
Global Financial and Economic Crisis and Assistance to Developing Countries



Prime Minister Yukio Hatoyama delivering an address at the 64th United Nations General Assembly (Photo: Cabinet Public Relations Office)

In September 2009, a new government headed by Prime Minister Yukio Hatoyama was inaugurated. In his address at the 64th Session of the General Assembly of the United Nations (UN) which he attended shortly after taking office, Prime Minister Hatoyama presented the new government's policy on official development assistance (ODA). "Even in the twenty-first century, the world has not been liberated from the problems of poverty, infectious diseases, health, education, water and sanitation, food and illegal drugs. The situation is particularly serious in developing countries. I am also compelled to point out the unfortunate reality that fragile or failed States can become breeding grounds for terrorism. The global economic crisis that began last year has been exacerbating the situation." In this context, "Japan will work in partnership with international organizations and NGOs and strengthen its assistance to developing countries in terms of both quality and quantity. Japan intends to continue and strengthen the Tokyo International Conference on African Development (TICAD) process, and redouble its efforts towards the achievement of the Millennium Development Goals (MDGs) and the promotion of human security."

Prime Minister Hatoyama pledged to make every effort to ensure the new Japan become a "bridge" between developed and developing countries. However, as the Japanese

economy experiences the serious impact of the global financial and economic crisis since September 2008, the question of "why must Japan assist developing countries" is being asked more than ever before.

Amidst the dramatically changing international situation and tough economic conditions, development needs are diversified and incremented in developing countries. As described in Chapter 1 and the subsequent sections, it is Japan's responsibility as a major country as well as Japan's own national interest to become a "bridge" between developed and developing countries by tackling the common challenges facing the international community, i.e., responses to the current financial and economic crisis, African development, assistance for the reconstruction of Afghanistan and assistance to Pakistan, and environmental and climate change issues.

Japan clearly states in its ODA Charter that the objectives of ODA are "to contribute to the peace and development of the international community, and thereby help ensure Japan's own security and prosperity." It also identifies ODA as the most suitable policy for Japan, a nation aspiring for world peace, to gain sympathy and support from the international community. Part I will begin by reiterating the significance and necessity of ODA, followed by a thorough discussion of Japan's development efforts which are

The Significance and Necessity of Japanese ODA: Why Does Japan Assist Developing Countries?

■ After World War II, with the assistance of the United States (US) and World Bank, Japan strove to reconstruct its economy and achieve stability by its own efforts and through economic prosperity and democracy, Japan has built a prosperous society in which each and every citizen enjoys peace and happiness. Meanwhile, ever since Japan started economic cooperation in 1954 ^(Note 1), through ODA it has made significant contributions to the promotion of sustainable economic development and poverty reduction as well as the improvement of the people's livelihoods in developing countries, beginning with East Asia. Japan, a prosperous society with the world's second largest economy, has a large responsibility as a major country in the world to promote the economic and social development of developing countries and take steps to solve global challenges, and to demonstrate leadership in building a world where all people can live humanly and peacefully.

■ It is the harsh reality that many people in the world continue to suffer from extreme poverty and hunger. The international community cannot ignore this reality from a humanitarian standpoint. As globalization progresses, the international community is faced with numerous issues that require a coordinated response, such as environment and climate change issues, the spread of infectious diseases, and the financial and economic crisis. These issues have a large impact on the lives of people beyond borders. If nothing is done, they will threaten the human dignity of the people who have been left behind by economic development, and will become a direct threat to Japan's own interest. There is thus an ever-growing need to step up global efforts to achieve the Millennium Development

Goals (MDGs), and ODA is playing an important role in these efforts. Japan attaches importance in ensuring human security by addressing, through ODA, the direct threats to individuals that cannot be addressed merely through protection of a state as before. The Hatoyama Cabinet has repeatedly pledged, with regard to assistance to developing countries, that Japan will re-double its efforts towards the achievement of the MDGs and the promotion of human security.

■ Japan's prosperity today has not been established by Japan alone. Japan enjoys the benefits of free trade in the international community, and is dependent on overseas sources for much of its resources, energy, and food in the context of such interdependence, Japan must continue to ensure its survival and prosperity. Thus, it is essential for Japan, which obtains tremendous benefits from its partnership and cooperation with the international community, to work towards building a peaceful and stable international environment through the strategic use of ODA.

■ Japan's contribution to the development of developing countries for over half a century has enhanced its friendly relations with these countries and promoted mutual understandings with them at the grassroots level. Furthermore, it has been largely fruitful also in strengthening the trust in Japan as well as Japan's assertiveness in the international community. If Japan takes a leading role in harnessing its ODA to address the development of developing countries and to tackle global challenges, this will improve Japan's reputation among the international community, and consequently, strengthen its diplomatic foundations and ensure its security and prosperity.

one component of the measures to promote global economic recovery—a priority issue of the international community of the present—as well as efforts to address the issues such as conflict and terrorism and to the global issues such as the environment and climate change.

ODA is one of the most important and effective tools to address the challenges confronting the international community, and by extension to advance Japan's national interests. ODA is an indispensable policy tool for contributing to the peace and stability of the world through peaceful means, and creating a desirable international environment for Japan. Japan's ODA is expected to further increase its strategic value, mobility, transparency, and efficiency in accordance with the aid principles which have been established based on Japan's prior assistance experience and record. It is also

expected to promote a deeper understanding of the objectives of ODA and the importance of its use, both domestically and internationally, through broad public participation. Japan's ODA marked its 55th year in October 2009. Japan's efforts to draw on its assistance experience while taking the lead in the development field and contributing to the development of developing countries are now more significant than ever.

Despite the tough economic and fiscal conditions, Japan will make active use of ODA and strive to enhance its strategic contributions to the international community. In addition, Japan will continue to make its unceasing effort to further promote ODA reforms, such as improvements in aid effectiveness and development effectiveness and in the assistance implementation system to make Japan's ODA even better.

Notes: (1) On October 6, 1954, Japan joined the Colombo Plan (a regional cooperation organization which was founded in January 1950 to promote the economic and social development of Asian and Pacific countries) and began providing technical cooperation.



Chapter 1

Response to the Global Financial and Economic Crisis

Photo: Kazuyoshi Nomachi/JICA

Since September 2008, the world has been faced with a financial and economic crisis rooted in the subprime loan problem of the United States (US). The crisis worked its way through the globalized financial markets and brought on a credit crunch across the world. Furthermore, the crisis is having a profound impact on the real economies of countries in the form of trade stagnation, declines in consumption, and declines in employment. The impact on the vulnerable populations in developing countries is particularly severe, and it has been pointed out that the efforts made to date towards the achievement of the MDGs may come to naught.

In Asia, the crisis had a relatively modest direct impact on the financial sector, helped by the economic structural reforms that were implemented in each country after the 1997 currency crisis and the accumulation of abundant foreign reserves in those countries, as well as advancements in regional cooperation in the financial sector, including the Chiang Mai Initiative. Nevertheless, the crisis is having a large impact on the real economy. Asian countries, which are highly dependent on exports in general, are experiencing a decline in exports, falling stock prices, and reduction in GDP growth rates due to the downturn in the global economy. Furthermore, as a result of the crisis, Africa is seeing a deterioration of its national finances, a reduction in the inflow of private capital, including foreign direct investment, and a decline in remittances from migrant workers who are working overseas. This situation has raised serious concerns that these impacts will lead to a slowdown in economic growth or delays in the achievement of the MDGs.

In this context, Japan believes that in order for the

global economy to recover, it is important that developed countries take every possible financial and fiscal measure in cooperation with developing countries, as well as further strengthen their development efforts to promote the sustainable development of developing countries through the use of ODA.

With regard to the response to the global financial and economic crisis, at the Washington Summit which was held in November 2008, Japan, ahead of the other countries, expressed that it is ready to lend the International Monetary Fund (IMF) up to US\$100 billion, and in February 2009 Japan signed a lending agreement with the Fund. At the London Summit ^(Note 2) in April 2009, the leaders of developed countries and emerging economies gathered and confirmed the need to make a concerted effort to confront the global economic crisis and take every possible measure, beginning with economic stimulus measures. On development, the leaders agreed to continue their efforts for the achievement of the MDGs and the implementation of their ODA commitments. At the same Summit, the leaders expressed support on the proposal of increasing the capital base of Asian Development Bank (ADB) by 200%. And at the end of the month, it was agreed to triple its capital base from approximately US\$55 billion to US\$165 billion at the meeting of the Board of Governors of all ADB member countries, which ensured financial resources for ADB to respond to the impact of the global economic crisis and long-term development needs in Asia and the Pacific region.

At the G8 Development Ministers' Meeting held in Rome in June 2009, the ministers discussed priority items

Notes: (2) Participating countries and international organizations were as follows: G7 (Japan, United States, United Kingdom, Germany, France, Italy, Canada), Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, Thailand (ASEAN Chair), Ethiopia (NEPAD Steering Committee Chair), Czech Republic (EU Chair), European Union (European Commission, Austria, Spain), Association of Southeast Asian Nations (ASEAN) Secretary-General, African Union Commission (AUC) Chair, United Nations (UN), International Monetary Fund (IMF), World Bank, Financial Stability Forum (FSF)

for development assistance to respond to the impact of the financial and economic crisis. The G8 countries shared the view that in light of the serious impact the economic crisis is having on low income and poor countries, it is necessary for the G8 and other countries to address the crisis in a coordinated manner, and that even in the midst of this crisis it is important for the G8 countries to steadily implement their existing commitments on ODA and take steps to achieve food security.

At the G8 Summit Meeting of the 35th Leaders' Summit (G8 L'Aquila Summit) held in Italy in July 2009, the leaders expressed their recognition that in view of the impact of the current financial and economic crisis, the G8 countries have an increasing responsibility to respond, and it is important for the countries to continue to take leadership in development. In addition, at the expanded meeting with the leaders of African countries ^(Note 3), the leaders discussed the impact of the financial and economic crisis on Africa and shared understanding of the importance of the G8 countries' steady implementation of previous commitments on ODA and the need to enhance assistance to Africa. Furthermore, at the working session on food security, the leaders made the commitments towards a goal of mobilizing US\$20 billion over three years for food insecurity in developing countries, which is becoming even more serious because of the global financial and economic crisis. Japan announced its readiness to provide at least US\$3 billion in assistance for the agricultural sector including related infrastructure over the three years from 2010 to 2012.

At the G20 Pittsburgh Summit held in the US in



G20 Pittsburgh Summit (Photo: Jiji Press)

September 2009, the G20 countries reaffirmed their historic commitment to meet the MDGs and their respective ODA pledges, with a view to enhancing their assistance to the most vulnerable populations. Furthermore, the G20 countries promised to cooperate to improve access to food, fuel, and financing among the poor.

While promptness is required to respond to the impact of the current financial and economic crisis, the international community cannot, even in the midst of such circumstances, put off efforts to find a solution to development challenges, e.g., poverty reduction in developing countries and the achievement of the MDGs. It is particularly important for developed countries to steadily implement their existing ODA commitments. Japan will steadily and promptly implement the pledges it made internationally on ODA, including assistance measures for Asia which will be discussed in the next section, and assistance to Africa, which Japan announced in the process of the Tokyo International Conference on African Development (TICAD).

Notes: (3) G8, Angola, Algeria, Egypt, Ethiopia (NEPAD Steering Committee Chair), Nigeria, Senegal, South Africa, Libya (AU Chair), AUC Chair, and international organizations participated.

Section 1

Enhancing Assistance for the Growth of Asia

The continuation of Asia's stable and robust growth is critical to the future growth of Japan. It is also essential to the realization of the East Asian Community proposed by Prime Minister Hatoyama. To this end, it is imperative that Japan make contribution in finance, human resources, technical assistance, and knowledge fronts to improve the intraregional flow of people, goods, and capital, and mitigate and eliminate bottlenecks to growth.

Japan has eagerly taken steps to assist Asia in addressing the impact of the financial and economic crisis. At the Annual Meeting of the World Economic Forum in Davos in January 2009, then Prime Minister Taro Aso expressed that it was important for Asia, which holds the greatest growth potential in the world, to contribute to the world economy as a center of growth open to the world. In this context, with a view to enabling Asian countries to take a coordinated and prompt response to the impact of the crisis, as well as to promote strengthening of Asia's growth potential and expansion of domestic demand, then Prime Minister Aso announced its readiness to provide ODA no less than 1.5 trillion yen in total (equivalent to US\$17 billion).

However, the financial crisis continued and the world economy further declined. In order to play an active role in assisting Asia, Japan announced at the G20 London Summit in April 2009 that it would expand its commitment to Asia that was announced at the World Economic Forum, and declared that it was ready to extend ODA of up to 2 trillion yen (equivalent to US\$20 billion). With regard to other public funding, Japan announced that it would facilitate trade financing by providing a total of US\$22 billion of additional assistance for the next two years through the Nippon Export and Investment Insurance (NEXI) and the Japan Bank for International Cooperation (JBIC), other than the US\$90 billion on average of annual support to trade finance. Japan also announced that it would support investments in developing countries to environmental areas, mainly in Asia, which was to be US\$5 billion for the next two years through JBIC.

In April 2009, Japan announced "the Growth Initiative towards Doubling the Size of Asia's Economy," which gives a more concrete idea of the commitment announced at the G20 London Summit. Specifically, as a part of ODA of up to 2 trillion yen (equivalent to US\$20 billion) Japan

mentioned Emergency Budget Support ODA Loans totaling up to 300 billion yen to be extended flexibly in order to help boost domestic demand in Asian countries. Japan also mentioned to the support to the development of safety nets in the sectors and people vulnerable to crisis, as well as to the support to infrastructure development, development of a low-carbon emission society, and the promotion of human resources development and people-to-people exchanges.

Based on the above commitment, in June 2009, Japan extended to the Philippines an ODA loan of around 45 billion yen to support the country's agriculture and logistics infrastructure, and an ODA loan of around 2.9 billion yen to Mongolia to support the country's social sector.

In November 2009, the first Summit Meeting was held between Japan and five Mekong region countries. Prime Minister Hatoyama addressed that the Mekong region was a significant region that held the key in the open and transparent East Asian Community initiative in terms of redressing intraregional gaps. At the Summit Meeting, the leaders shared the view that the countries will establish a partnership for a future of common prosperity based on the three pillars of: comprehensive development of the Mekong region; the environment and climate change (addressing "A Decade toward the Green Mekong" initiative) and issues of overcoming vulnerability, and expansion of cooperation and exchange. In order to further advance these endeavours, Japan regards the Mekong region as a priority area and continue the policy to expand ODA to the Mekong region as a whole as well as to Cambodia, Laos, and Viet Nam (the CLV countries) respectively. Japan committed to extend ODA of more than 500 billion yen in the next three



Mekong-Japan Summit Meeting (Photo: Jiji Press)

Chart I-1. Japan's Efforts through the Growth Initiative towards Doubling the Size of Asia's Economy

ODA = up to ¥2 trillion (US\$20 billion)**1 Budget support for governments of developing countries**

Timely provision of funds for expansion of domestic demand in coordination with the World Bank and the Asian Development Bank (ADB), utilizing Emergency Budget Support ODA Loans (up to ¥300 billion (about US\$3 billion)).

2 Assistance for sectors and people vulnerable to the impact of the current crisis

Implementation of assistance in such areas as the building of safety nets, support for farming villages and regions, health care and medical services, primary and secondary education, and food.

3 Infrastructure development

Implementation of infrastructure development in priority areas such as roads, railways, and port facilities.

4 Assistance for capacity building in planning, formulating, and implementing fiscal and monetary policy

Dispatch of experts such as monetary policy advisors.

5 Assistance for small and medium-sized enterprises (SMEs) and facilitation of trade and investment

Study for development of SMEs, assistance for the development of systems in such areas as trade and investment environment, assistance for business, dispatch of experts such as policy advisors.

6 Building a low-carbon society

Assistance in such areas as high-efficient power plants, forest management, promotion and development of related systems of energy saving and renewable energy, and waste management for a low-carbon society, through the active utilization of Japan's advanced technologies such as environmental technologies. Promotion of climate change program loan for comprehensive assistance to climate change policy.

7 Human resources development and promotion of people-to-people exchanges

Development of industrial human resources to underpin the economic growth in Asia through assistance for development of core human resources in such areas as supporting industry, promotion of industry and investment, establishment of technology institutes, youth exchanges, etc., with the utilization of Japan's technologies

Other Official Flows (OOF)**1 Assistance for infrastructure improvement**

The Nippon Export and Investment Insurance (NEXI) will establish a new line of trade insurance amounting to US\$20 billion.

2 Facilitation of trade finance in developing countries (Additional US\$22 billion for two years)

The Japan Bank for International Cooperation (JBIC) will enhance trade finance up to US\$6 billion in cooperation with ADB and others. NEXI will make available trade insurance up to US\$16 billion. Strengthening of collaboration between NEXI and JBIC and export credit agencies in each country (world-wide promotion of trade insurance network, etc.).

3 Initiative "Leading Investment to Future Environment" (LIFE) (approximately US\$5 billion for two years)

Assistance for investment in developing countries (mainly in Asia) in the area of environment.

4 Establishment of the Bank Recapitalization Fund for developing countries by the Japan Bank for International Cooperation (JBIC) and International Finance Corporation (IFC)

Investment of approximately US\$2 billion from JBIC.

5 Assistance to Indonesia in issuing "Samurai Bonds"

JBIC will provide a guarantee for a Japanese yen equivalent of up to US\$1.5 billion for two years.

Contribution to multilateral efforts**1 Conclusion of lending agreement with International Monetary Fund (IMF) of up to US\$100 billion**

Japan signed an agreement to expand the IMF's financial foundations, which was followed by similar announcements by the EU and Canada.

2 General capital increase of Asian Development Bank (ADB)

This increase is an urgent matter in order to fully respond to the current crisis.

3 Promotion of multilateralization of the Chiang Mai Initiative**4 Promotion of infrastructure development with the participation of private finance**

Pilot projects to promote infrastructure development with private finance will be implemented through the Economic Research Institute for ASEAN and East Asia (ERIA).

5 Promotion of development of local currency denominated bond markets in Asia

years for the Mekong region to flourish further. Also, on the occasion of the Japan-Viet Nam summit meeting, Japan decided to extend Emergency Budget Support ODA Loans of around 48 billion yen to Viet Nam.

Japan will continue its utmost efforts to expedite implementation of assistance, responding to the requests of the Asian countries.

Section 2

Steady Implementation of Assistance towards the Doubling of ODA to Africa

With the TICAD process at the cornerstone of its assistance to Africa, Japan has been actively supporting Africa's own efforts to address the continent's development challenges mainly based on the TICAD process whose principles are ownership by African countries and partnership of the international community.

At the Fourth Tokyo International Conference on African Development (TICAD IV) held in Yokohama in May 2008, lively discussion was held on the direction of future African development in order to support the recent positive trends in Africa and mobilize the knowledge and resources of the international community. The conference was held under the basic theme of "Towards a Vibrant Africa: Continent of Hope and Opportunity," and was focused on priorities of "Boosting Economic Growth," including infrastructure development as well as trade and investment promotion through improvements in the business climate, "Ensuring Human Security, including the Achievement of the MDGs and Consolidation of Peace and Good Governance," and "Addressing Environmental Issues and Climate Change." Japan announced that it would double its ODA to Africa and assist in doubling direct investment from Japanese private sector to Africa by 2012, provide ODA loans of up to US\$4 billion in five years, and double grant and technical assistance to Africa.

The African continent has over the past five years recorded an average annual economic growth rate of 6%, aided by the economic reforms in the respective countries and the favorable climate of the external economy. However, this all completely changed with global financial and economic crisis after September 2008. First, countries with access to the international financial market such as Egypt, Nigeria, and South Africa were impacted by the

credit crunch. Then, a downturn in the real economy owing to the worldwide fall in demand, plunge in primary commodity prices, and decline in foreign direct investment began to be seen across the continent. The International Monetary Fund (IMF) forecasted the real GDP growth rate of the African continent in 2009 to be 1.69% (as of October 1, 2009), and the World Bank predicted there will be delays in the achievement of the MDGs in all areas.

If Africa is profoundly affected by this crisis such that its economy, which has attained striking growth in recent years, experiences a slowdown while achievement of the MDGs suffers large setbacks, the efforts of donors, aid organizations, and the countries of Africa would end up with no effect. In order to avoid such a situation, the international community must offer its cooperation.

From the viewpoint above, at the TICAD Ministerial Follow-up Meeting ^(Note 4) held in Botswana in March 2009,



State Secretary for Foreign Affairs Tetsuro Fukuyama meeting with Minister of Agriculture, Animal Industry and Fisheries Hope Ruhindi Mwesigye of the Republic of Uganda

Notes: (4) Approximately 430 people in total participated, including 68 countries (of which from Africa, 48 countries and 37 ministerial-level officials participated), 44 regional and international organizations, 5 NGOs, and the private sector.

the impact upon Africa of the current financial and economic crisis as well as measures to counteract it were discussed between donors, aid organizations and African countries. Japan announced that while its economy is impacted by the global financial and economic crisis, it will nevertheless fulfill the commitments made at TICAD IV without fail and will more vigorously assist Africa, which is also faced with the crisis. Furthermore, Japan pledged to expedite the implementation of approximately US\$2 billion grant and technical assistance as quickly as possible. Recognizing that socially vulnerable people are the ones who will be most severely impacted as this crisis expands, Japan announced that in order to mitigate the impact it will provide food and humanitarian assistance of approximately US\$300 million as well as disburse approximately US\$200 million to the Global Fund to Fight AIDS, Tuberculosis and Malaria. The countries of Africa which attended this meeting were highly appreciative of the status of implementation of Japan's assistance as well as Japan's announcement of its determination to carry out its commitments made at TICAD IV. At the same time, participants of the meeting expressed the concern that under this economic crisis Africa's growth will suffer a slowdown while achievement of the MDGs will be delayed, as well as stressed the need for further assistance. At the G20 Summit on Financial Markets and the World Economy held in London in April 2009, Japan called for the scaling up assistance to Africa. Furthermore, at the G20 Pittsburgh Summit in September which Prime Minister Hatoyama attended, the need to strengthen assistance for the most vulnerable populations was confirmed.

At the 64th Session of the General Assembly of the UN in September 2009, Prime Minister Hatoyama announced that the new government intends to continue and strengthen

the TICAD process. In October of that year, Foreign Minister Okada announced to the African Diplomatic Corps two fundamental principles of Japan's policy on Africa: 1) Providing assistance for development and growth of Africa; and 2) Contributing to peace and stability of Africa. At present, Japan is in the process of identifying and designing projects for each priority area, including Africa's infrastructure, agriculture, health, education, water and sanitation, environment and climate change, with a view to carrying out the commitments Japan made at TICAD IV. Japan has conducted more than 130 preparatory surveys in the countries of Africa and is making efforts towards the steady realization of these concrete assistance measures. Regarding ODA loans, Japan, with a view to reaching a new agreement on loans of up to US\$4 billion over a five-year period, has been working to actively mobilize loans, including the expansion of loan recipient countries, while taking into consideration the persistence of debt and the specific needs of development in the respective countries.

With Japan's ODA to Africa in 2008 totaling approximately US\$1.75 billion, which is more than the previous year by approximately US\$670 million (61.7%), Japan is making progress to achieve the commitments announced at TICAD IV. Under the Hatoyama administration, Japan will continue to carry out the commitments announced at TICAD IV, including the commitments to double its ODA and provide assistance for doubling Japanese private investment to Africa by 2012. To this end, Japan will actively promote assistance to Africa, continuing to cooperate with donors and aid organizations such as the World Bank and African Development Bank, as well as NGOs, providing detailed assistance activities in Africa.

Chart I-2. Impact of the Global Financial and Economic Crisis on Africa and Japan's Assistance

