

Japan's ODA at the Crossroads: Reforms, opportunities and challenges

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Izumi Ohno
GRIPS Development Forum
National Graduate Institute for Policy Studies (GRIPS)



Japan's ODA at the Crossroads



- 2008: The "Year of Destiny" of Japan's aid?
- TICAD IV (Tokyo International Conference for African Development): spring
- Hosting G8 Summit: July
- New JICA: October

→ *Excellent opportunities to demonstrate Japan's renewed commitment to aid and share its development visions*
-- under a new institutional framework
-- domestically and internationally

Topics of Presentation



1. Overview of Japan's Official Development Assistance (ODA)
-- Characteristics, institutional framework, and trends
2. Current ODA reforms in Japan
-- The nature of reforms, opportunities, and challenges
3. Future perspectives
-- Japan's core competence, and potential for UK-Japan partnership

1. Overview of Japan's ODA: Main Characteristics



- ODA policy formulation and implementation: assumed by various ministries and agencies
 - Primarily MOFA (overall coordination), MOF, METI and two executing agencies, i.e., JICA and JBIC
- Limited involvement by the Legislature on strategy and basic direction of ODA
- Regional concentration in Asia
- Multiple menu of assistance: grants, loans, and TA
 - Loan aid, mainly focusing on economic infrastructure
- Diverse aid modalities: projects (main) and non-projects (incl. budget support, debt relief, food aid)

Overview of Japan's ODA: Comparison with UK and US (1)

| | Japan | UK | US |
|----------------------------|---|---|--|
| Legal and policy framework | - No law - ODA Charter (Cabinet decision), Medium-Term Policy | - Int'l Development Act (2002) - DFID White Papers | - Foreign Assistance Act (1961, amended) - WH National Security Strategy (2002-); USAID Policy Framework (2006) |
| Legislative committees | - Recently, special committee for ODA established (House of Councilors in 2006) | - Comprehensive review by Int'l Development Committee (House of Commons, established in 1997) | - No specialized committee for ODA; but vigorous budget scrutiny by Congress |
| Institutional framework | - Policy: MOFA in coordination with MOF, METI, etc. - Implementation: MOFA (grants), JBIC (loans) & JICA (TA), etc. - Other ministries & agencies | - DFID - Independent, cabinet-level dept. for ODA policy & implementation | - USAID: semi-independent, sub-cabinet-level aid agency - MCA (2004-): gov't-owned corporation - Other depts. & agencies |

Overview of Japan's ODA: Comparison with UK and US (2)

| | Japan | UK | US |
|--|---|---|--|
| Volume (ODA/GNI) (2005: net disbursement) | \$ 13,147 mn (0.28%) | \$10,767 mn (0.47%) | \$27,622 mn (0.22%) |
| Bilateral vs. multilateral (2005: % of total net disbursement) | 79% vs. 21% | 76% vs. 24% | 92% vs. 8% |
| Regional distribution (2004-05: % of total gross disbursement) | 1. East Asia & Oceania (40.7%) 2. Middle East & North Africa (19.3%) | 1. Sub-Saharan Africa (53.6%) 2. South & Central Asia (21%) | 1. Middle East & North Africa (47.4%) 2. Sub-Saharan Africa (22.1%) |
| Major aid use (2004-05: % of total bilateral commitments) | 1. Economic infrastructure (26.8%) 2. Social & admin. infrastructure (21.4%) | 1. Social & admin. infrastructure (30.0%) 2. Humanitarian aid (8.1%) | 1. Social & admin. infrastructure (43.6%) 2. Humanitarian aid (14.3%) |
| Grant share (2005: % of total ODA commitments) | 48.8% | 96.5% | 100% |
| ODA through NGOs (2004-05: % of total bilateral commitments) | 1.7% | 9.2% | Not reported |

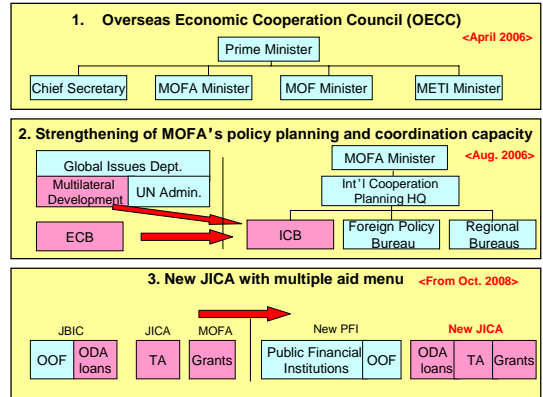
Source: OECD/DAC (Development Cooperation Report 2006, CRS online database)

2. Current ODA Reforms

<Key Points>

- Accelerated from 2002: initially reforms within the existing framework; more comprehensive institutional reforms started from 2006
- Largely driven by domestic motives (MOFA scandals, budget cut, public sector reform, etc.)
- Political commitment yet to be demonstrated; search for strategic visions for aid and development continues
- Elements of hope: the emergence of “champions” of country-based approach (in selected countries) and innovative CSO activity

New Institutional Framework for Japan's ODA



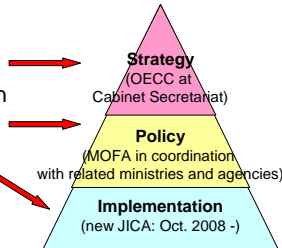
Source: Ministry of Foreign Affairs

Opportunities (1)

- Unprecedented reform, in terms of the scope and structural changes in ODA policy formulation and implementation

<Three-tier structure>

- Strategizing ODA
- Better policy coordination (within MOFA)
- Effective & efficient aid delivery
 - Holistic approach; maximizing synergy of multiple aid menu



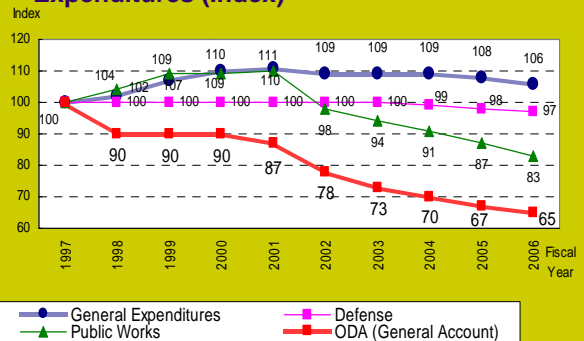
Opportunities (2)

- About new JICA
 - Largest bilateral donor agency, in terms of aid volume (gross disbursements)
 - Broad menu of assistance: loans, TA, grants (about 60% of grant aid to be transferred from MOFA); greater synergy effects expected
 - Potential for further strengthening country-based approach, with enhanced functions of field offices
 - Potential for stronger research and dissemination capacity, by possessing a holistic view

Challenges (1)

- Lack of political interest in ODA (Prime Minister's vision?)
 - ODA does not give additional votes in Japan
 - Many competing priorities (e.g., North Korea, education, economic reactivation)
- Bleak prospect for significant increase in ODA budget (MOF vs. MOFA debates)
 - Fiscal austerity likely to continue (esp. ODA General Account budget)
 - Risks of failure to comply with international promises

Trends of ODA Budget and the Other Major Expenditures (Index)



Source: Ministry of Finance, Japan (<http://www.mof.go.jp/>)

Challenges (2)

- Strategic planning capability of OECC and its relation to the new MOFA structure yet to be known
- Frequent staff rotation at the government level
- Absence of serious debates on the substance of ODA visions and policy
 - Decision on new JICA is “by-product” of the reform of public financial institutions, of which JBIC is a part
- Why and for what aid? -- domestically, views are divided
 - Widening income disparity within Japan
 - Search for Japan's role in international development and its strategic vision continues

Elements of Hope

- At the field level, “champions” of country-based approach emerging in selected countries (e.g., Vietnam, Bangladesh, Tanzania, Ghana)
 - Strategizing Japan's aid; invigorating growth support; and greater engagement in development partnerships
- Innovative CSO activity emerging: effectively outreaching various stakeholders and raising public awareness of world poverty
 - *Hottokenai Sekai no Mazushisa* (*Don't let it be - World Poverty*; Japan's national campaign for G-CAP); selling 4.5 million White Band in 2005
- Increasing business interest in CSR

Elements of Hope...?

<Public Opinions>

[Q] Japan's engagement in economic cooperation

| | Until the early 90s | 1999 | 2006 |
|--|---------------------|---------|---------|
| Should maintain the current level or increase (o/w: those replied “should increase”) | Around 80% | 71.6% | 68.3% |
| | (Around 40%) | (29.2%) | (23.1%) |
| Should decrease or stop | Less than 10% | 21.7% | 25.3% |

[Q] Perception of specific regions and countries

| | 1999 | 2006 |
|--|-------|-------|
| Feel familiarity and friendliness with Africa | 18.3% | 25.0% |
| Feel familiarity and friendliness with East Asia | 39.2% | 45.6% |
| Feel familiarity and friendliness with China | 49.6% | 34.4% |

Source: Opinion polls on foreign policy, carried out by the Cabinet Secretariat

3. Future Perspectives

I believe that:

1. Japan can make valuable contributions to international development, by focusing on its core competence and working with a broad range of development partners.
2. Further efforts are needed to sharpen its visions and strengthen political commitment and public awareness, while making sure that the current reforms be properly institutionalized.
3. Japan should clarify selectivity and strengthen its support to country-specific growth promotion -- not only in Asia, but also in eligible African countries.

Focusing on Japan's Core Competence (1)

- Catch-up, latecomer perspectives
- Utilizing its aid and development experiences in East Asia
- Collaborating with emerging donors (e.g., South Korea, Thailand, Malaysia, China?), based on shared development visions
 - Growth-driven, poverty reduction
 - Potential for playing a catalytic role in Asia-Africa cooperation
- Uniquely positioned as a bilateral donor providing ODA loans (contributing to growth promotion and scale-up of pilot efforts)

Focusing on Japan's Core Competence (2)

- Growth strategy with “real-sector concern”
 - Trade, investment, industries, technology, human resources, etc.
 - To complement Western “framework” approach
 - Long-term perspective
 - Development is a long-term undertaking and path-dependent in nature
 - Respect for each country's uniqueness
 - Realistic and pragmatic approach in aid delivery
 - “Best mix” approach to aid modality and harmonization
- ➔ “Aid for graduation”, diverse paths to development

UK-Japan Partnership



- Good potential exists for UK-Japan partnership, based on complementarities
- UK 's strengths:
 - Policy framework; designing international architecture; communication strategy and stakeholder engagement; knowledge and experiences in Africa, etc.
- Japan 's strengths:
 - Concrete, process-oriented support; field-based expertise; infrastructure development; knowledge and experiences in Asia (incl. a possibility of engaging emerging donors), etc.

Thank You Very Much !



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