

Discussion Paper on
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No. 8

Japanese ODA
Adapting to the Issues and Challenges
of the New Aid Environment

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Note: All responsibility for facts and opinions in this paper rests exclusively with the authors and its interpretations do not necessarily reflect the views or policies of FASID or the Japanese Government.

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Table of Contents

I. Introduction	2
II. The Evolution of Japanese Development Assistance and its Structure.....	4
III. Assistance Stance, Policies and Issues.....	9
<i>(1) Stance and Policies</i>	<i>9</i>
<i>(2) Critical Issues</i>	<i>16</i>
IV. Recommendations for Meeting the Challenges.....	21
<i>(1) Greater coordination among ministries/agencies</i>	<i>21</i>
<i>(2) Increased coordination and cooperation with other donors.....</i>	<i>21</i>
<i>(3) Increased Emphasis on Results- Based Management</i>	<i>22</i>
<i>(4) Innovation for loan assistance.....</i>	<i>22</i>
<i>(5) More focused assistance based on comparative advantage</i>	<i>24</i>
<i>(6) Focus on Africa.....</i>	<i>24</i>
<i>(7) More studies on strategies and policies</i>	<i>26</i>
V. Concluding Remarks	26
References.....	29
Table 1: ODA Performance of G7 countries	4
Table 2: ODA to GNP/GNI ratio of G7 countries	5
Figure 1: Japan's ODA : Flows by Type.....	7
Figure 2: ODA Operational Budget for FY 2004	7

Abstract

Japanese ODA today is facing major challenges on both the domestic and international fronts. Domestically, a serious fiscal situation has brought declining popular support and pressure to reduce the amount. As a consequence, after becoming the world's largest during the 1990s, Japanese ODA has been reduced annually over the past several years. Internationally, changing conditions and new trends in development thinking are creating questions in Japan about the appropriateness of its aid paradigm. These changes include the "graduation" from ODA recipient status of many East Asian countries, the cancellation of HIPC (Heavily Indebted Poor Country) debt which has made loan assistance difficult, an emphasis on direct poverty reduction measures rather than on economic growth, and an emphasis on social sectors rather than on economic infrastructure. Within the global development community there is currently a preference for grant aid over loans, for programs over projects and concern for Africa over other regions. It is time for a serious review and examination of Japanese ODA, to weigh the significance and impact of these challenges and to determine whether and perhaps what kind of new approaches and strategies should be adopted. This paper attempts to contribute to such an endeavor.

I. Introduction

Significant new trends in international development assistance have emerged over the last few years, in terms of both level of financial commitment and practical approaches to the problem. Key constituents of the changes include the introduction in the late 1990s of Poverty Reduction Strategies (PRS) in developing countries and the adoption in September 2000 of the Millennium Development Goals (MDGs) by the international community. Important international meetings have been convened to focus on financing and approaches — the Financing for Development Conference in Monterrey, Mexico in March 2002; the World Summit on Sustainable Development in Johannesburg, South Africa in August/September 2002; the two High Level Fora on harmonization of aids by various donors, in Rome in February 2003 and in Paris in February/March 2005; and, the G8 Summit in Gleneagles, UK in July 2005. The development issue central at these events has been what level of financing and what modifications in practice will achieve sustainable poverty reduction, particularly in the intractable region of sub-Saharan Africa but also in least developed countries in other parts of the world.

Japan has been an important participant in the international development community for five decades, having observed its 50th anniversary as an ODA donor in 2004. The most prominent accomplishment of Japanese participation over this time has undoubtedly been support for the economic development of East Asian countries³. Trade and private sector investment have been important elements of this process, but ODA, especially in the form of loan aid, has contributed crucially to building and strengthening the economic infrastructure necessary for these countries to reduce poverty, achieve economic development and attract private sector interest.

Fifty years on, however, Japan's development program is being challenged by the new trends and their associated issues of volume, policies and approaches. Ironically, this situation results in considerable degree from the success of the Japanese program in meeting the major objective of assisting many East Asian countries get onto a path of sustainable growth. Japan may now be in the process of finding new objectives and new directions in development assistance. A major and obvious issue is a decline in volume on net basis which is attributable to several factors: the prolonged recession and ensuing huge government budget deficit; the "graduation" of major East Asia

³ In this paper East Asia includes Southeast Asia.

recipient countries from Japanese ODA; the debt-overhang of many sub-Saharan countries which makes it difficult for Japan to provide them loans; and the decline of interest in ODA among Japanese in the both public and private sectors. Another important issue relates to basic assistance themes and approaches. Today, attention is concentrated on institutional changes at the social, political and economic levels. Specifically, Europeans are emphasizing changes aimed at reducing poverty and the US is emphasizing changes to make governments more democratic. While Japan supports these themes, there is some question whether it has any comparative advantage in pursuing them. Conversely, at least until recently, many Japanese have held the view that assisting developing countries to strengthen their economic growth through infrastructure building is the most fundamental and important, and that this is the area where Japan does have comparative advantage.

With these various factors as the background, “Basic Policies for Economic and Fiscal Management and Structural Reforms 2005” were considered by the Japan Council on Economic and Fiscal Policy, headed by Prime Minister Koizumi, and were then adopted by the Cabinet in June of this year. The “Basic Policies” state that “Japan will continue its efforts toward the goal of providing 0.7% of its GNI for ODA in order to contribute to the Millennium Development Goals, meaning that Japan will ensure a credible and sufficient level of ODA.” This is good news for the international development effort, but the “Basic Policies” require prioritization of regions and areas, stricter reviews on implementation, and introduction of new effective and efficient approaches.

The present paper is an attempt to describe and explain Japan’s stance and approaches to development assistance, to analyze the looming issues and challenges, and to propose actions to address them effectively and efficiently⁴. Because there are a limited number of papers written in English with such a purpose, non-Japanese interested in Japanese ODA may find this one useful. It is also hoped that Japanese ODA stakeholders will find the arguments and proposals discussed here interesting and innovative. Following the Introduction, the paper is organized as follows; Section II describes the evolution of Japanese ODA and its organizational structure; Section III discusses the Japanese government’s ODA stance and policies, Section IV offers recommendations for meeting the challenges and the final section presents the conclusion.

⁴ Many parts of this paper are from Nakao (2005).

II. The Evolution of Japanese Development Assistance and its Structure

Japan began its ODA program in 1954 when the country was still rebuilding and recovering from the devastation of World War II. The program started through technical assistance in the context of the Colombo Plan; experts were sent to developing countries and trainees were brought to Japan. To a degree, Japan's aid started as a form of war reparations to reestablish its reputation as a peaceful nation. This factor has informed the characteristics of Japanese ODA, that it is request-based and extended to recipient countries with few conditionalities. Because Asian recipient countries were interested in infrastructure building, historically a large portion of Japanese ODA has been concentrated in this area. Additionally, Japan wanted improved relationships with trading partners in East Asia, which are potential export markets for manufactured goods and import sources for key commodities. Through the 1960s, Japan established its current four-pillar system of assistance — grant aid, concessional loans, technical assistance, and contributions to international organizations — for providing aid to developing countries. The amount of ODA was expanded greatly during the subsequent decades and in 1989 Japan became the world's largest aid donor. It held that position until 2001, but ODA reductions since then have brought it back into the number 2 position. As Table 1 shows, although Japan's share of global ODA in 2003 is 13%, its share for the ten-year period 1994-2003 is still the largest at 20%. The share in GNP/GNI fluctuated between 0.20% and 0.28%, substantially higher than that of US but lower than that of many Western European donors.

Table 1: ODA Performance of G7 countries

(billion dollars)

	1994	1999	2000	2001	2002	2003	Share of DAC	1994- 2003 total	Share of DAC
U.S.	9.9	9.1	10	11.4	13.3	15.8	23%	101.9	18%
Japan	13.2	12.2	13.5	9.8	9.3	8.9	13%	110.9	20%
of which government loans	4.3	5	4.1	2.7	2.3	1.9		32.5	
EU	30.4	26.7	25.3	26.3	29.9	36.8	54%	292.8	52%
of which France	8.5	5.6	4.1	4.2	5.5	7.3	11%	63.2	11%
of which Germany	6.8	5.5	5	5	5.3	6.7	10%	60.9	11%
of which U.K.	3.2	3.4	4.5	4.6	4.9	6.2	9%	40.5	7%
of which Italy	2.7	1.8	1.4	1.6	2.3	2.4	3%	19.8	4%
Canada	2.3	1.7	1.7	1.5	2	2.2	3%	19.1	3%
G7 total	46.6	39.4	40.2	38.2	42.6	49.5	72%	416.3	74%
DAC total	59.2	53.2	53.7	52.3	58.3	68.5	100%	560.3	100%

Source: DAC press release etc.

Note 1 : Excluding aid towards East Europe and graduated countries

2 : The figures in 2003 are provisional

3 : The order of the country is based on the amount of the performance in 2003

Table 2: ODA to GNP/GNI ratio of G7 countries

(%)

	1996	1997	1998	1999	2000	2001	2002	2003
Japan	0.2	0.22	0.28	0.27	0.28	0.23	0.23	0.2
U.S.	0.12	0.08	0.1	0.1	0.1	0.11	0.13	0.14
U.K.	0.27	0.26	0.27	0.24	0.31	0.32	0.31	0.34
France	0.48	0.45	0.4	0.39	0.33	0.32	0.38	0.41
Germany	0.33	0.28	0.26	0.26	0.27	0.27	0.27	0.28
Italy	0.2	0.1	0.2	0.15	0.13	0.15	0.2	0.16
Canada	0.32	0.36	0.29	0.28	0.25	0.22	0.28	0.26
EU average	0.37	0.33	0.33	0.32	0.32	0.33	0.35	0.35
G7 average	0.27	0.25	0.26	0.24	0.24	0.23	0.2	0.21
DAC average	0.25	0.22	0.23	0.22	0.22	0.22	0.23	0.25

Source : DAC Press Release etc.

Note 1 : Described as the ratio to GNP until 1998, to GNI since 1999
 2 : The figures in 2003 are provisional

The large expansion of Japanese ODA, from inception to the late 1990s, was due to three underlying factors: (1) strong economic growth and healthy fiscal position; (2) large current account surpluses due to a high savings rate and strong international competitiveness in trade; and (3) constitutional restrictions preventing Japan's international participation through military means. Hence, during the cold war era of the 1970s and 1980s, Japan sought to increase its contribution to global security and prosperity through increased ODA, a policy which was welcomed by the US and other western countries. The large ODA volume enhanced Japan's relationships with the US and with East Asian countries.

The three factors which brought Japan into its prominent ODA position underwent drastic change after the early 1990s. Firstly, the Japanese economy entered a long-term recession, generating large government debt. Secondly, caution in the use of current account surplus for ODA started to be exercised when the prospect became apparent of diminishing surplus due to an aging population over the coming years. Thirdly, the popular notion that larger ODA will garner international respect began to lose credibility⁵. Many Japanese currently feel that instead of relying solely on contribution through money, Japan should enhance its participation in the international

⁵ According to the polls taken by the government, those who strongly support ODA declined from 41% in 1991 to 19% in 2003. Conversely, those who responded that ODA should be reduced or stopped increased from 9% to 29% during the same period.

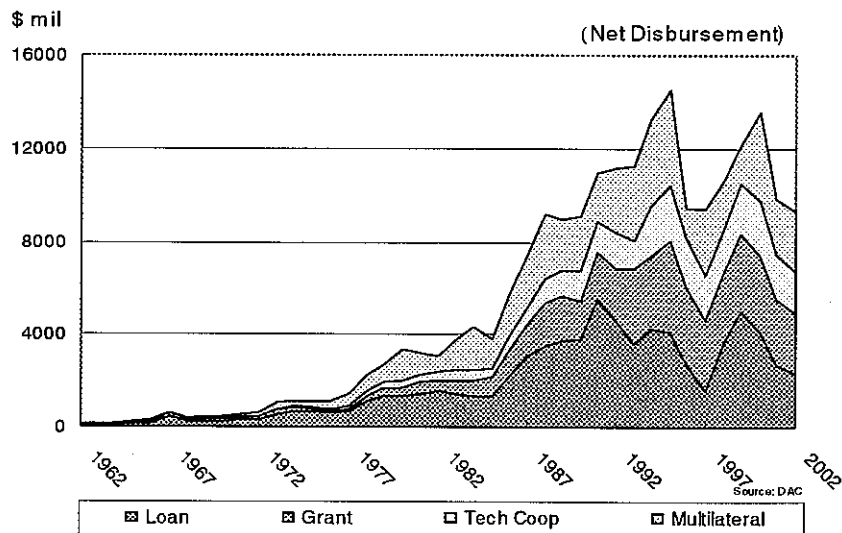
community through action in the area of security, such as peace keeping operations. This perception is at least partly due to the Japanese experience with the Gulf war of 1990, when it contributed a large amount of money but received little international recognition or appreciation.

Significant ODA changes on the demand side also have caused Japanese loan assistance to decline, especially on a net basis. Several economies in East Asia which used to receive large amounts of ODA from Japan have “graduated” or are about to do so — including South Korea, Taiwan, Malaysia and Thailand. China still has a large number of poor people; however, it is now considered to be emerging as a very strong industrial country and is expected soon to “graduate” from being a recipient for substantial ODA. Thus, Japan’s new ODA loan commitments to China have been declining over the past several years and are expected to stop completely by 2008. Although Japanese ODA has been increasing to India, which also has a large impoverished population, relative unfamiliarity with that country, compounded by the fact that India has conducted nuclear tests⁶, may make further significant ODA increases to that country difficult. With regard to sub-Saharan Africa, another region with a high percentage of poor people, a major hindrance to increased Japanese ODA is created by the difficulty of extending loans to countries that have cancelled debt through the HIPC initiative.

As Figure 1 below shows, all the four components of Japanese ODA — grant assistance, loans, technical assistance and contributions to international organizations — increased sharply during the 1970s and 1980s but started to decline after the turn of the century. The figure also shows that the most volatile component is the loan component. A comparison of data between 1999 and 2003 reveals that most of the decline of US\$3.3 billion during this period is attributable to a decline in loans, US\$3.1 billion (See Table 1). This significant decline can in turn be attributed to increasing loan repayment which caused a decline in net loan ODA. The wide discrepancy that can be seen in the box “JBIC” in Figure 2 between JBIC loans in gross and net terms (¥700 billion and ¥289 billion respectively) is mainly due to repayments from developing countries. Repayments are expected to continue to increase and in a few years the loan component could well turn negative in net terms. This will cause total Japanese ODA to continue its decline if the grant and technical assistance components are not substantially increased to offset it.

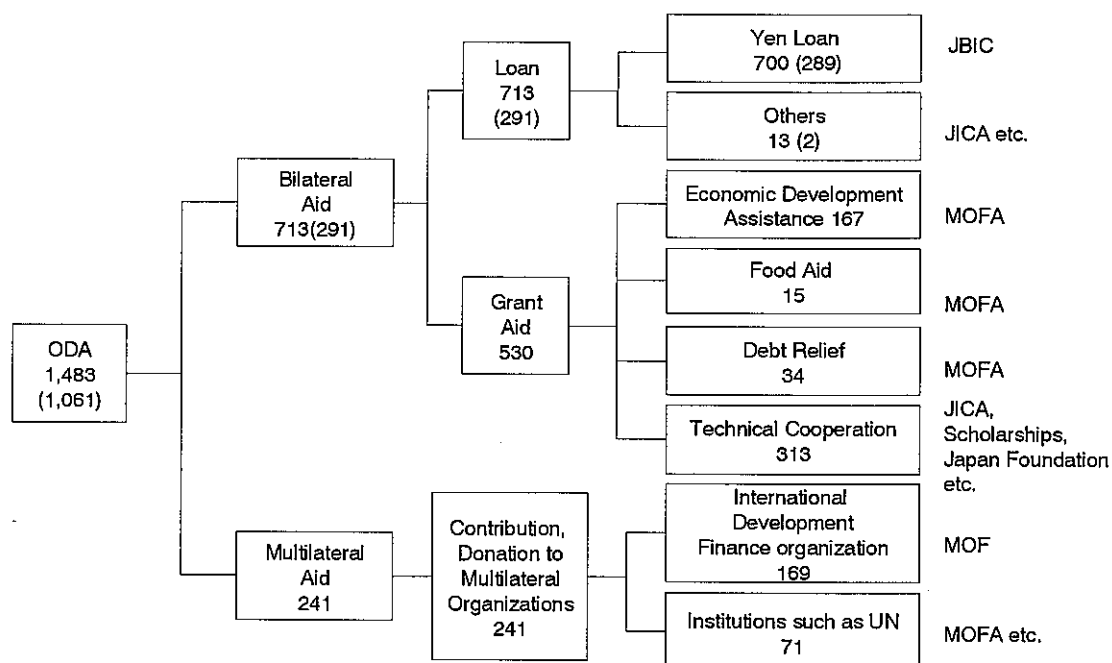
⁶ For details, see Shimomura et al. (1999)

Figure 1: Japan's ODA: Flows by Type



Source: MOFA

Figure 2: ODA Operational Budget for FY 2004



Note : Figures in brackets are project expense in net basis

Source : Nakao (2005)

The main components of Japanese ODA and the agencies responsible for them in 2004 are given in Figure 2. The Ministry of Foreign Affairs (MOFA) is in charge of coordinating all Japanese ODA activities. Policies regarding loans are decided through coordination between MOFA (core ministry and foreign policy perspective), the Ministry of Finance (MOF) (macro-economic context and review of debt sustainability), and the Ministry of Economy, Trade and Industry (METI) (industry policy and relevance to the Japanese business community). MOF oversees Japanese contributions and relationships with the International Financial Institutions (IFIs) such as the IMF, the World Bank and the Asian Development Bank, while MOFA oversees relations with the UN organizations. For specific bilateral ODA implementation, as the figure shows, MOFA is the main agency for grant aid, the Japan Bank for International Cooperation (JBIC) is responsible for implementations of loan projects and Japan International Cooperation Agency (JICA) is a central institution for technical assistance. Other ministries, such as the Ministry of Economy, Trade and Industry, the Ministry of Health, Labor and Welfare, the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Agriculture, Forestry and Fishery, also conducts assistance programs in the areas of their expertise.

Japanese ODA-related ministries/agencies have very few specialized staff in some key areas such as governance, health, energy and environment. This is compensated to some extent by contractual arrangements with private firms and NGOs. In Japan the amount of ODA that is channeled through NGOs is a fraction of that of many other major donors and Japanese NGOs of the size and influence of CARE (US-based) or Oxfam (UK-based) do not exist. But with the maturing of the society and with a reduced expectation of the government by the citizenry, NGOs have been burgeoning with 350 now engaged in international development cooperation. The Japanese government has become increasingly aware of the importance of these organizations and has been taking measures to help them grow, such as increasing ODA funding allocated through them and establishing an NGO Support Unit within MOFA. NGOs can play the important role of educating the public on the importance of ODA and, as in other major donor countries, they can be major political supporters of the national aid program.

III. Assistance Stance, Policies and Issues

This section briefly discusses Japan's development assistance stance and policies and examines some of the critical issues raised.

(1) Stance and Policies

Political and philosophical background:

Unlike some other countries, including the US and the UK, in Japan ODA policies have tended to be formulated by government officials taking into account other stakeholders' interests rather than by strong political advocacy. In the case of ODA, there is practically no constituency among the voters; hence there have been few politicians who championed it⁷. There is, however, a general understanding by the public that Japan has benefited from the contribution its ODA program has made to the relative peace and prosperity of East Asia, something which has enhanced Japan's own peace and prosperity. Many Japanese private firms also have benefited because ODA has facilitated trade with developing countries, improved opportunities for direct investments and created demand for Japanese products. In fact, when the economy was strong there was support for ODA among the general population⁸, but this has declined in recent years except for assistance to strife-torn countries and to people suffering from natural disasters.

Japan's stance toward international development assistance is built essentially on its own experience and its understanding of the development process of East Asia; i.e., utilizing loans to strengthen economic infrastructure for long-term growth and placing (some) trust in government-led development strategies. This is reflected in the large share of loans in Japanese ODA provided in alignment with the development policies and plans of the recipient government. In the Japanese view, these East Asian experiences have been insufficiently respected, analyzed and applied to development assistance in other regions. This view was firmly voiced in the late 1980s, at a time when the World Bank was heavily engaged in structural adjustments lending. Due to the firmness of Japan's view and the important position Japan occupied as a major donor country, the Bank conducted a study which focused on the East Asian development experience. The results were published as *The East Asian Miracle*

⁷ In Europe and US, NGOs have enough political power to influence government ODA policies by appealing to politicians, media and street demonstrations. This is not the case in Japan.

⁸ Currently even support from the business circle seems to have declined with the maturing of many countries in Asia and the progressive untying of Japanese aid. In 2003 96.1% of Japanese ODA was untied, one of the highest among DAC members. (OECD/DAC 2004: 187)

(World Bank 1993). This exercise had a decisive impact on development thinking, especially with regard to the role of government in successful economic development. At the same time, the authors of *The East Asian Miracle* pointed out that in the current “globalizing” world, it might not be appropriate to apply the experience of East Asia directly to Africa and other developing regions, a view which many Japanese development experts now share. Nonetheless, the East Asian experience of rapid export-led growth in an open external trade system, as well as high investment and savings supported by appropriate policies and institutions, could well be valuable for other developing regions. The World Bank⁹ is conducting follow-up studies on this question but even more needs to be done, especially with regard to institutions, for this approach to be practical in other regions.

Japan has historically emphasized loans as the primary component of its ODA for the following reasons: (i) Loans are relatively easily used by donors to provide large-scale assistance even where there are budgetary constraints. (ii) Japan has been able to tap large savings in the postal system and the public pension fund as sources of loan funds. (iii) Japan considers loans to be rational the system by which loans are repaid as economic benefits accrue to the borrower over a relatively long time. (iv) Efficiency can be expected with loans because there is a greater sense of ownership from the borrowing country government in selecting and implementing projects. (v) Implementation of large projects with loans can contribute to the institutional strengthening and capacity building of the people of the borrower country which, in turn, can facilitate private sector led development. (vi) Because large-scale infrastructure projects usually are important components in the long-term development strategies of the borrowing country, loans allow Japan to design and provide broad-based development assistance.

During the cold war era up to the late 1980s, one of Japan’s main diplomatic objectives was to contribute to international peace and prosperity, especially in East Asia, and to support the idea of democracy and free-market economy. Constitutionally, Japan could not contribute internationally through its military. Since the end of the cold war, emphasis has been directed beyond the traditional East Asian recipients toward Asian countries that had been socialist. Hirata believes that this is due to the importance MOFA attaches to “assisting these countries to move towards market-oriented economies . . . in order to accelerate the economic integration of Southeast Asia as a

⁹ See, for example, Stiglitz and Yusuf (2001).

whole.” (Hirata 1998: 316) Japan has played a leading development role in countries of the Indochina region through multilateral arrangements such as the International Committee on the Reconstruction of Cambodia which developed into the donor Consultative Group (CG), the Forum for Comprehensive Development of Indochina which evolved with Japan’s contribution into the ADB’s Greater Mekong Sub-region Business Forum, and the Mekong River Commission¹⁰.

Response to an emerging focus on social sectors:

An emerging trend in development assistance after the early 1990s was a reorientation from economic growth toward poverty reduction with emphasis on policies and institutions. Consequently, global assistance in recent years has focused on social sectors, including education, health and gender issues. This trend is exemplified by the advent of PRSPs and MDGs. This new international paradigm has stimulated serious discussions within the Japanese development assistance community. Traditionally, Japanese aid has emphasized economic infrastructure in terms of sector and East Asia in terms of region and has been based on the principle that economic growth is an important component for achieving poverty reduction. In conjunction with the increased attention in the international community on policies and institutions, a shift is underway from project-type aid to program aid. In Japan some aid experts are skeptical about this shift, arguing that program-type aid is less visible to the public of recipient countries, more difficult to justify to the Japanese taxpayers, and could degenerate into cash support to recipient governments with no clear results.

Nonetheless, Japan is seeking to align its policies and approaches to the new paradigm for several reasons. Alignment with other donors will enhance aid effectiveness; it will also insure relevance with respect to the strategies of recipient countries. The troubling, persistent lack of development in sub-Saharan Africa strongly suggests that the complex issue of poverty needs to be addressed directly and realistically. Though the modalities may be different, many of the concepts being discussed in the international development community are elements which Japan has been endorsing and implementing over the years: empowerment of people, institution building, human development, ownership, alignment with recipient government strategies, predictability of aid flow, and policy coherence among aid, trade, investment and private sector development¹¹.

¹⁰ For detail, see Watanabe and Fusamae (2005)

¹¹ To take a few typical examples, in Indonesia (since 1968), Philippines (since 1974), and China (since 1979), Japan’s ODA were provided in a predictable manner in alignment with multi-year development

One salient example of Japan's leadership in defining assistance philosophy while aligning with emerging international orientation is the preparation of the report *Human Security Now: Protecting and Empowering People*, released in May 2003 by the independent Commission on Human Security commissioned by the Secretary General of the United Nations. Japan considers human security to be important in the development context and the Commission on Human Security was an initiative of the Japanese government. Human security has become a pillar of Japanese ODA and included as such in the 2003 ODA Charter. The premise underlying this is that "to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional, and national perspectives, but also to consider the perspective of human security, which focuses on individuals." (MOFA website "ODA Charter") Administratively, to ensure implementation of this concept, Ms Sadako Ogata, one of the co-chairperson of the committee¹², was later appointed head of JICA. Nonetheless, implementation of this concept within the context of JICA's activities is likely to be challenging.

Significantly, even as the attention of the development community focused on poverty and related social factors over the last few years, the World Bank (2003, 2005) has revealed a re-appreciation of the importance of infrastructure. This is due in part to Japanese reasoning on the issue and in part to strong demand from some developing countries. There are indications that with the recent change in the World Bank presidency, the role of infrastructure may gain even more credibility as a development fundamental.

MDGs and Japan:

Japan supports the achievement of the MDGs. In fact, in the mid-1990s when the concept of targets was first broached within the OECD/DAC — as International Development Targets (IDTs) — Japan was one of the main proponents and formulators. Nonetheless, the Japanese development community has had reservations about the role the MDGs have been assigned within the international development arena. These

plans of recipient countries. While ODA loans supported building of ports, highways, railways, and industrial parks, non-ODA untied loans from the Export-Import Bank of Japan (now one arm of the JBIC) were extended to development of electricity, natural gas, pipelines and so forth. Concomitant with these loans were grant aid to hospitals and other social areas, and technical assistance programs which promoted capacity building and human capital development, especially, in the agriculture sector and the industrial sector. These policies helped prepare and improve the investment climate and contributed to active direct investments by Japanese and other foreign corporations which were essential to open trade development strategies of these countries.

¹² Nobel Prize Laureate Amartya Sen was the other co-chairperson.

reservations relate to the following questions:

- (1) Is there too much emphasis on increasing ODA levels to achieve the MDGs and too little associated regard for the absorptive capacities of partner countries¹³?
- (2) Given the prospect that a number of countries will have tremendous difficulty in achieving the MDGs by 2015, is the push to meet the Goals by that time an efficient or, more importantly, a sustainable way to assist these countries?
- (3) Shouldn't more emphasis be given to capacity building that is focused on strengthening policies and institutions?
- (4) Shouldn't more emphasis be placed on economic growth which will be necessary for the formulation of "exit" strategies?

There is a growing impression within the development community that the current extreme focus on poverty reduction is an attempt to apply Western European social programs to developing countries. This is accompanied by a growing doubt whether such programs can actually move those countries toward economic and financial independence. The World Bank, for one, as with infrastructure mentioned above, appears to be undergoing a change in its thinking. Recent Bank analysis of its development effectiveness (World Bank 2005) suggests that the organization has excessively promoted social policies and insufficiently emphasized economic growth as a means for reducing poverty. This change in stance may well accelerate as a new president¹⁴ makes his mark on the Bank.

A key factor likely to affect Japan's ODA policies is its campaign to become a permanent member of the UN Security Council. Professor Jeffrey Sachs, advisor to the UN Secretary General on the MDGs and director of the Millennium Project, has argued (Millennium Project 2005)¹⁵ that any wealthy country aspiring to permanent membership on the Security Council should increase its ODA to 0.7% of GNI¹⁶. Japan is currently facing sizable government deficits that make it extremely difficult to achieve this level. In order to demonstrate a good faith effort, Prime Minister Junichiro Koizumi pledged in April 2005 at the Asia-Africa Summit in Bandung, Indonesia, to double ODA to sub-Saharan African countries over the coming three years.

¹³ An example of absorption problem is discussed with regard to spending on AIDS by Lewis (2005).

¹⁴ Paul Wolfowitz succeeded James Wolfensohn to become president in May, 2005.

¹⁵ *Investing in Development*

¹⁶ Sometimes the term GDP is used instead of the more correct GNI.

Nonetheless, Japan remains under pressure to take additional steps to convince the international community of its serious intention to help low-income countries.

At the same time, domestically many Japanese seem to be experiencing “aid fatigue.” Their sense is that their country’s ODA has been at a very high level for a long time — number one or two in the world — while other donors with much smaller programs have managed to set the international aid agenda. Over the ten-year span of 1994-2003, Japan’s global total ODA constituted 20% of global ODA while that of US and UK amounted to be 18% and 7%, respectively. With specific reference to the UN Security Council issue, since none of the ODA levels of the current permanent members reach 0.7% of their GNI, it seems unreasonable to make that a condition for new permanent membership. Furthermore, Japan contributes 19% of the United Nations administrative budget, second only to the 22% of the United States. The other four permanent UNSC members — China, France, Russia and UK — contribute less than 10% each¹⁷.

Recent reforms in ODA implementation:

In recent years, the Japanese government has been implementing policy and organizational changes aimed at making its ODA more efficient and effective in the changing environment. These changes include transforming JICA into a more autonomous body (from October 2003) and establishing ODA Task Forces in a number of developing countries (from April 2004).

JICA’s change in of status from special corporation to independent administrative institution in 2003 was accompanied by changes in its management and structure, as well. It was at this time that Ms Ogata, former UN High Commission for Refugees (UNHCR), was appointed to head the agency. As noted above, she is a major advocate of human security which has become one of the pillars underlying the entire Japanese ODA approach. Other notable changes were the transfer of significant numbers of JICA staff to the field from Tokyo headquarters and an increase in JICA’s allocation of resources to sub-Saharan Africa.

The purposes of establishing the ODA Task Forces in developing countries include: strengthening policy dialogue with partner countries; coordinating aid activities among Japanese agencies and other donors; and devolving a large portion of policy-formulation

¹⁷ China 2%, France 6%, Russia 1%, UK 6%

and decision-making power to the field offices. Task Forces will facilitate coordination of activities with other bilateral donors, such as USAID and DFID, and multilateral institutions, such as the World Bank, the Asian Development Bank and UN agencies. The Task Forces will also promote coordination and collaboration among the Japanese development agencies – MOFA, JICA and JBIC – as well as MOF and METI that are closely engaged in the formation of Japan's ODA policy and, in more general terms, JETRO (Japan External Trade Organization), private firms and NGOs.

Devolution to field offices is a trend followed by major donors such as the World Bank and DFID. There are many advantages to devolution, including rapid decision making and aid strategies better suited to local conditions. However, as discussed further below, some of the field offices have small numbers of staff with limited experience and need strong support.

Coordination with UK approaches to poverty reduction

Coordination of policies and development approaches with other donors is a central issue for Japan's aid agencies. This is especially the case with Western Europe donors, the most influential of which is the UK. Professor Shigeru Ishikawa points out in his recent paper (Ishikawa 2005) that the patrimonial (or patron-client) relationship system prevalent in many developing countries — especially sub-Saharan African countries — reduces the effectiveness and efficiency of their government expenditure mechanism, an indispensable component for poverty reduction and capital accumulation. According to his analysis, the British approach is to guide recipient country governments to implement PRS policies thoroughly to the extent they become institutionalized, thereby creating a political environment in which the enlightened poor make demands on their governments. This promotes democracy and the elimination of the patrimonial political system.

Ishikawa believes that the experiences of Japan and other East Asian countries shows this same objective to be achievable in other ways, through economic growth and the concomitant strengthening of economic infrastructure. Economic growth creates and expands the middle class which promotes democracy. The US shares this eventual goal, but attempts to create democracy more directly, through capacity building and training programs conducted by NGOs. Arguments for and against these different methods have political ramifications and in many developing countries are delicate issues which infringe upon domestic political substance. Because of these sensitivities, Japanese ODA stakeholders have tended to shy away from such discussions. However,

the reality is that development and ODA are very much political in nature and such consideration are important if Japan is to support recipient countries through budget support linked to comprehensive poverty reduction programs.

To briefly summarize, Japan has been struggling to find its optimal point by aligning its ODA policies with the current trends of the global aid community while maintaining its original strengths and focuses.

(2) Critical Issues

Bias toward East Asian economic infrastructure?

Hook and Zhang (1998) argue that the main reason for Japan's focus on Asia's economic infrastructure is the interests of Japanese business community — “MITI discourse.” This argument, however, seems incomplete. Japan's focus on economic infrastructure is actually based on its own development experience and on the belief that sustainable development and long-lasting poverty reduction can be achieved only through economic growth which requires a high-standard of economic infrastructure: ports, highways, railways and power stations. Additionally, Japan has basically been complying with the requests of Asian recipient countries for help in strengthening their economic infrastructure. It is true also that the Japanese business community has benefited because the strengthened economic infrastructure in East Asia has facilitated trade and investment. However, such private sector activities are crucial for the development of poor countries and for the eventual reduction in their poverty. With the achievement of a certain level of development, many East Asian countries, as mentioned above in reference to Ishikawa, have succeeded in creating a large middle class and moving politically away from authoritative development-oriented regimes to more politically democratic systems.

Japan's ODA focus on East Asia is a natural outcome of its geopolitical and economic interest. Biases or preferences of this nature are common among major donors: the US toward politically important countries such as Egypt and Pakistan; the UK toward former colonies in Indian sub-continent and in Africa; and France toward francophone developing countries. In the context of aid coordination among donors, each donor is encouraged to concentrate on the region and in the sectors for which it has some comparative advantage. Japan has been trying to replicate East Asia's experiences in sub-Saharan Africa, though admittedly it has proven difficult due to different contexts for institutional building and trade integration with other regions.

No coherent policies?

Policy coherence refers to coherence between policies with development objectives so that they are mutually reinforcing rather than conflicting. This concept has been receiving attention at OECD/DAC following discussion at the 2002 Ministerial Council Meeting (OECD Council at Ministerial Level). This is a topic which should be pursued with greater deliberation.

The thorny issue of Japanese protection of agricultural products was extensively highlighted and criticized in the 2004 DAC Peer Review Report of Japanese ODA (OECD/DAC 2004: 103). The peer review also pointed out that Japan has conducted “. . . relatively little analytical work on policy coherence for development issues.” Japan has been aware of the impact of trade on development since its ODA began in the 1950s and that, as was noted in the DAC review, even with regard to agriculture, Japanese trade policy has been changing over time. Changes include tariffication of rice imports and reduction of import tariffs, especially for imports from LDCs (least developed countries). Tariffs on agricultural products have also been reduced within the framework of FTAs (free trade agreements). In fact, Japan is the second largest importer of food products in the world and the largest *per capita* importer.

Trade issues are complicated and careful analyses are required to fully comprehend their impact. For instance, a recent study (Abe 2005) of Japan's trade policy impact shows that liberalization of all agricultural products and processed foods by Japan would mainly benefit high and medium income countries, such as the US, the EU, Thailand and Malaysia, and would have little or even negative impact on LDCs. This result would occur, in part, because complete agricultural product trade liberalization would negate the favorable treatment LDCs presently receive.

We also want to re-emphasize that Japan's ODA to East Asia was provided in a predictable manner aligning with multi-year development plans of recipient countries, and that there was rather a strong actual policy coherence in the sense that various modalities of aid and non-ODA loan were utilized and accompanying direct investment and trade by the Japanese private sector were successfully promoted.

Arms trade and the environment are other topics relevant to policy coherence.

The policy coherence implications of arms exports to developing countries has received little attention within the global development community. In the context of conflict

avoidance and peace building, and hence conditions for sustainable development, this important topic has not been included in the policy coherence agenda. Industrialized donor countries, with the exception of Japan, are the main exporters of arms to developing countries (Tamachi 2004).

Environmental sustainability also has coherence implications. Japan has been a major proponent of the Kyoto Protocol and has routinely evaluated the environmental impact of all its ODA activities. Although there are complications involved in reporting CDM as ODA¹⁸, this is an area of development assistance that the general Japanese public can easily support because the importance of the global environment is well documented in the media and very much noticeable in environmental disasters.

No well-defined national policy?

There has also been criticism, as noted by Kawai and Takagi (2004: 270), that Japan is “faceless,” lacking a well-defined national policy. They suggest that “clear objectives be defined; for example, to assist sustainable development . . . poverty reduction . . . and thereby contributing to stability, peace and prosperity in the international community.” The fact is, however, that these objectives are clearly set out in the ODA Charter revision of August 2003. A more accurate statement of the problem seems to be that these objectives are rather broad, especially as compared with the declared ODA objectives of the US or the UK, which seem to be more clear-cut than those of Japan. Probably Japanese ODA objectives are not as clear as those of other major donors because the Japanese development agenda covers a broad spectrum instead of focusing on specifics.

Some points should be kept in mind when considering this issue. “Objectives” can be written clearly and beautifully, but in the complicated world of diplomacy and development, clearly stated objectives often have to be interpreted in very imaginative ways. There is also the added complication of shifting theories and approaches. As Akiyama *et al.* (2003) notes, development theories and approaches have changed frequently according to prevailing world political and economic conditions. It becomes problematic when changed objectives and firmly held objectives are both denounced, the former as “opportunistic” and the latter as “dogmatic and inflexible.” Japan is probably more hesitant than others to change its approaches too easily or too often and is more inclined to stick to objectives once stated, especially in international

¹⁸ “ODA measures donor effort net of any returns to the donor from ODA expenditure.” (OECD/DAC 2004b: 3)

fora.

There are suggestions that in order to accentuate coherence and make its ODA less “faceless”, Japan should display more ODA logos on the buildings, bridges and machines which it has helped create. However, recent trends that emphasize program-based assistance instead of project-based assistance make it difficult to show such “face”. Some argue that what is most important is to have an active “say” or “voice,” a place at the table where development policy formulation takes place, in meetings with other donors and recipient government such as sector program meetings or consultative group meetings.

Too much inter-ministerial struggle?

Policy coordination difficulty among the various Japanese ministries is discussed by Hook and Zhang (1998) and Kawai and Takagi (2004). These researchers note significantly different perspective among three powerful ministries — MOFA, MOF and METI — on how ODA should be used. They describe what is called “MOFA discourse” and “METI discourse,” the former referring to MOFA attempts “to make greater use of aid for improving the economic, social and political conditions of the poor nations....” (Kawai and Takagi 2004: 261), and thus to strengthen diplomatic ties with them, and the latter referring to METI advocacy of “the use of aid to advance Japan’s own economic interest.” (Kawai and Takagi 2004: 260). MOF “enters the decision-making process from the standpoint of fiscal authority and as a self-appointed guardian of the international financial system.” (Kawai and Takagi 2004: 260).

While there is some truth in these observations, the description of the roles of the three ministries is over simplified and possibly outdated. Actually, the involvement of ministries with varying perspectives could contribute positively to the coherence and durability of ODA policies. The involvement of METI, for example, has been useful in strengthening the links between ODA and the private sector investment and trade that are essential for the sustainable development of the recipient country. Furthermore, the Japanese ODA apparatus has recently been restructured and to some extent rationalized. In January 2001 MOFA was statutorily designated as the lead ODA agency, enabling it to become more active in formulating policies and strategies and in coordinating them with other ministries. Some results of this new arrangement include the new ODA Charter of 2003 and the Medium-Term ODA Policies (MTP) of 2004. In addition, MOFA has established in-country ODA Task Forces in more than 60 developing countries. These ODA Task Forces are expected to make various Japanese assistance

activities more coherent and consistent with the Charter and MTP.

One persistent problem with the inter-ministerial consultation process is the high transaction costs involved, mainly in term of time spent on meetings. This cost may discourage innovative ideas and prompt action. This issue is further elaborated in the next section.

Conditionalities?

Historically Japanese development assistance has essentially been “request-based,” although there have been some exceptions (Kawai and Takagi 2004: 267). This approach was built on the principle of “self-help” and “ownership” and on Japan’s preference for separating ODA from politics. But there might also be another explanation: too few government staff working on ODA compared with its volume. This might have required the Japanese government to rely on “requests” made by developing countries, often with the assistance of private firms. One corollary of this is that Japan has imposed few conditionalities on its assistance, the exceptions being military expenditures and nuclear tests. This “request-based” approach was reviewed in conjunction with the ODA Charter revision of 2003 so that the Charter now specifies that “intensified policy dialogues” should proceed before the requests are made. The revised Charter also states that “preventing conflicts and terrorism” is a major objective and clearly declares the importance of some topics which might have been considered too delicate to touch upon in the past: governance, institutions, democracy and security.

In this regard, JICA has recently been stressing the importance of peace building in its activities and Japanese government and aid agencies have been more actively engaged in policy dialogues with the governments of the recipient countries, taking up such issues as appropriate macroeconomic policies, public expenditure management, anti-corruption measures, intellectual property rights, and environmental and social issues. These changes stem from the recognition that assistance will not be effective if policy and institution issues are not properly addressed by each recipient country. They suggest that Japan’s ODA distribution is likely to become more selective and contingent on the stances and efforts of partner countries with respect to these issues.

For this to be most effective, however, in-depth studies of the recipients will be necessary in the areas of political process, economy and society in general. High level political decisions might also be necessary on some key issues; for example, the degree

of acceptable involvement in actively changing recipients' political or other institutions.

IV. Recommendations for Meeting the Challenges

It is clear that the significant changes in development thinking, approaches and exogenous factors taking hold over the past decade require that Japan re-examine its ODA policies and their implementation and also strengthen its ODA-related institutions to make them more efficient and effective. The government is well aware this. It has already taken several measures and more are being considered, some of which are discussed above. This section presents recommendations which the authors believe are necessary if Japanese ODA is to become more relevant, efficient and effective.

(1) Greater coordination among ministries/agencies

The value of aid coordination among international donors has been recognized and strongly emphasized¹⁹. Such coordination is difficult, however, unless there is sufficient coordination among ministries/agencies in Japan. While recent activity indicates that key ministries are more closely cooperating to increase ODA policy coherence, further efforts are necessary in order to integrate grants, loans, and technical assistance as appropriate²⁰. Increased discussion among stakeholders will probably be needed as well as strong political initiative, including intervention by the Cabinet on some fundamental issues, because of the differences in mandates among the ministries/agencies. One practical approach may be to strengthen ODA Task Forces both to coordinate the assistance activities of the Japanese government agencies and to facilitate Japanese cooperation and coordination with other donors. It is often easier for the field staff of the various ministries and agencies to coordinate directly with their counterparts than for officials in Tokyo to intercede.

(2) Increased coordination and cooperation with other donors

In the current development assistance environment, individual action has become more difficult and less effective. The Japanese government realizes that implementation of the PRS approach requires enhanced coordination and cooperation with other donors, unlike some past practices of implementing ODA activities in isolation. Establishment of the ODA Task Forces, and serious consideration of more assistance in the form of budget support and funds pooled with other donors are some manifestations of this

¹⁹ Two High Level Forums on Harmonization and Coordination have been held so far. One in Rome in February 2003 and the other in Paris in March 2005.

²⁰ Related to this issue are some recommendations made by OECD/DAC (2004a: 149)

understanding of the changed environment.

Despite the awareness of the changed environment, Japanese procedures, administrative processes and language considerations pose obstacles to many Japanese staff who find working closely with other donors to be unfamiliar, difficult, time-consuming and entailing high transaction costs. Some procedural changes have been made to overcome these problems, but more are probably needed. Staffing and training of ODA related ministries/agencies should be reviewed in conjunction with these changes.

(3) Increased Emphasis on Results- Based Management

Because of the limits on increasing ODA volume, in recent years Japan has been stressing measures that will make ODA more efficient and effective. Though such an intention may at first glance seem straightforward, the definitions of “efficiency” and “effectiveness” become murky within the governmental organizations of any country because of the political constraints which prevail²¹. Defining these terms requires clear objectives and ODA targets²². International efforts are underway to increase the clarity of these notions by devising measurements that allow objective evaluation. Efforts to clarify and quantify objectives and targets are recommended in the Millennium Project report (Millennium Project 2005: Chapter 13) and in the *Paris Declaration on Aid Effectiveness*” (High Level Forum 2005) with regard to achieving “Indicators of Progress”. These objectives and targets are often expressed in numerical terms, in terms of actual policies implemented and in terms of progress indicators. Japan should not only harmonize with these efforts but should take initiative in promoting this trend. One implication of placing emphasis on results is that Japanese ODA would become more demand-driven, another is that Japan would reassess its technical assistance and other programs in view of the quality of aid, a topic also gaining currency in the global ODA agenda²³.

(4) Innovation for loan assistance

There are indications that the international development community has overemphasized debt relief and poverty reduction in recent years at the expense of attention to economic infrastructure, but this trend seems now to be evolving with renewed recognition that infrastructure is pre-requisite to poverty reduction²⁴. As a

²¹ See, for example, Menard (2005).

²² There are efforts in this direction under the New Public Management (NPM) framework. Probably the most well-known is the UK government’s Public Service Agreement (PSA)..

²³ This issue is raised in Millennium Project (2005) and also by the NGO Action Aid (2005).

²⁴ See, for example, DFID (2002) and World Bank (2003)

recent study²⁵ has noted, many developing countries now find themselves in desperate need of economic infrastructure partly as a consequence of the redirection of donor funding away from this area. According to the study, the annual anticipated need for infrastructure investment in developing countries is about US\$465 billion for the period 2005-2010, of which US\$26 billion will be needed in Sub-Saharan Africa.

Given the renewed understanding of the relationship between economic infrastructure and poverty — that infrastructure is necessary for economic development and poverty reduction — Japan should continue its loan assistance, with perhaps some modifications and innovations. These could include the following:

- (i) In countries which regularly receive loan assistance from Japan, projects to be financed through loans should be integral parts of the PRS and important components of the country's long-term development program.
- (ii) Implementation of loan projects should be pursued in close coordination with technical assistance and grant assistance programs. This would enhance coordination among MOFA, JICA and JBIC and create synergy among them, resulting in more effective assistance. This approach should be easier to implement now that ODA Task Forces have been established.
- (iii) There should be a higher degree of international cooperation, including co-financing with other donors. JBIC's recent agreement with the African Development Bank to establish a fund for private sector development is a good step in this direction.
- (iv) In the context of Public-Private Partnerships (PPP), loans to the private sector in developing countries should be increased through JBIC's two-step programs²⁶. Under these programs, JBIC provides loans to government-owned financial organizations, which in turn lend to private entities. Given the importance of private sector development, these programs could be strengthened.
- (v) Japan could also utilize the Clean Development Mechanism (CDM), one of the measures allowed under the Kyoto Protocol. CDM is a system that allows developed countries to implement projects designed to reduce greenhouse gas emissions in developing countries and obtain part of the resultant reduction in emissions to help satisfy its quota. Japan has technological comparative advantage with respect to this mechanism.

²⁵ Fay and Yepes (2003)

²⁶ In September 2005, JBIC announced that it will, for the first time, make a loan to a private firm in Turkey.

(5) More focused assistance based on comparative advantage

One aspect of enhanced coordination promoted among donors is focused assistance. No single donor should be active in all areas of development, each should concentrate in the area where it can have the best impact based on its comparative advantage. An example of a donor taking this route is Canada's recent decision to limit its partners so that it can target ODA to those few countries where it can have maximum impact²⁷.

Japan may currently have too many ODA recipients according to this rationale for concentrating aid impact, but for political and diplomatic reasons it may have difficulty reducing the number for a large donor like Japan. One possibility might be to concentrate ODA activities in selected sectors or sub-sectors where Japanese aid historically has had good results, such as economic infrastructure, rural development and disaster relief. Research and analysis will surely identify even more areas, which might include institution building for agricultural product marketing and export systems, establishment of institutional mechanisms to coordinate government and private sector investment, and promotion of industrialization²⁸.

One model of an approach many Japanese consider to have been successful is the Ishikawa Project on Vietnam. Under this project, headed by Professor of Development Economics Shigeru Ishikawa and financed by JICA, experts in various relevant fields were assembled. Together with Vietnamese counterparts, they drew up development strategies and programs based on studies and discussions. This is a holistic approach, demanding time and patience, but the outcome has been very successful in designing development strategies for Vietnam. The development process is by its nature extremely complicated, making such a holistic approach appropriate; however, it is rarely employed because most donors prefer "quick-fixes."

(6) Focus on Africa

Japan has been a large contributor to sub-Saharan Africa (SSA)²⁹ and is strengthening further its support for that region. At the Gleneagles G8 Summit in 2005, Japan committed to double its ODA to SSA over the next three years³⁰.

²⁷ Reuters on line (2005). According to this report, Canada will double its ODA by 2010 from 2001 level while reducing the number of recipients to 25 from 150.

²⁸ FASID has been active in this area.

²⁹ In 2001 Japan was the largest donor or the second in many SSA countries including Botswana, Angola, Ethiopia, Tanzania and Gabon although the volume has declined from the 1990s.

³⁰ Japan launched the \$5 billion Health and Development Project over the next three years and established the Enhanced Private Sector Assistance (EPSA) to provide more than \$1 billion over the next 5 years in partnership with the AfDB.

Drawing on its comparative advantage, Japan hopes to apply at least some elements of the East Asian development experience in other developing countries, especially those in SSA. One of the important components of the “East Asian Model” is synergy of ODA, trade and private sector investment (Urata (2004). East Asian countries, in retrospect, benefited greatly from the sharp rise of yen in the mid-1980s because it induced many Japanese private firms to transfer production facilities to that region. However, the application of the “East Asian Model” to SSA is hindered by the distance, unfamiliarity and real or perceived poor infrastructure which make it unlikely that Japanese firms will bring large-scale investment there in the near future.

It is clear that sustainable development in SSA is very difficult with only ODA and without adequate investment and trade involvement by private firms. The world development community, at least on paper, seems to be aware of this and has spoken for Public-Private-Partnerships (PPP) and for the importance of FDI. Unfortunately, this awareness does not seem to have been translated into concrete action. A report by the Shell Foundation (2005)³¹ points out that while private firms can contribute substantially in a number of practical ways, under current PPP they are asked mainly for money (Shell Foundation 2005: 29). Related to this is the concept presented by Aoki *et al.* (1996) of a “market-enhancing view” wherein the important role for governments is to provide institutions that enhance the coordination of economic activities among private sector players.

If the global development community wants seriously to help SSA find sustainable development in a reasonable period of time, involvement of the private sector, including NGOs, is essential. To tackle this issue, development stakeholders must be innovative and challenging. The Japanese government has been involving the private sector in terms of technical assistance and JBIC’s two-step loans programs (mentioned above), although these programs have been government-to-government because of the nature of ODA³². Because historically Japan has made most use of experts within the private sector in its aid activities, it appears to have comparative advantage and be in a good position to strengthen technical assistance programs in this area. On the supply side, many people who are retired or are soon to retire have valuable information, know-how and experience in business and manufacturing. On the demand side, the authors’

³¹ This report introduces Shell Foundation’s activities and makes a number of propositions on how private firms can contribute to the development agenda.

³² As noted above, there will be a JBIC loan to a private firm in Turkey.

experiences suggest that many entrepreneurs in SSA would welcome the opportunity to work together with these experienced professionals.

A further example of Japan's efforts to assist SSA is its hosting of the quadrennial Tokyo International Conference on African Development (TICAD), three of which have thus far been held. At the TICADs, African development issues are discussed among experts from many countries, including several African heads of state. The TICADs contributed to the establishment of NEPAD (New Partnership for African Development)³³, which provides a framework for the long-term development of the continent. The next TICAD will be TICAD IV in 2008, the same year in which Japan will again host the G8 Summit. Japan should use these events to design and propose innovative ideas to help SSA.

(7) More studies on strategies and policies

In spite of the fact that it has been one of the most important donor countries for decades, Japan has conducted only a limited number of objective academic studies on development strategies and policies. Explanations for this may include the small number of government/agency staff working on ODA in proportion to the size of the program and the limited number of qualified scholars interested in ODA policies. Over the last several years, however, the number of competent researchers has increased significantly and many of them are organizing to analyze ODA policy issues. A solid institutional framework, possibly at MOFA initiative, is required to boost intellectual input and output. In addition, compared with other major donor countries, there is a severe shortage of private research organizations that can conduct independent research on ODA policies because private firms and individuals have shied away from financing such studies. Persuading the private sector to take more interest in development policy issues is also an area that should be explored.

V. Concluding Remarks

The present paper has reviewed Japanese ODA approaches and implementation over the decades, examined issues and challenges, and made some recommendations for action. This juncture is not the first turning point for the Japanese ODA program, but it is a very significant one because it demands a thorough review of the program's fundamental assumptions as reflected in its modalities and regional emphasis.

³³ See, for example, NEPAD Secretariat (2004)

Historically the primary component of Japanese ODA has been concessional loans extended to East Asia to strengthen that region's economic infrastructure. However, as exemplified by the MDGs, current global development thinking is focused on social infrastructure such as education and health and on sub-Saharan Africa. Restructuring and strengthening political, social and economic institutions appears now to be the underlying objective. This situation requires Japan to analyze, understand and clarify its aid philosophy, expectations and fundamental approach to development assistance.

In the international arena, aid loans on net basis have begun stagnating or even declining. This is the case with JBIC and also with the International Bank for Reconstruction and Development (IBRD) of the World Bank Group. Asian countries that once depended on development loans can now obtain commercial loans from private banks; at the same time, many countries that still need concessionary loans are so heavily indebted that they can neither repay what they owe nor qualify for other loans. However, partly because the international development community has been focusing on social infrastructure, there is a growing recognition that many developing countries are in dire need of economic infrastructure.

Japan's core belief, formed out of its own experience, is that economic development based on economic infrastructure is needed for developing countries to graduate from international development assistance. Social infrastructure is important, and the Japanese government has supported the MDGs, but strengthening economic infrastructure should not be held back while social infrastructure is built. Japan is exploring innovative approaches to loan provision for the infrastructure building and we have suggested some possibilities in this paper. This is in contrast to the approach of the UK or US, which appears to give priority to changing political and other institutions in recipient countries³⁴. In this regard, Professor Ishikawa's suggestion that the Japanese and British approaches to development be synthesized through collaboration and discussions is very attractive.

Cooperation and collaboration, not only with the UK but also with other donors, should be encouraged. Institutional arrangements might be required to strengthen working relationships with other donors because creating and participating in these relationships

³⁴ Even regarding the US and Europe, new efforts in revisiting importance of infrastructure include the US's MCA[0] and budget support by Western European donors, which enable large amounts of capital to be spent on economic infrastructure. Consult the MCC website for information on the grants this far forwarded, including countries and sector targeted.

will affect the work load of the staff. Similarly, establishment of the ODA Task Forces is an important step in right direction, but measures that create institutional support for the Task Forces are necessary such as new staffing arrangements and training in related ministries and agencies. The institutional participation of scholars and experts to study strategic and policy issues also should not be forgotten.

The issues and challenges facing the Japanese ODA program today are numerous: coordinating aid ministries and agencies, strengthening ODA Task Forces, examining policy coherence issues, and identifying Japan's comparative advantage. But in conclusion, the authors would like to suggest that healthy and sustainable ODA rests on the support and understanding of the Japanese people as well as the international development community, including recipient countries. Looking at the compassionate response to the victims of the Indian Ocean tsunami disaster and the Niigata earthquake, we are convinced that the willingness of the Japanese people to assist people in developing countries is directly related to the quality of information they receive about those people, their circumstances and the positive impact of the aid that is sent.

One way to achieve this is for the stakeholders to speak more explicitly, publicly and consistently about the contributions and returns of Japanese ODA. For this purpose, the mass media and NGOs are included among the stakeholders. We hope that the present paper helps, even in a minor way, to spur this effort.

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