

**Discussion Paper on  
Development Assistance  
No. 3**

**The Reshaping of Japan's  
Official Development Assistance  
(ODA) Charter**

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**FASID Discussion Paper on Development Assistance No.3**

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\*The responsibility for facts and opinions in this publication rests exclusively with the author and its interpretations do not necessarily reflect the views or the policy of the Ministry of Foreign Affairs or FASID or other institutions.

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## **1. Introduction**

Like any foreign policy, Japan's overseas development policy is influenced by international events and the corresponding domestic climate, oscillating between what serves domestic concerns and what responds to the international community. This balancing act is especially prominent in Japan's case, compared with that of other major donors who also count military responses among their policy instruments. Since options for deploying the Japanese Defense Forces (JDF) are extremely limited by Japan's Constitution, Official Development Assistance (ODA) has long functioned as a key instrument of Japan's foreign policy. Therefore, any significant change in the international or domestic environment inevitably entails the renewal or adjustment of Japan's ODA policy.

In August of 2003, the Government of Japan revised its Official Development Assistance (ODA) Charter for the first time in more than ten years. The premier document in Japan's policy framework for foreign assistance, the ODA Charter, sets forth the rationale, objectives, and strategies behind Japan's foreign aid policy. The revision had two aims: The first was to reshape Japan's ODA mandate, incorporating new ideas and approaches to international development while addressing some challenges that have emerged with the recent sea changes in global politics and economics since the end of the Cold War. The second was to respond to increased demands from the Japanese public for a solid policy framework that would make Japan's ODA more efficient and transparent.

Japan's program of Official Development Assistance (ODA) now stands at the crossroads of this new international and domestic agenda. This article examines the background and characteristics of Japan's new ODA Charter and considers the possible directions that Japan's ODA could take in the years to come.

## **2. Global and Domestic Changes**

### *Changes in the International Environment*

Since the first ODA charter was created in 1992, the world has experienced fundamental changes that were unforeseen just a couple of decades ago. The collapse of the former Soviet bloc put an end to the Cold War. Freed from the constraints of cold war strategic considerations, many donor countries reviewed their aid policies, shifting their attention from the Third World to countries in transition to market economies. Meanwhile, globalization, spurred by unprecedented advances in information technology, accelerated economic integration throughout the world and contributed to the rapid growth of some developing countries; in the 1990s, private capital flows to developing countries increased sharply, reaching more than \$250 billion by the end of the decade, while official financial flows stayed below \$100 billion. Moreover, since the early 1990s, the number of the people who face extreme poverty has decreased substantially, mainly in a few developing countries that have been able to navigate the waves of globalization successfully, particularly China and India.

On the other hand, however, globalization has accentuated the gap between those countries that more easily reaped its benefits and those that could not, as private capital flows have bypassed most poor countries whose economic and political conditions have not been sufficiently conducive to foreign investment.<sup>1</sup> In fact, many poorer countries have seen their incomes plummet and, since globalization, have participated less in world trade. Indeed, about one-fifth of the world's population still lives on less than \$1 per day. Most live in poor countries whose economies are on the verge of collapse, left out of the globalization process. Without doubt, this poverty gap has been expanding. Assuming that globalization is irreversible, it has become incumbent on the international community to help put countries with the weakest economies back on the path of global integration. Thus, Japan's revised ODA charter is intended to respond, in part, to this transformed global economic environment.

It is widely believed that expanding wealth disparity between nations has led to the growth of international terrorism, which poses critical challenges for a world already plagued with increasing regional conflicts since the end of the Cold War. Terrorism and conflicts devastate developing countries and their peoples, not only by disrupting the fledgling process of development but also by destroying social and economic systems, aggravating poverty. Neither problem can be eradicated without the concerted effort of the international community toward peace-building and nation-building in order to improve the living standards and welfare of people in developing countries. Recognizing this fact, the United States increased its foreign aid following the 9/11 terrorist attacks. On the occasion of the International Conference on Financing for Development, the United States announced that it would increase its ODA, which stands at around \$10 billion dollars, by as much as 50% by year 2006. Quickly following suit were the EU and several other donors, thus propelling issues related to development to top priority items on the agendas of recent G-8 Summit Meetings.

Also prioritized on the G-8 agenda are issues of global concern: environmental problems, global warming, and infectious diseases, particularly HIV/AIDS. As globalization progresses, these issues generate greater anxieties for both developed and developing countries. The World Summit on Sustainable Development, held in Johannesburg in 2002, called for strengthening the efforts of the entire international community, emphasizing that global issues are closely linked to poverty. For example, poor people are extremely vulnerable to pollution in air, soil, and water, and they are also particularly vulnerable to infectious diseases. Poor countries are seriously in need of such basic infrastructures as roads, irrigation, sanitation facilities and hospitals. Furthermore, people living in these countries heavily depend on the environment which surrounds them in terms of earning capacity, energy supply, and even basic national security.

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<sup>1</sup> See, for example, World Bank, "Assessing Aid," p.8.

### *Shared Global Strategy and Objectives for Development Aid*

To comprehensively address this wide range of challenges, major donor countries have undertaken radical reforms in their development strategies. In the 1990s, many donors, together with the World Bank and the IMF, pursued policies based on neo-classical economic theory, supporting structural adjustment, macroeconomic stability, and the opening of trade and financial sectors in developing countries. Confounding expectations, however, these policies brought about neither economic development nor poverty reduction in many poor countries. Instead, a number of countries which followed the IMF prescriptions found themselves more severely hit by the adverse impacts of globalization than countries which had not. These lessons have since led to a revision of strategy, shifting policy away from macroeconomic approaches toward policies that focus more directly on poverty reduction.

With the aim to fulfill this new poverty-reduction strategy, a set of Millennium Development Goals (MDGs) was adopted by the Millennium Summit of the United Nations in September 2000. The roots of these MDGs can be traced to the International Development Goals (IDGs) adopted by OECD-DAC in 1996. Forged through intensive discussions in various international fora, the new MDGs reflect a consensus which emerged during the late 1990s, among donor countries as well as developing countries, on just what should be achieved via development assistance. The resulting MDGs are a set of numerical and time-bound targets considered essential for developing countries: halving income-poverty and hunger, achieving primary education and gender equality, reversing the spread of HIV/AIDS, and halving the proportion of people without access to safe water, among others. Adoption of the MDGs has enabled the donor community to share objectives regarding on which issues to concentrate its efforts.

With these shared objectives, the international donor community is moving toward a coordinated approach, including in some cases sharing common policies and modalities in development assistance. Not just donor governments, but also recipient governments, international organizations, NGOs, and other stakeholders, have participated in this endeavor to form a large-scale partnership toward achieving the MDGs. The World Bank, for instance, has been advocating a new approach called "the Comprehensive Development Framework," under which it aims to bring together various stakeholders to cooperate on approaches to a variety of economic and social issues in development.

Initiatives come from developing countries as well. The New Partnership for African Development (NEPAD), proposed by South Africa, Nigeria, Algeria, Egypt, and Senegal, was adopted in July 2001 by the African Union. NEPAD underlines the importance of the ownership of African countries in their own development, while calling for enhanced partnership with the international community.

### *Dwindling Domestic Support for ODA*

While the Japanese government was rather complacent about its status as the world's

biggest donor, Japan's ODA has been steadily losing the support of the Japanese public. According to a poll conducted by Japan's Cabinet Office in 2003<sup>2</sup>, the percentage of people having a positive attitude toward ODA dropped from 43.2% in 1990 to 19.0%, while those who favored a reduction in ODA increased from 10.7 % to 25.5%. The reasons for this about-face in public opinion were clarified by the poll's respondents: 74.7% of those who responded negatively to ODA referred to Japan's sluggish economic conditions and 44.8% to Japan's dire fiscal situation, 37.5% reported that ODA implementation lacked transparency, and 34.8% said that ODA was not effective enough.

Clearly, Japan's protracted recession and its fiscal situation largely explain this new trend toward parsimony on the part of the Japanese public, but the government could not overlook the fact that citizens had also become increasingly critical about the effectiveness of ODA<sup>3</sup>. Consequently, it was the ODA budget that suffered the deepest cuts among major budget items in 2003. Based on an index of 100 in FY 1997, Japan's General Accounting Budget was 109 in FY 2003; the budget for defense was 100, while that for public works was 94, and the budget for ODA, slashed by almost 30%, was a mere 73. This was not surprising; even though ODA represents a small fraction of the national budget, it has always been the first target for cutbacks. This suffices to explain how unpopular ODA has become in Japan. Thus, while the economic and fiscal situations will certainly be dealt with in the broader sense, the issues of transparency and efficiency should be addressed immediately in order to regain public support for ODA.

#### *Mounting Japanese Awareness of National Interest*

Another important shift that has influenced what Japanese people expect from ODA is that of Japanese citizens' increased sensitivity about their own security. This can be largely attributed to the perceived threat from North Korea, as well as to new concerns that have arisen since the terrorist attacks in the US and the subsequent battles with terrorism and war in Iraq.

Nationalist views have also surfaced, particularly in the context of Japan's economic relations with China. The Liberal Democratic Party (LDP), in December 2002, issued a report on ODA reform<sup>4</sup>. In this report, the LDP recommended that the national interest (*or kokueki* in Japanese) should be discussed from various angles, with a view toward both redefining the basic purposes of ODA and achieving a balance between national interests and universal values. The report urged the government to also rethink ODA to Asia, by focusing on strengthening economic linkages with East

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<sup>2</sup> Cabinet Office, "Gaiko ni kansuru seronchousa" (Public opinion survey on diplomacy) <http://www.cao.go.jp/>.

<sup>3</sup> The DAC Peer Review on Japan's ODA in 2003 pointed out, in its Main Findings and Recommendations, that even though it is partly due to Japan's weak economic situation, the public is also becoming critical of the effectiveness of the aid programme.

<sup>4</sup> The Liberal Democratic Party (LDP), "ODA kaikaku no gutaiteki na housaku" (Concrete measures for ODA reform), December 2002.

Asian countries; the implicit message was that the LDP wants to see ODA to China slashed further.

The Prime Minister's Cabinet took a similar step. Its Task Force on External Relations, composed of scholars, business people and former government officials, issued a report on ODA strategy in July 2002<sup>5</sup>. The Task Force defined ODA not simply as a means of helping the poor, but as the political key to ensuring a stable international environment for Japan. It classified ODA into 2 categories: ODA directly related to the national interest, and ODA which Japan should bear as a member of the international community. The objective of the report matches that of the LDP's report: ODA should be redefined based on the national interest.

What do Japanese people expect from ODA by demanding it to be more strategic? Should the government articulate its strategy to both a domestic audience and a foreign audience? Should ODA be more focused and selective, both in terms of recipient countries and in terms of issues, reflecting the interests and concerns of Japanese people? These are the questions Japan's government confronted as it set out to revise the ODA charter.

### **3. Revising the ODA Charter**

#### *Internal Process and Public Outreach*

The Ministry of Foreign Affairs (MOFA) announced its intention to revise the ODA charter in December 2002. Within the nine months, a new ODA Charter had been approved by the Cabinet in August 2003. This section discusses the steps involved in the process of producing the new Charter.

In autumn of 2002, the government opened preliminary discussions, in close coordination with the Board on Comprehensive ODA Strategy (BCOS), to work out guidelines for drafting a new ODA Charter. On March 14, the government announced its "Basic Principles for the Review of the ODA Charter." It then sought to gather input and feedback through a variety of outreach efforts both inside and outside the government.

Indeed this outreach for participation marked one of the prominent features of the new ODA process. For example, the government conducted wide-ranging consultations and discussions not only within government agencies but also with political parties, intellectuals, NGOs, business people, developing countries, other donor countries, and international organizations. MOFA also held three public hearings, in Tokyo, Osaka, and Fukuoka, as well as sought public comments through the Internet and conventional mail. As far as Japan's ODA policy was concerned, such intensive dialogue with people outside the government was unprecedented.

The objective of public consultation was two-fold. Obviously, MOFA aimed to publicly demonstrate that it had changed its attitudes since creation of the previous charter and now stood

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<sup>5</sup> The Task Force on External Relations, Prime Minister's Cabinet, "Wagakuni no ODA senryaku ni tsuite" (On Japan's ODA strategy).



ready to listen to voices from outside the government. In other words, to reform ODA, the government was committed to a process of the reform that would be more transparent and responsive to the public. Moreover, to regain public support, it was considered imperative that the charter reflect the mainstream of Japanese public opinion, so that a majority of citizens could share in shaping what the charter envisaged.

#### *The Role of BCOS*

Established in 2002 under the auspices of MOFA, the Board on Comprehensive ODA Strategy (BCOS) is a permanent body comprised of representatives from academic, NGO, and business circles. It functions as an advisory authority, making proposals to the Foreign Minister on important issues related to ODA, including priorities and country programs. BCOS played a key role in the revision of the ODA charter. With a view toward identifying essential elements that should be highlighted in the new charter, it designated four members to review the successes and failures of past ODA practices. In January 2003, the group submitted a report providing a basis for further discussions. BCOS then made significant proposals every time the government took actions, as explained above.<sup>6</sup>

#### *Political Parties*

As in the case of any important policy making in Japan, the ruling political parties of the day played a decisive role in the revision of the ODA charter. As spelled out in the LDP's report on ODA reform, the LDP's chief concern was to make the national interest more prominent in ODA policy and to reduce ODA to China. A working team on ODA reform and a special committee on economic cooperation within the LDP conducted a number of consultations with the government to push what was recommended in the report. As both the draft and the final version of the charter had to be approved by the LDP before the government finalized the text, LDP views were widely reflected in the charter.

The other ruling parties, namely Komeito and Hoshushinto, also took part in the process. Komeito submitted recommendations on the ODA charter to the Foreign Minister in May 2003<sup>7</sup>. Komeito stressed the importance of more efficient and transparent implementation, the concept of "Human Security" and the need for a law which could provide for an ODA rationale and principles. Thus, the new charter went through the approval process of both these parties as well.

#### *The Private Sector*

Japan's private sector has gradually been losing interest in Japan's ODA, largely because

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<sup>6</sup> Deliberations in BCOS were only available in Japanese: [www.mofa.go.jp/mofaj/gaiko/oda](http://www.mofa.go.jp/mofaj/gaiko/oda) .

<sup>7</sup> Komeito, "ODA kaikaku ni kansuru teigen" (Proposals on ODA reform.)

ODA has become increasingly untied aid (not linked to specific contractor projects) for a couple of decades. The share of untied bilateral ODA has climbed gradually, from around 60% in the 1980s to 96.4% in 1999. Consequently, Japanese firms obtained fewer ODA projects: they procured 67% of loans in 1986, while firms in developing countries procured 24%, and those in other OECD countries, 9%. But in 1999, this trend was completely reversed: Japanese firms procured only 28.9%, while those of developing countries and other OECD countries procured 57.1%, and 14.0% respectively. In fact, Japan's ODA is far more untied than many critics believe it to be, and its procurement procedures are open and fair, as demonstrated by the fact that firms in developing countries procured most of the loans<sup>8</sup>. Japan's ODA has not been used to promote the export sales of Japanese firms; on the contrary, the government has pursued a fair tender process to the point that has given rise to frustrations on the part of Japanese firms.

The government tried to swing back the pendulum to favor Japanese firms again by introducing a new scheme called the "Special Term for Economic Partnership" which aimed to promote the use of Japan's outstanding technologies. Procurement by Japanese firms improved slightly in 2001, reaching 38.0%. But this modest gain was largely offset by a decrease in the total volume of ODA. Therefore, business people requested that the government use ODA more actively to ensure the interests and prosperity of Japan, based on clear-cut strategies and priorities. It is noteworthy, however, that few business people insisted that Japan should pursue concrete commercial interests through ODA.

Business circles also argued that due appreciation should be given to what Japan's ODA had achieved in a number of Asian countries. In a nutshell, they wanted to see the ODA more integrated into Japan's economic and trade policy, in view of growing economic integration in East Asia.

#### *Nongovernmental Organizations (NGOs)*

Nongovernmental Organizations (NGOs) were diametrically opposed to the views of the LDP and the private sector. They emphasized that ODA should be dedicated solely to poverty reduction, global issues, protection of human rights, promotion of democracy, and gender equality, in order to achieve the UN Millennium Development Goals (MDGs). From the NGO perspective, no matter how one defines the national interest, it would divert the ODA from whom it is intended to serve; therefore, no notion of national interest whatsoever should be inserted in the charter. To the NGOs, the term "national interest" implies that Japan should incline more toward the commercial benefits of Japanese business, which runs counter to internationally agreed development targets. Moreover, as national interest carries within it the notion of security, NGOs considered it likely that the government intended to promote military use of ODA through the revision of the charter. Such doubts

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<sup>8</sup> Marie Soderberg assumed, based on case studies in Thailand, Indonesia, the Philippines, and China, that Japanese loan aid is not just a business for the Japanese, and that the processes are fairly open. See "The business of Japanese foreign aid," p. 288.

about government intentions were all the more accentuated by the fact that the process of revision coincided with the wars in Afghanistan and Iraq. Some of the NGOs went so far as to claim that ODA should not become an instrument of diplomacy and that a separate organization, independent from MOFA, should be responsible for overseeing and implementing ODA.

NGO evaluations of the past performance of Japan's ODA were also markedly different from those of business circles. NGOs argued that Japan's ODA not only failed to narrow the poverty gap, but also caused adverse impacts on the environment and local people in developing countries, and they called for the government to review these failures before proceeding with the revision of the charter. They requested that the government give more consideration to the concerns of local people involved in ODA projects, to environmental assessment, and to transparency and accountability throughout the process, from the making of policy to the evaluation of projects.

In sum, what became clear during the discussions with various stakeholder sectors was that public opinion was strikingly divided on such important issues as national interest, peace-building, and the evaluation of ODA's past achievements. The differences seemed too great to be reconciled.

#### **4. Objectives of Japan's ODA**

##### *National Interest vs. International Objectives*

The new ODA charter specifies clear objectives in its first section. It reiterates the Japanese government's commitment to support economic and social infrastructure development, human resource development, and institution-building in developing countries, as well as to address poverty, famine, and global issues such as the environment and HIV/AIDS. This statement remains unchanged as stipulated in the previous charter. These objectives are primordial in ODA policy, since Japan's ODA was defined in accordance with OECD/DAC's overarching principle: ODA is administered with the primary objective of promoting the economic development and welfare of developing countries. Every donor country has the obligation to uphold this principle. Thus, the ODA charter should also be consistent with this definition, no matter how it defines its other objectives. Although gaping differences of opinion persisted over how national interests should be reflected in the charter, this international definition always served as an important starting point. Nevertheless, some important changes have been made to accommodate growing pressure to incorporate the concept of national interest in the charter.

The ways in which major donor countries define their objectives for foreign aid vis-a-vis national interest vary significantly. For example, the United States makes it clear that it considers development aid an important tool for ensuring the security and prosperity of itself and the world.<sup>9</sup> Canada also advocates national security and prosperity, although these goals are not as clearly articulated as in the policy of the United States.<sup>10</sup> On the other hand, the United Kingdom<sup>11</sup> and France<sup>12</sup> stress more universal necessity, leaving national interest somewhat implicit. However, national inter-

est does seem to be reflected in the foreign aid policies of both the UK and France, not only because development assistance is identified as an important tool for their respective approaches to diplomacy, but also because their assistance remains concentrated on developing countries which represent substantial interests for the UK and France themselves. Therefore, it would be safe to assume that in their foreign aid policies, major donor countries pursue what they deem to be important for the own national interests, no matter whether they express it explicitly or implicitly.

#### *National Interest and Japan's Past ODA*

Although the previous charter did not explicitly include the national interest among its objectives, the Japanese government did take it into account whenever it formulated ODA policy. In retrospect, it is fair to say that Japanese ODA has been used as an important diplomatic tool to ensure national interest since its inception; for example, it is well-known that Japan's ODA started as a part of war reparations in the early 1950s. The Japan-Burma Agreement on Reparations and Economic Cooperation was concluded in 1954, followed by similar agreements with other Asian countries. Thus, ODA was first driven by political motivations to rebuild disrupted political and economic relations with Asian countries. Then, the Cold War placed Japan under the pressure of the United States to mobilize more ODA support to third world countries needing to defend themselves from the communist bloc. In fact, substantial ODA was directed to countries affected by the Viet Nam War, as well as to such geopolitically strategic countries as Turkey and Egypt.

ODA proved to be meaningful when Japan dealt with important bilateral relations. For instance, Japan announced the First Yen Loan Package to China in 1979, just after the conclusion of the Japan-China Peace and Friendship Treaty. By the same token, Japan concluded the Agreement

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<sup>9</sup> See, for example, "Strategic plan, Fiscal years 2004-2009," published by The Department of State and USAID, which states that the mission is "to create a more secure, democratic, and prosperous world for the benefit of the American people and international community." In this plan, Secretary of State Colin Powell says, "We will help American businesses succeed in foreign markets and help developing countries create conditions for investment and trade that can lift millions out of poverty."

<sup>10</sup> The Canadian Government says, in its 1995 foreign policy statement entitled "Canada in the World," that international assistance is an investment in prosperity and employment, and in the long run, international assistance promotes social and economic growth in developing countries and countries in transition, which contributes to a stronger global economy in which the Canadian economy and other peoples can grow and prosper. It also says that international security contributes to global security and Canada's long-term security.

<sup>11</sup> See, for example, Secretary of State for International Development, "Eliminating World Poverty: Making Globalization Work for the Poor."

<sup>12</sup> France states, in "La politique française d'aide au développement: pour une mondialisation plus solitaire (French policy on development assistance: toward a globalization with more solidarity)", that in the globalized world, not only the south but the north are affected by current issues related to diseases, environment, economic and social stability, and that France prioritizes reducing poverty and inequality in the framework of sustainable development.

on Economic and Technical Cooperation with Saudi Arabia in 1975 in order to strengthen this relationship which had become imperative due to the First Oil Crisis.

These efforts in turn benefited Japan in ensuring its own security and prosperity. A typical example is the case of the Asian Financial Crisis in the late 1990s. The government of Japan announced "The New Miyazawa Initiative" to assist Asian countries in overcoming their economic difficulties and to contribute to the stability of the international financial market. Japan committed to providing a package of measures totaling 30 billion dollars, which comprised loans and loan guarantees from the Export-Import Bank of Japan, as well as ODA loans. This initiative, directly or indirectly, served the interests of Japan, for whom Asian countries are important partners for trade and investments.

#### *Defining National Interest: Three Views*

Retracing the history of Japan's ODA reveals that ODA is a more important tool for the Japanese government than it may be for other major donor governments. The question is how national interest could be defined in such a way as to gain the support of a majority of the Japanese public. This question posed greater difficulties in Japan than it seemed to present elsewhere, since the concept of national interest, which still carries imperialist connotations in Japan, had to be defined in the context of development assistance which is supposed to be a peaceful mission by nature.

Public opinion on the national interest can be roughly categorized into three groups. The first claims that Japan should focus only on international development targets, without paying much attention to domestic interests or concerns. Most NGOs and many academics belong to this group. They argue that the government should focus its contributions on the development and welfare of the entire international community, a strategy which, in their view, could raise Japan's international standing and help ensure Japan's national interest in the long run. They argue that by emphasizing the national interest, Japan would project a selfish image, which would, in turn, run counter to its national interest.

The second group insists that Japan should strategically deploy a substantial share of ODA funds to ensure its security and prosperity. From their perspective, current ODA is a policy adrift, haphazardly dispersing money to the developing world without an overarching strategy or direction. A number of politicians in the ruling parties and academics belong to this group, and they particularly criticize bilateral ODA to China and multilateral ODA to United Nations Agencies and International Financial Institutions. They consider China a trade rival in regional and world markets. Their animosity against ODA to China is all the more accentuated by the fact that China is rapidly increasing military expenditures and its own foreign assistance. So politically charged is their argument that it transcends what is usually discussed as "fungibility" in the donor community. Moreover, they do not believe that multilateral ODA serves Japan's national interests; on the contrary, they

maintain that Japan is underrepresented in most international organizations and that Japan's policies and views are not duly reflected on their policies. This group therefore argues that Japan should reduce its participation in multilateral ODA, which already represents merely 25% of the total, and shift it even further to bilateral ODA. This group also advocates that in light of its own national security needs, Japan should be more active in using ODA for peace-building and reconstruction after wars.

Lastly, there is the group that most straightforwardly pushes national interest. This group is far smaller than the two groups above, if not negligible. Members of this group claim that ODA should be used in such a way as to bring more visible benefits, or payoffs, to Japan in terms of business and foreign policy. For instance, Japanese technologies and know-how should be directly utilized and incorporated in ODA-funded projects. They also urge that Japan reduce ODA to any countries that stand in the way of Japan's foreign policy in international fora and meetings.

#### *ODA with a Face*

The issue of projecting national interest via ODA is, to a certain degree, related to the notion of "aid with a face" or "flying the flag."<sup>13</sup> A majority of the Japanese public, particularly those in the second and third groups above, believe that people in recipient countries where Japan has provided a good deal of ODA, in fact do not even know the source of their aid. For them, it appears that their tax yen are being spent meaninglessly, so they have called for the government to make Japan's ODA more visible in recipient countries. Measures to this effect might include sending more Japanese experts and business people to developing countries, using more Japanese technologies and expertise, and intensifying public relations activities such as displaying Japanese flags in schools and hospitals, and on equipment financed by Japan's ODA. The international donor community, however, seems to be moving in an opposite direction: national flags should be taken down. As the Millennium Development Goals have taken hold, the donor community has become more cooperative than competitive, adopting such new approaches as sharing country development plans and creating common funds into which donors pour their financial resources. Here too, the Japanese government faces the familiar problem of how to keep a good balance between satisfying public demands and international trends.

#### *National Interest and Japan's New ODA Charter*

How did the government manage to reconcile these three opposing views, each of which represented an aspect of national interest even while conflicting with some features of the other two views? Closer examination suggests that the second and third groups did not necessarily oppose international development goals per se, and moreover, the third group clearly did not enjoy the

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<sup>13</sup> Yutaka Iimura, "Rethinking Japan's ODA: Flying the flag or not."

majority support of the Japanese. Indeed, pursuing the third option to the extreme would have rendered Japan's ODA inconsistent with the OECD definition. The third option was thus ruled out, although some of its concerns should be accommodated in the charter. The remaining question was how to reconcile the second group's views with the first group's in such a way that could satisfy both groups to a certain degree.

The new charter states, at the beginning of the first section, that the objectives of Japan's ODA are to contribute to the peace and development of the international community, thereby helping to ensure Japan's own security and prosperity. This means that the peace and development of the entire international community is the first and foremost objective for Japan's ODA, and contributing to these objectives helps ensure Japan's own security and prosperity. The charter intentionally avoids the term "national interest," given that its meaning varies depending on who interprets it. Instead, it substitutes the phrase, "to ensure Japan's security and prosperity," which everyone agrees is the ultimate objective of the government's overall activities. The charter develops this idea in more concrete terms in subsequent paragraphs, making clear that national interests do not override, in any sense of the term, the bedrock objectives of ODA.<sup>14</sup>

The charter also cites the prevention of conflicts and terrorism, peace building, and protection of human rights as tasks inherent to the stability and development of the international community, after clarifying the commitment to address poverty, refugee crises, and global issues such as the environment and water.

The revised text could not escape certain compromises, as was made evident by the inclusion of several short paragraphs acknowledging differing views about the objectives of Japan's ODA, international development targets, and peace-building. But a careful reading will bring the gradations among these elements into relief.

## **5. Basic policies**

Following the statement of objectives, the new charter spells out several overarching concepts and ideas which the government should always uphold when making ODA policies and implementing projects:

- (a) Supporting self-help efforts by developing countries;
- (b) Enhancing Human Security;
- (c) Assuring fairness;

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<sup>14</sup> For example, the following sentences have been inserted:

"Such efforts will in turn benefit Japan itself in a number of ways, including by promoting friendly relations and people-to-people exchanges with other countries, and by strengthening Japan's standing in the international arena."

"This correlates closely with assuring Japan's security and prosperity and promoting the welfare of its people."

- (d) Utilizing Japan's experience and expertise;
- (e) Partnership and collaboration with the international community.

*(a) Supporting self-help efforts*

Supporting self-help efforts (*or jijo doryoku* in Japanese) has been a key concept of Japan's ODA for decades. While sharing much in common with what the donor community advocates as "ownership," the Japanese concept connotes a slightly broader spectrum of action, largely because it stems from Japan's own experience in reconstructing the nation after the war. Indeed, what should be uppermost in the strategy to achieve sustainable development is to develop human resources and construct social and economic institutions, while building basic infrastructure. Based on this concept, the government has focused on assistance to basic and higher education as well to improving administrative, legal and health systems in developing countries. A good example is King Mongkut's Institute of Technology of Thailand, to which Japan has provided assistance for more than 30 years. The length of this cooperation is exceptional, even among Japan's projects which often last a decade or longer. This institute has become Thailand's largest engineering college, graduating a number of outstanding engineers for that nation.

*Self-help Efforts vs. Good Governance*

The concept of supporting self-help efforts, however, needs to be reviewed in light of emerging new ideas about development assistance, particularly with regard to "good governance." The donor community has increasingly recognized that a number of poor countries, particularly in Africa, have remained poor in spite of intensive efforts by donors. These countries suffer from problems of governance, a situation which is evident from the inadequacy of economic and social institutions, lack of human resources, and in many cases, lack of justice coupled with widespread corruption. Among the worse cases are so-called "failed states" or "failing states" which barely maintain minimum state-level functioning. It seems unrealistic to urge such countries to rely wholly on self-help efforts, with donor countries funneling aid resources that these countries either cannot effectively administer or apply to their development needs. For this reason, donors have become more inclined to examine the governance of developing countries when deciding on aid programs.

The notion of governance is sometimes embraced to justify donors' involvement in the policies of developing countries as well as to foster "selectivity," or the choosing of recipient countries that qualify as good candidates for foreign assistance by virtue of their political stability, and sound economic and social institutions and policies, with a view toward maximizing the efficiency of aid. One example of such involvement and selective aid is the United States Millennium Development Account, which is to be distributed only to developing countries that demonstrate a strong commitment toward good governance, the health and education of their people, and sound economic policies that foster enterprise and entrepreneurship. The Japanese government has been



less inclined to articulate such a policy in its ODA, believing that selectivity can be employed politically with specific intentions, neglecting the most needy people in eliminated countries. Selectivity may also invite excessive intervention in the policies of developing countries; for this reason, many developing countries have opposed it.

#### *Rethinking the "Request-first Principle"*

Based on the concept of supporting self-help efforts, the Japanese government has upheld a "request-first principle" (*or yousei shugi* in Japanese), which mandates that first priority be given to specific requests submitted by developing countries to the Japanese government. In other words, each project is determined based on developing country's request. The Japanese government may also take into account such elements as the political and economic situation of the requesting country, cost effectiveness, and feasibility of the requested project, but always while respecting the policies and intentions expressed in a developing country's request for an ODA project. However, this principle presupposes that recipient governments have sufficient capabilities to make effective requests to donors for what is really needed in their countries, which is not always the case. Thus, the criterion of good governance needed to be incorporated in Japan's ODA policymaking.

The new charter makes it clear that Japan will support the self-help efforts of developing countries based on good governance, reiterating that Japan respects their ownership and development strategies. It also says that Japan will give priority to assisting developing countries that make active efforts to pursue peace, democratization, protection of human rights, and structural reform in the economic and social spheres. This marks a step forward toward a policy reflecting the principle of selectivity. However, the government also states that it does not intend to intervene into internal policies of developing countries. Instead, to put this new approach into practice, the Japanese government says it aims to engage in more intensive policy dialogue with developing countries to discuss their respective policies and priorities and figure out what could best serve the needs of the people living there. In fact, the term "requests" has been eliminated in the new charter. However, this departure from the request-first principle is not intended to indicate that Japan will no longer respect the requests of developing countries, but rather, that these requests are to be discussed more intensively through a policy dialogue.

#### *(b) Human Security*

Human security is a concept which focuses on the protection of individuals from threats like poverty, conflicts, and infectious diseases. It is based on the belief that every man and woman should be respected as an individual and should receive protection regardless of his or her government's circumstances. At the initiative of Japan, the Commission on Human Security was established in the United Nations in January 2001 with 12 members of high caliber throughout the world. Mrs. Sadako Ogata, former UN High Commissioner for Refugees, and Prof. Amartya Sen, Nobel laureate

in economics, served as co-chairs. The commission presented a report to the UN Secretary-General, Kofi Annan, in May 2003. The report clearly describes the rationale behind the human security principle.<sup>15</sup>

Japan applies this concept to ODA policy and extends assistance directly to individuals where necessary, using not only government-to-government channels, but also cooperation with NGOs and international organizations. This concept calls for a bold change in policy formulation and implementation. While most of Japan's ODA projects continue to be implemented based on agreements between the Japanese government and a recipient government, Japan's government has been intensifying cooperation with the other stakeholders, inviting them to participate in Japan's ODA on both the donor side and the recipient side. The concept of human security, however, does not always enjoy the support of developing countries' governments. Some of them are suspicious that Japan will bypass them in order to reach their people directly. Intense policy dialogues with recipient governments are necessary to alleviate such concerns because what ultimately matters is how to best grasp and respond to the actual needs of developing countries.

*(c) Assuring Fairness*

Fairness in ODA is a matter of growing concern for the donor community. During public consultations on the revision of the ODA charter, fairness was ardently advocated by NGOs. Intensifying its efforts to ensure fairness, the government has been examining carefully the impact which Japan's ODA projects have on local environments and inhabitants. The Japan Bank for International Cooperation (JBIC) established "Guidelines for Confirmation of Environmental and Social Considerations" in October 2003. These guidelines include not only environmental standards but also considerations of such social concerns as resettlement of indigenous peoples and gender equality. The guidelines also embrace the participation of local communities and inhabitants who will be affected by projects. Public consultations are underway in the Japan International Cooperation Agency (JICA) to come up with similar guidelines, and JICA will also strengthen its field offices to identify local socio-economic conditions and the impacts of ODA projects through direct contacts with local communities and the people concerned.

Gender equality is also highlighted in the new ODA charter. While far-reaching support is necessary to close the gender gap at many levels of society in developing countries, Japan places particular focus on three areas: education, health, and economic and social inclusion. In the education sector, Japan is not just addressing the gender gap in the education of school-aged children, but also in the literacy of adult women. In health, emphasis is placed on maternal health, family plan-

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<sup>15</sup> "Final Report of the Commission on Human Security describes specifics: "The state continues to have the primary responsibility for security. But as security challenges become more complex and various new actors attempt to play a role, we need a shift in paradigm. The focus must broaden from the state to the security of people-to-human security."

ning and primary health care. Japan has also prioritized improvement of work environments and legal and institutional conditions for women's better inclusion in their societies.

*(d) Utilizing Japan's Experience and Expertise*

Under this heading, some of the concerns about national security are captured in more concrete terms. The charter states that Japan will utilize the experience of its own development and economic cooperation when assisting developing countries. During its post-war reconstruction, Japan received World Bank loans to construct such basic infrastructure as power stations, railroads and highways. Together with trade-oriented industrial policy and development of human resources, skilled workers and managers in particular, these investments were the major driving force for Japan's rapid economic growth.

In light of this experience, Japan has allocated a large part of its ODA to the development of economic and social infrastructure in many Asian countries, boosting their growth by inducing foreign investments and making their industries more competitive. For instance, as of 1993, 16% and 46% of total electricity in Thailand and Malaysia respectively was provided by power plants financed by Japan's ODA. Synergetic effects between improvement of infrastructure, increased human resources, and export-oriented policies have contributed to remarkable economic achievements in a number of countries in East Asia. Certainly this is largely attributable to their own policies and efforts, as well as to the strengthening of the political and economic environments surrounding them. However, the role of Japan's ODA should not be underestimated.

That Japan will also utilize its own technologies, expertise and human resources is partly a response to increasing Japanese public pressure to make Japan's ODA more visible and reflective of Japanese interests. Nevertheless, the government should make sure that this intention will not override the policies and needs of developing countries, which must come first in the policy dialogues.

The charter envisages that ODA policy should be coordinated with other important policies of the government. No policy can stand alone without coordination within the government. Policy coherence is all the more required in ODA policy, in that it consumes a large part of the national budget. ODA policy should go hand-in-hand not only with policies related to trade, industry and agriculture, but also with other domestic policies. For instance, JICA sends more than 3000 young Japanese volunteers to developing countries every year. This program has much bearing on the education of youth in Japan. By the same token, ODA in the health sector is closely linked to the activities of medical schools and hospitals in Japan.

*(e) Partnership with the International Community*

Broadening the scope for cooperation and coordination with a variety of stakeholders is one of the major purposes of the revised charter. Japan has been active in aid coordination for

more than a decade, frequently conducting policy dialogues with the US, the UK, France, Germany, Canada, Australia, Korea, and other donors. A number of projects have been implemented jointly with the US, France, and Canada to address such global issues as the environment, water, and HIV/AIDS. Likewise, Japan has been intensifying collaboration with UN Agencies like UNDP, UNICEF, UNFPA, as well as International Financial Institutions like the World Bank and the ADB, through policy dialogue and joint financing.

However, as the donor community is increasingly sharing development goals and strategies, and various stakeholders are promoting the coordination of their policies and ways of conducting their aid activities, Japan, which was the largest donor pursuing its own way in the 1990s, has come face to face with an important question: What should be Japan's policy toward this accelerated coordination and movement toward harmonization of aid modalities and procedures?

#### *New Modes of Aid Harmonization*

Donor countries are vigorously pursuing "aid harmonization," aimed at rationalizing and coordinating the use of limited aid resources to enhance their optimal effectiveness, through focusing on shared goals and strategies and avoiding redundancies and duplications. This also serves the interests of recipient countries, because such harmonization reduces "transaction costs" such as reporting, accounting, auditing and other obligations which recipient governments shoulder vis-a-vis each donor. These burdens sometimes go beyond the capacity of recipient governments, whose efforts would be better concentrated on their domestic policies. Another important motivation for harmonization is that many donors, having learned from unsuccessful projects in the past, have been gradually shifting from project-type assistance to sector-wide approaches in which donors jointly undertake budget support, focusing on development programs in single or multiple sectors. This process of harmonization has given rise to common modalities among such countries as the UK, the Netherlands, Canada and Nordic countries. A typical example is the "common fund" into which donors pour their respective funding. These new modalities have been applied in many countries in Africa, with positive results reported in such countries as Uganda, Ghana and Mozambique.

#### *Japan's Response*

When this harmonization mode of aid coordination was initiated, Japan found itself running behind the trend, as Japan had traditionally inclined toward bilateral projects. Coordinating so closely on common efforts with other donor countries also stood to put the government at odds with the considerable public urging for ODA visibility. Nevertheless, Japan has adopted a proactive policy toward harmonization in which it endorses close coordination so long as it supports ownership of the development process by recipient developing countries and ensures a diversity of aid modalities. In other words, harmonization should not be pursued in such a way as to impose certain modalities on donors or certain development programs on recipient countries; a one-size-fits-all approach does

not work in development assistance. Harmonization should be advanced in a flexible manner, reflecting the economic and social conditions of each developing country. With this precondition, Japan has supported new modalities which it deems appropriate; for instance, Japan participated in Poverty Reduction Budget Support in Tanzania and the Fast-Track Initiative of the World Bank to improve basic education in some developing countries. JBIC has engaged in harmonization with the World Bank (WB) and the Asian Development Bank (ADB) in Viet Nam in three areas: procurement, financial management, and environmental/social safeguard issues. This work has resulted in significant reductions of costs, largely because together, WB, ADB, and JBIC cover roughly 70% of total ODA flow to Viet Nam. On the other hand, Japan still believes that projects can play a meaningful role in development, depending on the economic and social conditions of targeted developing countries. In any case, it is ultimately the recipient developing country that can most effectively decide which aid modalities can best optimize its development effectiveness.

#### *South-South Cooperation*

Other partnerships that the charter underlines are South-South cooperation, in which more advanced developing countries provide assistance to less developed countries, and Area-Wide cooperation in which a partnership is formed among developing countries sharing development plans in the same area. In both cases, the similar economic and social conditions of the countries concerned enable policymakers to multiply the efficiency and cost-effectiveness of ODA.

Japan supports such South-South and Area-Wide partnerships by providing overarching financial and technical assistance. For example, researchers and professionals throughout Africa are offered training at Jomo Kenyatta University of Agriculture and Technology, which was established in Kenya with assistance from Japan. The Mekong Sub-region Development Project is a good example of Area-Wide cooperation: The countries of Mekong basin have increasingly cooperated on initiatives to propel economic growth and reduce poverty in the region. Japan has provided financial support in cooperation with ADB for development of the East-West Corridor, a key infrastructure project for transportation running west through the Mekong region from central Viet Nam.

## **6. Priority issues**

The ODA charter sets forth priorities in terms of issues and regions. In terms of issues, the charter specifies four priorities: Poverty Reduction, Sustainable Growth, Global Issues, and Peace-building.

#### *Poverty Reduction vs. Economic Growth*

One of the most contentious issues in drafting the charter was the question of which should come first: poverty reduction or growth. With the consensus to adopt the UN Millennium Development Goals, Poverty reduction was recognized as the primary goal of development by the

entire donor community. On the other hand, in light of the experiences of East Asian countries, Japan has reinforced its belief that economic growth is a strong driving force for poverty reduction and betterment of people's lives. Certainly poverty reduction and economic growth are not mutually exclusive; indeed, both are indispensable for developing countries. Few donor countries who embrace the poverty reduction strategy underestimate the impact of economic growth on the overall development of developing countries.

Nevertheless, the poverty-reduction-or-growth question was hotly debated in Japan because of its far reaching implications for the country's development strategy. In other words, this question was correlated to another fundamental question: that of how Japan should imprint its own policy, in view of the fact that poverty reduction has become an international development bandwagon carrying more and more stakeholders. Simply stated, the more tightly Japan holds on to the approach it has taken to Asian development for more than four decades, the more its strategy seems to deviate from the mainstream of contemporary development thinking.

As mentioned above, the new mainstream of development strategy, led by the World Bank, has been shifting away from what has been called the "Washington Consensus" to the new direction of poverty reduction strategy. The Washington Consensus was advocated by neoclassical economists who believed that the best prescription for developing countries was a *laissez-faire* non-interventionist policy, leaving the "invisible hand" of the market to play its role. Based on this assumption, international financial institutions made loans conditional on structural adjustment reforms which consisted of market oriented policies such as trade and financial liberalization, as well as substantial cuts in government expenditures. In order to have access to loans, developing countries had to agree to these conditions, which were called "conditionalities." Japan supported this policy. In fact, the previous charter upheld structural adjustment as a priority concern and many yen loans were virtually linked to such conditionalities.

The Washington Consensus turned out to be unsuccessful, however, especially in low-income countries. Indeed, as globalization integrated the world economy, developing countries that tried to open their trade and financial systems to the world have encountered relentless competition in free trade and volatility in financial markets to such a degree that even developed countries could hardly navigate successfully. Indeed, it is those low-income countries most lacking in manpower, institutions, and industry that have been tossed most severely by the storms of globalization. The Asian financial crises of the late 1990s vividly demonstrated the failure of the Washington Consensus.<sup>16</sup> Furthermore, neoclassicist theory has yet to fully explain the economic success that East Asian economies such as South Korea, Taiwan, Hong Kong, and some ASEAN countries have experienced for at least two decades. In fact, these countries' governments played an active role in

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<sup>16</sup> Stiglitz says, "By contrasting what happened in Malaysia and in China, two nations that chose not to have IMF programs, with the rest of East Asia, which did, the negative effects of the IMF policies will show clearly" ("Globalization and its Discontents", p. 122).

the development successes of their countries.

The Washington Consensus was thus supplanted by poverty reduction strategy as again led by the World Bank. An important instrument for pushing forward this strategy has been the Poverty Reduction Strategic Paper (PRSP) in which developing countries describe a comprehensive strategy for poverty reduction in consultation with the World Bank and other donors. PRSPs have two innovative characteristics: they embody the UN Millennium Development Goals (MDGs) which enable the convergence of views among the Breton Woods institutions, OECD/DAC, and various UN agencies, and they mobilize many stakeholders to participate in the preparation and implementation of PRSPs in the form of a large partnership. For the first time, the international donor community is witnessing a large-scale convergence of development strategy centered on poverty reduction. From this convergence strategy has emerged a new mode of aid coordination, harmonization, as explained in the previous section. PRSPs, which at first had been applied only to countries under international debt reduction schemes, have since spread to Sub Saharan Africa, Latin America, and some Asian countries, and many donor countries as well have rallied around it. Poverty reduction strategy, coupled with PRSPs, has become so preponderant that neither donor nor recipient countries can seem to resist.

#### *Japan's Views on Poverty Reduction*

Undoubtedly the current poverty reduction strategy excels in many ways, compared with past development strategies. However, any development strategy should allow for alternatives or sufficient leeway to reflect the diversity in social and economic conditions among developing countries. Applying a cookie-cutter strategy to disparate countries would disregard the particular realities of those countries, as did structural adjustment policy. As for the relationship between poverty and growth, the causes of poverty vary from country to country, and targeted empirical studies are required to arrive at realistic prescriptions.<sup>17</sup> Moreover, if a standardized PRSP is pursued by donors to the extreme, it would run the risk of straitjacketing developing countries, depriving them of ownership in their development processes. The PRSP requires a high standard of skills from developing countries in planning, budgeting, and implementation, which should be exercised in close consultation with the donors. As donors' agendas may inadvertently color what a developing country really wants to achieve, the recipient developing country should always remain in the driver's seat.

The development of East Asian countries has been propelled not by poverty reduction strategies but by economic growth, which has succeeded in reducing more poverty than in any other regions of the world. A major incentive for these countries has been the social process of catching up

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<sup>17</sup> See Shigeru Ishikawa, "Sekaiginkou no kokusai kaihatu seisaku minaoshi to nihon no ODA" (The revision of the World bank's International Development policy and Japan), p. 22.

with the front-runners, driven by national pride and desire for industrialization.<sup>18</sup> While the applicability of the East Asian experience to other regions still remains to be seen, there is no doubt that many developing countries around the world have similar aspirations for economic growth. The donor community should not overlook them. The case of Viet Nam serves as a good example of how Asian countries react to the PRSP. Viet Nam demonstrated excellent ownership in the process of its PRSP. The process itself was renamed the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), as insisted on by Vietnamese authorities. Viet Nam has long advocated growth as a national goal and has not accepted any strategy which would contradict it.

This recent evolution of development strategy, as well as Japan's views on it, is reflected in Japan's new ODA charter. Structural adjustment has been deleted, supplanted by poverty reduction at the top of the priority list. The charter declares that poverty reduction is a key development goal and that Japan will emphasize assistance to education, health, water, sanitation, and agriculture. At the same time, it states that sustainable growth is indispensable for realizing poverty reduction, and that Japan places great importance on the development of socioeconomic infrastructure, policymaking, and the development of institutions and human resources. These statements may leave certain ambiguities, but the intention of the government is to determine country assistance policies in accordance with the specific economic and social conditions of the individual country on a case-by-case basis.

It is interesting to note that the term "MDGs" does not appear in the charter, but this fact does not lessen the importance that Japan attaches to the Millennium Development Goals. The charter is a policy statement with a ten year framework. No one can predict what the status of the MDGs will be in ten years. Although each element of the MDGs has a universal value which is unlikely to evaporate in a decade, a new strategy or policy framework might emerge to replace or reconceptualize the MDGs in the future. For this reason, the charter has deliberately avoided that term, while articulating major elements that encompass the MDGs.

#### *Peace-building as a Priority*

Added to the list of priority issues in the new charter is peace-building, an area in which Japan has intensified its undertakings. Prime Minister Koizumi declared that Japan would redouble its efforts to support peace-building and reconstruction of countries suffering from conflicts in his policy statement in Sydney in March 2002, coinciding with the independence of East Timor. The basic idea of Japan's approach to this issue is to provide seamless assistance, from the peace process ending a conflict to reconstruction in the post-conflict period. During a process that is underway to end a conflict, Japan provides humanitarian assistance to victims and refugees, as well as assistance for such urgent needs as rehabilitation of water supply, power supply, and hospitals, with a view to

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<sup>18</sup> See Kenichi Ohno, "East Asian Growth and Japanese Aid Strategy," p. 38.



alleviating the plight of the people affected by the conflict and to facilitating the peace process. Once peace is restored, Japan's next effort is toward assuring domestic stability and security by supporting disarmament, reintegration of ex-combatants, de-mining, and other relevant activities. Then the focus is gradually shifted to reconstruction of the nation devastated by a conflict, enhancement of administrative capabilities, and rehabilitation of economic and social infrastructure.

It is true that Japan heavily relies on ODA to conduct the diplomacy necessary for peace-building; indeed, without ODA, Japan could not have played such a key role in the case of Cambodia. But peace-building can not be achieved solely by development assistance. Its role is rather limited, compared to political and military measures which play a decisive role, particularly during peace processes and the initial stages of nation-building. Even for Japan which imposes stringent limits on the use of military forces, the role of ODA has been gradually diminishing, as laws authorizing the government to use Japan's Defense Forces (JDF) for international cooperation have multiplied. In 1992, the International Peace Cooperation Law was put into force to enable JDF to participate in peace keeping operations of the United Nations. Subsequently, JDF was dispatched to Cambodia, Golan Heights, Rwanda and East Timor. In 2001, the Anti-Terrorism Special Measures Law was enacted and JDF started to support U.S. Forces operating in Afghanistan by refueling and transporting materials. At the end of 2003, the Law concerning Special Measures on Humanitarian and Reconstruction Assistance in Iraq was passed through the Diet. Based on this law the government has decided to send JDF to Iraq.

Although these events have diminished ODA's relative significance in Japan's peace-building efforts, the expectations for ODA in absolute terms keep expanding as conflicts multiply. For instance, the amount of ODA allocated to peace-building in 2002 was almost ten times bigger than in 1999, reaching 500 million dollars, and is projected to increase further. This trend has given rise to a concern that Japan's ODA will be involved in military operations. Undoubtedly such concern is groundless. From a legal point of view, ODA is delineated by an internationally agreed definition which every donor country should abide by and Japan's ODA is not allowed to deviate from. In addition, from a political point of view, since Japan has legal instruments to use JDF for international cooperation, there must be a demarcation between the role of JDF and the role of ODA, a demarcation which can keep ODA away from military operations. The mere fact that the Diet enacted these laws signifies that neither the Diet nor the government have any intention to use ODA for military purposes in any definition of the term.

## **7. Priority regions**

The charter reiterates that Asia is a priority region, as it is crucially important for Japan's stability and prosperity. However, two substantial changes have been made to the previous version of the charter.

### *Reviewing ODA to China*

In its ODA policy, Japan prioritizes aid to Asia, taking into account the diversity of Asian countries' socio-economic conditions and assistance needs. This policy has been applied to China as well as other East Asian countries which have achieved remarkable economic growth in the last few decades. As discussed above, however, Japan's ODA to China has come under harsh criticism in recent years, not only due to China's rapid growth, but also due to China's increase in military expenditures, as well as China's own economic cooperation with other developing countries. In response to these developments, Japanese public opinion has grown increasingly negative toward ODA to China, even as it has recognized that economic cooperation is essential to a good relationship with China. Having sought to reconcile these seemingly contradictory views, the government adopted a new economic cooperation plan for China in 2001, focusing Japan's ODA on global issues including the environment and poverty in inland regions in China. Since then, ODA to China has dropped sharply, from 214.4 billion yen in 2000 to 121.2 billion yen in 2002. Nevertheless, a majority of Japanese still feel that the government should slash ODA to China even more dramatically. ODA to Thailand has seen similar cutbacks. In fact, the Thai government recently announced that its success means that Thailand will not need ODA loans any more.

### *ODA for Economic Integration in East Asia*

The second change concerns economic integration, which has been taking shape in East Asia with Japan's strong involvement. Japan concluded the Economic Partnership Agreement with Singapore in 2002 and agreed in 2003 to start negotiations on similar agreements with Thailand, Malaysia and the Philippines. Japan also agreed, with the Association of Southeast Asian Nations (ASEAN), on a Framework for Comprehensive Economic Partnership in 2003, with a view to minimizing barriers, lowering business costs, and increasing inter-regional trade and investment. Furthermore, Japan, China, and the Republic of Korea have agreed to promote a kind of trilateral cooperation to cover a wide range of areas including economics and trade, information, and technologies. This emerging multi-layered economic integration in East Asia has inevitably shifted the focus of Japan's regional economic policy from development assistance to economic partnership. As a consequence, ODA will be used as a catalyst to support economic integration by, for example, alleviating disparities within the region. In sum, the new charter has aimed to reflect this sea change which has occurred in the East Asian economy.

### *ODA Policy for Other Regions*

The charter also enunciates ODA policy toward other regions of the world; among these, the policy for Africa deserves special mention. Japan launched the TICAD (Tokyo International Conference on African Development) in 1993, when international interest in Africa was waning following the end of the cold war. Since then, the TICAD process has made a considerable contribution

to encouraging international commitment to Africa and enlarging this partnership centered around the principle of ownership by African countries. This partnership was demonstrated at the third Tokyo meeting of TICAD in October, 2003, with the participation of 23 African heads of states and governments as well as 20 heads of international organizations. Support for NEPAD, poverty reduction through economic growth, and enlarging partnerships, including through dialogue with civil society, were major agenda items at the conference, which provided the largest international platform to date for the support of Africa.

#### **8. Four Principles of ODA Implementation**

The Japanese government has long upheld four principles which have served as criteria to determine a policy to a specific country, and the new charter has maintained this section almost as it was in the previous charter. These four principles are summarized as follows:

- a) Environmental conservation and development should be pursued in tandem;
- b) Use of ODA for military purposes should be avoided;
- c) Full attention should be paid to trends in recipient countries' military expenditures and production of weapons of mass destruction;
- d) Full attention should be paid to efforts for democratization, market-oriented economies, human rights and freedoms in recipient countries.

The origin of these four principles can be traced back well before the inception of the previous charter in 1992. In 1978, the Committee on Foreign Affairs in Japan's House of Representatives adopted a resolution which requested the government to avoid the use of ODA for military purposes or for aggravation of international conflicts. Similar resolutions were successively adopted in the Diet during the 1980s. In 1991, then Prime Minister Toshiki Kaifu announced, in the House of Councillors Budget Committee, "Four ODA Principles" which were reproduced in almost the same language in the charter, except for the addition of environmental conservation.

What motivated the government to announce them was the drastic changes in the international situation. The end of the Cold War had prompted western countries to help foster the transition towards democratization and market-oriented economies in former Soviet and Eastern European countries, as well as in some developing countries that had long been under communist regimes. The Tianamen Square incident in 1989 brought human rights issues in China to the fore. And finally, Iraq's invasion of Kuwait put the Japanese government in a difficult situation. The fact that some donors, including Japan, had provided economic assistance to Iraq, which might have been used for its military buildup, gave rise to the suspicion that the government had not respected the Diet's resolutions. Some Diet members indicated that as the resolutions could not bind the government legally, a law regulating ODA would be necessary. Responding to pressing domestic and international concerns, the government announced Four ODA Principles and subsequently adapted the previous charter incorporating them.

### *The Four Principles: Pros and Cons*

As the four principles have been used by the government to manifest its policy preferences and to bring about favorable international surroundings, their effectiveness can be considered proportionate to the extent to which Japan's ODA is crucial to a targeted country. The principles were applied to many cases.<sup>19</sup> In actual application, the government would increase aid when a country demonstrated improvement in some elements of the principles and decrease it in the opposite scenario. Although the government has always been mindful to apply the principles to international events that called for government action, the principles have been often criticized for lacking consistency and transparency. For critics, the four principles have not set forth clear-cut, objective criteria which could oblige the government to apply them without discretion. They charge that the government has been influenced by concerns and pressures outside the realm of ODA, and has applied the principles arbitrarily, sometimes in a discriminatory manner against small and powerless countries. For these critics, fairness and objectivity are further impaired by what they see as the failure of the government to disclose why and how it applied the principles.

Such criticism is not groundless. The principles do leave ample discretion to the government for several reasons. First, the principles by nature can not escape a certain degree of ambiguity, as there are no objective definitions of democracy, human rights or freedom that are universally accepted. There are no objective criteria for judging an appropriate level of military expenditure. The Japanese government has to make its own judgments about these issues, taking into account the nature of the event in question, the political or geopolitical implications for Japan, relevant international law, and so forth. In addition, the principles themselves have been designed to allow for such discretion. As ODA is intrinsically linked to foreign policy, ODA policy should always be conceived in the broader context of external relations. The charter is clear in this regard, stating that decisions about ODA allocations will comprehensively take into account developing countries' needs for assistance, socio-economic conditions, and Japan's bilateral relations with the recipient country. Here, the word "comprehensively" is the key-suggesting that no particular element in the principles can ever be singularly decisive in ODA policy, nor dictate the treatment of other elements.

During the revision of the charter, debate focused on the consistency and transparency of the four principles. On one side, many NGOs proposed that the principles be made more objective and specific in order to minimize possibilities for arbitrary decisions by the government. Some NGOs even urged that ODA policy decisions be taken away from MOFA. On the other side, conservatives called for the government to employ the principles more strategically to ensure the security of Japan, for instance, by containing terrorism and stemming the proliferation of weapons of mass destruction. Despite these demands, the government has maintained the four principles in nearly the same form as in the previous charter.

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<sup>19</sup> Shimomura, Nakagawa, Saito, "ODA taikou no seiji keizai gaku " ( Political Economy on the ODA charter), p.114.

Removing discretionary power from the government is tantamount to banning the use of ODA as a diplomatic tool. It is also unrealistic to apply the same criteria to distinct development challenges that exist in different parts of the world, as each case has unique considerations in terms of importance and implications for the security and prosperity of Japan. The salient issue is not how strictly the principles are described, but how to improve the way the government implements the principles. The government should enhance transparency as to why and how it responds with a given policy in each specific case in order to foster greater public understanding of the measures taken. For this purpose, the charter stipulates, in the last section, that the status of implementation of the charter will be reported annually to the Cabinet.

## 9. Formulation and Implementation of ODA Policy

The last section of the charter presents measures aimed at enhancing coherence and effectiveness in the government's administration of ODA. These include:

- (a) Ensuring coherence in policy-making, both within the government and in its relations with implementing agencies;
- (b) Strengthening the policy dialogue with developing countries;
- (c) Strengthening collaboration with aid-related entities outside the government;
- (d) Improving ODA-related procedures.

### *(a) Coherence in Policymaking*

Maintaining coherence in any kind of policy-making is a difficult task for the Japanese government. A number of ministries and agencies usually take part in the policy process; they bring different claims, concerns, and rivalries. Policies are sometimes forged by compromise at the expense of policy coherence, and Japan's ODA is no exception. However, ODA does appear to be implemented in a more coherent fashion than is widely believed. As showed in the chart below, MOFA is involved in almost all types of ODA, except for half of the responsibility for technical cooperation, which is distributed among many ministries and agencies. MOF also has ample responsibility in the area of loans and multilateral assistance.

Type	Share (%)	Responsible ministries and agencies
Grant assistance	20	MOFA, JICA
Technical cooperation	30	MOFA, JICA (15%) Other ministries and agencies (15%)
Loans	25	MOFA, MOF, METI
Multilateral assistance	25	mainly MOFA, MOF

MOFA Ministry of Foreign Affairs  
MOF Ministry of Finance  
METI Ministry of Economy, Trade and Industry  
JICA Japan International Cooperation Agency  
BIC Japan Bank for International Cooperation

This chart shows the importance of ensuring coherence in technical cooperation and loans. Coherence also hinges on the extent to which MOFA can lead other ministries and agencies. Bearing this in mind, the government has activated two inter-ministerial meetings, on technical cooperation and evaluation, respectively. The inter-ministerial meeting on financial cooperation was newly created in 2003 to encompass ODA loans and grants, as well as other official flows such as those implemented by JBIC. In addition, the government has been making efforts to more frequently convene the Council of Overseas Economic Cooperation Ministers, the highest government body for overseeing ODA activities. The charter also calls for MOFA, which was accorded de jure responsibility to coordinate overall ODA policy, following administrative reforms in 2001, to play the central role in strengthening broad collaboration among ministries and agencies.

In recent years, coherence between the government and two implementation agencies, JBIC and JICA, has been evolving towards a more systematic assignment of responsibilities. Specifically, the government makes policies, and the two agencies implement them autonomously. This marks a departure from the past regime in which implementation agencies were subject to direct oversight by the government. JBIC was established in 1999 through the merger of Japan's Export-Import Bank and the Overseas Economic Cooperation Fund (OECF), thus inheriting the purposes of both institutions: promotion of Japan's trade and economic activities overseas and economic cooperation to the developing world. The merger has enabled JBIC to disburse ODA loans and other financial facilities comprehensively. This has given rise to a concern that the integrity of ODA might be affected, since ODA loans are now implemented as part of the various financial instruments of JBIC. For this reason, further coordination among the ministries concerned with ODA loans and JBIC was required. In October 2003, JICA was reborn as a new type of entity called the "Independent Administrative Institutions" (IAIs). The legal framework for IAIs was established as a result of administrative reforms underway since the late 1990s to transform public agencies into more autonomous institutions, rendering them much closer to private entities in terms of performance evaluation and disclosure obligations. This greater autonomy is expected to give JICA renewed incentives and creativity in their work on technical cooperation and grant assistance.

In addition to the systemic improvements described above, the new ODA charter provides a pyramid-style policy framework for ensuring coherence. At the top is the ODA Charter which sets forth basic objectives and priorities, followed by ODA Medium-Term Policies, detailing priority issues and regions. Below these levels are country assistance programs to major recipient countries. The government has formulated roughly a dozen country programs which, unfortunately, have not worked as the government intended. These country programs need to be refined to become more operational, describing in detail the priorities and objectives which correspond to developing countries' plans and needs. If these programs become reliable and serve as good references whenever necessary, they can play a pivotal role in coordination among the ministries and agencies. Commissioned by the government, BCOS has started drafting new country programs for Viet Nam,

Sri Lanka, Mongolia, Indonesia, India, and Pakistan, among others, in close consultation with academics, business people, and other relevant persons.

*(b) Strengthening the policy dialogue with developing countries*

As explained earlier, Japan's new ODA charter has modified the "Request-First" principle to place more emphasis on policy dialogue with developing countries. The objectives are two-fold: to better grasp the policies and needs of developing countries, and to reconcile them with Japan's policies and concerns. This interaction between Japan and developing countries is aimed at improving the policies and institutions of developing countries, as well as at adjusting policies and the way the Japanese government implements its aid policies. The government also intends to maximize the effectiveness of aid by eliminating a kind of formalism which creeps behind the "Request-First" principle. The dialogue is conducted not only with the recipient governments, but also with local governments and communities, to ensure that aid reaches the people effectively.

To streamline the administration of aid, the Japanese government is working toward decentralizing the policy-making and implementation process, which remains excessively centralized in comparison with the systems of other donor countries and international organizations. Substantial responsibilities should be transferred to field missions (diplomatic missions and offices of implementation agencies). Strengthened field missions will take the initiative in creating country programs and other policies based on firsthand information that they obtain through a wide range of dialogues and consultations in the field. The success of these measures will depend on the extent to which the central government no longer monopolizes decision-making and instead gives more of a free hand to implementation agencies and field missions.

*(c) Strengthening Collaboration with Aid-Related Entities*

Aid effectiveness cannot be improved if the efforts of the government remain within itself and implementing agencies. Broader partnerships should be formed, encompassing academia, business circles, NGOs, and others outside the government. These partnerships are indispensable to making Japan's ODA more effective by mobilizing the expertise and experience of such parties. Partnerships also contribute toward addressing the problem of waning public support for ODA. From this perspective, the charter highlights the importance of collaborating with various entities related to ODA, as well as that of broadening public participation. Collaboration with other entities has been significantly deepening, both at the level of policy-making and that of implementation of projects in the field. There have been a number of regular meetings between the government, JICA and JBIC on the one hand, and academia, business circles, NGOs, and local governments on the other. The government seeks advice and proposals on such issues as how to improve grant assistance projects and ODA evaluation and how to respond to environmental and social concerns. Although Japan has made significant progress in this respect since the late 1990s, it still lags far behind other

major donor countries.

As challenges in aid diversify, Japan's ODA often encounters problems requiring specific technologies and know-how, as well as problems requiring a holistic approach, both of which transcend the capabilities of government and implementing agencies. For instance, the government, business, and academia joined forces to support economic reforms in Viet Nam, Myanmar, Laos, and Indonesia. The government and NGOs have been closely collaborating on humanitarian assistance in such countries as Kosovo, East Timor, and Afghanistan. These joint undertakings with NGOs have proven to be successful in cases of conflicts and natural disasters where the recipient governments lacked the resources to autonomously administer the relief and support needed.

The ODA charter now calls for increasing public participation from all walks of life, by providing sufficient information on ODA to the public and listening to their views. In response, the government has been intensifying its efforts in public relations and outreach activities on ODA, as well as encouraging volunteer activities. JICA, for example, implements several programs to send young and senior Japanese volunteers in developing countries. The government further provides subsidies to local governments which send experts to and/or invite trainees from developing countries. The role of the education at Japanese schools has also been stressed in the charter, encouraging curricula to raise the awareness of students about the problems in developing countries and the major issues in development aid.

*(d) Improving ODA Procedures*

Last, but not least important, are the procedures which underpin the effectiveness, appropriate operation, and accountability of ODA. The charter enumerates several measures to this effect. Firstly, the evaluations of ODA policies, programs and projects are to be carried out at ex-ante, mid-term and ex-post stages. Every evaluation should be conducted by external experts and its findings made public, in order to ensure fairness, objectivity and transparency. MOFA established in 2001 a "Counselors of Wisdom Committee for Evaluation Feedback" to ensure that government and implementation agencies apply evaluation recommendations to their subsequent policy-making and implementation. In this way, evaluation is now under the constant supervision of external experts throughout the process. In addition to evaluation which aims at measuring the performance of ODA, third-party auditing has been introduced by the government, JICA, and JBIC to examine the disbursement of funds for loans, grants, and technical cooperation.

To safeguard against fraud and corruption, the charter underlines that transparency is paramount at all stages: project selection, implementation, and ex-post evaluation. Particularly in the project selection process, the list of candidates and projects for loans (referred to as "the long list") and Basic Design Reports for grants are published. The bidding process is made as public as possible; for instance, not only is the name of the winning bidder and bid made known, but also the names of the other bidders and their bids. If any inappropriate behavior is found during the bidding



process, MOFA will take punitive measures; namely, excluding companies in question from bidding for a certain period of time.

## **10. Conclusion: Reshaping Japan's ODA**

It is often said that policy objectives are easily set but seldom fulfilled. The new charter has certainly laid the groundwork for reshaping ODA to respond more effectively to the needs and concerns of people in developing countries, as well as to the interests of the Japanese people. The success of this endeavor will be proportionate to the effort that the government actually makes to implement reforms in ODA. It is not an easy task, for 50 years of experience in ODA has created a number of regulations and practices, some of which will surely present obstacles to surmount. It is all the more difficult a task that the government should be challenged to move forward in spite of Japan's current economic situation and fiscal constraints which restrict both the budget and the number of personnel related to ODA.

Nevertheless, the ODA charter clearly indicates the directions that ODA should take in the future. As the ODA budget is not expected to increase in the foreseeable future, its objectives are bound to be more prioritized and focused. This trend will take shape in two ways: in coping with international development values and targets, and in addressing public concern for Japan's national interests, specifically with regard to economic integration in Asia and peace-building. This two-tier approach will become a prominent feature of Japan's future ODA, in which various aid modalities will be employed as appropriate to optimize its aid effectiveness.

On the level of formulation and implementation, the Japanese government can be expected to relinquish its monopoly over ODA, both by decentralizing the system and enlarging the partnership with other stakeholders. Decentralization will take effect, both between the government and the implementation agencies and between their headquarters in Tokyo and their field offices in developing countries. More policies and projects will be initiated by field offices making direct contacts with recipient governments, local governments, and communities. Partnerships with the other stakeholders will be strengthened both on the donor side and the recipient side. On the donor side, collaboration and coordination with other donor countries and international organizations will be intensified, and more NGOs, business people, and academics will be invited to join in policy formulation and implementation to provide their ideas and expertise. On the recipient side, the policy dialogue with recipient governments will be strengthened based on the notion of self-help efforts and ownership in the development process. Local communities and other concerned parties will be invited to express their views on Japan's ODA.

**In sum, partnership and decentralization should be regarded as the keys to a renewed dynamism for Japan's Official Development Assistance (ODA) in the years to come.**

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