

JAPAN

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

| | |
|-----------------|-------|
| Net ODA (US\$m) | 9,362 |
| % of GNI | 0.18% |

Source: OECD/DAC, preliminary 2008 data

Since 2001, Japanese ODA has fallen slightly in absolute terms (from US\$9847 m) and relative to GNI (from 0.23%). Over the period 2001-08, Japan's ODA volume increased by 21% in real terms, but in 2006, debt relief made up a large (25.3%) proportion of Japan's net ODA, so aid fell back sharply in 2007 before rising by 8% in real terms in 2008 (DAC, 2009).

1.2. Future Quantity Intent

In 2005, Japan announced that it would increase its gross ODA volume by US\$10 billion in aggregate over the next five years (JICA, 2007a). On this basis, the DAC projects that Japan could be providing US\$13.3 billion in net terms (0.28% of GNI) by 2010 (DAC, 2009).

2) KEY AGENCIES/MECHANISMS

2.1 Bilateral Agencies and Structures

Japan's cooperation relations with partner countries are governed by simplified cooperation agreements: "Exchange Notes". Beyond the diplomatic modality, the consultation between Japan and the partner is structured in an ad hoc manner around project study and evaluation missions. The Japanese cooperation agency (JICA) is the organ that executes Japanese cooperation in the world.

Ministry of Foreign Affairs (MOFA)

MOFA plays a key coordinating role in the Japanese government with respect to ODA, heading the *Council of Overseas Economic Cooperation-Related Ministries*" (MOFA, 2008a). Hence, MOFA sets much of Japan's aid policy. This role was reaffirmed in the final report (February 2006) of the Study Group on Overseas Economic Cooperation (JICA, 2006a). MOFA is the channel for more than 60% of Japan's ODA (MOFA, 2006b). It provides some grant aid directly, and also funds JICA, the debt-relief budget of JBIC, and most of Japan's contributions to multilaterals.

Japan International Cooperation Agency (JICA)

JICA is an independent administrative institution, responsible for the implementation of projects in line with Government policy. JICA implements both grant aid (on behalf of MOFA) and technical cooperation, but with a heavy emphasis on the latter.

Its role in grant aid is restricted to the technical aspects (e.g. pre-implementation surveys/appraisals). In adopting the “Field-oriented Approach”, JICA has sought to strengthen its system of overseas offices to enable accurate and swift responses to various issues affecting developing countries (JICA, 2007b).

Japan Bank for International Cooperation (JBIC)

The ODA element of JBIC’s work is the Overseas Economic Cooperation Operations which provides financial assistance in the form of concessional loans. More specifically, JBIC provides ODA loans in various forms to meet the financing needs of governments, Private-Sector Investment Finance (supporting business activities in developing countries), and development-related research. JBIC also administers (non-concessional) export credit lending to promote the export of Japanese goods and services. Other financial instruments offered by JBIC include equity investment, loans to Japanese investors in developing countries, and guarantees (JBIC, 2005). As of October 1, 2008, JICA will assume responsibility for all ODA currently administered by JBIC.

ODA Task Forces (ODA-TFs)

Japan has made efforts to strengthen functions at the field level through the use of Country-based ODA Task Forces (ODA-TFs) in 68 countries. ODA-TFs consist primarily of Japanese embassies and the local offices of aid agencies such as JICA and JBIC and play an increasingly important role in setting Japan’s country assistance strategies, promoting coordination with recipients and other donors. However, on numerous issues ODA-TFs still work closely with Tokyo (MOFA, 2008a).

Projected reforms

However, this is all due to change in the coming years, so that by October 2008, the “new JICA” will coordinate all three major ODA components – technical cooperation, grant aid, and yen loans – under one roof. The aim is to streamline the Japanese agencies, and create one of the largest bilateral development organisations in the world (JICA, 2006b).

2.2 Key Policies and Documents

ODA Charter

The 2003 ODA Charter sets out Japan’s objectives, policies and priorities for ODA. It sets out basic policies, including ‘supporting self-help efforts of developing countries’ (respect for recipient ownership and giving priority to their development strategies) and ‘utilisation of Japan’s experience and expertise’ (use of Japan’s own experience of socio-economic development as well as its technology, human resources and institutions). Japan’s priority issues are defined as: poverty reduction, sustainable economic growth, addressing global issues and peace-building. Asia, and particularly East Asia, is highlighted as a priority region (MOFA, 2003).

Medium-Term Policy on ODA

The Medium-Term Policy on ODA was revised in 2005, and sets out how Japan will implement the 2003 Charter, giving more details of how Japan understands the objectives of its ODA and principles for more effective Japanese ODA (MOFA, 2005a). It also re-affirms the high importance given in Japanese aid policy to the concept of human security: “*the human security perspective should be adopted broadly in development assistance*” (see also Ogata, 2006).

Annual Reports - latest versions JBIC (2007), JICA (2007b) and MOFA (2008)

A wealth of information can be found in JICA's and JBIC's annual reports. Also, every year, MOFA compiles an annual report on Japanese ODA, which, since 2001, carries the name "Japan's ODA White Paper".

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

| Top ten countries | % of total ODA gross disbursements | % of bilateral ODA gross disbursements | US\$m |
|-------------------|------------------------------------|--|-------|
| Iraq | 10.7% | 14.9% | 2 168 |
| China | 7.6% | 10.5% | 1 529 |
| Indonesia | 5.9% | 8.2% | 1 189 |
| Nigeria | 5.5% | 7.6% | 1 107 |
| Philippines | 3.7% | 5.1% | 750 |
| Viet Nam | 3.3% | 4.6% | 666 |
| India | 2.9% | 4.0% | 581 |
| Thailand | 2.4% | 3.3% | 476 |
| Zambia | 1.9% | 2.7% | 390 |
| Sri Lanka | 1.7% | 2.4% | 345 |

Source: OECD/DAC, 2005-2006 data.

Note: Iraq received uncharacteristically high levels of ODA in 2005-06 due to debt cancellation.

The top ten recipients listed above received 63.3% of bilateral ODA in 2005-06.

Distribution among different groups of recipients (% country allocated / region specified gross ODA disbursements):

| | |
|----------------------------|-------|
| Least Developed Countries | 14.1% |
| Other Low Income Countries | 22.1% |
| Sub-Saharan Africa | 19.2% |
| Other Asia and Oceania | 39.3% |

Source: OECD/DAC, 2005-2006 data.

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria*

Japan has no pre-selection criteria for eligibility for aid.

3.2.2. *Allocation criteria*

Asia, and particularly East Asia, is highlighted as a priority region by Japan and, as can be seen from the table above, East Asia received 36.1% of Japan's aid in 2005-06. Africa has also been identified as a target region. In 2007, Japan's aid was allocated based on that year's priority concerns: Environment and climate change, supporting economic growth in developing countries and growth in Japan, "settling" democratization, peacebuilding and anti-terrorism, and ensuring human security. The International Cooperation Bureau sets Japan's allocation criteria.

4) AID POLICIES

4.1. Concessionalities

Japan provides only grants to least developed countries and to all countries requiring debt cancellation. However, it also provides a large amount of loans to other countries including low-income countries, though all countries that qualify for IDA financing are eligible for Japanese grants.

| | |
|--|-------|
| Grant share of bilateral ODA commitments (excluding debt reorganisation) | 41.5% |
| Grant element of bilateral ODA commitments to LDCs | 98.9% |

Source: OECD/DAC, 2005-2006 data.

Terms of ODA loan commitments:

However, as seen below, Japan disburses ODA loans along a wide range of terms, but on average with a very high grant element.

| | Range of terms | Average terms |
|---------------|----------------|---------------|
| Grant element | | 74.5% |
| Maturity | 15-40 years | 33.1 years |
| Grace period | 5-10 years | 9.6 years |
| Interest rate | 0.5% - 1.5% | 1.0% |

Sources: OECD DAC, 2006 data; Philippines National Economic and Development Authority (2004)

4.2. Types of Assistance

Breakdown of different types of ODA (commitments unless otherwise stated)

| | \$USm | % of total ODA disbursements |
|---|-------|------------------------------|
| Stand-alone technical cooperation (disbursements) | 1936 | 14.9% |
| General budget support | 101 | 0.8% |
| Sectoral projects and programmes (including some technical cooperation) | 92 | 0.7% |
| Action related to debt | 3852 | 29.7% |
| Developmental food aid | 84 | 0.6% |
| Other commodity assistance | - | - |
| Emergency and distress (disbursements) | 279 | 2.1% |

Source: OECD/DAC, 2006 data.

Note: The breakdown into different types of assistance shown in the table is taken from different OECD/DAC data sources. As such, the final column does not add to 100%.

Japan has historically placed the vast bulk of its aid through projects, though it has also engaged in sectoral programmes, large amounts of technical assistance (TA), and balance of payments support. It is planning to deepen and expand its involvement in programme-based approaches (PBAs) – especially budget and sector support - in target partner countries and also expand PBAs to other partner countries (MOFA, 2005b, p2).

For Paris indicator 9, which measures the percentage of program based arrangements (PBA's) in a donor's total aid portfolio, Japan reports best practice in Vietnam (98%), Mauritania (98%) and Ethiopia (91%). HICPs report widely varying percentages of aid given as budget/BoP support, with best practice found in Guyana, Mauritania, Sao Tome & Principe and Senegal (more than 50%).

In the Paris Declaration survey (indicator 4) Japan reported that all technical assistance is coordinated with Government strategies in 30 out of the 49 surveyed countries, including Indonesia, Philippines and Vietnam. However, HIPC analysis finds varying performance for whether TA is government-led and building capacity, with best practice (around three quarters) in the Gambia.

4.3. Channels of Assistance

Japan allocates around 35% of its ODA via multilateral organisations, of which 15% goes to UN agencies and 66% to the World Bank (Source: OECD/DAC, 2006 data).

Many Japanese projects and TA are implemented directly by JICA. Hence, Japanese ODA is not always well captured in partner countries' budgets. HIPCs report varying percentages of aid as on-budget, with Bolivia, Mali and Sao Tome & Principe indicating that almost all is on-budget.

4.4. Sectors and Projects

| Sector | % of bilateral ODA (commitments) |
|--|----------------------------------|
| Social and Administrative Infrastructure | 22.4% |
| Of which: Education | 7.0% |
| Health | 2.2% |
| Population | 0.1% |
| Water supply and sanitation | 9.2% |
| Government and civil society | 2.8% |
| Economic Infrastructure | 25.2% |
| Of which: Transport and communications | 15.1% |
| Energy | 9.1% |
| Production | 8.2% |
| Of which: Agriculture | 4.4% |
| Industry, mining, construction | 1.1% |
| Trade and tourism | 2.8% |
| Multi-sector | 3.9% |
| Programme Assistance | 1.3% |
| Action relating to debt | 27.6% |
| Emergency aid | 2.3% |
| Administrative expenses | 9.0% |
| Unspecified | 4.1% |

Source: MOFA, 2006 data.

For many years, Japan's assistance has had a "request-oriented principle" whereby assistance is based on requests from recipient countries. However, the ODA Charter states that, while Japan still regards requests from recipient countries as necessary from the perspective of supporting the self-help efforts of developing countries, it engages actively in policy consultations regarding formulating and implementing ODA policies before requests are received (MOFA, 2003). Japan has traditionally provided a relatively high level of support for infrastructure (especially transport and water) and productive sectors (agro-industry, forestry, food, fishing, energy and natural resources), especially in JBIC lending.

Japanese sectoral alignment to PRSPs is considered relatively high by most HIPCs, with Cameroon, Ethiopia, Gambia, Mali, Guyana and Sao Tome indicating 100% alignment to priority sectors and projects.

4.5. Flexibility

Japan does not have much scope for flexibility as aid is budgeted annually, entirely programmed in advance, and Japan does not engage in much budget support (though this is now changing). Hence, there are no mechanisms for extra in-year disbursements when a recipient is confronted with exogenous shocks and/or with budget/BoP deficits. This is borne out by the HIPC-CBP survey, where only 2 countries give Japan high scores for flexibility, based on it having promised additional aid to fill financing gaps at donor coordination meetings.

4.6. Predictability

Japan is committed to improve the predictability of aid at three levels (MOFA, 2005b, p4):

- Macro level: sharing information on multi-year aid flows from Japan to partner countries (at Consultative Group and Round Table meetings);
- Meso level: Sharing informally information on multi-year operational aid plans (so-called rolling plans) for individual partner countries;
- Micro level: sharing information on the indicative budget of individual projects, once project documents are signed, in a timely and systematic manner.

Japan has a reasonably strong record in disbursement compared to commitment, partly due to pressure to spend aid during the planned budget year (otherwise the parliament in Japan has to provide permission for an extension).

Some of these new initiatives are already bearing fruit. Three countries (Guyana, Uganda and Mali) indicate that more than 75% of Japanese aid is based on multi-year operational plans. As for disbursements matching schedules, the Paris survey (indicator 7) shows best results in Peru and Sudan (96%), Mozambique (93%) and Kenya (93%). Among HIPCs, Guyana and Mali report disbursements virtually matching pledges.

4.7. Conditionality

As most of Japan's aid is in project form, its overall conditionality is relatively low. Japan does not impose any additional macroeconomic conditionality on its budget support. However, as it often participates in multi-donor budget or sectoral support groups, it does adopt the joint policy matrices agreed in this context. Similarly, as it often cofinances World Bank policy-based funding, this Japanese ODA is also suspended if World Bank conditions are not met.

HIPCs assess Japanese conditionality as varying considerably depending on whether (and to what degree) it provides policy-based lending. Chad, Guyana, Rwanda and Honduras find Japanese conditionality nonexistent and provoking no significant delays.

4.8. Policy Dialogue

Japan tends to be very discreet in its policy dialogue with partner countries, though HIPCs such as Ghana and Sao Tome indicate that Japan can become engaged in support of government policies and programmes. In general its disbursements are not closely linked to BWI conditionalities, unless it has to suspend its aid in the World

Bank co-financing operations mentioned above. HIPCs who consider links with the BWIs to be nonexistent are Guyana, Mozambique and Sao Tome.

5) AID PROCEDURES

5.1 Conditions Precedent

To obtain Japanese ODA, the beneficiary country must file an application through diplomatic channels, and complete forms provided by JBIC/JICA. The project must feature in the projects list presented each year to Japan, have an impact on the standard of living of the population, and have a reliable management system. Thereafter Japan conducts a Basic Plan study for the project, followed by an exchange of notes on the objective, performance period, repayment method and measures for project execution.

For the convention to become effective, Japan demands a legal opinion, a specimen signature; and the opening of a project account in a Japanese bank. Japan makes very little use of PIUs (partly because in many cases JICA implements projects itself): According to the Paris survey indicator 6, Japan only uses a total of 3 PIUs in the 49 reporting countries. HIPCs indicate that no counterpart funds are demanded on grants, but they can be demanded on loans. HIPC assessments of conditions precedent vary widely, with most indicating at least two conditions and some as many as 5.

5.2 Disbursement Methods

Japanese disbursement methods are largely reimbursement or direct payment to the supplier, based on requests for payment made by the implementing company's project supervisor to the licensed intermediary bank in Japan. However, some payments are made as advances.

In terms of best practice, HIPCs such as Sao Tome & Principe and Zambia, report that as much as 2/3 of Japanese aid can come as cash-in-advance to Government. Delays linked to disbursement methods are kept below 3 months in Mauritania, Guyana and Ghana.

5.3 Disbursement Procedures

The degree to which Japan uses local Public Financial Management systems (Paris indicator 5a) varies considerably. In the Paris Survey, best practice is found in Indonesia (92%), Vietnam (92%) and the Philippines (91%). Among HIPCs, Malawi, Mauritania and Sao Tome & Principe report that Japan does not impose procedures additional to those of Government. Further information on Japanese disbursement procedures is still being assembled.

5.4 Procurement Procedures

The OECD's Development Assistance Committee (DAC) reports only 4.4% of Japanese aid to be tied in 2006 (excluding TA). Nevertheless, HIPCs indicate that a high proportion of Japanese aid contracts (especially TA) are won by Japanese enterprises.

Japanese procurement procedures vary considerably in their complexity and duration. HIPCs indicate that delays linked to procurement issues are kept to a minimum in

Gambia, Mauritania, Ethiopia, Guyana and Uganda. In general, Japan does not make much use of local procurement systems: Paris Indicator 5b reports only 6 countries where use of local procurement systems is above 50% and the highest score are found in Indonesia (92%), Vietnam (92%), Philippines (92%) and Peru (91%).

5.5 Coordination

Japan has not traditionally taken a lead in coordinated arrangements with other donors at the country level, but is now committed to participating in (MOFA, 2005b, p 2-3):

- Joint arrangements such as a declaration and a Memorandum of Understanding (MOUs), which can serve as a good basis for pro-active donor coordination.
- Joint arrangements such as joint diagnostic work, joint reviews, and joint missions, which are undertaken under the framework of PBAs, and
- Information sharing of Japan's country assistance programmes and the results of policy dialogue with partner countries and other donors.

According to the Paris survey (indicator 10a), Japan conducts few of its missions jointly with other donors. Best practice can be found in Madagascar (51%), Cameroon (33%) and Honduras (33%). All analytical work (Paris indicator 10b) is done jointly with other donors in Ghana, Malawi and Madagascar.

Key Sources (*All internet sources were accessed on 23 August 2008*)

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