in some developing countries and wishes to maintain quality and freshness of food. Japan is encouraged to undertake further analysis on these issues and, where they are valid, to explore alternative solutions that will be of mutual benefit to developing countries and Japan’s consumers and rural areas.

Challenges and opportunities for improvement in policy coherence for development

Policy

Some DAC members, recognising the impact that their domestic and foreign policies can have on development, have started to develop policy statements that set development co-operation policy within a broad range of other policies. They have also started to make institutional arrangements to deal with the issues of policy coherence for development. In contrast, Japan does not have an explicit statement about policy coherence for development, covering the whole of government. Nor does policy coherence for development find an explicit place in the new ODA Charter (see Chapter 1). Furthermore, there is no visible promotion of the concept among the public, which appears sceptical of ODA and unaware of issues of policy coherence for development. Nonetheless, Japan’s Charter recognises the broad dimensions of development, since Japan’s own economic growth, environmental health and security are dependent on global events and on regional developments - a recognition shared by the public. Japan should set out explicitly the links of development co-operation with other foreign and domestic policies, giving emphasis to the broad dimensions of development, including pro-poor economic growth, social and environmental issues, and the rationale and mutual benefits of such a broad concept.

Co-ordination

There are many government, private and non-profit organisations involved in operations that promote Japanese trade and investment in developing economies, particularly in China and the

39. The PSE measures the level of support to producers irrespective of its nature or impact. The PSE is a more comprehensive measure than the WTO’s AMS, which only includes those forms of support agreed to be the most trade-distorting.

ASEAN countries. Since 2000, a council of these organisations has been meeting under the Chief Cabinet Secretary. The new ODA Charter also aims to strengthen collaboration between ODA related ministries and agencies, using the consultation forum of the Inter-Ministerial Meeting on ODA. Therefore, the institutional arrangements for co-ordination between ODA related institutions provide opportunities for enhancing policy coherence. In particular, this concerns three ministries - MOFA, METI, and MAFF. Although MOFA has been assigned the central role of co-ordinating ODA related organisations, METI also has a key role in Japan's economic co-operation system by providing leadership in policy formulation on trade and investment. In contrast, MAFF is one of the many ODA-related organisations, dealing with domestic food and agriculture policies, which can provide technical experts for development operations. MAFF is consulted on the linkages between development projects and domestic policy interests, with emphasis on the latter. If MAFF officials promote domestic interests at the cost of development, there would be a risk of policy incoherence for development. Attention should be given to mechanisms for managing this risk, such as MOFA to represent the voice of developing countries.

Analysis

In comparison with the wealth of information on developing countries' market access into the EU and the US, Japan appears to do relatively little analytical work on the impact on developing countries and its own consumers of opening its markets and liberalizing its domestic agriculture (a notable exception is a research programme with the OECD on East Asia). The lack of understanding of the issues at hand may be as much an obstacle to policy coherence for development as the lack of political will. Potentially, the co-ordination Council could deal with policy coherence for development, but there is little information gathering or analytical capacity, and the Council has only met rarely. Japan should give urgent attention to the need to establish capacity for analyzing policy coherence for development issues, and to promote these throughout the Japanese system. It may also be possible to increase the capacity of the Japanese system to analyze potential cases of incoherence, by creating networks between the existing ministerial institutes. Other DAC members are also trying to find ways to address these institutional challenges through the development of specialised policy coherence analysis units. MOFA, given its co-ordinating role, could also discuss approaches and experiences with these members, with a view to sharing lessons and formulating its own institutional approach.⁴⁰

Broad-based involvement

Improvements in the area of policy coherence for development will depend on political leadership perceiving the benefit to Japan. There are clear indications of a broad interpretation of national interests among some private sector interests, which support the policy of improving trade capacity of partner countries so they can become better partners for Japan. For example, supermarkets wish to reduce the cost of food by seeking imports and have already transformed the structure of the Japanese food industry. Consumers are also concerned with food safety, quality and price of food. These voices have differential effects on the government ministries. It will be important for Japan to take a proactive stance in leading the discussion on these issues, rather than reacting to the advocacy of particular interests. It is recommended that the Japanese authorities seek ways to educate the public on the issues of policy coherence for development and to promote a discussion of the way poverty reduction of developing countries might converge with Japan's long-term interests.

40. MOF is supporting a joint research project with OECD by conducting a regional case study on the impact and coherence of OECD country policies on Asian developing economies.

Future considerations

- The government of Japan should make a policy statement on coherence for development, and seek ways to educate the public on this issue.
- The Japanese government should enhance analytical capacity on policy coherence for development in order to improve its ability to take appropriate policy decisions.
- The Japanese government should collaborate with the private sector and civil society to set up a system for monitoring the environmental, social and governance aspects of FDI and of regional economic co-operation agreements.
- Japan should reconsider anomalies in its GSP scheme regarding LDCs and help them to meet Japan's safety and quality standards through trade-related capacity building.

CHAPTER 5

ORGANISATION AND MANAGEMENT

A mandate for change

In 1998, Japan initiated a government-wide reform which included a 2001 law that reaffirmed the overall co-ordination of ODA agencies by MOFA. It also assured JICA the status of “Independent Administrative Institution”, new requirements for evaluation and feedback of ODA policies and projects, and a variety of Diet recommendations for improved ODA transparency, effectiveness and efficiency. The Diet’s debate on the reform concerning the management of Japanese ODA highlighted the extent to which it has been less a “system” than a loosely co-ordinated network of actors. The debate noted the historically compartmentalised approach to the different Japanese mechanisms of ODA (loans, grants, technical co-operation) carried out by the separate ODA administrations. One suggestion was to organise ODA operations around a single bureaucratic entity, but this was considered to contain operational disadvantages and to be politically unrealistic in the current context. However, the Diet insisted on greatly improved co-ordination among all ODA actors and the urgent requirement for MOFA to ensure greater “system” synergies. Some Diet members believe that strong cross-government co-ordination may create ODA efficiency (*e.g.*, common strategic vision, more timely and co-ordinated inputs, common operating systems at reduced cost).

The most important proposal for the reform of ODA operations since the last Peer Review was produced in March 2002 by the Second Consultative Committee on ODA Reform. Its report⁴¹ underscored the importance of effectively using ODA for national interests and made operational recommendations on better use of human resources, clearer articulation of ODA strategy and a more efficient ODA implementation system. Consistent with this proposal, MOFA declared its intent to implement immediately a reform process based on public participation, transparency and efficiency. This process has begun in five specific areas: (i) auditing, (ii) evaluation, (iii) partnership with NGOs, (iv) human resources, and (v) information disclosure. Part of that process was the launching of a major, participatory exercise which led to the revised ODA Charter.

A network of development co-operation institutions

Development co-operation is the shared responsibility of institutional actors located both in the Japanese government (ministries, implementation agencies) and outside it (NGOs, private sector entities, academic institutions). Table 1 below provides a highly simplified outline of the roles of some key institutional actors. The major players in the government are the three ministries, MOFA, MOF and METI, of which MOFA has a core co-ordination role, and two agencies (JICA and JBIC) play major roles in implementation. With the exception of JICA, these organisations have major responsibilities in areas other than development co-operation as well. The administrative units responsible for ODA programmes within these institutions are highlighted in Annex IV.

41. The first consultative committee, the “Council on ODA Reforms for the 21st Century” produced similar conclusions four years earlier (1998) in its final report.

Table 1. Key Development Co-operation Institutions

Institution	ODA Responsibility	Size
Ministry of Foreign Affairs (MOFA) (essentially Economic Cooperation Bureau – ECB)	Leads ODA policy and interagency co-ordination; administration of most grants, administrative oversight of JICA and JBIC/OECO; co-ordinates UN operations.	33% of ODA (of which MOFA administered 19%, transferred to JICA 10% and to UN 5%), 435 development staff.
Japan International Cooperation Agency (JICA)	Implementation of technical co-operation and “expediting” of much of MOFA grant assistance and JBIC project design.	10% of ODA, re-allocated from MOFA; 1200 development staff; 90 overseas offices.
Japan Bank for International Cooperation (JBIC) (essentially Overseas Economic Cooperation Operations – OECO)	Implementation of ODA loans, private sector investment finance, studies.	51% of ODA (of which, 14% re-allocated from MOF, and 37% from special FILP loans).
Ministry of Finance (MOF)	Manages pass through funds for JBIC; co-ordinates IFI operations; specialised analysis.	59% of ODA (of which 11% transferred to IFIS, 1% to others, and 47% transferred to JBIC).
Ministry of Economy, Trade and Industry (METI)	Trade and investment; Asia-Japan economic relations; energy and environment. Also includes trade promotion institutions JETRO and NEXI.	3% of ODA
Other important official institutions (a) Ministry of Education - MECSSST (b) Other: Ministries of Health - MHLW, Agriculture - MAFF, Land - MLIT, Public Management - MPMHPT, Justice - MOJ, Environment - MOE, and agencies for the National Police, Financial Service, and Cabinet	(a) Overseas students and university exchange. (b) Technical co-operation.	5% of ODA
Non-official institutions (a) Non-governmental organisations (b) Private sector (c) Academia	(a) Policy advocacy and debate, project implementation. (b) Policy lobby, implementation contracting. (c) Studies, policy advocacy.	(a) 0.4% of ODA obtained from official sources; 250 NGOs in development, most with budgets in the USD 50-250,000 range.

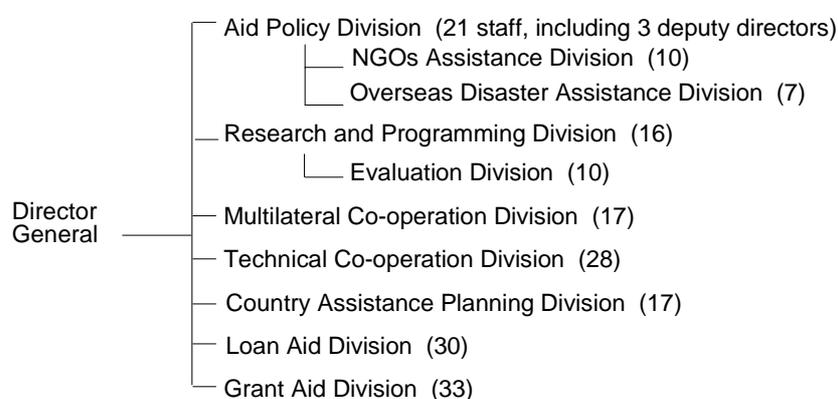
Source: OECD, Government of Japan
(See Figure V-1 in Annex V)

MOFA plays a core co-ordination role in Japanese ODA. The Minister co-ordinates the operational responsibilities of 10 different foreign affairs bureaux, headed by the respective Director Generals (see organigramme in Annex IV). The Economic Co-operation Bureau (ECB), and to a lesser extent the Multilateral Cooperation Department (humanitarian assistance, and international organisations such as UNCHR and UNICEF), the Economic Affairs Bureau (international organisations such as WTO), and the geographic bureaux (regional development conferences such as TICAD) are responsible for development-related operations, including grant assistance and parts of the UN’s ODA portfolio. ECB leads the ODA policy formulation and interagency co-ordination, including on the annual ODA budget process. In system terms, this places the ECB in the forefront of ministry interface with the other implementation agencies and ministries.

The location of the ECB’s role for development co-operation within MOFA offers opportunities for greater policy coherence among the various aspects of Japanese foreign policy, although development co-operation is only one part of overall ministry priorities. As was pointed out in the 1999 Peer Review, ECB is very thinly staffed and includes a large number of secondments, who rapidly rotate back to their ministries of origin. ECB (and, therefore, development co-operation) competes with the other nine director generals for the attention of the minister, who is generally the main voice of development co-operation on the cabinet. Current internal organisational reform is

intended to strengthen ECB's ability to co-ordinate with the development agencies, although staffing will continue to be an issue. ECB operations are largely organised around assistance instruments (Grant, Technical Co-operation, Loan and Development Co-operation divisions) but the lead Aid Policy Division (see ECB organigramme in Figure 2) and the Country Assistance Planning Division give growing importance to strategic co-ordination at the country level. This emphasis at the country level also raises the operational issue of how to co-ordinate with the other MOFA geographic bureaux, the implementation agencies, and the field. For example, the Africa Division of the geographic bureau has been responsible for TICAD while it does not have any ODA instruments. JICA and JBIC are organised around country desks, but their interlocutors at ECB are not. Many other DAC members have had to grapple with similar issues of co-ordination within headquarters and the field, and it should be possible for Japan to use this experience to move more rapidly to an effective, country-based operational system.

Figure 2. Organisation Chart - Economic Co-operation Bureau of MOFA



Source: OECD

Of the two “implementation agencies” of Japanese development co-operation, **JICA** is the largest ODA institution in terms of the size of the staff and is the only institution to be entirely specialised in development co-operation. It has multiple responsibilities, including lead implementation of about half of Japanese technical co-operation, a support role (“expediting”)⁴² for the implementation of much of the MOFA’s grant portfolio and for some JBIC project design, and a variety of other tasks, from training programmes to administering the Japan Overseas Co-operation Volunteer programme.

In October 2003, when JICA took on the status of an “Independent Administrative Institution”, agency operations became more autonomous and flexible, including personnel and organisational management, subject to organisational performance evaluations and various disclosure obligations. JICA operates according to mid-term (3-5 years) objectives defined by MOFA, around which it prepares a mid-term plan and subsequent annual plans. The initial JICA mid-term planning is currently focused on increasing efficiency (“reduce unit costs for major forms of input by 10% on average over the next three years”) and improving the quality of services (*e.g.* shifting to a field-oriented approach, reinforcing project formulation, implementing peace-building operations, promoting public

42. “Expediting” is defined as supporting the proper execution of Japanese grant assistance.

participation, and mobilising non-governmental resources). Organisational evaluations of JICA is made by the Evaluation Committee of MOFA.

This new status introduces a number of challenges for JICA management, including the need to adapt to a multi-year planning system. However, it is expected that this new status will improve its efficiency, transparency and accountability. Perhaps one symbol of the new JICA is the recent appointment by the Foreign Minister of a former head of the UN Commission for Refugees as the new President of the Agency.

A second, somewhat smaller implementation agency (but not in terms of its funding responsibility) is **JBIC**. It was formed in 1999 as the result of a merger of the former OECF and JEXIM. JBIC now believes that this organisational merger has reduced transaction costs through the use of common systems and the closer collaboration on important issues like the relationship between ODA and FDI. A concern of the 1999 Peer Review was that this merger could cause a blurring of responsibilities between very different development and commercial operations. JBIC constructed an administrative firewall between the two functions to address this concern which left it with a bifurcated organisational structure composed of the Overseas Economic Co-operation Operations (OEEO) group and that of International Financial Operations (IFO). OEEO's role (ODA loans, private sector investment finance, studies) is essentially ODA funded, while that of IFO is not. To accomplish their different mandates, the two sides of JBIC report administratively to two different entities (MOFA and MOF, respectively) and maintain largely different sets of procedures. About one-third of JBIC funding is allocated to the OEEO, and approximately one-third of staff works there. JBIC has 27 field offices, most of which have some type of OEEO functions.

The **MOF** has a role in development co-operation by virtue of its 59% share⁴³ (including FILP⁴⁴ funds) of total Japanese ODA - mainly pass through funds for JBIC and the IFIs - and its lead liaison responsibilities with the IFIs. The MOF also maintains a specialised analytical capacity (sector strategies, debt issues, macro-economics) that could prove helpful in supplementing other agency capacities in these areas as the ODA network is co-ordinated better over time. As with MOFA, the MOF also is responsible for a wide range of domestic functions. The International Bureau is the MOF organisational focus for development co-operation. Some 67 staff in the International Bureau are engaged in ODA related issues. The MOF addresses issues of development in the IMF, the World Bank and the regional development banks.

Outside the government ODA system, but collaborating closely with it, is a significant variety of **NGOs**, as well as the **private sector** and elements of **academia**. They collectively play an important role in the Japanese system, particularly in influencing political decisions in the Diet, but are fairly minor in terms of their operations in development. In particular, the **NGO** movement in Japan is small but growing in acceptance with the emergence of important umbrella organisations. NGO funding as a proportion of total ODA in 2002 was only 1% (2% of gross bilateral ODA or 3% of grants), but it has been increasing continuously since 1999. As was noted in the 1999 Peer Review, the majority of Japanese NGOs working in development co-operation are still under-funded and under-staffed compared to their counterparts in other DAC member countries. According to the Japanese NGO

43 . Japanese officials note, however, that this share is only 29% in terms of the General Account ODA budget (see Annex V).

44. The Fiscal and Loan Programme (FILP), is a large, government-wide system to collect funds through government financial institutions (most notably postal savings) to finance public projects undertaken by the government. JBIC uses the FILP system to fund some two-thirds of its ODA loan operations. Also see Annex V.

Centre for International Co-operation, it is estimated that only 19% of NGO funding comes from subsidies and contracts from government and UN agencies, and some 66% comes from donations, membership fees and income generating activities. Key ODA agencies are now taking a greater interest in funding NGO projects and in organising other collaborative events, such as study groups or joint evaluations. NGO relations with these governmental bodies were described as cordial, but yet too complicated and slow. Experience from elsewhere within the DAC would suggest that the government could be more proactive in supporting NGOs, including innovations in grants for NGO organisational development or better understanding of the NGO comparative advantage so as to promote additional collaboration and funding.

Changing management systems

Issues of system flexibility

There are at least three characteristics of Japanese ODA management that appear central to future reform: (i) **institutional specialisation**, (ii) **co-ordination**, and (iii) **decentralisation**.

Institutional specialisation

Japan still carefully distinguishes among its three key aid instruments: (i) grants, (ii) technical co-operation and (iii) ODA loans. Lead institutional responsibility for each of these categories largely belongs to MOFA, JICA and JBIC, respectively. Of particular interest to the future efficiency of Japanese ODA management are the categories of grants and technical co-operation, both of which are so operationally related that the distinction between them often appears artificial. The separation of bureaucracy between MOFA and JICA can cause additional transaction costs and challenges, *e.g.* when JICA has to carry out technical co-operation for a grant assistance programme but must also fit into MOFA's fiscal timeline, or, alternatively, when the grant assistance is suddenly inserted into JICA's multi-year rolling plan. This separation between grants and technical co-operation also causes confusion at the level of co-ordination with development partners who do not easily identify their Japanese counterparts.

From the perspective of MOFA, for whom development co-operation ought to be a strategic preoccupation, the essential rationale for its control over grant assistance is its role in Japanese diplomacy and the furthering of national interest. Indeed, after identifying uses for the grants, MOFA allocates much responsibility for implementation to JICA. This process, while politically consistent, introduces operational inefficiencies and a tendency to separate strategy and implementation.

The DAC encourages its member states to accord priority to the needs of the recipient country and to the efficiency and effectiveness with which this aid is implemented. Growing acceptance of field-based approaches to aid programming, including the use of sector approaches and locally-led strategies, is causing donors to question long-standing, traditional management approaches and complexities which are increasingly seen as constraints to these new directions of development. Japan is now seeking to test flexible sector approaches that complement those of other partners in the field. This suggests that Japan should continue to weigh carefully the political and bureaucratic interests underpinning its distinction between grants and technical co-operation with the parallel and sometimes conflicting Japanese policy objectives of ODA transparency, efficiency and effectiveness. Attention should be given to those administrative arrangements that bring these two types of aid into a more complementary and synergistic relationship. To the extent that MOFA maintains its leadership at the strategic level, the entire sequence of project planning and implementation could be moved to an experienced developmental agency like JICA. Perhaps a relatively non-controversial step could be a formal re-delegation of grant leadership and funding responsibility for the project cycle - project

identification, design, implementation, monitoring and evaluation - to JICA. Such re-delegation would offer MOFA the advantages of ending its management of aid instruments, and redistributing its limited resources toward the priority mandate of system co-ordination, strategy and policy development.

Extensive co-ordination

To co-ordinate the many official agencies within the Japanese development co-operation system, Japan has put in place an extensive network of management mechanisms. At the **inter-agency level in Tokyo**, instruments of co-ordination have recently been set up at almost every administrative level. This new and ambitious scheme of co-ordination (see Table 2) across government is now being implemented around a system of liaison bodies at the bureau and division level. MOFA also recently strengthened its collaboration with the other ODA ministries.

Table 2. Inter-ministerial Co-ordination

Forum	Responsibility	Participants	Observations
Council of Overseas Economic Cooperation-Related Ministers	Basic economic development policy	Chief Cabinet Secretary Chair; Ministers of all (8) economic co-operation ministries	- (re) Established December 2000 - Meets when necessary
Inter-Ministerial Meeting on ODA	Discussion of major ODA issues	ODA bureau directors-general, plus Cabinet; MOFA Chair	- Established March 2000 - Meets when necessary
Bureau Meetings for Inter-Ministerial Meeting on ODA	Negotiates ODA proposals for Inter-Ministerial meetings	All (12) ODA division directors; MOFA chair	- Meets more frequently than Inter-Ministerial Meetings
Experts Meeting on Technical Co-operation	Exchange views and collaborate on related projects	All (12) technical co-operation division directors, plus Cabinet	- Established April 1997
Experts Meeting of ODA Evaluation	Formulate guidelines for evaluation, review evaluation outcomes	All (12) evaluation division directors; includes scholars, experts, NGOs as observers	- Established July 2001
Experts Meeting of Financial Co-operation	Discuss and coordinate grants, loans, OOF and trade credits	MOFA, MOF, METI, JICA, JBIC, NEXI financial co-operation division directors	- Established November 2002
Board on Comprehensive ODA Strategy	Public advisory council to MOFA on issues of ODA strategy	Senior Vice-Minister and a wide range of civil society, chaired by MOFA Minister	- Established in June 2002 - Role in determining future target countries

Source : the Government of Japan and OECD.

At the **inter-agency level in the field**, all embassies with development co-operation portfolios are now required to set up an “ODA Task Force” which brings all agencies at post together on a regular basis for purposes of collaboration. The Task Force is also expected to form networks with experts, NGOs, foundations and other Japanese expertise in the field. The Task Force has officially been given a role in information gathering, strategy development, negotiations with the local government, and collaboration with other local donors. Japanese agencies with similar mandates, such as JBIC and JICA, are now working more closely together in their field operations. Inter-agency co-ordination seems to be more easily obtained at this more operational level where specific actions can be discussed and where operational efficiency takes precedence over respect for bureaucratic boundaries. This could suggest the utility of Japan decentralising some aspects of its co-ordination processes in line with current interest in greater delegation to the field. At the level of its **co-ordination with other partners**, Japan increasingly seeks mutually acceptable development options through collaboration in international forums on regional strategies (*e.g.* TICAD and IDEA), topical alliances with specific donors (*e.g.* with the US on HIV/AIDS), or broader consultation with international groups such as the DAC. Field evidence shows Japanese interest in more actively engaging local collaborative efforts such as the PRSP or Consultative Group forums and their sector co-ordination groups (see Chapter 6).

The overall spirit of operational collaboration with this range of other key partners is highly consistent with DAC guidelines and the current world-wide interest in improved aid efficiency. However, many interlocutors point out that Japan is a consensus based society and that the complexity of the system being put in place will have high transaction costs. Many of these mechanisms are very new and therefore merit periodic senior management evaluation to determine their value and best directions for the future.

Towards new forms of decentralisation

Stimulated by the mandate from the Diet, the ODA Charter and the external committees on ODA reform and strategy,⁴⁵ Japan is now also slowly moving toward greater decentralisation of operations to the field level, especially through use of country strategies and the new ODA Task Force team concept. Although no legal obstacle to greater decentralisation of ODA operations and decision-making appears to exist, Japan's historical context of highly centralised administration and the special interests of the different ODA institutions create bureaucratic obstacles. The vertical organisation of Japanese ODA structures means that operational decentralisation will take place at different speeds. JICA, for example, already has initiated its decentralisation planning; JBIC remains largely Tokyo-based but with many operational authorities delegated to field offices; and MOFA is observing the initial results of its pilot efforts in countries like Vietnam (see Boxes 8 and 10 and Chapter 6). A first major challenge is to determine how far the Japanese government ultimately wishes to delegate authority to the field and then to shape the necessary system for decentralisation. More specific and critical organisational issues, such as the exact role of the ambassador or how to best manage the very different mandate and interests of embassies and the implementing agencies, will need to be addressed. Finally, it is also clear that current government-wide downsizing and ODA budget cuts will make the staffing of decentralised systems difficult, once the vision is more clearly established.

Box 8. The Vietnam ODA Task Force

An ODA Task Force in Vietnam was established in March 2003, after a directive from MOFA requiring all Japanese embassies with ODA programmes to establish such a group. The Task Force meets weekly under the leadership of the embassy minister and includes developmental representatives of the embassy, JBIC, JICA and JETRO. Special meetings are also organised with Japanese NGOs and other partners. Since the ODA Task Force model is a priority, the minister remains extremely involved. The Task Force pursues a task-oriented agenda, currently highly focused on the new Country Assistance Programme (CAP). Sub-groups can be formed to address specialised topics (e.g. drafting an education sector strategy). As this team concept evolves, it may be expected to cover a growing spectrum of more operational issues (ensuring that strategy leads project design, policy coherence, co-ordination issues among ODA institutions and partners, etc.) which may require increasingly specialised management and resources.

As with several other donors, the extensive use of external contractors and consultants has historically been a way for Japan to keep the size of its official development staff and organisation relatively small, while substantially satisfying the commercial and intellectual interests of the Japanese private and academic sectors. Contractors are involved at each stage of the project cycle. At the design stage, the implementing agencies sub-contract much of the responsibility for project development to

45. DAC guidelines on decentralisation note: "Locally-owned country development strategies and targets should emerge from an open and collaborative dialogue by local authorities with civil society and with external partners, about their shared objectives and their respective contributions to the common enterprise. Each donor's programmes and activities should then operate within that local framework, and respect and encourage strong local commitment, participation, capacity development and ownership."

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(especially Japanese) contractors and consultants, under the general supervision of the agency. Project implementation and monitoring and evaluation also make extensive use of contractors (including non-Japanese), who work closely with the recipient country counterparts, especially in the context of “project management units” or similar host country administrative mechanisms. Although perhaps technically competent, criticism inside and outside the Japanese aid system frequently point out to the lack of language capability of these contractors who can often work only in Japanese. Being able to carry out dialogue with local partners in participatory approaches and ensure co-ordination with other actors on the ground is becoming increasingly important. Therefore, Japan is encouraged to establish and implement an all-government criteria for minimum language requirements according to recipient countries in the selection of contractors.

Making management strategic

The use of the CAP in recipient countries is seen by Japanese leadership to be one of the most important tools in support of more strategic, better co-ordinated and more effective allocation of ODA. A CAP is generally designed around a five-year cycle. Only 15 CAPs have been approved to date but the intention is to develop one for all major recipient countries. This systematic approach to country strategy is consistent with DAC experience in strategic allocation of ODA and with the recommendations of the 1999 Peer Review.

Since 2003, new CAPs are designed by the Japanese ODA Task Force with local development partners and aim to be consistent with locally-owned national development strategies, such as the PRSP. This is consistent with the strategic principles that are increasingly gaining acceptance within the DAC. At the same time, the country-based approach also calls into question some aspects of the ODA administrative system. For example, Japan currently lacks a country-based budget approach (see Box 9) which would make its work more efficient and more easily understandable for its partners. With Japan now moving away from its “request-based” approach to programming, the construction of its budget around a CAP will make it easier to engage in local dialogue on key policy issues.

Box 9. Country envelopes

Japan does not organise its funding around country envelopes, as the budgetary system is largely instrument- (ODA loans, technical co-operation, grants) and organisation-based (MOFA, JBIC, JICA, etc.). Remembering that Japan is one of the largest donors to many developing countries, this can cause difficulties for recipients and partners alike, since there is little predictability in terms of financing commitment toward the partner country. This approach also creates inflexibility concerning the transfer of funds within the sector when problems occur. A country envelope would allow more flexibility in adapting to the changing situations of a project or the country. The lack of such a flexible approach is particularly at odds with the increasing trend toward sector approaches, where different instruments need to be complementary within a predefined financial and programmatic framework. Some aid officials have also found this to be a handicap in carrying out policy dialogue and negotiating with recipient countries.

Evaluation management

Japan has actively pursued improvements to its system of ODA feedback since the last Peer Review. Impetus for this change has come from public and political messages to reform the ODA system in favour of greater transparency, accountability and efficiency. The specific roles and responsibilities for ODA performance feedback depend on the institution. MOFA (and other related ministries), JICA and JBIC all evaluate their portions of the ODA portfolio of activities. MOFA (ECB’s Evaluation Division) focuses on **policy** (ODA Charter, mid-term policies, country policy, special policy issues) and **programme** (sectors) evaluation, and JICA and JBIC place their primary

emphasis on **project**-level evaluation. While this information tends to rise vertically within the framework of each of the ODA organisations, a growing effort is being made to share feedback among agencies so as to encourage a process of common learning. MOFA formed joint committees on ODA evaluation feedback (Internal ODA Evaluation Feedback Liaison Committee) and to share perspectives among ministries (Experts Meeting of ODA Evaluation).

At the level of implementation, the degree of co-operation between JICA and JBIC is noteworthy and has led to numerous efforts to share information, including joint evaluations. Japan has also emphasised the importance of ODA recipient countries taking greater responsibility for their own evaluations, which it promotes through the use of joint seminars (Tokyo Workshop on ODA Evaluation, 2001 and 2002) and other opportunities, as they arise. Japan now also assists in building the evaluation capacities of some recipient countries as part of their local ODA programme.

Ensuring the transparency and credibility of ODA performance feedback currently is a growing preoccupation of Japanese political leadership. All evaluation reports are public, whether produced by MOFA, JICA or JBIC, and most are made electronically available on the agency web. Each ODA institution has its own Evaluation Committee, composed of external specialists, through which individual evaluation quality and methodology can be examined. An annual evaluation report is sent separately to the Diet members for their reference by MOFA, JICA and JBIC. The Board of Audit also has a special administrative section to track the use of ODA⁴⁶ and external audits have now been extended to all schemes of development co-operation (ODA loans, grants, technical co-operation). Nevertheless, these various efforts are not complemented yet by a regular system of follow-up on the findings and recommendations to ensure that lessons-learned are applied in future programming. In particular, challenges by recipient countries in securing recurrent and maintenance costs have been pointed out in numerous evaluations over the years, and yet new projects do not seem to address this point adequately. It is important that these evaluations are not perceived as being simple data generating exercises that ultimately become an end in themselves.

Japan is in the earliest stages of setting up a more operational “results-based management” (RBM) approach to its ODA. Efforts to date are specific to the individual agency. JBIC has introduced a form of RBM at project and agency levels, but not yet at the country programme level. Its Evaluation Office is attempting to better link the results of its projects to the MDGs. JICA uses the individual project logical framework to shape its results-based system. It also plans to use mid-term planning targets as a way of addressing the MDGs. JICA staff also noted the difficulties of developing a useful baseline in many of the LDCs. Some Japanese specialists noted their concern that excessive focus on a results-based approach may limit Japan’s ability to undertake the development activities actually needed.

If Japan continues to reform its systems in line with current political expectations of greater transparency and effectiveness, ODA organisation could become less compartmentalised. This would offer the possibility of moving toward a more common, results-based monitoring and evaluation reporting system among all agencies, a trend which has already been noted in the DAC. A second, longer-term trend noted in the DAC has been the increasing donor emphasis on policy or programme learning over that of projects. As Japanese ODA organisation and management continues to evolve, evaluations - together with programming - should permit the entire ODA establishment to shape one coherent national development programme. It will also require a further strengthening of the technical and management capacity of Japanese ODA evaluation units, particularly that of the ECB, to foster greater synergy among the different parts of the Japanese system.

46. However, the public outreach function of the Board of Audit may merit attention. Requests to the Board to obtain information on Tanzania and Vietnam for this Peer Review were not successful.

Human resources management

The Japanese government's statistics are not organised so as to permit readily an integrated view of all official staff responsible for development co-operation. At present, Japan does not have an integrated ODA personnel policy, nor a mechanism which focuses on the co-ordinated use of this staff across agencies. Table 3 attempts to assemble the evolution of most types of ODA staff over the last several years.

Table 3. Estimated Evolution of Japanese ODA staff resources

Institution	1977	1982	1987	1992	1997	1998	2003
MOFA (a)	151	205	270	371	442	430	435
of which: overseas (b)	54	97	146	218	269	258	245
OTHER MINISTRIES (a) (c)	98	99	100	107	110	108	120 est.
JICA	579	741	867	1 023	1 173	1 180	1 213
of which: overseas	57	111	156	254	324	329	369
JBIC (d)	180	235	252	297	333	332	329 est.
of which: overseas	15	22	33	49	54	54	54 est.
TOTAL STAFF	1 008	1 280	1 489	1 798	2 058	2 050	2 097 est.
of which: overseas (e)	126	230	335	521	647	641	668 est.
GROSS ODA/STAFF (USD million)	1.6	2.6	5.5	7.3	6.1	6.2	6.1

Source: MOFA and OECD.

- (a) Includes only those directly in charge of each ministry's ODA budget; other bureaux may also be occasionally involved.
- (b) Attachés seconded from other ministries to MOFA missions are counted as part of MOFA.
- (c) Includes aid-related staff of MOF, METI and the Economic Planning Agency.
- (d) The total for 2003 is the number of ex-OECF staff at the time of the JBIC merger in 1999.
- (e) Does not include contracted experts or volunteers.

JICA is the largest ODA agency in terms of staff size with a total 1 213 development staff world-wide, some 369 of whom are located in the field. JICA staff represent the full range of development co-operation skills, from expertise in technical sectors to expertise in more general management field (*e.g.* contracting, financial management and procurement). Second largest is MOFA, with an estimated 435 staff who are focused on ODA activities, some 245 of whom are located in the field. JBIC, at the time of its merger in 1999, had an estimated 329 development staff, including 54 persons in the field. JBIC no longer differentiates between its development staff and those working in international finance, but today's staff levels overall have declined since then. This suggests that Japan currently has a **total staff** level of some 2 097 Japanese development professionals to manage its world-wide portfolio of USD 9 billion, an estimated 668 of whom are located in the field. Seen in ODA system terms and as has been noted in previous peer reviews, Japan continues to be among the more thinly staffed DAC members. Its overall human resource capacity is further reduced by the fact that MOFA development staff and those temporarily seconded by other ministries often rapidly rotate out of development co-operation – representing a loss of human resources to the ODA system.

Under-staffing has frequently been mentioned as a major constraint to decentralisation. To the extent that Japan deepens its resolve to operationalise this approach, a collaborative review of personnel strategy and options will be needed, in a manner that is consistent with the organisational and management changes noted earlier. Options for this review that could be supportive of decentralisation include: (i) better use of local professional or contract staff in the field, (ii) a potential shift of functions to the field, reducing the size of certain types of Tokyo staffing in favour of the field,

pending review of cost and other factors, or (iii) better use of resources already in the field by reducing institutional compartmentalisation. On the last point, the new ODA Task Force team concept now required of all ODA missions offers a promising opportunity to foster greater synergy among Japanese agency field staff. Such a comprehensive review would not be complete, of course, without a more holistic understanding of other organisational features, for example, (iv) a re-evaluation of the need for a Japanese presence in very small countries or greater prioritisation in the selection of recipient countries, and (v) transfer of greater funding responsibility to the multilaterals or NGOs, among others.

There is currently no experience requirement nor substantive formal development training for foreign service officers of MOFA who work in the ODA area. Prior to their assignment in the field, the Japanese Foreign Training Institute provides 2-3 days of general orientation to development issues for MOFA staff and some 2-3 months of development training for secondments from other ministries. Because of the need to maintain a cadre of experienced professionals, MOFA is encouraged to consider establishing a career track in the “development” category, so as to attract and maintain the kind of high level staff that will be needed to carry out the current ministry mandate in strategic co-ordination and policy. Furthermore, under any decentralisation scenario, it will be important to raise the level of professional skills (*e.g.* technical, negotiation, language) so as to create a more consistent and dynamic ODA team that can progressively take charge of partnership and collaborative operations in the field.

Future considerations

- MOFA should consider organisationally moving away from an instrument based co-operation system to a more country based approach as well as establishing country budget envelopes.
- MOFA should consider delegating most grant management to JICA. MOFA should focus on its leadership role in strategy, policy development and system co-ordination.
- Japan should move towards a more integrated ODA evaluation system as well as develop a clearer follow-up mechanism on findings and recommendations.
- More development staff are needed across the system, particularly if decentralisation is to succeed. An integrated ODA personnel policy should be established that includes planning and analysis of development staff levels and skills.

CHAPTER 6

COUNTRY OPERATIONS

Country strategy and organisation

*Regional differences and country strategy*⁴⁷

Japan's strategies for Vietnam and Tanzania are representative of the different regional perspectives frequently referred to in Japanese development co-operation. **Vietnam** is a centrepiece of Japan's approach to Asia (see Box 10). The Vietnam programme is justified around strong, geographical, commercial and security interests, but clearly also notes the level of poverty of the country and the extent to which the Vietnamese are actively taking charge of their own development. Vietnam is the sixth largest recipient of Japanese ODA in the world and the aid mission there is currently used as a pilot to test new organisational reforms. The CAP focuses on economic growth strategies, especially with an emphasis on infrastructure, policy dialogue and institutional capacity building as key to both national socio-economic development and to poverty reduction. The CAP makes heavy use of development loans (65% of the current portfolio) and therefore offers a strong institutional role for JBIC. In contrast, and consistent with the cultural and economically different context of Africa, Japan has adopted a more cautious approach in **Tanzania**. The Asian economic growth model has worked less well in Tanzania and Japan is prudently moving toward an emphasis on learning, particularly in collaboration with other partners. Because of Tanzania's low level of development and its past inability to repay loans (80% of the Tanzania portfolio is currently composed of debt relief), funding there is now totally in the form of grants, giving JICA a strong institutional role.

The Country Assistance Programme

The CAP most clearly defines the rationale and strategic framework for Japanese development co-operation in a specific country. In **Vietnam**, the initial CAP that was established in 2000 is now being revised (see Box 8) by a local ODA Task Force team in a manner more explicitly in line with Vietnamese-owned strategy for poverty reduction and economic growth. Collaboration with partners, including the Vietnamese government and civil society, Japanese NGOs and other donors, has been conducted regularly, and main discussion documents are prepared in English. Japan's pilot effort to establish greater strategic co-ordination and integration at the field level in Vietnam is consistent with DAC experience elsewhere and merits the attention and support of Japanese leadership. It could be reinforced in the future by tighter linkages with local strategic processes (such as the sector working group in agriculture) or any other sector level collaboration. Vietnam could offer an ideal setting for Japan (and others) to analyse and explain how poverty reduction is addressed through economic growth, especially through activities in infrastructure (see Chapter 3). The clearer and more convincing analysis and information that can be extracted from the Vietnamese experience is of interest to the DAC, and will help Japan better target its large local portfolio while helping to inform others of its importance.

47. The content of this chapter draws extensively on the field visits to Vietnam (7-11 July 2003) and Tanzania (3-13 March 2003) made by the DAC review team.

Box 10. The Vietnam field visit - A model for the future of Japanese ODA?

In spite of its natural endowment, Vietnam's 80 million people live in pervasive poverty. The country has a GDP per capital of USD 441 and one-third of its households are classified as poor. However, Vietnam's poverty rate is estimated to have fallen from 58% to 32% between 1993 and 2000, with the majority of the poor now located in the more isolated, rural parts of the country. Particularly since the adoption of its policy of Doi Moi ("renovation") in 1986, Vietnam has been on the course of economic growth, with a GDP that grew by over 6% per year in the 1990s. This growth has been driven by increasingly market-led economic policies, rising exports and foreign investment.

Vietnam's Doi Moi policy led it to seek out new partners in the early 1990s, and Japan was the first and most responsive. Initial Japanese ODA loans were provided in 1992 as a form of commodity loan. Japan co-sponsored, with the World Bank, a first donor conference on Vietnam (1993) where it also set the tone by announcing major bilateral funding, especially in infrastructure. Japanese ODA to Vietnam has grown continuously over the last decade and today is the largest donor (USD 850 million per year) with responsibility for 40% of the country's total ODA. Co-ordination among the large number of foreign donors working in Vietnam was facilitated recently through the establishment of a Comprehensive Poverty Reduction and Growth Strategy (CPRGS), an innovative PRSP document that provides Vietnam's partners with a common sense of strategic vision for growth with equity. It also has led to the creation of key sector forums for operational collaboration, of which the semi-annual Consultative Group process is another part.

The large size of its programme, the favourable working environment of Vietnam, and the relative proximity to Japan have caused the Hanoi mission to be used as a testing ground for management reforms that support future decentralisation of overall Japanese development co-operation. An initial action in this respect was the creation in 2003 of an all-Japan "ODA Task Force" team that regrouped the official Japanese agencies under the leadership of the embassy's minister. This Task Force is currently undertaking a joint elaboration of a new Vietnam CAP, built around the three CPRGS pillars: (i) promotion of economic growth, (ii) improvement of social living conditions, and (iii) institution building. This all-Japan shared strategy and sector organisation could become a framework for increasingly collaborative relationships among the different agencies. Because Japanese strategic priorities have been chosen so as to coincide with the strategic priorities of the CPRGS, the all-Japan team also will have a basis for operational co-ordination with other partners working in the same sectors. If such a simply defined, coherent and decentralised operational system can be put in place, it can be expected to invite a reassessment of the division of responsibility between Tokyo and Hanoi.

Tanzania (see Box 11) is also seen as a pilot country for the testing of new ODA principles and organisation. As in Vietnam, this has been facilitated by the Tanzanian leadership in setting up structures for strategic and operational co-ordination, essentially built around the PRSP process. Because the current CAP preceded the PRSP, it does not refer directly to it, and neither the Tanzanian government nor the local civil society played an important role in drawing it up. Japan recognises these weaknesses and will redress them in the next CAP design. As Japan works to address the challenges of this more collaborative form of development co-operation, it does not hesitate to state openly its interest in moving from past approaches to ones built around the more strategic concept of "comprehensive efforts for each development subject".⁴⁸ A major evaluation of the current CAP helped Japan to direct its research for new directions, including creative thinking in the areas of partner co-ordination, greater emphasis on sector approaches and more emphasis on sustainability.

48. See "The Country Program Evaluation Study on JICA's Cooperation in Tanzania", International Development Center of Japan, March 2001.

Box 11. The Tanzania field visit - The different context of Africa

Tanzania was Japan's 9th top ODA recipient in 2001, and the largest in Africa, in terms of gross ODA disbursement at USD 260 million. Even subtracting the USD 200 million of this total used for debt relief (largely for commercial loans), Japan remained one of Tanzania's top four donors. Japan has been co-operating with Tanzania since its independence and has designated it as one of the pilot countries to enhance donor co-ordination. Both the Embassy and JICA have increased staff for this purpose.

Japan produced a CAP Tanzania in 2000, the orientations of which were: 1) promotion of agriculture and small-scale industries; 2) basic education; 3) basic health care, including HIV/AIDS prevention; 4) urban infrastructure; and 5) forest conservation. Even though it was written before the Tanzanian PRSP, the strategic directions of Japan overlap with those of the PRSP, except for the contrast between the Japanese emphasis on urban infrastructure, versus the Tanzanian infrastructure emphasis on rural roads.

Uncertainties over the most appropriate activities to promote, when coupled with the weak absorptive capacity and management environment of Tanzania, has led Japan to move gradually from past policies that focused on loan assistance, in favour of grant assistance and a lesser emphasis on large infrastructure, more collaboratively designed strategy and projects, and a willingness to experiment with new approaches in Tanzania. Japan's efforts are bearing fruit and both the Government of Tanzania and other donors expressed appreciation for the collaborative nature of Japanese operations. In particular, Japan has provided a secretariat to lead donor co-ordination in the agriculture sector, played a significant role in the poverty monitoring activities for the PRSP, and has contributed to the Poverty Reduction Budget Support - the first time Japan has ever carried out direct budget support - using grants related to debt relief.

Whether emphasising principles of "self-help" or "cost-sharing", Japanese ODA leadership in the field is coming to see development co-operation programmes in a context of responsibility sharing, built around the leadership of the recipient country. This policy-level stress on ownership can be defined nevertheless in more than one way. In the case of Vietnam, Japanese emphasis is actively being placed on strategic collaboration, while in Tanzania the approach refers to a more operational form of demand-driven projects that appears to reflect the interests and priorities of individual ministries. The Peer Review took special note of the longer-term potential for tension inside the Japanese system between strong field statements in favour of local ownership in the recipient country and the range of Japanese domestic interests that have been recently reinforced in the new ODA Charter. It will undoubtedly be an ongoing challenge for the ODA Task Force team in the field to navigate a middle ground between these two potentially conflicting sets of interests.

Field organisation and staffing

ODA field organisation in Vietnam and Tanzania appears to be a series of vertically organized agencies with separate lines of command to Tokyo. Such compartmentalised behaviour comes with a range of transaction costs that merits greater analysis and attention in Tokyo, particularly as Japanese ODA leadership seeks to promote greater decentralisation. The ODA Task Force concept that is currently in its earliest stages of development in Vietnam and elsewhere could become an important innovation in this respect. If this team approach can foster internal Japanese co-ordination around a common vision, it has the potential to build synergies among agencies and set the basis for even more effective organisational reforms (*e.g.* more optimal integration of grants, technical co-operation and loans; improved co-ordination between headquarters and the field).

The **staff** in both Vietnam and Tanzania appear to be organised and dedicated, albeit over-worked. In Vietnam, 47 Japanese and local professional staff are currently employed by the different agencies of the ODA Task Force (11 work for the Embassy, 28 for JICA, 8 for JBIC). There are 20

professionals working in Tanzania, (5 for the Embassy, 10 for JICA, plus 5 national programme officers). However, because the current system maintains key decision-making in Tokyo, the profile of many professional field staff was not one of extensive development-specific skills or experience, particularly the local staff and those seconded from sector ministries in Japan. A common complaint heard in Tokyo was the difficulty of increasing the numbers of development staff in the field given the current context of government-wide personnel compression. In Vietnam, the total of 47 professionals for an annual country programme of USD 850 million appeared proportionately smaller size than most donors in country.⁴⁹ In Tanzania, the Japanese programme relied on a total of 20 professionals for a programme of USD 260 million, but of which some USD 200 million is in the less management-intensive areas of debt relief. The prevalent opinion of Japanese management in the field was that the current number of professional staff and their skill levels should increase. More importantly, perhaps, the fact that the existing configuration of Japanese ODA staff is construed around an agency, rather than team management concept, suggests that significant efficiencies could be gained from a greater operational collaboration across agencies and the increased synergy that would result. Field staff roles, depending on the agency, tend to be biased toward general co-ordination and administrative support tasks (*e.g.* sector-oriented general oversight for Embassy development staff, largely composed of seconded staff from Tokyo ministries; JICA general support responsibilities for large numbers of technical co-operation experts located in the host country ministries; selected monitoring and decision making for ongoing ODA loan projects, research activities and information collection for JBIC operations officers). In the case of Tanzania, the need to be more fully linked to ongoing donor learning processes led to the allocation of some extra staff to the Embassy and the JICA mission. In Vietnam, the availability of skilled local professionals has meant greater reliance could be placed on local Vietnamese contract staff.

Country implementation: New approaches on the horizon

Consistent with the new directions of organisation and management change reviewed in Chapter 5, several new approaches (all in the early stages of implementation) were noted in Vietnam and Tanzania. Following the innovative leadership of local authorities in these countries, Japan and other partners have begun to establish an important repertory of lessons learned for development co-operation more broadly.

Decentralised co-ordination in the PRSP context

Both Vietnam and Tanzania were countries with a well advanced PRSP process which has helped Japan undertake more efficient co-ordination of strategy and implementation. In both cases, Japan supported the PRSP processes, at times with funding and technical assistance. The approach in Vietnam of careful partner co-ordination at the strategic level would appear to have been generally effective in eliciting recipient country ownership. In both the case of Vietnam and Tanzania, it can be assumed that Japanese (and other donor) programmes and implementation will be progressively better co-ordinated in the context of the PRSP sector working committees over time.

The PRSP framework offers new opportunities for Japanese portfolio development, including local operational linkages for the ODA Task Force. In Vietnam, this can permit the Japanese system to work more efficiently by establishing increasingly explicit linkages with the CPRGS sector co-ordinating groups, and thereby simultaneously linking up with the groups' mutual learning process and

49. In contrast, although not strictly comparable, the local World Bank office employed 95 professionals for a portfolio size of USD 750 million. The Asian Development Bank office, which depends heavily on Manila for technical support, employed 12 professional staff for a portfolio of slightly over USD 200 million.

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common policy dialogue process. To the extent it wishes to do so, this will also offer Japan an opportunity to play a stronger leadership position within the partner groups.

Implementation modalities

Japan continues to organise the implementation of its programmes mainly on a **project** basis. However, in principle, it remains open to whatever modality seems to make the most sense according to field realities, including sector programmes. In Tanzania, Japanese assistance is increasingly co-ordinated through local sector working groups; and in particular, Japan is the leading donor in the agriculture sector programme. In Vietnam, the new CAP is being explicitly organised along sector lines that are linked to the local CGPRS and will presumably be actively co-ordinated through implementation in that manner.

The topic of **budget support** is actively discussed within the Japanese system of development co-operation. There is no legal obstacle to the selected use of budget support, and although Japan is seen by some as being averse to use it in its operations, it is important to note that it has provided significant amounts of non-project grant assistance and sector programme loans, commodity loans, structural adjustment programme loans etc. over the last 40 years, largely in the form of balance of payments support. As a matter of preference, Japan (as with other donors) remains concerned by the accountability issues of using taxpayer funds in a context of poor financial management and potential corruption often found in the developing world. Japan also wants to avoid paying for recurrent costs of government and even requires that most local costs should be covered by the recipient country. Japan is encouraged to continue to actively participate in the current donor discussion over the appropriateness of the new forms of budget support (*e.g.* basket funding, performance based general budget support) that are being attempted by some DAC members. It is further suggested that Japanese ODA leadership in its pilot missions should be given the authority to participate in these schemes, should they seem locally appropriate. As mentioned earlier, in Tanzania, where the practice is fairly widespread within the donor community, Japan contributed to budget support targeted on poverty and was contemplating participation in basket funding for the agriculture sector (see Box 12).

Field approaches to monitoring and evaluation

Current field approaches to monitoring and evaluation are very much determined by the overall feedback system described in Chapter 5. Field monitoring across agencies at the project level is driven by the contractors hired to provide technical assistance, especially for technical and grant assistance. This monitoring information is shared directly with host country and subsequently with Japanese official staff, who appear to play a relatively modest role in guiding implementation once the contracts have been signed. Regarding ODA loans, projects are monitored by JBIC field staff, including locally employed staff and several types of external specialists. Evaluation, on the other hand, is largely driven by Tokyo, who may organise field work through contracting with specialists or through internally led efforts, sometimes in collaboration with the host country government. In terms of reporting on the MDGs, Japanese leadership in both Vietnam and Tanzania see the logical source of this information at the level of the country PRSP. In both countries, Japan has attempted to support the enhancement of PRSP capacity to measure the impact of donor programmes in this area. At the same time, monitoring and evaluation are still fragmented along instrumental and organisational lines and lack a comprehensive overview for the entire country programme. As the decentralisation thinking evolves, this is an aspect that warrants review and rethinking by Tokyo.

One area Japan could also develop is a system to assess performance of multilateral organisations in the field, synthesise the information systematically, and reflect them in Japan's position in the board meetings of the respective multilateral organisations. Some Japanese embassies such as that of

Tanzania currently reports activities of multilaterals to Tokyo, but not to the degree of active performance assessment. In contrast, since the 1980s the US has established a world-wide “Early Warning System” that shares World Bank project proposals in advance of its review by the Bank’s board. The proposals are e-mailed to the appropriate United States Agency for International Development (USAID) mission which then co-ordinates with other relevant specialists in the country before returning field observations and suggestions to the US Executive Director’s office via USAID headquarters. As one of the largest contributors to many organisations, Japan could also become more actively involved in shaping the policies and good governance of multilateral organisations through an enhanced feedback mechanism from the field. To this end, sufficient integration of the multilateral and bilateral efforts is necessary to create a more systematic learning process and to ensure that Japan’s positions are consistent with each other.

Harmonisation and aid effectiveness viewed from the field

Japanese ODA leadership supports the objectives outlined in the 2003 DAC report “Harmonising Donor Practices for Effective Aid Delivery”. Japan explicitly bases its rationale for pursuing a policy of harmonisation as being supportive of the objective of enhancing the effectiveness of its aid. It actively participated in OECD/DAC harmonisation discussions⁵⁰ and subsequently co-sponsored a regional workshop on the topic in Hanoi before carrying the messages of harmonisation to the 2003 High-level Forum in Rome. The specific focus of Japanese policy is on the harmonisation of procedures of aid delivery. Japan has explicitly stated its view that the debate over harmonisation of aid modalities is contrary to the spirit of using flexibility in dealing with the field realities of individual countries, although it is not necessarily against such a concept if it makes sense in certain circumstances. Japan is encouraged to continue working with other donors on the debate on harmonisation.

Japan uses the DAC system of classifying harmonisation efforts into three separate themes. First, in working **between donors and partner governments**, Japan emphasises the fundamental importance of ensuring partner country ownership and leadership. For Japan, this requires both the alignment of donor activities with partner-owned development plans (*e.g.* PRSP) and an investment in the building of local capacity. Japan specifically cites its experience on loan procedures in Vietnam (see Box 12) as an example of harmonisation. Secondly, in working **between donor agencies**, Japan is conscious of the need to reduce the heavy transaction costs exacted by complex donor requirements and wishes to harmonise procedures in collaboration with other donors so as to reduce these costs on a progressive and pragmatic basis, starting in the areas where marginal benefits are greatest. Japan has also stated its interest in each donor sharing country or sector analysis with others and, in this sense, is promoting information sharing through its participation in the Country Analytical Work website launched by the World Bank. In Vietnam, Japan is working in partnership with the United Kingdom to prepare a workshop on Aid Effectiveness. Thirdly, in working **within individual donor systems**, Japan has stated its determination to review its own aid procedures and systems to promote their further improvement and rationalisation.

50. Japan contributed to the Task Force on Donor Practices by funding a highly appreciated needs assessment of partner countries’ efforts at harmonisation. Japan also holds the Vice Chairmanship of the DAC Working Party on Aid Effectiveness and Donor Practices.

Box 12. Loan harmonisation in Vietnam: the “Five Development Banks”

In Vietnam, three development banks (ADB, JBIC, World Bank), agreed at a May 2002 mid-year Consultative Group meeting to undertake an effort to harmonise their procedures and practices in the areas of procurement, financial management, environmental safeguards, portfolio management and economic-social work. Their joint effort has begun to bear results over the first year and is considered by some as being among the leading examples of donor harmonisation in the world. A Joint Portfolio Performance Review held with the Vietnamese government in May 2003 noted initial gains since the 2002 agreement, including progress toward objectives and an improvement in the rate of disbursement by over 10%. In light of this progress, two more bilateral development banks, those of France and Germany, have joined the effort, which now cumulatively represents over 70% of all concessional lending in Vietnam.

One of the early lessons learned by the Group was to focus on a few key tasks rather than to attempt to resolve all issues simultaneously. In support of this logic, the Group is now focused on the two themes of (i) procurement and disbursement planning and, (ii) reporting systems, for which a mutually acceptable action plan and common format are now being drafted. The Group soon hopes to invite greater integration of the Vietnamese Government procedures into this harmonisation process.

In addition to the pilot work of the “Five Development Banks” group in Vietnam by JBIC, JICA has participated on a local task force on harmonisation. JBIC has also initiated a pilot programme with the ADB in Indonesia which seeks to standardise documentation in procurement, financial management and environment, and is attempting similar initiatives in the Philippines and Jamaica. At the same time, the Japanese approach to **tying ODA grants** has been a challenge in the harmonisation effort (see Box 13). The DAC encourages Japan to re-examine the necessity of this type of procedure.

Box 13. The special issue of Japanese contractors and the untying of grant aid

Operational grants are tied to Japanese primary contractors. However, the contractors are subsequently under no legal obligation subsequently to procure Japanese goods, services or works. Therefore, MOFA considers the grants to be untied and reports them as such to the DAC. According to MOFA, grants are tied to Japanese primary contractors to ensure that the requirements of the Japanese budget process are being respected. The Japanese budget system has little flexibility to carry over funds from one fiscal year to the next and, it is asserted, only Japanese companies can ensure the procurement of project-related goods, services and works before the end of the fiscal year. Japan believes that this required use of Japanese primary contractors ensures a greater attention to the quality and durability of its investments.

This requirement raises a number of questions at the level of the DAC. First, it is interesting to note the different approach for ODA loans. Here, when the primary contractor is tied to Japanese companies, such as for the Special Yen Loans after the Asian crisis, the loan is reported as tied, regardless of whether procurement for separate projects was untied. Second, the systematic use of Japanese contractors for grants raises questions concerning Japan's commitment to the principles of country ownership, partnership, and harmonisation of donor procedures. Although the partner government is invited to Tokyo to participate in choosing the Japanese primary contractor, and is consulted on the specifications for the procurement of goods and services, it is nevertheless also true that the partner government does not carry the main responsibility for procurement. Similarly, if the use of Japanese contractors relates to Japanese internal requirements, it should be possible to re-examine this approach in the spirit of better aligning donor procedures to partner country systems. Finally, the DAC notes that tying of operational grants to Japanese primary contractors is also applied for grants to the LDCs. This clearly implies that the 2001 DAC Recommendation on Untying ODA to the LDCs has had little practical effect on Japan's procurement system for LDC grants.

Future considerations

- Japan should replicate the Vietnam and Tanzania decentralisation experiences elsewhere, particularly concerning the creation of an ODA Task Force and the emphasis on co-ordination, harmonisation and sector leadership.
- Japan should continue its growing involvement in the current donor discussions on budget support, contributing its recent experience in Tanzania.
- An enhanced feedback mechanism from the field on assessing multilateral performance should be developed.
- Japan should work with the DAC on identifying concrete measures to untie progressively the use of grant funds for primary contractors, in the spirit of the Recommendation on Untying ODA to the least-developed countries.

ANNEX I

THE 1999 DAC PEER REVIEW AND JAPAN ACHIEVEMENTS

Key issues	Concerns expressed in 1999	Progress achieved
Volume of aid	Japan should maintain and increase its ODA volume.	Due largely to the weak Japanese national budget, net ODA volume dropped sharply in 2001 and continued to drop in 2002-2003.
ODA administration	ODA administration should be strengthened, including staffing, increasing the roles of implementing agencies, decentralisation of field offices, improved aid co-ordination, and enhancement of NGO involvement.	Some reforms are underway, including: a stronger role for MOFA to co-ordinate the ODA institutions; a more independent operational status for JICA; greater support for NGOs; pilot efforts to decentralise to the field level.
Strategic framework	A new medium-term policy statement for ODA will provide a basis for the re-orientation of Japan's aid policies and management, in line with the new International Development Strategy (IDS). Country assistance strategies should be prepared in accordance with the IDS and with participation by recipient countries, other donors, and NGOs; country strategy design teams should be sensitised to the IDS before they go out to the field; and lessons learned from the seven IDS pilot countries should be mainstreamed in the overall ODA programme.	Japan revised its ODA charter in August 2003. Japan has been striving to make ODA more coherent with IDS objectives. The new Charter also makes greater use of Country Assistance Programmes (CAP) and a formal medium-term policy statement. CAPs have been prepared for 15 countries and have involved participation of civil society.
Effect of organisational reform	It will be important for the integrity of ODA to be preserved within the OECF/JEXIM merger, particularly through separate policies and accounts.	JBIC uses an administrative "firewall" to separate the two functions.
Lessons learned from Asian crisis	There needs to be an analysis of the domestic roots and the implications of the Asian crisis, including the sustainability of "economic take-off", "self-help efforts", governance and corruption, and institutional and human capacity development.	Japan has yet to officially elaborate on the findings.
Mainstreaming of cross-cutting issues	Cross-cutting issues such as poverty, gender and governance should be mainstreamed, with clear definitions for "basic human needs", "the poor", "poverty", and "poverty reduction".	Japan still lacks a mechanism that cuts across institutional boundaries to deal with cross-cutting issues. Approaches to these issues currently vary significantly from one ODA institution to another.
Effectiveness, sustainability, and policy dialogue	Projects should be designed, monitored, and evaluated with a view towards cost-effectiveness, sustainability, technological appropriateness, and socio-economic outcome/impact. Policy dialogue should be given more emphasis.	Project processes have not changed significantly. Reduction of cost is a major factor in the current environment of budget restraint. Sustainability is primarily addressed as a question of policy, and includes greater interest in ownership, CAPs and decentralisation of Japanese institutions to the field. Policy dialogue is being given additional emphasis.

Policy coherence	Coherence between development co-operation and other economic policies of Japan affecting trade and investment vis-à-vis developing countries needs to be systematically promoted.	Japan does not have an explicit statement on policy coherence for development. It also lacks an analytical capability to identify, and propose solutions for, issues of incoherence.
Untying of aid	Japan is encouraged to further promote untying of its ODA, particularly to least developed countries, bearing in mind also the DAC's work in this area.	Japanese grants for LDCs are not yet fully untied.

ANNEX II

JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE CHARTER

August 29, 2003
Government of Japan
Ministry of Foreign Affairs
Economic Co-operation Bureau

(Unofficial translation)

Revision of Japan's Official Development Assistance Charter

Japan's Official Development Assistance (ODA) Charter, approved by the Cabinet in 1992, has been the foundation of Japan's aid policy for more than 10 years. The world has changed dramatically since the Charter was first approved, and today there is an urgent need for the international community, including Japan, to address new development challenges such as peace-building. Faced with these new challenges, many developed countries are strengthening their ODA policy, to deal with the serious problems that developing countries face. At the same time, not only governments and international organisations, but many other stakeholders are also assisting developing countries. All stakeholders engaged in development assistance are strengthening their mutual collaboration.

In line with the spirit of the Japanese Constitution, Japan will vigorously address these new challenges to fulfil its responsibilities commensurate with its national strength and its standing in the international community. In this regard, it is important to have public support for ODA. It is essential to effectively implement ODA, fully taking into account the domestic economic and fiscal situation as well as the views of the Japanese people.

Against this background, the Government of Japan has revised the ODA Charter, with the aim of enhancing the strategic value, flexibility, transparency, and efficiency of ODA. The revision also has the aim of encouraging wide public participation and of deepening the understanding of Japan's ODA policies both within Japan and abroad.

Japan's Official Development Assistance Charter

I. Philosophy: Objectives, Policies, and Priorities

1. Objectives

The objectives of Japan's ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity.

Taking advantage of Japan's experience as the first nation in Asia to become a developed country, Japan has utilized its ODA to actively support economic and social infrastructure development, human resource development, and institution building. Consequently, Japan has significantly contributed to the economic and social development of developing countries, especially in East Asia.

Amid the post-Cold War advancement of globalization, the international community presently finds itself in a new environment, grappling with a multiplicity of problems such as the gap between the rich and the poor; ethnic and religious conflicts; armed conflicts; terrorism; suppression of freedom, human rights, and democracy; environmental problems; infectious diseases; and gender issues.

In particular, humanitarian problems, such as extreme poverty, famine, refugee crises, and natural disasters, as well as global issues such as those related to the environment and water, are important issues that need to be addressed in order for the international community as a whole to achieve sustainable development. These problems are cross border issues that present a grave threat to each and every human being.

Furthermore, conflicts and terrorism are occurring more frequently and they are becoming even more serious issues. Preventing conflicts and terrorism, and efforts to build peace, as well as efforts to foster democratization, and to protect human rights and the dignity of individuals have become major issues inherent to the stability and development of the international community.

Japan, as one of the world's leading nations, is determined to make best use of ODA to take the initiative in addressing these issues. Such efforts will in turn benefit Japan itself in a number of ways, including by promoting friendly relations and people-to-people exchanges with other countries, and by strengthening Japan's standing in the international arena.

In addition, as nations deepen their interdependence, Japan, which enjoys the benefits of international trade and is heavily dependent on the outside world for resources, energy and food, will proactively contribute to the stability and development of developing countries through its ODA. This correlates closely with assuring Japan's security and prosperity and promoting the welfare of its people. In particular, it is essential that Japan make efforts to enhance economic partnership and vitalize exchange with other Asian countries with which it has particularly close relations.

Japan aspires for world peace. Actively promoting the aforementioned efforts with ODA, and manifesting this posture both at home and abroad is the most suitable policy for gaining sympathy and support from the international community for Japan's position. Therefore, Japan's ODA will continue to play an important role in the years to come.

2. Basic Policies

In order to achieve the objectives outlined above, Japan will carry out ODA even more strategically, in accordance with the following basic policies.

(1) Supporting self-help efforts of developing countries

The most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building including development of legal systems, and economic and social infrastructure building, which constitute the basis for these countries' development. Accordingly, Japan respects the ownership by developing countries, and places priorities on their own development strategies.

In carrying out the above policy, Japan will give priority to assisting developing countries that make active efforts to pursue peace, democratization, and the protection of human rights, as well as structural reform in the economic and social spheres.

(2) Perspective of "Human Security"

In order to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional, and national perspectives, but also to consider the perspective of human security, which focuses on individuals. Accordingly, Japan will implement ODA to strengthen the capacity of local communities through human resource development. To ensure that human dignity is maintained at all stages, from the conflict stage to the reconstruction and development stages, Japan will extend assistance for the protection and empowerment of individuals.

(3) Assurance of fairness

In formulating and implementing assistance policies, Japan will take steps to assure fairness. This should be achieved by giving consideration to the condition of the socially vulnerable, and the gap between the rich and the poor as well as the gap among various regions in developing countries. Furthermore, great attention will be paid with respect to factors such as environmental and social impact on developing countries of the implementation of ODA.

In particular, the perspective of gender equality is important. Japan will make further efforts to improve the status of women, giving full consideration to the active participation of women in development, and to ensuring that women reap benefits from development.

(4) Utilization of Japan's experience and expertise

Japan will utilize its own experience in economic and social development as well as in economic cooperation when assisting the development of developing countries, fully taking into account the development policies and assistance needs of developing countries. Japan will also utilize its advanced technologies, expertise, human resource, and institutions.

Implementation of ODA will be coordinated with key Japanese policies to ensure policy coherence, taking into consideration implications for Japan's economy and society.

(5) Partnership and collaboration with the international community

Mainly with the initiative of international organizations, the international community is sharing more common development goals and strategies and various stakeholders are increasingly coordinating their aid activities. Japan will participate in this process, and endeavor to play a leading role. In parallel with such efforts, Japan will pursue collaboration with United Nations organizations, international financial institutions, other donor countries, NGOs, private companies, and other entities. In particular, Japan will enhance collaboration with international organizations that possess expertise and political neutrality, and will endeavor to ensure that Japan's policies are reflected appropriately in the management of those organizations.

In addition, Japan will actively promote South-South cooperation in partnership with more advanced developing countries in Asia and other regions. Japan will also strengthen collaboration with regional cooperation frameworks, and will support region-wide cooperation that encompasses several countries.

3. Priority Issues

In accordance with the objectives and basic policies set out above, the following are Japan's priority issues.

(1) Poverty reduction

Poverty reduction is a key development goal shared by the international community, and is also essential for eliminating terrorism and other causes of instability in the world. Therefore, Japan will give high priorities to providing assistance to such sectors as education, health care and welfare, water and sanitation and agriculture, and will support human and social development in the developing countries. At the same time, sustainable economic growth, increase in employment, and improvement in the quality of life are indispensable for realizing poverty reduction and Japan places importance on providing assistance for these issues accordingly.

(2) Sustainable growth

In order to invigorate developing countries' trade and investment, as well as people-to-people exchanges, and to support sustainable growth, Japan will place importance on providing assistance for the development of the socioeconomic infrastructure —a key factor for economic activity, and also for policy-making, the development of institutions, and human resource development. This will include (i) cooperation in the field of trade and investment including the appropriate protection of intellectual property rights and standardization, (ii) cooperation in the field of information and communications technology (ICT), (iii) the acceptance of exchange students, and (iv) cooperation for research.

In addition, Japan will endeavor to ensure that its ODA, and its trade and investment, which exert a substantial influence on the development of recipient countries, are carried out in close coordination, so that they have the overall effect of promoting growth in developing countries. To that end, Japan will make efforts to enhance coordination between Japan's ODA and other official flows such as trade insurance and import and export finance. At the same time, private-sector economic cooperation will be promoted, making full use of private-sector vitality and funds.

(3) Addressing global issues

As for global issues such as global warming and other environmental problems, infectious diseases, population, food, energy, natural disasters, terrorism, drugs, and international organized crime, further efforts must be given immediately and in a coordinated manner by the international community. Japan will address these issues through ODA and will play an active role in the creation of international norms.

(4) Peace-building

In order to prevent conflicts from arising in developing regions, it is important to comprehensively address various factors that cause conflicts. As part of such undertakings, Japan will carry out ODA to achieve poverty reduction and the correction of disparities, as referred to above. In addition to assistance for preventing conflicts and emergency humanitarian assistance in conflict situations, Japan will extend bilateral and multilateral assistance flexibly and continuously for peace-building in accordance with the changing situation, ranging from assistance to expedite the ending of conflicts to assistance for the consolidation of peace and nation-building in post-conflict situations.

For example, ODA will be used for: assistance to facilitate the peace processes; humanitarian and rehabilitation assistance, such as assistance for displaced persons and for the restoration of basic infrastructure; assistance for assuring domestic stability and security, including disarmament, demobilization, and reintegration of ex-combatants (DDR), and the collection and disposal of weapons, including demining; and assistance for reconstruction, including social and economic development and the enhancement of the administrative capabilities of governments.

4. Priority Regions

In light of the objectives stated above, Asia, a region with close relationship to Japan and which can have a major impact on Japan's stability and prosperity, is a priority region for Japan. However, Japan will strategically prioritize assistance to Asian countries, fully taking into account the diversity of the Asian countries' socioeconomic conditions and changes in their respective assistance needs. In particular, the East Asian region which includes ASEAN is expanding and deepening economic interdependency and has been making efforts to enhance its regional competitiveness by maintaining economic growth and strengthening integration in recent years. ODA will be utilized to forge stronger relations with this region and to rectify disparities in the region, fully considering such factors as the strengthening of economic partnership with East Asian countries.

Also, Japan will give due consideration to the large population of impoverished people in South Asia. With respect to Central Asia and the Caucasus region, assistance will be provided to promote democratization and transition to market economies.

Japan will prioritize its assistance for other regions on the basis of the objectives, basic policies, and priority issues set out in this Charter, giving consideration to the needs for assistance and the state of development in each region.

Africa has a large number of least developed countries, and is affected by conflicts and serious development issues, amid which self-help efforts are being stepped up. Japan will provide assistance for these efforts.

The Middle East is an important region for energy supply and for the peace and stability of the international community, but it has destabilizing factors including the situation of Middle East peace process. Japan will provide assistance towards social stability and the consolidation of peace.

Latin America includes countries that are relatively well developed, but also island nations with fragile economies. Taking into consideration the disparities arising within the region as well as within countries, Japan will extend the necessary cooperation.

With respect to Oceania, assistance will be provided, as there are numerous vulnerable island nations.

II. Principle of ODA Implementation

In line with the philosophy set out above, Japan's ODA will be provided by comprehensively taking into account developing countries' need for assistance, socio-economic conditions, and Japan's bilateral relations with the recipient country, and ODA will be provided in accordance with the principles of the United Nations (especially sovereign equality and non-intervention in domestic matters) as well as the following points:

- (1) Environmental conservation and development should be pursued in tandem.
- (2) Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
- (3) Full attention should be paid to trends in recipient countries' military expenditures, their development and production of weapons of mass destruction and missiles, their export and import of arms, etc., so as to maintain and strengthen international peace and stability, including the prevention of terrorism and the proliferation of weapons of mass destruction, and from the viewpoint that developing countries should place appropriate priorities in the allocation of their resources on their own economic and social development.
- (4) Full attention should be paid to efforts for promoting democratization and the introduction of a market-oriented economy, and the situation regarding the protection of basic human rights and freedoms in the recipient country.

III. Formulation and Implementation of ODA Policy

1. System of Formulation and Implementation of ODA Policy

- (1) Coherent formulation of ODA policy

In order to ensure that the government in its entirety implements ODA efficiently and effectively in a unified and coherent manner pursuant to this Charter, medium-term ODA policies and country assistance programs will be formulated, taking into account the partnership and collaboration with the international community referred to in the Basic Policies and ODA policies will be formulated and implemented in accordance with them. Country assistance programs will be drawn up for major recipient countries, and will set out explicitly the points to which priority is to be given, based on Japan's aid policy, and reflecting the recipient countries' true assistance needs.

In accordance with these medium-term ODA policies and country assistance programs, various methods of assistance—financial cooperation in the form of loans and grants, and technical cooperation—will be linked together effectively so as to take full advantage of the characteristics of

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each method. At the same time, Japan will be mindful of the balance between hardware type cooperation such as construction and provision of equipment, and software type cooperation such as technical cooperation and institution building. Each method will be reviewed appropriately.

(2) Collaboration among related government ministries and agencies

In order to ensure that the government as a whole formulates and implements policies in a unified and coherent manner, under the auspices of the Council of Overseas Economic Cooperation-Related Ministers, the Ministry of Foreign Affairs will play the central coordinating role in strengthening broad collaboration between the ODA-related government ministries and agencies, including by means of personnel exchanges and by utilizing the expertise of those related ministries and agencies. For this purpose, the government ministries and agencies will actively use consultation fora such as the Inter-Ministerial Meeting on ODA.

(3) Collaboration between government and implementing agencies

While making clear the roles of the government and the implementing agencies (the Japan International Cooperation Agency* and the Japan Bank for International Cooperation) and the apportionment of responsibilities among them, collaboration will be strengthened, including by means of personnel exchanges to ensure an organic linkage between the government and the implementing agencies. In addition, implementing agencies will strengthen their mutual collaboration.

(4) Strengthening of policy consultation

In formulating and implementing assistance policies, it is essential to fully grasp the development policies and assistance needs of developing countries by engaging actively in policy consultation before requests are made by developing countries. At the same time, Japan will set out its assistance policies to the developing countries through dialogue, and the development policies of developing countries and Japan's assistance policy will be reconciled in order to maximize the effect of Japan's aid within those developing countries' development strategies. Furthermore, Japan will support efforts by developing countries to improve their policies and systems, including the ability to formulate and implement assistance projects. Japan will also take into consideration whether such efforts by the developing countries are sufficient in the formulation and implementation of ODA.

(5) Strengthening of the functions of field missions in the policy-making process and in implementation

The functions of field missions (primarily overseas diplomatic missions and offices of implementing agencies) will be strengthened, so that they will be able to play a leading role in the policy-making process and in implementation. In particular, steps will be taken to develop a framework for strengthening the system, including through the use of outside personnel. Japan will also make efforts to make comprehensive and accurate assessments of developing countries' development policies and assistance needs, primarily at the local level. Japan will comprehensively identify local socioeconomic conditions and other aspects through local interested parties.

(6) Collaboration with aid-related entities

Collaboration with Japanese NGOs, universities, local governments, economic organizations, labor organizations, and other related stakeholders will be strengthened to facilitate their participation in ODA and to utilize their technologies and expertise. Japan will also seek to collaborate with similar

entities overseas, particularly in developing countries. In addition, in the implementation of ODA, appropriate use will be made of the technologies and expertise of Japanese private companies.

2. Increasing public participation

(1) Broad participation by Japanese citizens from all walks of life

The government will take measures to foster participation in assistance activities by Japanese citizens from all walks of life, and to promote these citizens' interaction with developing countries. Such measures will include providing sufficient information, listening to public opinion, soliciting proposals for ODA activities, and extending cooperation to volunteer activities.

(2) Human resource development and development research

The government will make efforts to foster aid personnel with the necessary expertise and to increase the opportunities for aid personnel to be active both within Japan and overseas. In parallel with these efforts, high-quality personnel, such as persons with considerable overseas experience and extensive knowledge, will be widely sought and be encouraged to participate in ODA activities.

In addition, the government will encourage regional studies relating to developing countries and research on development policy, to promote accumulation of Japan's intellectual assets in the development sphere.

(3) Development education

Development education is important for promoting public understanding with respect to international cooperation including ODA, and for fostering people that will be engaged in international cooperation in the future. In this perspective, the government will take measures in schools and on other occasions to carry out more widespread education on development issues, such as the problems that face developing countries, relations between Japan and developing countries and the role that development assistance should play. Necessary educational materials will be distributed and teachers will be trained.

(4) Information disclosure and public relations

It is important for information on ODA policy, implementation, and evaluation to be disclosed widely and promptly to ensure the sufficient transparency, and for it to be publicized actively. Therefore, the government will use a variety of means to provide information in easy-to-understand formats, and to create opportunities for Japanese citizens to come into contact with ODA activities that Japan is undertaking.

In addition, the government will make enhanced efforts to disseminate information regarding Japan's ODA to developing countries as well as other donors.

3. Matters Essential to Effective Implementation

(1) Enhancement of evaluation

The government will carry out consecutive evaluations at all stages, i.e. ex-ante, mid-term, and ex-post, and evaluations at each level, i.e. policy, program, and project. Furthermore, in order to measure, analyze and objectively evaluate the outcome of ODA, third-party evaluations conducted by experts

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will be enhanced while the government undertakes policy evaluations. The evaluation results will be reflected in subsequent ODA policy-making and efficient and effective implementation.

(2) Ensuring appropriate procedures

The government will adopt procedures to ensure that full consideration is given to the environmental and social impact of implementation of ODA. The government will make efforts to conduct appropriate and efficient procurement with regard to quality and price. At the same time, while ensuring these aspects, the procedures will be simplified and accelerated.

(3) Prevention of fraud and corruption

The government will implement appropriate measures to ensure the transparency of the activity-selection and implementation process, and to prevent fraud, corruption, and improper diversion of aid. In addition, the government will make efforts to assure the appropriate use of funds by enhancing auditing, including through the introduction of external audits.

(4) Ensuring the safety of ODA personnel

Safeguarding the lives and personal safety of ODA personnel is a prerequisite for the implementation of ODA. The government will fully obtain security related information and will take appropriate measures.

IV. Reporting on the Status of Implementation of the Official Development Assistance Charter

The government will report the status of the implementation of the Official Development Assistance Charter in the "White Paper on Official Development Assistance (ODA)," which is reported annually to the Cabinet.

* On October 1, 2003, the Japan International Cooperation Agency is due to be reorganized as an independent administrative institution, changing its status from that of a special public institution.

August 29, 2003

ANNEX III

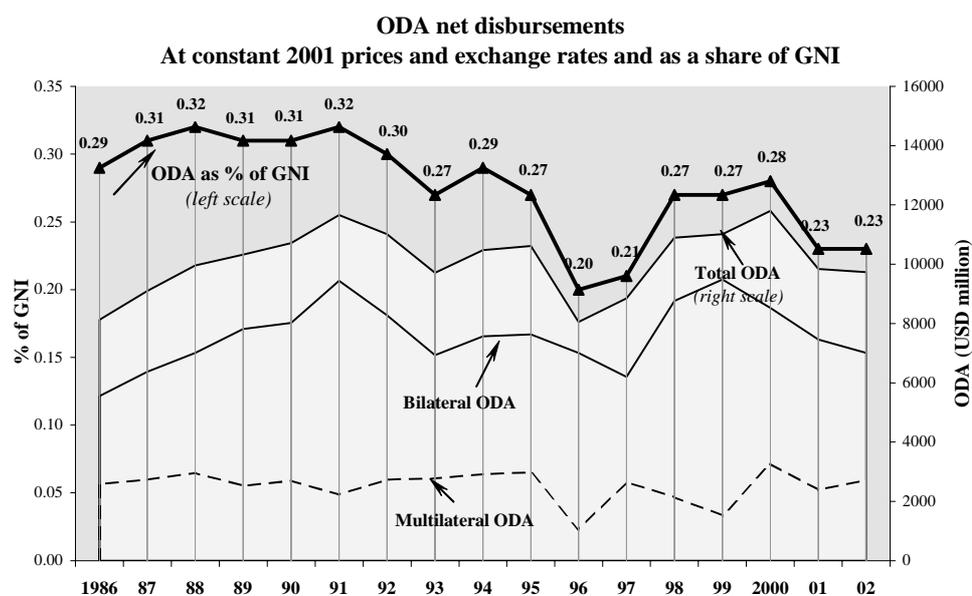
OECD/DAC STANDARD SUITE OF TABLES

Table III-1. Total Financial flows

USD million at current prices and exchange rates

Japan	Net disbursements						
	1986-87	1991-92	1998	1999	2000	2001	2002
Total official flows	5 222	14 149	23 451	23 260	8 746	8 426	4 278
Official development assistance	6 488	11 052	10 640	12 163	13 508	9 847	9 283
Bilateral	4 490	8 622	8 553	10 476	9 768	7 458	6 692
Multilateral	1 998	2 429	2 087	1 687	3 740	2 389	2 591
Official aid	n.a.	174	132	67	- 54	84	99
Bilateral		96	94	27	- 93	25	56
Multilateral		78	39	40	39	59	43
Other official flows	-1 266	2 924	12 678	11 030	-4 708	-1505	-5104
Bilateral	-1 143	2 365	10 602	9 799	-4 456	-1524	-2592
Multilateral	- 123	558	2 076	1 231	- 252	19	-2 512
Grants by NGOs	87	179	203	261	231	235	157
Private flows at market terms	11 073	6 128	50	-3 279	6 229	8 549	8 123
Bilateral: <i>of which</i>	9 483	7 995	4 629	835	6 281	8 904	8 380
Direct investment	4 009	3 684	11 628	7 902	6 206	12 145	12 544
Export credits	640	- 226	-3 946	-2 305	-356	783	-737
Multilateral	1 589	-1 867	-4 579	-4 114	- 52	- 355	- 257
Total flows	16 381	20 457	23 703	20 242	15 206	17 210	12 558
<i>for reference:</i>							
ODA (at constant 2001 \$ million)	8 614	11 339	10 900	11 011	11 797	9 847	9 732
ODA (as a % of GNI)	0.30	0.31	0.27	0.27	0.28	0.23	0.23
Total flows (as a % of GNI) (a)	0.75	0.57	0.45	0.39	0.23	0.34	0.18

a. To countries eligible for ODA.



Source: OECD

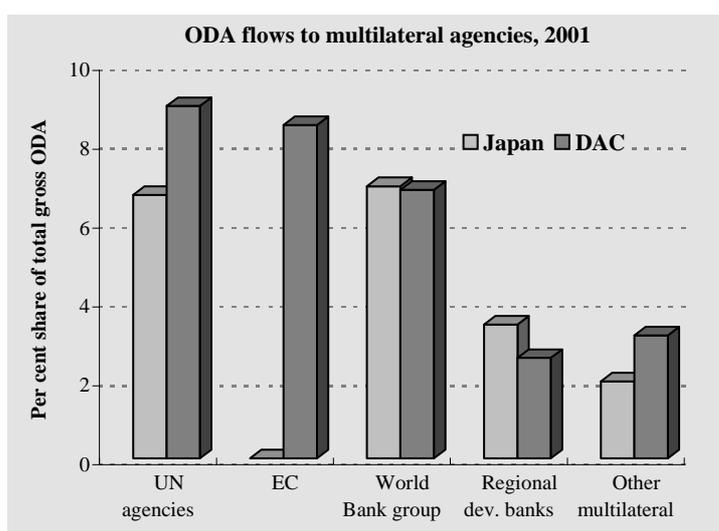
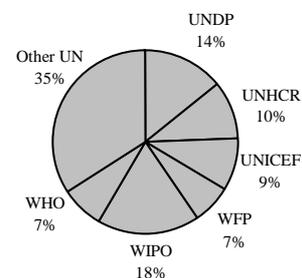
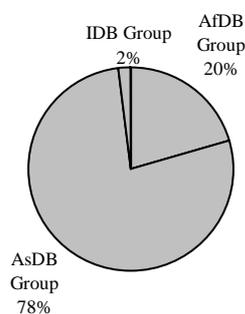
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Table III-2. ODA by main categories

Japan	Constant 2001 USD million					Per cent share of gross disbursements					Total DAC 2001%
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002	
	Gross Bilateral ODA	11 359	12 180	10 969	10 236	10 105	84	89	77	81	
<i>Grants</i>	<i>5 020</i>	<i>4 957</i>	<i>4 959</i>	<i>4 742</i>	<i>4 584</i>	<i>37</i>	<i>36</i>	<i>35</i>	<i>38</i>	<i>36</i>	<i>57</i>
Project and programme aid	1 576	1 597	1 296	1 281	1 328	12	12	9	10	10	13
Technical co-operation	1 863	1 934	2 122	1 942	1 899	14	14	15	15	15	23
Developmental food aid	58	38	37	54	43	0	0	0	0	0	2
Emergency and distress relief	127	164	74	30	38	1	1	1	0	0	6
Action relating to debt	391	245	361	446	274	3	2	3	4	2	4
Administrative costs	673	694	814	715	734	5	5	6	6	6	5
Other grants	332	286	254	274	267	2	2	2	2	2	4
<i>Non-grant bilateral ODA</i>	<i>6 339</i>	<i>7 223</i>	<i>6 010</i>	<i>5 494</i>	<i>5 521</i>	<i>47</i>	<i>53</i>	<i>42</i>	<i>44</i>	<i>43</i>	<i>13</i>
New development lending	6 339	7 223	6 010	5 494	5 274	47	53	42	44	41	12
Debt rescheduling	-	-	-	-	247	-	-	-	-	2	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	0
Gross Multilateral ODA	2 138	1 527	3 266	2 389	2 716	16	11	23	19	21	30
UN agencies	643	659	1 139	844	843	5	5	8	7	7	9
EC	-	-	-	-	-	-	-	-	-	-	8
World Bank group	827	146	1 007	871	1 178	6	1	7	7	9	7
Regional development banks (a)	483	478	778	428	412	4	3	5	3	3	3
Other multilateral	185	244	342	246	283	1	2	2	2	2	3
Total gross ODA	13 497	13 707	14 236	12 625	12 821	100	100	100	100	100	100
Repayments and debt cancellation	-2 597	-2 696	-2 438	-2 778	-3 089						
Total net ODA	10 900	11 011	11 797	9 847	9 732						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>329</i>	<i>295</i>	<i>251</i>	<i>272</i>	<i>248</i>						
<i>Associated financing (b)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>						

a Excluding EBRD.

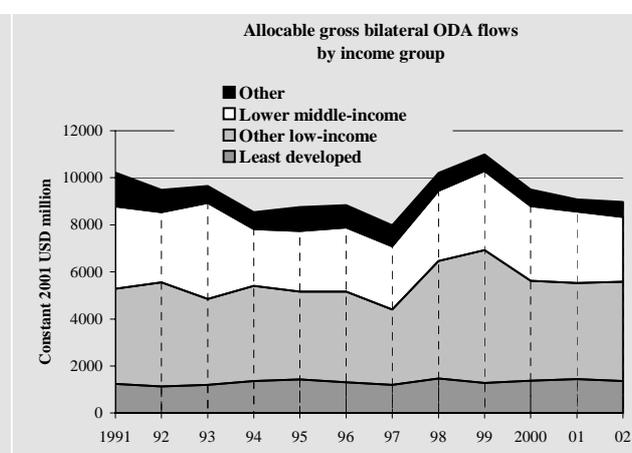
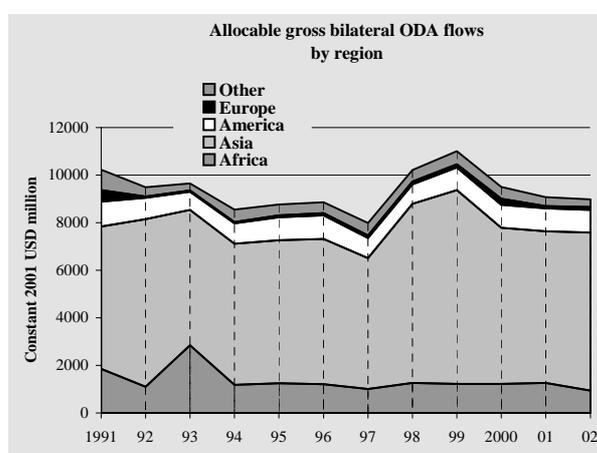
b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies
(2001-02 Average)Contributions to Regional Development
Banks (2001-02 Average)

Source: OECD

Table III-3. Bilateral ODA allocable by region and income group

Japan	Constant 2001 USD million					Per cent share					Total DAC 2001%
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002	
						Gross disbursements					
Africa	1 249	1 226	1 221	1 250	930	12	11	13	14	10	33
Sub-Saharan Africa	1 056	982	936	930	722	10	9	10	10	8	26
North Africa	193	244	285	320	208	2	2	3	4	2	7
Asia	7 543	8 142	6 560	6 382	6 652	74	74	69	70	74	39
South and Central Asia	2 331	1 793	1 788	2 061	2 300	23	16	19	23	26	17
Far East	5 212	6 349	4 772	4 321	4 352	51	58	50	48	48	22
America	821	960	966	971	949	8	9	10	11	11	15
North and Central America	303	344	356	383	380	3	3	4	4	4	7
South America	518	616	610	588	568	5	6	6	6	6	8
Middle East	333	407	367	248	197	3	4	4	3	2	4
Oceania	153	134	136	126	120	1	1	1	1	1	2
Europe	117	129	257	99	133	1	1	3	1	1	6
Total bilateral allocable by country	10 215	10 999	9 507	9 075	8 981	100	100	100	100	100	100
Least developed	1 463	1 269	1 372	1 438	1 354	14	12	14	16	15	26
Other low-income	4 996	5 652	4 245	4 086	4 228	49	51	45	45	47	33
Lower middle-income	2 987	3 373	3 183	3 043	2 758	29	31	33	34	31	35
Upper middle-income	669	607	708	508	641	7	6	7	6	7	5
High-income	1	1	1	1	0	0	0	0	0	0	0
More advanced developing countries	99	98	-	-	-	1	1	-	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	11 359	12 180	10 969	10 236	10 105	100	100	100	100	100	100
<i>of which: Unallocated</i>	1 144	1 181	1 462	1 161	1 124	10	10	13	11	11	23



Source: OECD

Table III-4. Main recipients of bilateral ODA

Japan	1991-92			1996-97			2001-02		
	Current USD million	Constant 2001 USD mn.	Per cent share	Current USD million	Constant 2001 USD mn.	Per cent share	Current USD million	Constant 2001 USD mn.	Per cent share
Indonesia	1 540	1 574	16	1 208	1 075	13	1 202	1 234	14
Philippines	946	954	10	963	860	10	841	862	10
China	874	887	9	760	679	8	758	775	9
India	775	805	8	741	664	8	748	764	8
Thailand	531	544	6	714	640	8	666	683	8
Top 5 recipients	4 666	4 764	49	4 385	3 918	47	4 217	4 317	48
Egypt	376	396	4	363	331	4	429	438	5
Malaysia	310	319	3	327	290	3	309	316	3
Jordan	285	298	3	297	266	3	256	264	3
Peru	257	268	3	211	189	2	244	249	3
Turkey	251	266	3	186	170	2	171	175	2
Top 10 recipients	6 145	6 310	64	5 770	5 164	61	5 626	5 760	64
Korea	249	255	3	163	145	2	170	174	2
Pakistan	227	231	2	160	140	2	167	169	2
Bangladesh	220	224	2	153	134	2	147	151	2
Sri Lanka	205	213	2	134	121	1	121	125	1
Viet Nam	186	184	2	108	97	1	110	112	1
Top 15 recipients	7 230	7 418	75	6 489	5 802	69	6 341	6 490	72
Kenya	173	179	2	101	90	1	105	108	1
Nepal	120	124	1	96	86	1	97	99	1
Zambia	115	118	1	95	86	1	86	88	1
Brazil	110	114	1	91	81	1	86	88	1
Ghana	94	97	1	91	81	1	85	87	1
Top 20 recipients	7 841	8 048	82	6 963	6 225	74	6 799	6 959	77
Total (152 recipients)	9 606	9 858	100	9 407	8 418	100	8 821	9 028	100
Unallocated	729	747		1 308	1 177		1 116	1 142	
Total bilateral gross	10 335	10 605		10 715	9 595		9 937	10 170	

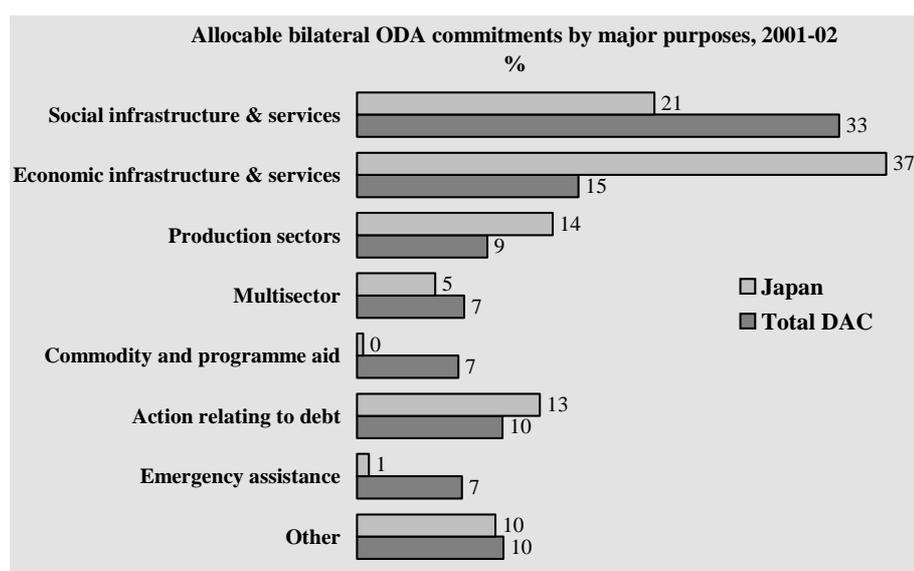
Source: OECD

Table III-5. Bilateral ODA by major purposes

at current prices and exchange rates

Commitments, two-year averages

Japan	1991-92		1996-97		2001-02		2001 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	1 953	16	3 238	22	2 097	21	33
Education	778	6	880	6	861	8	9
of which: basic education	-	-	91	1	91	1	2
Health	205	2	383	3	303	3	4
of which: basic health	-	-	142	1	94	1	3
Population programmes	9	0	26	0	14	0	3
Water supply & sanitation	490	4	1 666	11	501	5	5
Government & civil society	117	1	99	1	218	2	7
Other social infrastructure & services	355	3	185	1	200	2	6
Economic infrastructure & services	4 653	39	6 648	45	3 734	37	15
Transport & storage	1 970	16	3 573	24	2 460	24	9
Communications	577	5	346	2	69	1	1
Energy	1 551	13	2 573	17	1 146	11	4
Banking & financial services	495	4	60	0	38	0	1
Business & other services	60	0	97	1	21	0	1
Production sectors	2 236	19	2 581	18	1 381	14	9
Agriculture, forestry & fishing	1 414	12	2 012	14	1 164	11	7
Industry, mining & construction	787	7	536	4	194	2	1
Trade & tourism	35	0	33	0	22	0	1
Other	-	-	-	-	0	0	0
Multisector	127	1	643	4	553	5	7
Commodity and programme aid	1 986	16	178	1	43	0	7
Action relating to debt	538	4	668	5	1 291	13	10
Emergency assistance	111	1	72	0	84	1	7
Administrative costs of donors	411	3	693	5	709	7	7
Core support to NGOs	24	0	17	0	268	3	4
Total bilateral allocable	12 038	100	14 738	100	10 159	100	100
<i>For reference:</i>							
Total bilateral	12 413	82	15 550	90	10 476	84	70
of which: Unallocated	375	2	812	5	316	3	3
Total multilateral	2 776	18	1 792	10	1 973	16	30
Total ODA	15 189	100	17 342	100	12 449	100	100



Source: OECD

Table III-6 Comparative aid performance

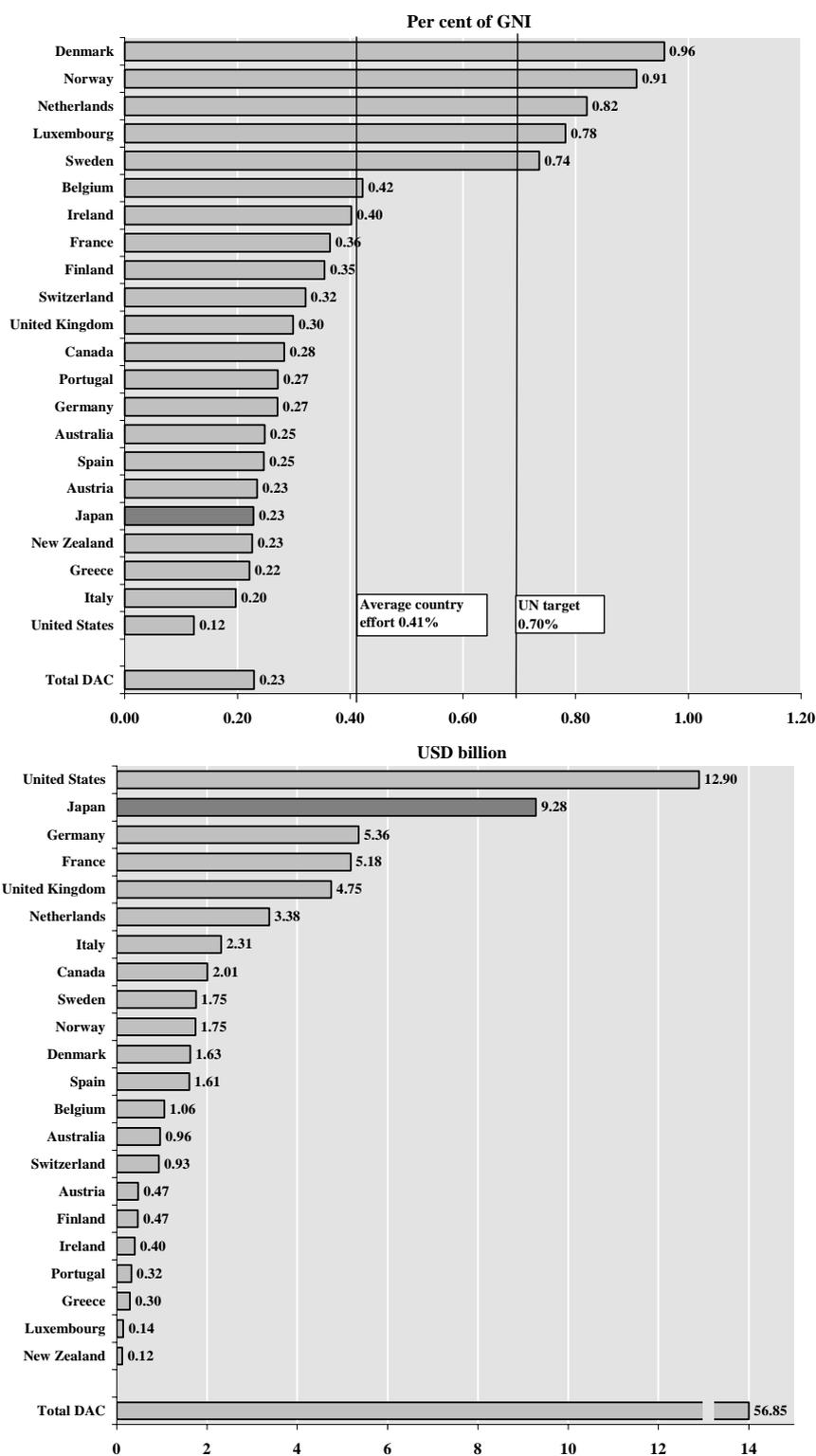
	Official development assistance		Grant element of ODA (commitments) 2001	Share of multilateral aid		ODA to LDCs Bilateral and through multilateral agencies 2001	Official aid	
	2001			2001			2001	
	USD million	% of GNI		% of ODA (b)	% of GNI (c)		% of ODA (b)	% of GNI (c)
			95-96 to 00-01 Ave. annual % change in real terms					
Australia	873	0.25	0.6	100.0	24.3	20.1	5	0.00
Austria	533	0.29	0.2	90.8	35.9	19.9	212	0.11
Belgium	867	0.37	3.5	99.6	42.1	34.0	88	0.04
Canada	1 533	0.22	-2.7	100.0	21.7	15.1	152	0.02
Denmark	1 634	1.03	4.8	100.0	36.7	33.0	181	0.11
Finland	389	0.32	4.8	100.0	42.3	29.4	61	0.05
France	4 198	0.32	-6.5	95.5	38.2	25.8	1 334	0.10
Germany	4 990	0.27	-1.2	95.8	42.8	23.5	687	0.04
Greece	202	0.17	8.2	..	59.1	10.9	9	0.01
Ireland	287	0.33	11.8	100.0	35.7	49.9	23	0.03
Italy	1 627	0.15	-2.3	99.6	72.8	29.9	281	0.03
Japan	9 847	0.23	3.0	88.2	24.3	18.1	84	0.00
Luxembourg	141	0.82	18.1	100.0	24.8	32.4	9	0.05
Netherlands	3 172	0.82	4.9	100.0	29.9	31.4	214	0.06
New Zealand	112	0.25	5.5	100.0	24.1	25.7	0	0.00
Norway	1 346	0.80	1.8	100.0	30.1	33.3	32	0.02
Portugal	268	0.25	6.7	94.7	31.7	44.5	28	0.03
Spain	1 737	0.30	7.2	95.1	33.8	11.1	14	0.00
Sweden	1 666	0.77	4.5	99.8	27.7	27.5	119	0.05
Switzerland	908	0.34	3.0	100.0	29.0	28.2	63	0.02
United Kingdom	4 579	0.32	5.7	100.0	42.7	36.0	461	0.03
United States	11 429	0.11	3.2	99.7	27.5	14.6	1 542	0.02
Total DAC	52 337	0.22	1.8	96.4	33.1	23.0	5 597	0.02
Memo: Average country effort		0.40						

Notes:

- a. Excluding debt reorganisation.
- b. Including EC.
- c. Excluding EC.
- .. Data not available.

Source: OECD

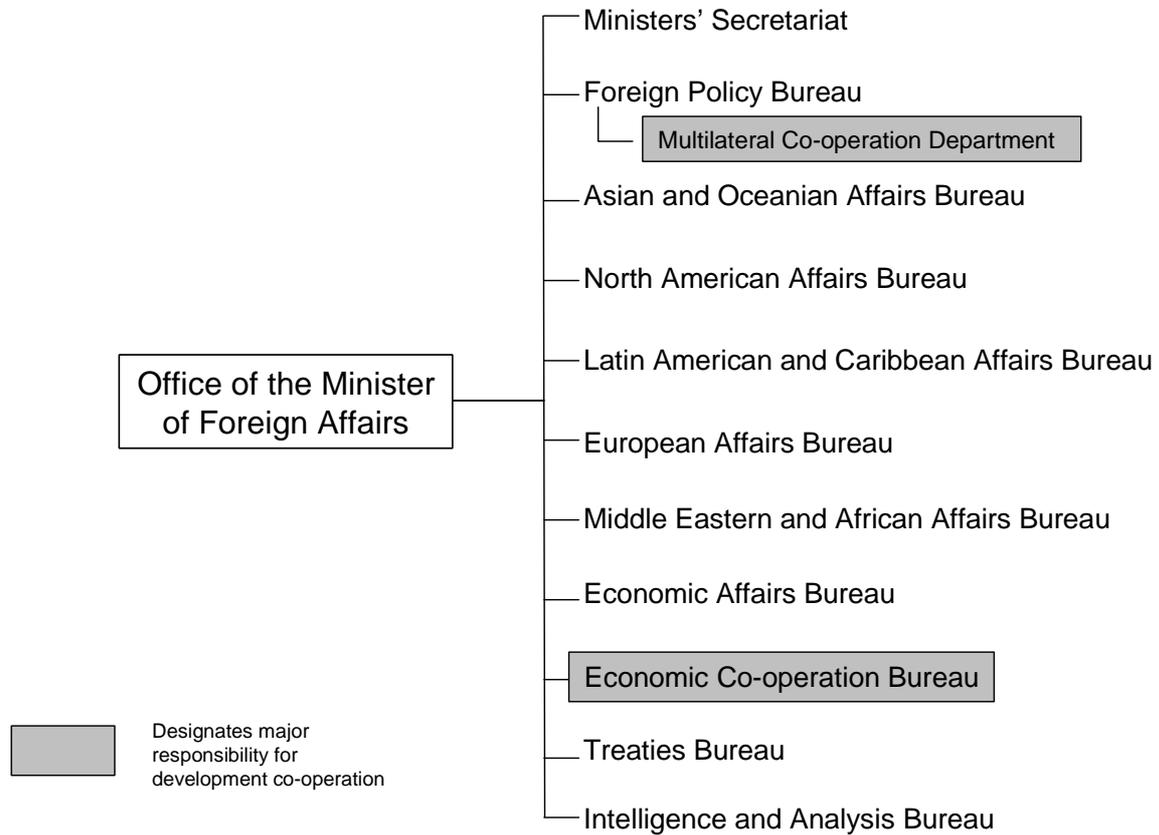
Figure III-1. Net ODA from DAC countries in 2002



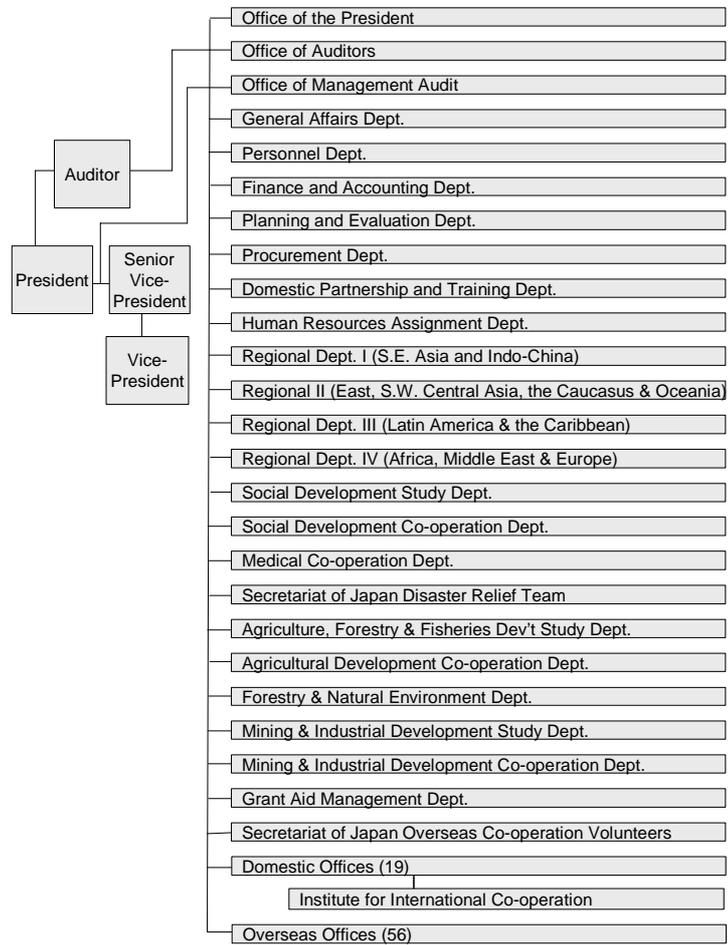
Source: OECD

ANNEX IV ORGANIGRAMMES

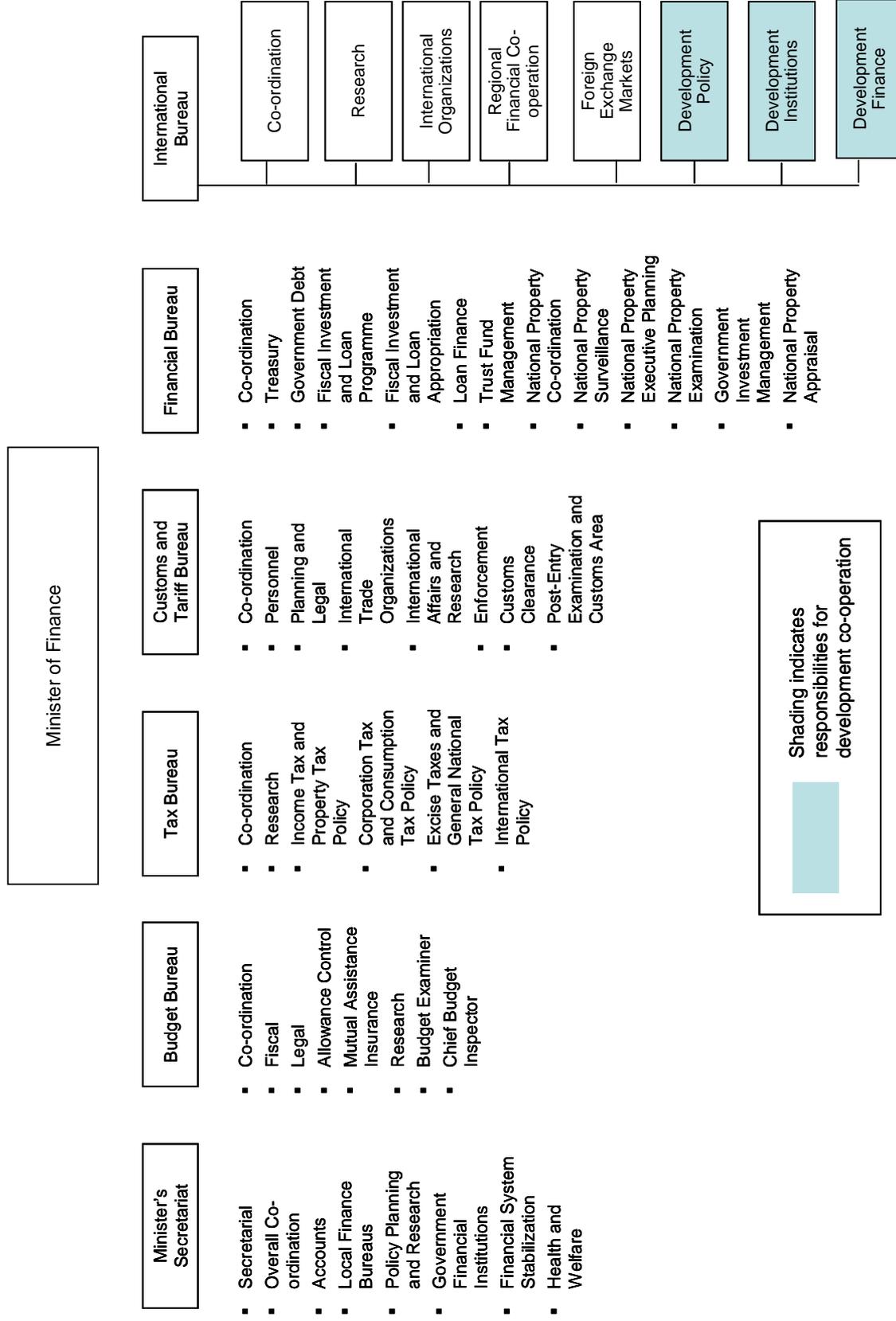
Organigramme IV.1. Ministry of Foreign Affairs (MOFA)



Organigramme IV.2. JICA Organisation Chart



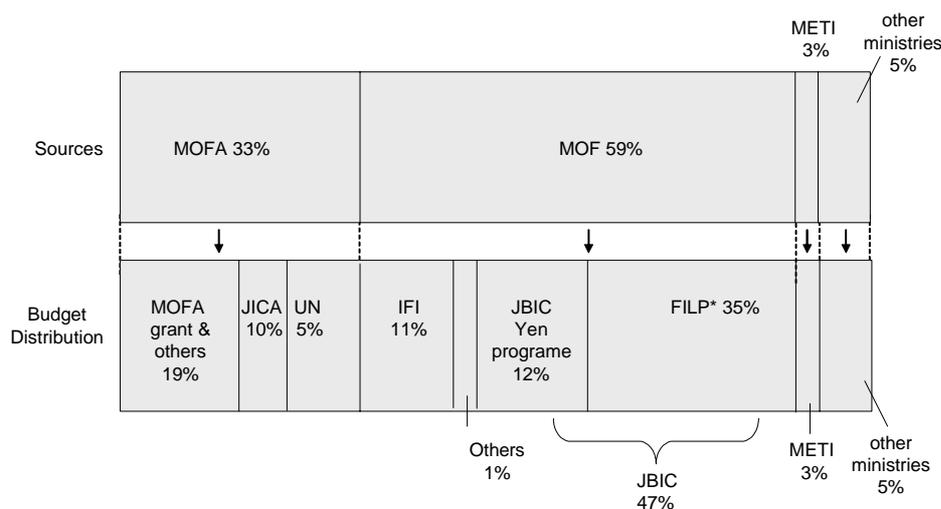
Organigramme IV.3. Ministry of Finance



ANNEX V

INSTITUTIONAL DISTRIBUTION OF ODA FUNDING

This chart was built upon **OECD estimates** of the institutional responsibility for Japanese ODA flows in 2002. It includes all official development assistance, whether from the national budget or elsewhere.



* The Fiscal Investment and Loan Programme (FILP), is a large, government-wide system to collect funds through government financial institutions (most notably postal savings) to finance public projects undertaken by government. JBIC also uses FILP to fund its ODA loan operations.

Source: OECD

The chart below has been supplied by the **Japanese authorities** to show the distribution of the General Account ODA budget.

Operational Budget Account

(MOFA)	MOF 59%	(FILP 35%)	(Other)
	IFI 12%	* JBIC Yen Loan 46%	

*MOF & Others 1%

General Account

MOFA 59%	MOF 29%	METI 4%	Other Ministries
MOFA Grant & Others 33%	JICA 19% UN 7% IFI 5% **	JBIC 24%	8%

**Others 0.2%

PRESS RELEASE OF THE DAC CHAIR'S REVIEW OF JAPAN

JAPAN STRIVES TO ALIGN POLICIES AND RESOURCES WITH NEW AID VISION

Japan's net official development assistance (ODA) was USD 9.3 billion in 2002, making it the world's second largest donor. Japan was the largest aid donor for almost a decade, from 1992 to 2001, until economic pressures led the government to reduce the size of its ODA. The 2002 level represented 0.23% of Japan's Gross National Income, down from 0.31% in 1991-2. At the Monterrey conference, Japan was one of the few aid donors unable to commit to increase its level of aid.

The OECD Development Assistance Committee (DAC) Peer Review of Japanese development co-operation noted positive reforms in Japan's aid strategy and management. Most importantly, Japan revised its ODA Charter, incorporating new strategic priorities more in tune with current international and domestic realities, including poverty reduction, sustainable growth, the need to address global issues and peace building. It also made changes to the two leading agencies that implement its aid: the legal status of the Japan International Cooperation Agency (JICA) changed in 2003 to make this technical co-operation agency more autonomous and efficient and, in 1999, two former loan agencies were merged into the Japan Bank for International Cooperation (JBIC). Finally, the Ministry of Foreign Affairs is now legally mandated to co-ordinate the diverse and often compartmentalised implementing institutions of ODA.

The review centered on the implications which implementing the new ODA Charter will have on Japan's aid system at headquarters and in the field. Specifically, the discussion addressed questions relating to fuller integration of crosscutting themes like poverty reduction into Japan's development strategy. It strongly encouraged Japan to increase its overall aid volume. It noted Japan's efforts to respond to crises. It urged the government to strengthen public support for sustained ODA and for achieving the Millennium Development Goals. The Committee encouraged Japan to consider raising the share of grant assistance in its ODA for low income, highly indebted countries. Other key topics included the need to improve policy coherence for development across ministries including the issue of agriculture. It also noted the utility of further streamlining and decentralizing Japan's aid management along the lines of promising approaches now being tested in Tanzania and Vietnam, which will require more and higher level staff. In this regard the Committee recognized Japan's support for co-ordination and harmonisation of donor practices in developing partner countries.

The review welcomed the stronger Japanese role in shaping the international consensus on development and the increasing convergence of views on economic growth and poverty reduction.

The DAC Peer Review of Japan's development co-operation policies and programmes took place on 12 December 2003. The meeting was led by the DAC Chair Richard Manning and the Japanese Delegation was headed by Motohide Yoshikawa, Deputy Director General, Economic Co-operation Bureau, Ministry of Foreign Affairs. The examiners for this Peer Review were the United States and the European Commission.

DESCRIPTION OF KEY TERMS

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, i.e. the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

DEBT REORGANISATION (OR RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). The grant element is calculated against a fixed interest rate of 10%. Thus the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, i.e. the weighted ODA/GNI ratio of DAC members (cf. Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

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