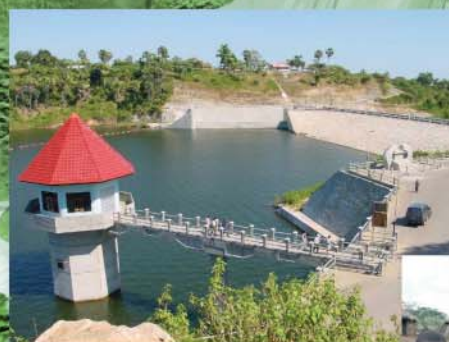


BUILDING GLOBAL PARTNERSHIPS FOR DEVELOPMENT

Japan's Contribution to MDG 8



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September 2005
Ministry of Foreign Affairs, Japan

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Introduction

Japan is fully committed to the achievement of the Millennium Development Goals (MDGs). Japan's Medium-Term Policy on Official Development Assistance (ODA) (February 2005) states that "The MDGs are goals that the international community should work in concert to achieve in order to build a better world. Japan will contribute actively to achieving the MDGs, including through the effective use of ODA." The eight MDGs range from poverty reduction, gender equality, health and education, HIV/AIDS and other infectious diseases, to environmental sustainability. The MDGs are goals that the entire international community, both developed and developing countries, should work together to achieve by 2015.

The Millennium Development Goals

- Goal 1:** Eradicate extreme poverty and hunger
- Goal 2:** Achieve universal primary education
- Goal 3:** Promote gender equality and empower women
- Goal 4:** Reduce child mortality
- Goal 5:** Improve maternal health
- Goal 6:** Combat HIV/AIDS, malaria, and other diseases
- Goal 7:** Ensure environmental sustainability
- Goal 8:** Develop a global partnership for development

The MDGs were drawn from internationally agreed development goals, including the DAC International Development Goals (IDGs)¹. Japan has actively contributed to the process of formulating the IDGs, which established a set of quantifiable indicators under a results-based framework. Such features have been incorporated in the MDGs, which are composed of eight goals, eighteen associated targets and forty-eight indicators (as shown in Annex1).

This report presents an overview of Japan's contribution with respect to Goal 8 of the MDGs.

¹ Adopted in the high-level meeting of the OECD's Development Assistance Committee (DAC) with a paper titled *Shaping the 21st Century: The Contribution of Development Cooperation* (the so-called "DAC New Development Strategy").

Japan's Contribution to MDG 8

1. ODA

Indicators	1990	1995	2000	2003
Net ODA, total, as a percentage of Gross National Income	0.31	0.28	0.28	0.20
<i>Net disbursements (US\$ million)</i>	<i>9,069</i>	<i>14,489</i>	<i>13,508</i>	<i>8,880</i>
<i>Gross disbursements (US\$ million)</i>	<i>10,462</i>	<i>17,485</i>	<i>16,300</i>	<i>12,971</i>
Net bilateral ODA to LDCs as a percentage of Gross National Income*	0.06	0.05	0.04	0.04
<i>Net disbursements (US\$ million)</i>	<i>1,639</i>	<i>2,527</i>	<i>2,055</i>	<i>1,922</i>
Percentage of total bilateral, sector-allocable ODA to basic social services**	5.6	17.2	14.7	13.6
Percentage of ODA to landlocked countries	3.9	7.9	6.8	7.3
<i>Net disbursements (US\$ million)</i>	<i>414</i>	<i>1,028</i>	<i>991</i>	<i>803</i>
Percentage of ODA to small island developing states	1.1	1.5	1.0	1.6
<i>Net disbursements (US\$ million)</i>	<i>204</i>	<i>322</i>	<i>259</i>	<i>136</i>
Proportion of multilateral ODA (as % of total net ODA)	25.1	27.9	27.7	28.7
<i>Net disbursements (US\$ million)</i>	<i>2,282</i>	<i>4,071</i>	<i>3,740</i>	<i>2,545</i>
Proportion of bilateral aid that is untied	85.5	96.3	86.4	96.1

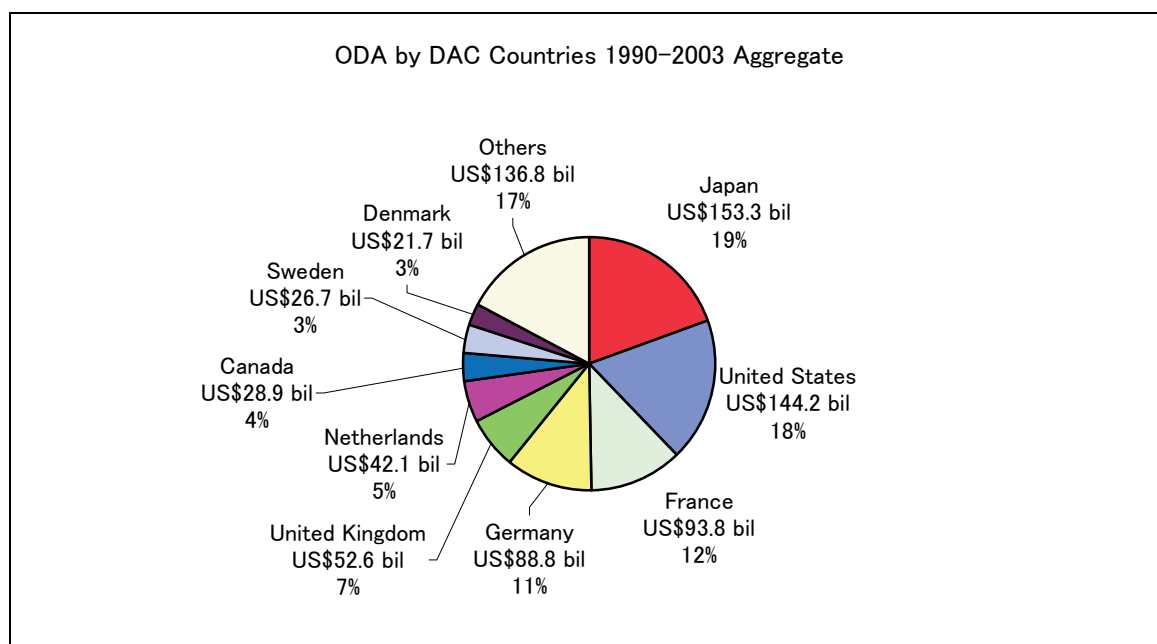
* Includes imputed multilateral ODA.

**Calculated on a 2-year average basis, for 1990-1991, 1994-1995, 1999-2000 and 2002-2003

(Source: OECD IDS Online & CRS 2005)

1.1. Overall Aid Volumes

Japan was the largest ODA donor from 1991 to 2000. Japan's ODA between 1990 and 2003 was US\$153.3 billion, which represents nearly one fifth of total ODA provided during that period and largest among the DAC member countries. As for current volume, in 2003, Japan provided US\$8.9 billion (net disbursement) and US\$13.0 billion (gross disbursement) while the DAC average was US\$3.1 billion (net disbursement). Japan has targeted much of its ODA at Asia, which received 53.6 % of its total bilateral ODA - US\$3.2 billion out of US\$ 6.0 billion - in 2003.



(Source: OECD IDS Online)

As for the proportion of ODA measured against the Gross National Income (GNI), Japan's ODA/GNI ratio dropped from 0.31% in 1990 to 0.20% in 2003. However, having renewed its commitment to make progress towards the 0.7% GNI target for ODA, Japan will strive to realize a strategic expansion of its volume of ODA. At the G8 Gleneagles Summit in July 2005, Prime Minister Junichiro Koizumi stated that Japan intends to increase its ODA volume by US\$10 billion in aggregate over the next five years. Japan will also double its ODA to Africa in the 3 years from 2005.

Japan's Commitment Announced at the G8 Gleneagles Summit

- Japan will continue its efforts towards the goal of providing ODA of 0.7% of its gross national income in order to contribute to the Millennium Development Goals (MDGs). From this point of view, Japan will strive to realize a strategic expansion of its ODA volume in order to ensure a credible and sufficient level of ODA. In this context, Japan intends to increase its ODA volume by US\$10 billion in aggregate over the next five years, compared to the level of ODA on the basis of 2004 net disbursement.
- Japan has provided more than US\$10 billion in bilateral net ODA for Africa since 1993. Japan will double its ODA to Africa in the next 3 years.

In order to complement efforts to increase development financing, expanding the donor base is highly recommended. Taking into consideration that some developing countries are experiencing robust economic growth, more

attention should be paid to promoting South-South cooperation, not only as a tool for more efficient and effective technical transfer but also as a means of mobilizing development financing by increasing the number of development partners. Japan has taken a leading role in advocating and supporting South-South cooperation – especially Asia-Africa cooperation – particularly through the TICAD (the Tokyo International Conference on African Development) process. At the Asia-Africa Summit in April 2005, Japan announced that it will support the capacity building of 10,000 persons from Africa over the next four years through Asia-Africa cooperation and other means of sharing the knowledge and experience garnered through Asia's economic development. In addition, as a result of a Japanese initiative, the Forum on Partnership for More Effective Development Co-operation" co-organized by OECD/DAC and UNDP was convened in February 2005 with a view to encouraging and supporting the "emerging donors".

1.2. Multilateral ODA

Japan contributed US\$2.5 billion in 2003 to multilateral development organizations. Japan cumulatively provided US\$37.2 billion to multilateral development organizations during the period between 1990 and 2003, which was the largest among 22 DAC members, accounting for about 15% of total ODA through the multilateral channels.

Part of this multilateral ODA included voluntary contributions totaling US\$874.3 million to major members of the United Nations Development Group (UNDG) in 2003, the second largest amount among the DAC members².

With respect to the Multilateral Development Banks (MDBs), Japan provided US\$1.4 billion in 2003 to the World Bank Group, the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank. Its contributions between 1990 and 2003 amounted to US\$23.8 billion and accounted for about 30% of the total contribution from the DAC member countries in that period.

In addition, Japan made intellectual contribution, which have some impact

² Contribution to UNEP, UN-Habitat, UNICEF, UNDP, UNFPA, UNHCR, WFP, ILO, FAO, UNESCO, WHO and UNIDO is included in this figure.

on MDB's development approach through its financial support for major studies such as East Asian Miracle study by the World Bank (in 1993) and the new framework study on infrastructure by WB, ADB and JBIC (in 2005).

1.3. ODA to LDCs, LLDCs and SIDS

Japan has attached particular importance to supporting least developed countries (LDCs). Japan's total bilateral ODA provided to LDCs in 2003 was US\$1.1 billion, and 3 out of the top 5 recipients of Japan's grant assistance are LDCs (Afghanistan, Bangladesh and Cambodia, whose GNI per capita in 2003 were N/A, US\$400 and US\$300, respectively (source: WDI 2005)).

With regard to Africa, where the majority of countries are LDCs, the Japanese Government has been leading international discussions on African development through the TICAD process by advocating the importance of African ownership and partnership with the international community. Since 1993, Japan has provided bilateral assistance amounting to more than US\$12.7 billion to Africa in areas such as basic human needs, infrastructure and agriculture. During the period from TICAD II (1998) to TICAD III (2003), Japan also gave its support to establish safe drinking water and sanitation facilities, which provide access to approximately 4.6 million people in Africa. Furthermore, the Japanese Government has made a commitment to cancel US\$4.9 billion in bilateral debt of Heavily Indebted Poor Countries (HIPC) in Africa, the largest scale among all creditor countries.

Landlocked developing countries (LLDCs) are disadvantaged by the geographical constraint of isolation from the sea and suffer from high transportation costs. Japan has provided US\$653 million in its assistance to LLDCs in 2003, focusing particularly on strengthening economic infrastructure, improving institutional capacity to realize smooth and efficient border crossing, and promoting regional cooperation. This is in line with the priorities of the Almaty Programme of Action that was adopted at the International Ministerial Conference held in Almaty, Kazakhstan in 2003, which Japan also played an important role in organizing. Japan's contributions to economic infrastructure in LLDCs such as roads, ports, and railways were the largest among the DAC member countries throughout the 1990s, amounting to US\$289.2 million in 1995, US\$430.5 million in 1998 and US\$267.0 million in 2000.

Japan has been one of the major supporters of small island developing states (SIDS). Japan's assistance to SIDS amounted to about US\$138.5million in 2003. Especially, in order to establish development strategies that fully consider the special needs of Pacific island countries, Japan has hosted three Japan-Pacific Islands Forum (PIF) Summit Meetings, later named the Pacific Island Leaders' Meeting (PALM) in cooperation with PIF. The Okinawa Initiative, including the Joint Action Plan in order to incorporate the principles and the commitments of the MDGs into regional initiatives, was adopted at the 3rd PALM.

1.4. Improving Aid Effectiveness

Japan has made efforts to improve aid effectiveness especially since 2000. Recognizing the significance of increasing aid effectiveness, Japan has been making serious efforts to reform its ODA, including the revision of the ODA Charter in August 2003. The new ODA Charter reaffirmed the importance of strengthening the functions of field missions in the policy-making and implementation process through the establishment of the ODA task team on the ground. In this context, the Japan Bank for International Cooperation (JBIC) has proceeded with the strengthening of its overseas activities and the Japan International Cooperation Agency (JICA) is transferring more staff to the field. At the multilateral level, Japan has actively participated in the discussions at the OECD-DAC and the SPA (Strategic Partnership with Africa) and played a major role in the High-Level Forums on Aid Effectiveness held in Rome in 2003 and Paris in 2005. Japan also hosted three Asia regional workshops on aid effectiveness in preparation for and as a follow-up to the High-Level Forums.

In the efforts to improve aid effectiveness, Japan has stressed the importance of the following issues: ownership of the recipient country, capacity development, improving alignment to national development strategy and complementarity of aid modalities in pursuing program-based approaches. Japan hosted two international symposiums on capacity development in the developing countries, in Manila in 2003 and in Tokyo in 2004, and also conducted a study on how best to support the needs of developing countries' capacity development in 2004/2005.

Examples of Japan's concrete actions for improving aid effectiveness at the field level include initiatives to improve aid effectiveness in Vietnam (such as the "5-Banks Initiative" for loan aid³ and the "Sit-down and Talk Initiative" for Japan's grant aid for Vietnam); formulating a common country assistance strategy for Bangladesh with WB and ADB; initiatives to take the lead in the agriculture SWAp in Tanzania; budget support for Tanzania; and participation in discussions on improving aid effectiveness in countries of Asia-Pacific, Africa and Latin America regions. In February 2005, Japan announced "Japan's Action Plan for Implementing the Paris Declaration" (Annex 2) on the occasion of the Paris High-level Forum on Aid Effectiveness. The Action Plan will serve as a basis for Japan's follow-up actions to increase aid effectiveness in line with the Paris Declaration. Several actions stipulated in the first and second Action Plans have been already implemented including publishing three-year rolling plans and combining loan, grant and technical cooperation instruments for selected pilot countries. In addition, trilateral coordination meetings among WB, ADB and Japan for sharing development strategies in Asia have been convened since 2003.

As for aid untying, Japan has been steadily implementing the DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries. The untying ratio of Japan's total ODA is comparatively high among the DAC member countries - 85.5% in 1990, 96.3% in 1995, and 96.4% in 1999, while the DAC average was 65.3% (1990), 77.7% (1995) and 83.8% (1999). In 2003, the Japan's untying ratio was 96.1%.

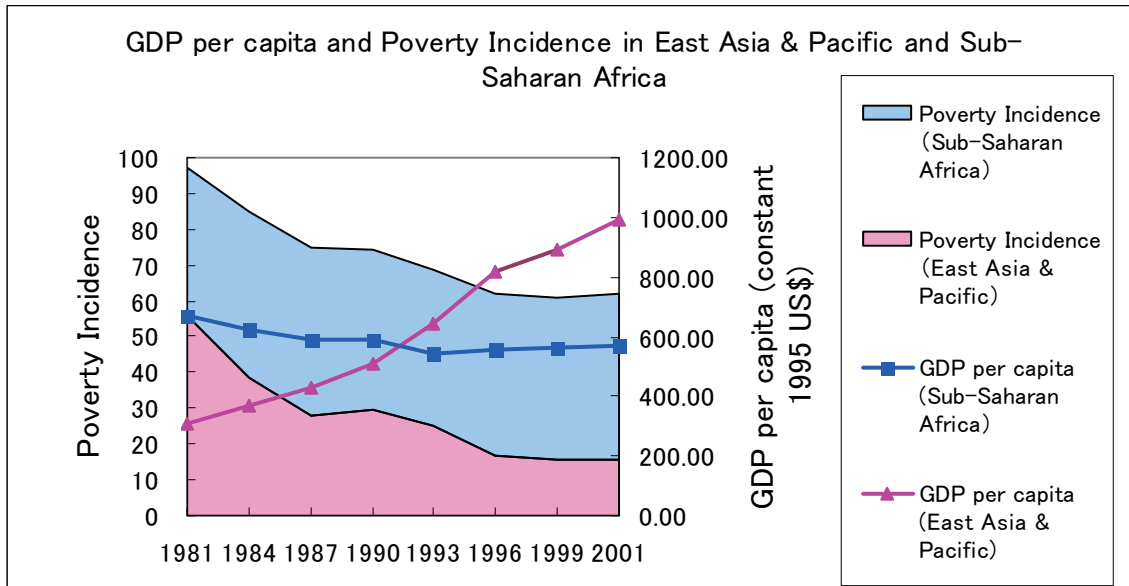
1.5. Poverty Reduction through Economic Growth

Promotion of economic growth led by the private sector must be at the center of any strategy for reducing poverty and achieving the MDGs. ODA can play a crucial role in promoting private sector activities for employment and income generation.

Taking the experience of East Asia and the Pacific as an example, the region recorded an average GDP growth rate of 7.5 % between 1990 and 2001, which led to the reduction of nearly 200 million poor people out of poverty. It is worth noting that between 1990 and 2001, the amount of ODA provided to East Asia and

³ World Bank, ADB, AfDB, KfW and JBIC

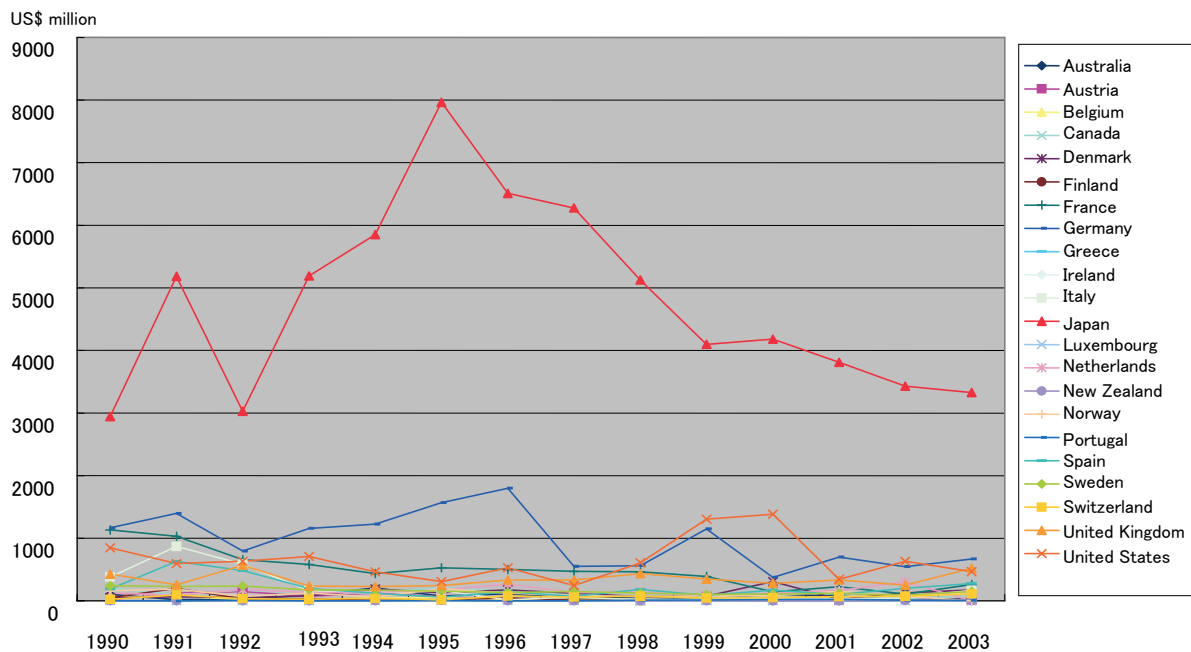
the Pacific, US\$78.1 billion, was less than that provided to Sub-Saharan Africa, US\$110.7 billion.



(Source: World Development Indicators 2004)

Japan's ODA to East Asia and the Pacific, which accounted for about 60% of the total, played an important role in supporting the development efforts of the countries in the region by assisting in policy formulation, human resource development and infrastructure development that were necessary for promoting private sector activities including trade and investment. Based on this experience as well as its own experience after World War II, Japan has placed an emphasis on the provision of economic infrastructure in its ODA. The development of infrastructure in the developing countries in areas such as transportation, energy, and water is essential for promoting private sector activities and economic growth. Japan's ODA for infrastructure development in East Asia, together with relevant capacity building, has been instrumental in facilitating growth in the region. Japan's ODA for economic infrastructure between 1990 and 2003 totaled US\$66.9 billion - by far the largest among the DAC member countries.

ODA for economic infrastructure



(Source: OECD CRS 2005)

In view of above-mentioned experiences of economic development in the Asia - Pacific region, Japan has been taking initiatives to foster private sector development through the promotion of trade and investment. In November 2004, Japan hosted the TICAD Asia-Africa Trade and Investment Conference with aim of promoting trade and investment between Asia and Africa. In 2005, Japan announced to launch “Enhanced Private Sector Assistance (EPSA) for Africa”, which will provide up to US\$1.0 billion in concessional loans and US\$40 million in grants for 5 years in order to promote private sector development by catering for wide spectrum of requirements, in partnership with the African Development Bank Group.

Taking into consideration that about 70 % of African people live in rural areas, the development of agriculture and improvement of village life are indispensable for poverty reduction in Africa. Based on this belief, Japan has been supporting efforts to increase agricultural productivity in Africa by providing assistance for the formulation of agricultural policies, agricultural experimentation and research, and the dissemination of agricultural techniques, including the development and dissemination of NERICA (New Rice for Africa).

With respect to Goal 8, target 16 about decent and productive work for youth, Japan provides assistance on vocational training in the developing countries. Japan's ODA on vocational training in 2003 amounted to about US\$47.8 million, the second highest among the DAC member countries.

1.6. ODA to Basic Social Services

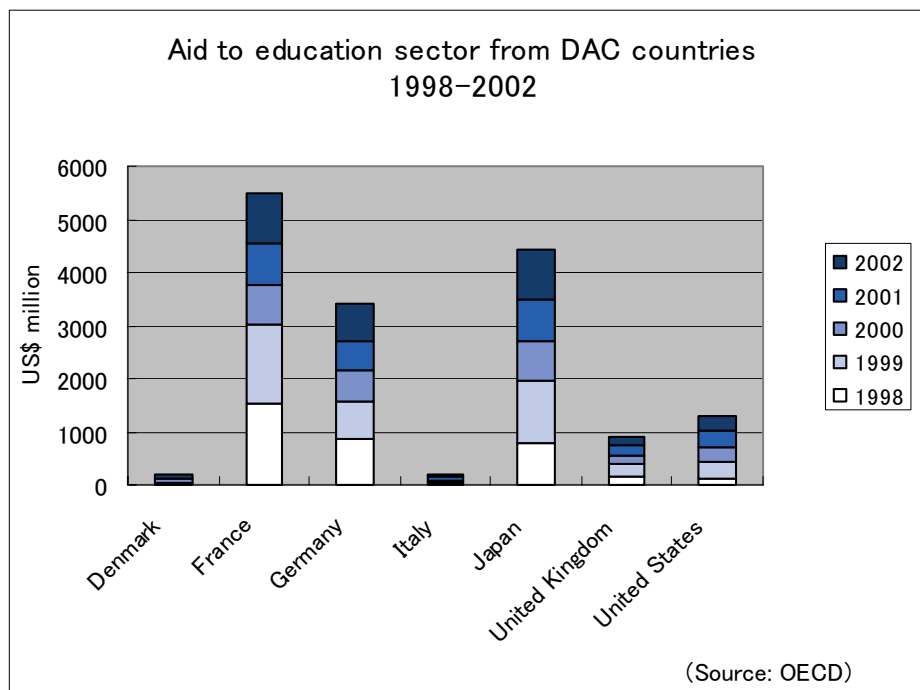
Promoting access to quality basic social services is a core component of the MDGs. Japan's ODA for basic social services which include basic education, basic health, nutrition, water and sanitation, is at highest levels in terms of absolute volume among the DAC member countries. In addition, Japan's assistance for infrastructure such as transportation, energy and telecommunications plays an important role in enhancing the impact of its assistance that relates directly to the provision of basic social services by significantly facilitating people's access to schools and health facilities and also by supporting the provision of quality basic social services.

(1) Education

Recognizing the critical role that education plays in human development and nation-building, Japan attaches great importance to its assistance in this sector. In 2003, Japan became the largest contributor of all DAC member countries of ODA for education, with assistance totaling nearly US\$1 billion.

In light of the Dakar Framework for Action adopted at the World Education Forum in 2000, Japan announced the "Basic Education for Growth Initiative (BEGIN)" at the Kananaskis Summit to support developing countries' efforts to promote basic education and to make progress towards the realization of Education for All (EFA). Under BEGIN, Japan's contribution to basic education through both bilateral and multilateral channels amounted to US\$344 million in FY2003⁴, a significant increase from US\$232 million in FY2002. Japan has been strengthening its assistance in this area with an emphasis on improving access to, quality, and governance/management of basic education. Assistance provided under BEGIN includes construction and rehabilitation of school facilities, teacher training especially in mathematics and science, education policy development, and the reconstruction of education in the post-conflict countries such as Afghanistan and Iraq.

⁴ Japanese fiscal year starts from April and ends in March.



(2) Health

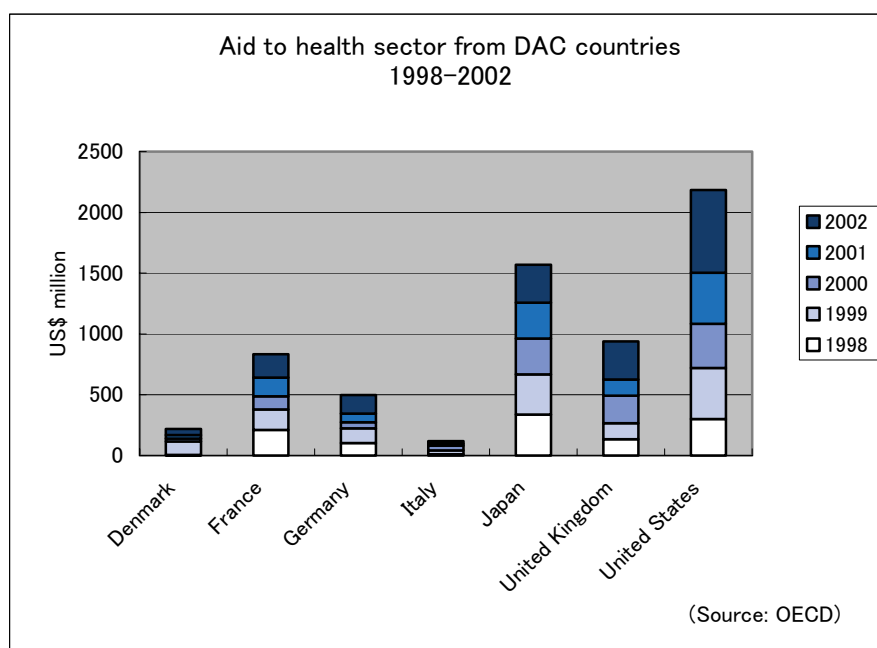
In order to promote progress in achieving the health MDGs, Japan is taking a cross-sectoral approach. Japan's assistance in this sector, such as capacity development and the provision of health facilities, equipments, and supplies is combined with other assistance for prevention education and improving water supply and sanitation. Furthermore, through its assistance for infrastructure development such as roads, telecommunication, electric power, and waste disposal systems, Japan gives consideration to the impact on the health situation of the user population. Japan attaches importance to the promotion of gender equality in the health sector through such actions as support for reproductive health/rights and the empowerment of women.

At the G8 Kyushu-Okinawa Summit in July 2000, Japan announced the Okinawa Infectious Diseases Initiative (IDI) to support the fight against HIV/AIDS, tuberculosis, malaria, polio, parasitic diseases and other infectious diseases with assistance amounting to US\$3 billion over the 5 years between 2000 and 2004. Between FY2000 and FY2003, Japan disbursed US\$4.1 billion under the IDI. Japan also trained 15,278 experts from 146 developing countries and dispatched 735 senior experts and 3,088 volunteers to 70 developing countries during the four years between FY2000 and FY2003.

Japan's appeal regarding the importance of addressing infectious diseases at the G8 Kyushu-Okinawa Summit eventually led to the establishment of the Global Fund to fight AIDS, Tuberculosis and Malaria in 2002. Between 2002 and 2005, Japan contributed US \$327 million to the Global Fund. In June 2005, Japan pledged US\$500 million to the Global Fund in the coming years.

In June - July 2005, with a view to strengthening its support for the health MDGs, Japan announced the Health and Development Initiative, which amounts to US\$5 billion in comprehensive assistance over the next five years.

In June 2005, Japan hosted the High-Level Forum on the Health MDGs in Asia and the Pacific in cooperation with ADB, WB and the World Health Organization. The meeting, which had the participation of ministers and high-level officials in charge of health, development and finance from 24 countries in the Asia-Pacific region and 6 donor countries and organizations, was an important occasion to reaffirm political commitments to achieving the health MDGs and to exchange experience and good practices for addressing common challenges such as resource mobilization and overcoming disparities. The Forum resulted in a Chair's summary which will be an important input from the Asia-Pacific region to the High-level Plenary Meeting of the United Nations General Assembly in September 2005 and other relevant forums.

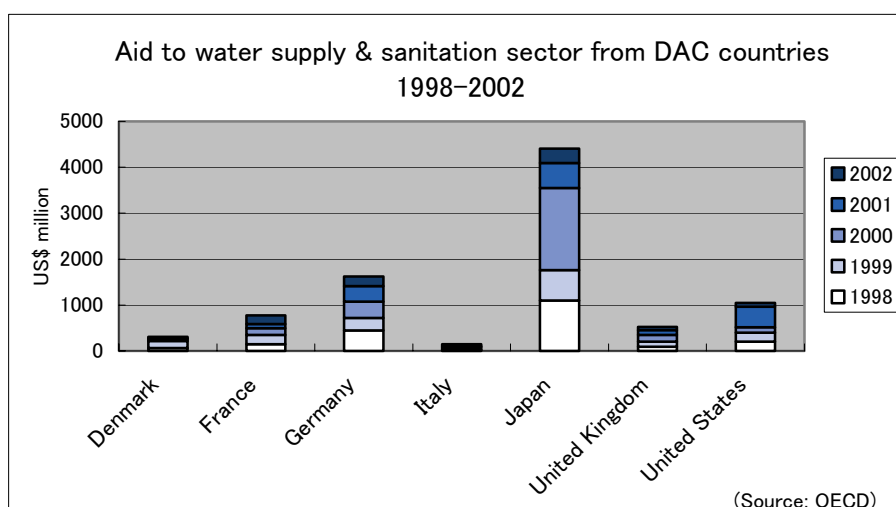


(3) Water and Sanitation

Japan has been providing comprehensive assistance that covers provision of drinking water and sanitation, improvement of water productivity, water pollution control, disaster mitigation and water resources management. In quantitative terms, Japan has been the largest contributor in the water supply and sanitation sector. Its assistance accounted for 41% of the global total in the five years from 1998 to 2002.

In March 2003, Japan hosted the 3rd World Water Forum and Ministerial Conference with the outcome of the Ministerial Declaration --- Message from the Lake Biwa and Yodo River Basin --- and the Portfolio of Water Actions (PWA) which includes 500 water-related plans of action and commitments presented by 43 countries and 18 international organizations.

On that occasion, Japan announced the “Initiative for Japan’s ODA on Water” to promote concrete actions based on a comprehensive approach and to strengthen partnership with other donors, international institutions and NGOs. Based on this initiative, Japan has provided training for approximately 1,500 people in the two years since FY2003 on planning, management, and control in the field of water and sanitation. Japan has cooperated actively with the United States on water projects in Asia and Africa.



1.7. Contribution to Disaster Reduction

The Indian Ocean Tsunami disaster of December 2004 tragically illustrated that humanity can never be totally safe from natural disasters, which can have a detrimental impact on the progress achieved in the development and the efforts towards the MDGs. According to the Secretary-General's report on disaster reduction⁵, the economic losses resulting from natural disasters totaled more than US\$65 billion in 2003 alone. It is vital for the realization of the MDGs that disaster reduction strategies be properly incorporated into national development planning.

As a country historically prone to natural disasters such as earthquakes, tsunamis and typhoons, Japan has developed effective technologies and know-how and is fully utilizing them to contribute to supporting disaster reduction efforts in developing countries.

Responding quickly to the above-mentioned Tsunami disaster, Japan extended US\$500 million in emergency assistance (US\$250 million through multilateral institutions and US\$250 million as bilateral grant aid), which was disbursed in full in January 2005. Furthermore, at the UN World Conference on Disaster Reduction held in Kobe in the same month, Japan emphasized the importance of disaster reduction measures through the empowerment of local communities and announced its "Initiative for Disaster Reduction through ODA".

Based on the above-mentioned Initiative, Japan is committed to further supporting the self-help efforts of developing countries in the field of disaster reduction through extending assistance in each phase of disaster such as disaster prevention, emergency response, and reconstruction and development. In FY2004, Japan provided approximately US\$660 million worth of assistance for disaster reduction, including those provided to the Indian Ocean Tsunami disaster. Japan also held and sponsored various seminars to share its unique expertise on disaster prevention and management, including JICA "Regional Seminar on Tsunami Early Warning System".

At the Asian-African Summit held in April 2005, Japan announced to provide more than US\$2.5 billion (including more than US\$1.5 billion of grant

⁵ "Implementation of the International Strategy for Disaster Reduction" released in August 2004

aid) over the next five years in assistance for disaster prevention and mitigation, and reconstruction measures in Asia, Africa and other regions.

2. TRADE, FDI AND OOFs

Indicators	1990	1995	2000	2002	2003
Agricultural support estimate for Japan as percentage of GDP	1.7	1.9	1.4	1.4	1.3**
Agricultural support estimate for Japan in volume (US\$ billion)	52.3	98.6	67.5	54.6	57.5**
Proportion of total bilateral, sector-allocable ODA provided to help build trade development capacity	N/A	N/A	0.6*	0.7	0.8

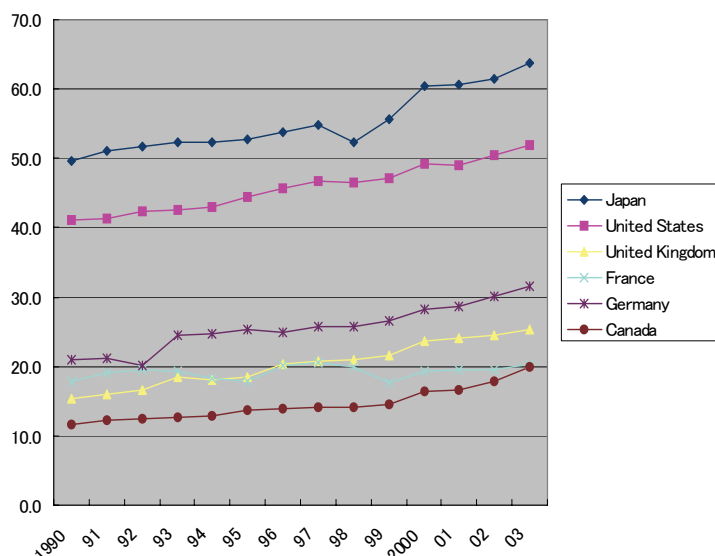
*2001 data **Preliminary data

(Source : UN-Millennium Indicators Database)

Trade and foreign direct investment (FDI) are the driving force of economic growth. Japan has contributed to economic growth of developing countries, especially in Asia, by coordinating ODA activities with trade and FDI. Japan's FDI and imports from developing countries has generated a virtuous cycle of promoting private capital flows to Asian countries, which become the source of finance for development. Among the developed countries, Japan has the highest import ratios from the developing countries (percentage of imports from the developing countries against total imports) and this ratio is growing at the highest pace. In order to expand exports of the developing countries, improving market access in the developed countries through reducing import taxes or non-tariff barriers based on the most favored nation (MFN) principle is important. It is equally important to reinforce supply-side capacity through improving infrastructure related to trade and promoting export-oriented industries.

Other official flows (OOFs) and private financial flows, including trade and investment financing, contribute directly to promoting trade and industrial development in the developing countries.

Ratio of Imports from Developing Countries (As Percentage of Total Imports) in Major Developed Countries



(Source: IMF, Direction of Trade Statistics 2004)

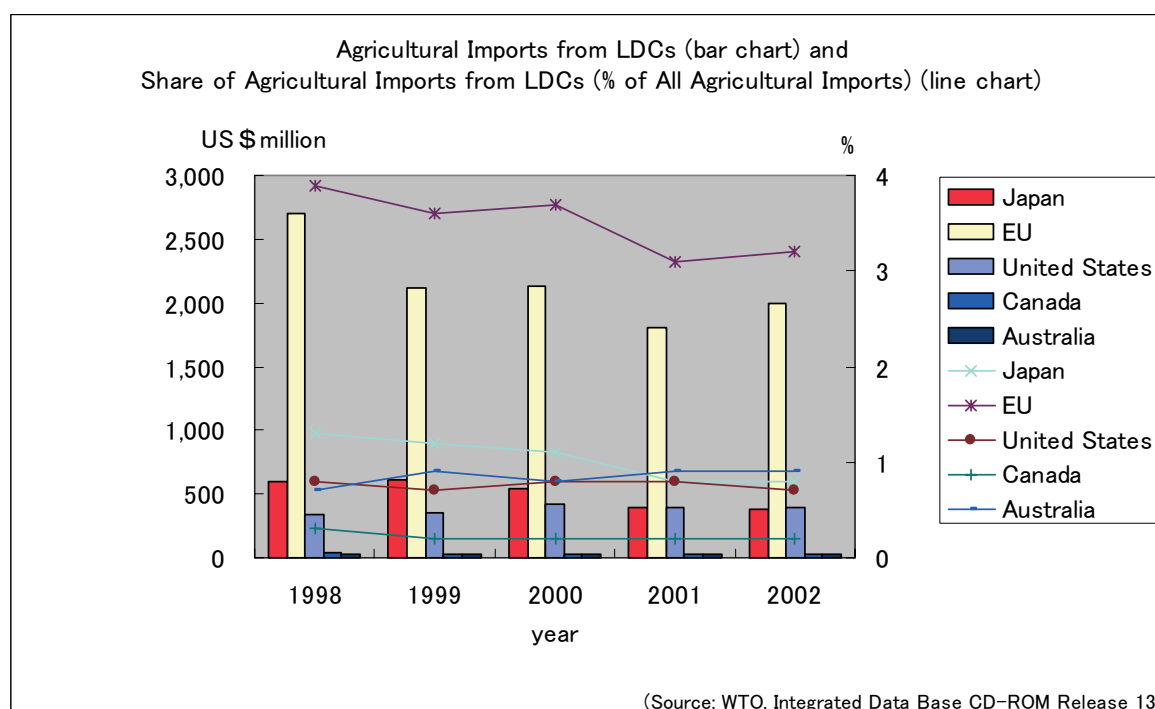
2.1. Improving Market Access and Reducing Trade Distortion

In April 2003, Japan expanded coverage of duty-free and quota-free treatment on imports from LDCs. As a result, approximately 93% (nearly 100% for mining and manufactured goods) of all imports from the LDCs enjoy duty-free and quota-free treatment.

In the particular case of textiles and apparel products, import quotas used to be permitted under the Agreement on Textiles and Clothing (ATC), which terminated in January 2005. Recognizing the concerns of the LDCs which have major export interests in textile and apparel products, Japan abolished, prior to the termination of the ATC, all the tariffs and quotas on imported textile and apparel products as well as textile materials such as cotton from the LDCs. There are no tariff peaks or tariff escalations on textile materials or textile and apparel goods imported from the LDCs. At the G8 Gleneagles Summit, Japan announced its intention to further expand market access to products from the LDCs.

As for agricultural products, which are one of the most important exports for the developing countries, Japan is the second largest importer (imported US\$382 million worth of agricultural products from the LDCs in 2002) after the United States.

As for export subsidies, which distort trade and deprive developing countries of development opportunities, Japan has maintained none on agricultural products. Japan has also been committed to reducing trade-distorting domestic support and cut the level of the Aggregate Measurement of Support down to less than 20 % of the permitted level.



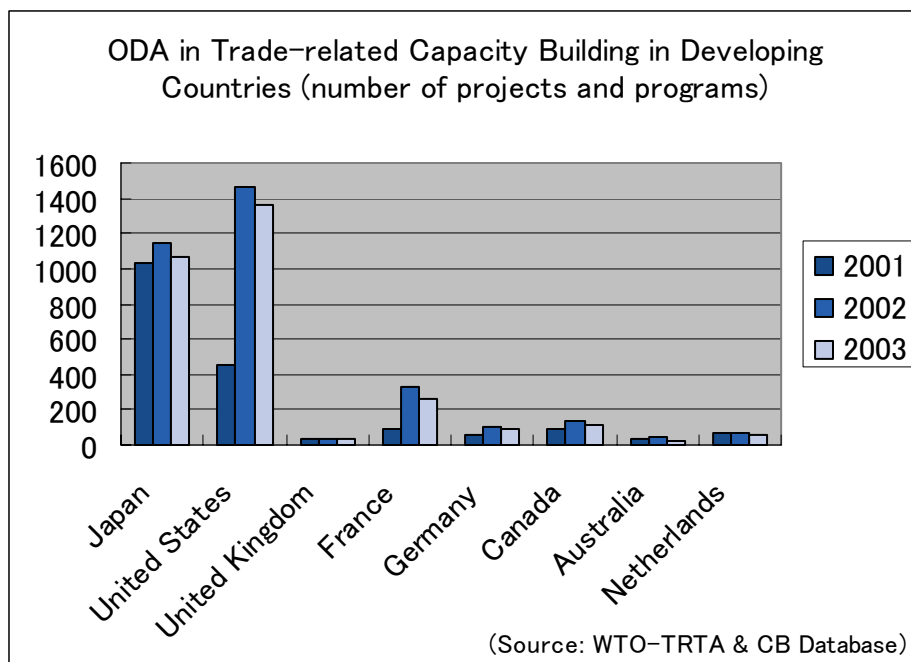
Japan is also actively pursuing a fairer multilateral trading system at the WTO Doha Round negotiations, which help improve market access of the developing countries. For example, Japan called for the elimination of agricultural export subsidies, which was realized in the July Framework. Furthermore, Japan has argued for improved non-agricultural market access (NAMA) - which will greatly benefit developing countries, particularly LDCs - and stressed the need to improve market access through reducing tariff disparities. At the same time, Japan, as a leading donor, has emphasized the importance of trade-related capacity building.

In order to prevent the abuse of trade remedy measures such as anti-dumping duties, Japan has advocated, at the Rule Negotiation of the Doha Round, strengthening and improving discipline under the current agreement through, for example, the introduction of the lesser duty rule, respecting existing “business practices”, and reducing costs. With a view to further expediting the movement, release and clearance of goods, including those in transit, Japan is also

proactively leading the Negotiation on Trade Facilitation. Strengthening discipline in these areas can also indirectly contribute to improving market access for developing countries.

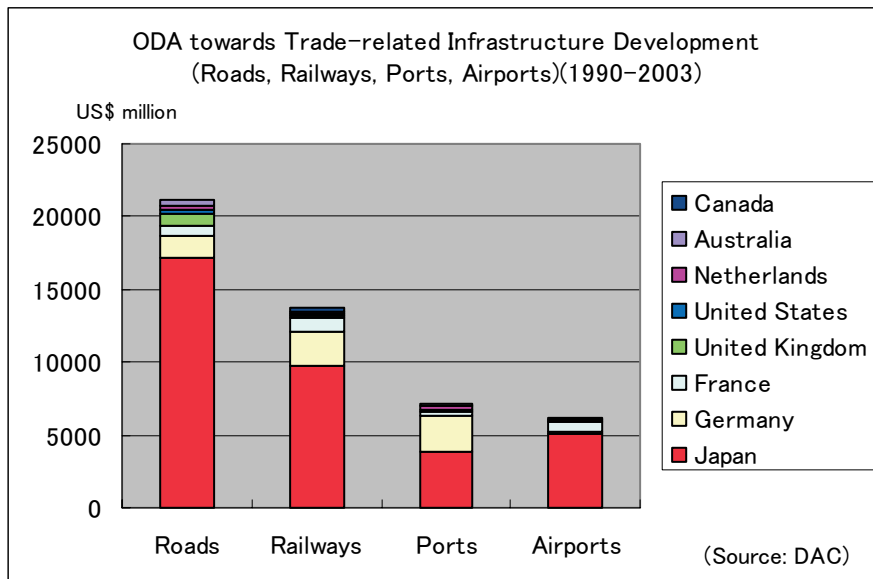
2.2 Enhancing Trade-related Capacity

With respect to trade-related capacity development, Japan has recently been providing more than 1,000 projects and programs for exports and officials from the developing countries each year. Japan's ODA activities include capacity-building for implementing WTO agreements in the APEC region, supporting developing countries to join the WTO, technical cooperation for customs administration, intellectual property rights administration, food sanitation and inspection, and training on Japan's administrative, fiscal systems and inspection systems.



As for development of trade-related infrastructure (roads, railways, ports and airports) development, Japan has consistently been the largest donor among DAC member countries since 1990. Japan's total ODA for trade-related infrastructure between 1990 and 2003 was as follows: US\$17.1 billion for road-related ODA (45.4% of the DAC total); US\$9.8 billion for railway-related ODA

(64.6% of the DAC total); US\$3.9 billion for port-related ODA (45.8% of the DAC total); and US\$5.0 billion for airport-related ODA (72.8% of the DAC total). Japan's assistance has been mainly targeted at Asian countries and has made a considerable contribution to enhancing trade-related capacity of Asian developing countries through alleviating supply-side constraints.



With regard to Africa, Japan has provided more than US\$5 billion for infrastructure development since 1993. At TICAD Asia-Africa Trade and Investment Conference in November 2004, Japan presented four key concepts for promoting trade and investment in Africa; (1) the “formulation of an appropriate policy” for establishing an industrial foundation; (2) “product development” with a focus on improving quality to increase competitiveness; (3) the “empowerment of small and medium-size local enterprises (SMEs)” for generating income and employment in local communities; and (4), the “promotion of a social contribution by private enterprises” for prompting equitable growth. Along with these four concepts, Japan will promote trade and investment between itself and Africa by facilitating business exchanges and promoting product development and exports to Japan.

2.3 OOFs and FDI

In addition to ODA, official financial flows to the developing countries involve OOFs, such as export credits and overseas direct investment financing, that

are closely related to overseas activities of Japanese corporations. Japan's net OOFs to developing countries was generally the largest among the DAC member countries in the 1990s, representing on average 43.3% of the DAC total. Japan's gross OOFs in 2003 were US\$10.2 billion. In July 2005, Japan expanded its undertaking of insurance relating to trade and investment by Japanese companies to Africa, including through an increase in the number of eligible countries, and coordination and cooperation with African export and trade insurance institutions.

With respect to private flows, Japan was in general the second largest investor in developing countries in the 1990s, with its investments representing on average 19.2% of the DAC total. It is notable that between 1990 and 2000 the proportion of Japan's FDI directed at developing countries to total FDI was the highest of all DAC member countries, averaging of 29.8%. Traditionally, Japan has maintained significant economic influence in East Asia through its large volume of FDI and contributed to the region's expanding exports through the complementary effects of technology transfer and employment creation.

South-South investment cooperation is also important for promoting FDI and fostering economic cooperation. For this purpose, Japan hosted the negotiation of bilateral investment treaties (BITs) among 12 developing countries, namely Cambodia, Colombia, Croatia, Egypt, Ghana, India, Indonesia, Iran, Lao PDR, Myanmar, Peru and the Philippines in June 2000, which resulted in agreement of 22 BITs. Furthermore, with the objective of expanding Asia-Africa business opportunities, three Africa-Asia Business Forums (AABF) have been organized under the TICAD initiative, where approximately 190 memoranda worth approximately US\$140 million were concluded. The fourth AABF will be held in 2006. Also Japan established in 2005 the "TICAD Exchange Network" (<http://www.ticadexchange.org/>) which provides an improved information base for trade and investment and an on-line facility for information exchange among public and private sector users in Asia and Africa.

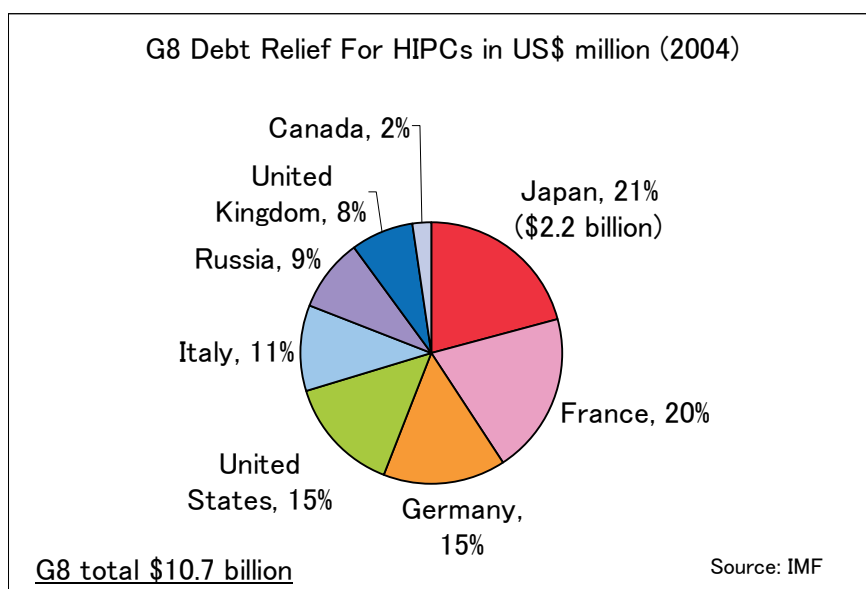
3. DEBT RELIEF

Japan has participated in international debt reduction initiatives and forgiven part of the obligations gradually based on the international agreements such as the Toronto Term (33% cancellation of outstanding debts) that was agreed in 1988, the New Toronto Term (50% cancellation) agreed in 1991, and the Naples Term (67% cancellation) that came into effect in 1994. More recently, Japan provided debt relief schemes, based on the Evian Approach agreed upon in 2003, which aim to reflect the financial needs of each debtor country. In addition, Japan has introduced a debt relief scheme based on the resolution of the Trade and Development Board (TDB) of the United Nations Conference on Trade and Development (UNCTAD) adopted in 1978 (hereinafter referred to as the “TDB Grant”).

Japan has actively promoted the Heavily Indebted Poor Countries (HIPC) Initiative as one of the largest contributors among all creditor countries (approximately one-fourth of the G7 contribution, around US\$5.4 billion in nominal terms, year 2000 value). The HIPC Initiative, agreed upon at the Lyon G7 Summit in 1996, was expanded as the “Enhanced HIPC Initiative” based on the agreement at the Cologne G7 Summit in 1999. Japan, in tandem with other G7 nations, has proposed and implemented further debt reduction treatments beyond the scope of the “Enhanced HIPC Initiative”, namely, providing 100% debt reduction of all ODA and eligible commercial claims.

Furthermore, at the Gleneagles Summit in July 2005, G8 countries agreed a proposal to cancel 100% of outstanding debts of eligible HIPCs to the IMF, IDA and African Development Fund.

As for the debt reduction to the Enhanced HIPCs eligible countries, Japan contributed US\$2.2 billion (in net present value) in 2004, which represented 21% of total G8 contributions. In particular, Japan was the largest contributor among G8 countries for 6 HIPCs, namely, Bolivia, Ghana, Honduras, Malawi, Sierra Leone and Tanzania.



Indicators	1990	1995	2000	2001	2002	2003	2004
Ratio of Debt Relief (% of Net ODA)	4.3*	4.6*	3.4	4.5	6.0	10.6	N/A
Ratio of Debt Relief toward HIPC (% of Net ODA)	N/A	N/A	1.9	2.7	2.1	1.7	N/A
Ratio of Grants (% of ODA)	39.3	46.8	50.3	51.8	55.3	57.1	N/A

*Commitment data

(Source: OECD)

<ANNEX 1>

Millennium Development Goals

GOALS and TARGETS	INDICATORS
Goal 1: Eradicate extreme poverty and hunger	
Target 1 Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1. Proportion of population below \$1 (1993 PPP) per day 2. Poverty gap ratio (incidence x depth of poverty) 3. Share of poorest quintile in national consumption
Target 2 Halve, between 1990 and 2015, the proportion of people who suffer from hunger	4. Prevalence of underweight children under five years of age 5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	6. Net enrolment ratio in primary education 7. Proportion of pupils starting grade 1 who reach grade 5 8. Literacy rate of 15-24 year-olds
Goal 3: Promote gender equality and empower women	
Target 4 Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	9. Ratio of girls to boys in primary, secondary and tertiary education 10. Ratio of literate women to men, 15-24 years old 11. Share of women in wage employment in the non-agricultural sector 12. Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 5 Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate 14. Infant mortality rate 15. Proportion of 1 year-old children immunized against measles
Goal 5: Improve maternal health	
Target 6 Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio 17. Proportion of births attended by skilled health personnel
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 7 Have halted by 2015 and begun to reverse the spread of HIV/AIDS	18. HIV prevalence among pregnant women aged 15-24 years 19. Condom use rate of the contraceptive prevalence rate 20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years
Target 8 Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria 22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures 23. Prevalence and death rates associated with tuberculosis 24. Proportion of tuberculosis cases detected and cured under DOTS (internationally recommended TB control strategy)
Goal 7: Ensure environmental sustainability	
Target 9 Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	25. Proportion of land area covered by forest 26. Ratio of area protected to maintain biological diversity to surface area 27. Energy use (kg oil equivalent) per \$1,000 GDP (PPP)

	<p>28. Carbon dioxide emissions per capita and consumption of ozone-depleting CFCs (ODP tons)</p> <p>29. Proportion of population using solid fuels</p>
<p>Target 10 Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation</p>	<p>30. Proportion of population with sustainable access to an improved water source, urban and rural</p> <p>31. Proportion of population with access to improved sanitation, urban and rural</p>
<p>Target 11 By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</p>	<p>32. Proportion of households with access to secure tenure</p>
<p>Goal 8: Develop a global partnership for development</p>	
<p>Target 12 Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction – both nationally and internationally</p> <p>Target 13 Address the special needs of the least developed countries. Includes: tariff- and quota-free access for least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</p> <p>Target 14 Address the special needs of landlocked developing countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)</p> <p>Target 15 Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p>	<p><i>Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries (LLDCs) and small island developing states (SIDS)</i></p> <p>Official Development Assistance(ODA)</p> <p>33. Net ODA, total and to LDCs, as percentage of OECD/Development Assistance Committee (DAC) donors' gross national income (GNI)</p> <p>34. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)</p> <p>35. Proportion of bilateral ODA of OECD/DAC donors that is untied</p> <p>36. ODA received in landlocked developing countries as a proportion of their GNIs</p> <p>37. ODA received in small island developing states as proportion of their GNIs</p> <p>Market Access</p> <p>38. Proportion of total developed country imports (by value and excluding arms) from developing countries and from LDCs, admitted free of duty</p> <p>39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries</p> <p>40. Agricultural support estimate for OECD countries as percentage of their GDP</p> <p>41. Proportion of ODA provided to help build trade capacity</p> <p>Debt Sustainability</p> <p>42. Total number of countries that have reached their Heavily Indebted Poor Countries Initiative (HIPC) decision points and number that have reached their HIPC completion points (cumulative)</p> <p>43. Debt relief committed under HIPC initiative</p> <p>44. Debt service as a percentage of exports of goods and services</p>
<p>Target 16 In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</p>	<p>45. Unemployment rate of young people aged 15-24 years, each sex and total</p>
<p>Target 17 In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</p>	<p>46. Proportion of population with access to affordable essential drugs on a sustainable basis</p>
<p>Target 18 In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</p>	<p>47. Telephone lines and cellular subscribers per 100 population</p> <p>48. Personal computers in use per 100 population and Internet users per 100 population</p>

<ANNEX 2>

February 2005

Japan's Action Plan for Implementing the Paris Declaration

I. Introduction

1. The adoption of the Millennium Declaration in 2000, the Monterrey Consensus in 2002 and the Report of the UN Millennium Project in 2005 have focused international attention on the importance of both aid effectiveness and aid volume. Following the adoption of the Rome Declaration on Harmonization in 2003, as well as the continuous discussion of Strategic Partnership with Africa, and the Second International Roundtable on Managing for Development Results in Marrakech in 2004, efforts to improve aid effectiveness are being mainstreamed, particularly in the field of Sub-Saharan African countries, with a focus on harmonization and alignment to national development strategies, public financial management (including aid predictability), procurement, and managing for development results. Such efforts are spreading from Africa, to Asia, Oceania, and Latin America. Japan is determined to continue to play a leadership role in supporting partner countries' efforts to improve aid effectiveness, especially in the Asian region, while redoubling its endeavors to enhance its own aid effectiveness.

2. There exist noticeable disparities between East Asia and Sub Saharan Africa: in the latter, the sizeable infusion of ODA over the past years has not brought about development outcomes comparable to those of East Asia. Against this background, there is growing awareness that Japan needs to (i) consider how to modify the Asian model of aid delivery to Sub Saharan Africa, where there exist both LDCs and post-conflict countries. In view of the increasing importance of aid to Africa and the need to achieve the MDGs, Japan will enhance its aid effectiveness by strengthening its policy formulation/implementation system.

3. Building upon its action plan announced at the Rome High Level Forum, Japan has formulated a revised action plan to implement the Paris Declaration.

II. Basic Position on Implementing the Paris Declaration

In implementing the Paris Declaration, Japan attaches importance to the following points:

1. Ownership is the basis for partner country-led aid effectiveness. Partnership between the partner country and donors is crucial for improving aid effectiveness;
2. Capacity development is essential to ensure ownership and leadership of the partner country;
3. Donors must align their assistance with the national development strategies of the partner country including PRS;
4. Partner countries must undertake necessary domestic reform for good governance (e.g. public financial management reform);
5. Japan's aid implementation system should be further strengthened;
6. In the efforts to raise aid effectiveness, the following must be pursued:
 - Provide best efforts in accordance with the basic principles of the Rome Declaration (i.e., respect for national ownership, country-based approaches, and respect for the diversity of aid modalities);

- Produce tangible results, through the employment of steady and practical approaches (e.g., cost-benefit approaches, etc);
- Take a comprehensive approach to eliminate various impediments to improved aid effectiveness;
- Share good practices widely across partners and other donors.

III. Concrete Actions

Japan will give priorities to the following in implementing the Paris Declaration:

1. Enhancing Alignment of Japan's ODA with Partner Countries' National Development Strategies

Donors should align their aid with partner countries' national development strategies and budget systems, as this is the most fundamental element of respect for the ownership of partner countries. Since Program-based approaches (PBAs) are an effective means to facilitate this process, Japan will deepen and expand its involvement in PBAs in target partner countries, and also expand PBAs to other partner countries. In this process, Japan will attach importance to the following:

- (a) Formulating flexible PBAs that are relevant to the existing capacity of respective partner countries.
- (b) Developing respective partner countries' capacity which enables them to analyze, design and implement PBAs by themselves.
- (c) Maximizing aid effectiveness of PBAs through combining various aid modalities as appropriate (project aid and non-project aid including budget support and pooling arrangements); "complementarity of aid modalities".
- (d) Integrating "Managing for development results" into PBA management.

[Concrete Actions]

Action 1: Japan is committed to further involvement in PBAs by:

1. Actively participating in upstream country/sectoral analytic work mainly in target partner countries. Then, based on thorough discussion with other donors: identifying target sectors/sub-sectors, in which Japan has comparative advantages, and further participating in those PBAs, particularly in target partner countries. Japan is willing to assist partner countries in exercising ownership/leadership in managing PBAs;
2. Participating in joint arrangements such as a declaration and a Memorandum of Understanding (MOUs), which can serve as a good basis for pro-active donor coordination;
3. Maximizing aid effectiveness by flexibly combining the strengths of various aid modalities to meet the needs of respective partner countries (e.g. complementarity with other donors as well as combination of Japan's own aid instruments such as ODA Loans/Grant aid, and project/non-project aid);
4. Participating in joint arrangements such as joint diagnostic work, joint reviews, and joint missions, which are undertaken under the framework of PBAs, and
5. Facilitating information sharing of Japan's country assistance programs and the results of policy dialogue with partner countries and other donors.

2. Capacity Development

Capacity development is essential to enable partner countries to fully exercise their ownership as well as set their own visions for development, to prioritize actions, to implement development projects and evaluation, to sustain the output, and to respond

to changing situations. For effective capacity development, partner countries and donors must undertake the following:

- Partner countries: Undertake diagnostic work on needs for capacity development along with public administration reform such as civil service reform, which is a pre-requisite for sustainable capacity development.
- Donors: Take a more effective approach for capacity development, for example, (i) ensuring that project designing, implementation and monitoring and evaluation stages are led by the partner country, (ii) utilizing local skills and knowledge, and (iii) supporting South-South cooperation and regional cooperation.

[Concrete Actions]

Action 2: Japan will further mainstream capacity development in each stage of a project/program cycle such as (i) country/sector analysis, (ii) planning of country assistance programs, (iii) formulation and designing of projects/programs, (iv) implementation, and (v) monitoring and evaluation.

Action 3: Japan will support partner countries to conduct diagnostic work on their needs for capacity development.

Action 4: Japan will support South-South cooperation and regional cooperation where such cooperation is effective, and continue dialogue with non-DAC donors.

In pursuing these actions, Japan will make full use of available ICT facilities such as JICA-NET and the Tokyo Distance Learning Center (TDLC) managed by the World Bank.

3. Public Financial Management

Sound public financial management (PFM) is essential for partner countries to achieve effective resource allocation (including ODA) under their national development strategies/poverty reduction strategies. However, it is not always easy for most partner countries to establish sound PFM due to their capacity constraints. Therefore, Japan will employ various resources to support those countries which are undertaking PFM reforms.

Another essential element for sound PFM is the predictability of aid flows, which enables the partner country to improve PFM from the mid-term perspective. Typically, this applies to countries with high aid dependency such as those in Sub-Saharan Africa. Japan considers that aid predictability can be classified into three levels: (i) macro level (information sharing possibly on multi-year aid flows, both on total and/or sector flows, (ii) meso level (information sharing on multi-year operational aid plan for individual partner countries), and (iii) micro level (information sharing on individual projects). Japan will improve aid predictability steadily at each level by employing practical approaches which contribute to the establishment of sound PFM in partner countries.

[Concrete Actions]

Action 5: Japan will assist partner countries in undertaking PFM reform, for example, through support to their capacity development and a more active participation in CFAA (country financial accountability assessment) of the World Bank and diagnostic work led by PEFA (public expenditure and financial accountability).

Action 6: Japan will make efforts to improve the predictability of aid flows at the following levels:

1. Macro level: Sharing information possibly on multi-year aid flows from Japan to

partner countries on total and/or sector flows, (Consultative group meetings can be used for this purpose);

2. Meso level: Sharing information on multi-year operational aid plan (or so-called, rolling plan) for individual partner countries;
3. Micro level: Sharing information on the indicative budget of individual projects, of which project agreement documents are already signed, in a timely and systematic manner.

Japan will take concrete actions, making full use of knowledge and skills accumulated in the relevant agencies including the Ministry of Finance.

4. Untying

[Concrete Actions]

Action 7: Japan will continue to implement the DAC Recommendation on Untying of ODA to LDCs.

5. Rationalizing Aid Procedures

In some partner countries, various efforts to rationalize aid procedures are underway. Japan welcomes these efforts as they will lead to cost reduction for partner countries.

From this viewpoint, Japan will actively participate in the assistance to these efforts. At the same time, Japan will do its best to reduce transaction costs associated with its own operational procedures.

[Concrete Actions]

Action 8: Japan will make continuous efforts to enhance aid effectiveness in ODA loans by harmonizing procedures with other development banks (e.g. the World Bank and the Asian Development Bank, etc.) in the areas of procurement and public financial management.

Action 9: Japan will make efforts to rationalize aid procedures in grant aid.

Action 10: Japan will actively support the capacity development of partner countries in such areas as procurement, financial management, auditing, monitoring and reporting with priority going to those countries which meet certain criteria.

Action 11: Japan will make efforts to reduce the number of bilateral meetings with partner countries and missions by:

1. Further promoting information sharing on (i) reference documents produced by partner countries and other donors (bilaterals and multilaterals) as well as on (ii) the results of past missions which had similar objectives on terms of reference (TORs), and
2. Combining multiple missions, which have similar objectives or TORs, with other donors.

In partner countries where efforts of harmonization and simplification are underway on a multilateral basis, Japan will join those discussions and explore the possibility of harmonizing its procedures, bearing in mind cost-effectiveness

6. Managing for Development Results

To utilize ODA effectively and efficiently and achieve the Millennium Development Goals (MDGs), partner countries should take the following measures:

- Set forth and prioritize targets clearly in national development strategies including PRS,
- Develop a PFM framework in a coherent manner with national development strategies including PRS,
- Establish an effective monitoring framework, and
- Enhance the linkage between the above three measures.

Japan considers it important to incorporate “Managing for Development Results” into its aid management system in a step-by-step manner, through experience sharing with partner countries and other donors.

[Concrete Actions]

Action 12: Japan will introduce results-based country programming into its country assistance programs in a step-by-step manner, including through experience sharing with other donors.

Action 13: Japan will strengthen its review of ODA delivery at the country level, aligning with the result-based monitoring framework in each partner country.

(NOTE) In the above process, the indicator system developed in the negotiation process of the IDA Replenishment (IDA14) in 2004 can be utilized. It consists of fourteen indicators in the economic, health and education sectors.

7. Enhancing Planning and Implementation Framework of Japan's ODA

[Concrete Actions]

Action 14: Japan will strive to enhance the effectiveness of its ODA planning and implementation by:

1. Improving the efficiency of operations at both the headquarters and the field level through, for example, reviewing and rationalizing operational procedures.
2. Enhancing the function of field missions through (i) strengthening functions of field offices in accordance with Japan's Medium-term ODA Policy, and on-going efforts made by JBIC and JICA, and (ii) assignment of staff who have enough professional knowledge and communication skills to participate actively in local donor community discussion particularly in target partner countries.

IV. Monitoring and Evaluation

In the Post-Paris process, Japan will monitor annually its own progress in the implementation of this action plan (i.e. implementation of the Paris Declaration) and share its results with partner countries and other donors.



Ministry of Foreign Affairs of Japan

2-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8919, Japan
Tel. +81-3-5501-8000
<http://www.mofa.go.jp>

