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Main characteristics of Japanese Official Development Assistance (ODA) flows

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Abstract

At the end of the 1990s, the Japanese government distributed annually more than US\$10 billion as foreign aid directly or indirectly to developing countries. Japan's ODA can be divided into the following four groups: 1) Bilateral Grants, 2) Technical Co-operation, 3) Multilateral Aid, and 4) Bilateral Loans. In 2001, Bilateral Grants made up 19.3 percent of Japan's total ODA budget; Technical Co-operation constituted 29.7 percent; Multilateral Aid and Bilateral Loans accounted for 24.7 percent and 26.3 percent, respectively. There have been criticisms that Japanese ODA loans have been provided mainly for economic infrastructure projects only. In response to these criticisms, the Japanese government claims to have made efforts to channel these loans into various social sectors, such as agricultural projects or rural development.

1. Introduction

At the end of the 1990s, the Japanese government distributed annually more than US\$10 billion as foreign aid directly or indirectly to developing countries. With such a rapid expansion of ODA, it becomes increasingly difficult to fully control all aspects of this huge flow of funds. An officer of Japan's MOFA, Higuchi, says that in addition to the many ministries and agencies involved in determining ODA policy, there are several aid implementing agencies which carry out ODA projects. In Japan, "ODA administration is very complicated" (Higuchi, 1987: 117).

First of all, there is a need to classify Japanese aid flow and divide it into several groups. At present there exist several such classifications. According to the official classification, there are the following types of ODA: grant aid and technical co-operation, government loans, and subscriptions and contributions to international organizations (MOFA, 1994: 9).

Nishigaki and Shimomura (1993: 156) suggest that foreign aid be divided into two groups: 1) *grants*, or foreign aid without repayment obligation, and 2) *loans*, or foreign aid with repayment obligation. Then, foreign aid can be further divided into two groups: 1) *bilateral* foreign aid, which is given by Japan to a specific country, and 2) *multilateral* foreign aid, which is given to international organizations.

Yokota (1997: 4) proposes a different approach to the classification of foreign aid. He takes into consideration the implementing organizations. First, he divides Japan's ODA

into two parts: 1) aid programs implemented by the Japanese government, and 2) aid programs implemented by international organizations. Then, the former is further divided into: 1) aid programs implemented by ministries, and 2) aid programs implemented by other government agencies.

2. Critique on classification of Japanese ODA flows

Yokota's classification permits an understanding of the characteristics of foreign aid in terms of aid implementation. However, a serious shortcoming of this classification is that it does not incorporate a complicated decision-making process on foreign aid allocation. For example, although both *grants* and *loans* are implemented by the Japanese government, they undergo different decision-making processes. To comprehend the characteristics and features of Japan's ODA, this paper will concentrate more on the foreign aid flows rather than its implementation.

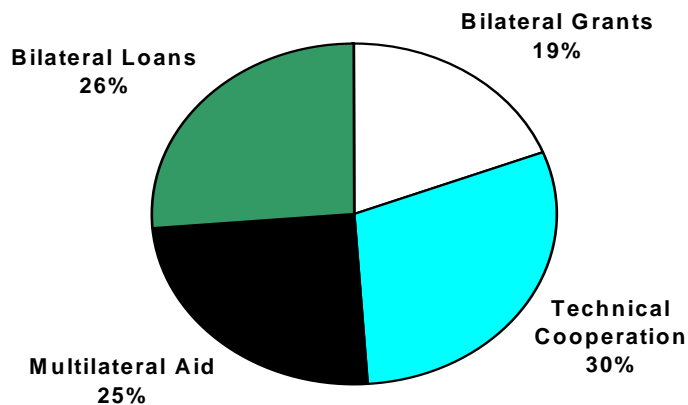


Figure 5.1 The Breakdown of Japan's ODA in 2001

Source: MOFA, *Japan's ODA 2002*¹

¹ Ministry of Foreign Affairs, *Japan's ODA 2002*, from the MOFA's Internet Homepage

The Japanese government's official classification has some good points. For one thing, it is well-defined and systematic. Also, the classification reflects the policymaking process and actual flows of Japanese foreign aid. However, there are shortcomings in the classification's terminology.

Thus, the terms "grant aid" and "government loans" offer no hint as to whether the aid is bilateral or multilateral. To overcome this problem, this study will incorporate Nishigaki and Shimomura's classification that distinguishes between bilateral and multilateral aid in the official classification and uses the terms "*bilateral grants*" and "*bilateral loans*" instead of "grant aid" and "government loans". The government's classification term "subscriptions and contributions to international organizations" appears too long and ambiguous. This study will thus use the term "*multilateral aid*".

Japan's ODA can be divided into the following four groups: 1) Bilateral Grants, 2) Technical Co-operation, 3) Multilateral Aid, and 4) Bilateral Loans. In 2001, Bilateral Grants made up 19.3 percent of Japan's total ODA budget; Technical Co-operation constituted 29.7 percent; Multilateral Aid and Bilateral Loans accounted for 24.7 percent and 26.3 percent, respectively (Furuoka, 2006).

3. Bilateral Grants

A "Bilateral Grant" is a form of foreign aid that does not impose repayment obligations on the aid-receiving countries. In 1997, the total budget for Japan's bilateral grants was ¥263 billion (US\$2.19 billion). It decreased slightly to ¥262 billion (US\$2.01 billion) in

<http://www.mofa.go.jp/policy/oda/summary/>

1998 (MOFA, 1998: 119). In 1999, funds for bilateral grants decreased by 10 percent and totalled ¥237 billion (US\$2.01 billion).² In 2000, bilateral grants decreased to ¥227 billion (US\$ 2.10 billion) then slightly increased to ¥231 billion (US\$ 1.90 billion) in 2001 (see Figure 5.2).³

Bilateral grants are divided into: 1) Assistance for Economic Development, and 2) Assistance for the Increase of Food Production. In the Financial Year (FY) 1998,⁴ Assistance for Economic Development amounted to ¥222 billion (US\$1.70 billion), or 85 percent of the total Bilateral Grant; while Assistance for the Increase of Food Production totalled ¥40 billion (US\$0.31 billion), which was 15 percent of the share.⁵

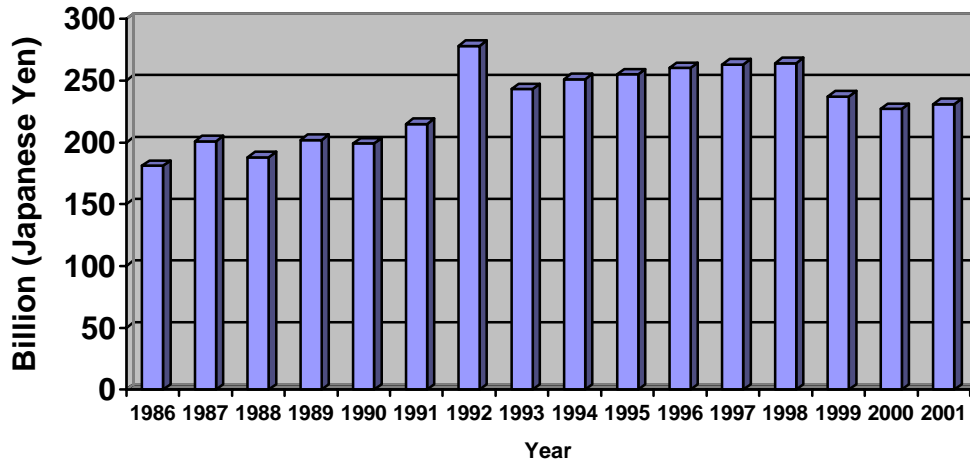


Figure 5.2 Japan's Bilateral Grants (1986-2001)
Source: MOFA, *Japan's ODA Annual Report*, various issues

² Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g1.html

³ Ministry of Foreign Affairs, *Japan's ODA 2002*, from the MOFA's Internet Homepage <http://www.mofa.go.jp/mofaj/gaiko/oda/>

⁴ FY means 'Financial Year'. The FY starts on 1 April and ends on 31 March the following year. All Japanese government accounts are divided into FYs.

⁵ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_04.html

There is a unique type of bilateral grant called “Grant Aid for Grassroots Projects” which belongs to the category of Assistance for Economic Development and provides relatively small grants (less than US\$100 thousand) to NGOs. According to *Japan’s ODA 1999*, this grant “was very popular at home and abroad, thanks to its close contact with and quick response to local people’s needs”.⁶

According to an aid officer, Mitsuhiro Saotome (1997: 40), the Japanese government recognised the importance of supporting NGOs and began providing grants to them since 1989. Saotome notes that the Grant Aid for Grassroots Projects is well accepted among NGOs and its budget increased more than ten-fold from ¥300 million (US\$2.30 million) in 1989 to ¥5 billion (US\$41.66 million) in 1997.

An NGO staff member familiar with the Japanese government’s heavy bureaucratic system evaluated highly the Grant Aid for Grassroots Projects.⁷ He said that the MOFA provided his NGO with generous grants to purchase equipment to facilitate their activities in 1988. He commented that the decision-making process for the provision of this type of grant is quick and less bureaucratic (Furuoka, 2006).

4. Technical Co-operation (Bilateral Technical Assistance)

Technical Co-operation is a form of development co-operation that helps to promote or improve the ability to utilize natural or human resources in developing countries. The technical co-operation’s aim is to contribute to the development of “software” (that is, of

⁶ Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_04.html

⁷ More detailed discussion on Japan’s foreign aid for NGOs, see Furuoka (2008).

technology and expertise) in the recipient countries, while ordinary foreign aid is usually spent on “hardware” (infrastructure or equipment) (Furuoka, 2006). According to Nishigaki and Shimomura (1993: 164), the promotion of human resources is one of the most crucial elements in economic development. This fact implies the importance of technical co-operation in the ODA program.

The Japanese government accords considerable significance to technical co-operation. *Japan's ODA 1996* states that self-help efforts and human resource development are the foundations of nation building. Technical co-operation, which is carried out with the aim of technology transfer, is the most effective means of co-operation for the development of human resources (MOFA, 1996: 112).

The scale of Japan's technical co-operation has been steadily increasing. The budget for technical co-operation amounted to ¥376 billion (US\$3.54 billion) in FY 1996 and increased to ¥388 billion (US\$3.23 billion) in FY 1997. In FY 1998, technical co-operation was allocated ¥376 billion (US\$2.89 billion) (MOFA, 1998a: 124). This amount increased slightly to ¥379 billion (US\$3.21 billion) in FY 1998 (27 percent and 24 percent, respectively, of the total ODA).⁸

In FY 1998, the budget for technical co-operation through the Japan International Co-operation Agency (JICA) - Japan's main implementing agency of technical co-operation - amounted to ¥176 billion (US\$1.35 billion). Regarding the geographical distribution of

⁸ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

JICA's technical co-operation, Asia was the largest recipient (43.2 percent of the share), followed by Latin America (20.7 percent) and Africa (14.2 percent).⁹

There are five types of technical co-operation: 1) accepting trainees from developing countries, 2) the dispatch of experts and volunteers to developing countries, 3) the dispatch of Japan disaster relief teams, 4) project-type technical co-operation, and 5) development studies.

4.1 Accepting Trainees

Japan has been accepting trainees since she joined the Colombo Plan group in 1954 (Furuoka, 2007). In 1998, the Japanese government through JICA's scheme accepted 20,756 trainees from all over the world. The majority were trainees from Asian countries (68 percent), Latin America (12 percent), Africa (9 percent) and the Middle East (5 percent).¹⁰ More recently, in 2003, Japan accepted 16,277 trainees; the majority of them were from Asian countries (57 percent), Latin America (17 percent), Africa (14 percent), and the Middle East (6 percent)¹¹ (see Figure 5.3).

After the Asian economic crisis in 1997, the number of trainees from Asian countries increased from 6,214 persons in 1997 to 14,143 persons in 1998. By sectional distribution, the Planning and Government Policy section's share was the largest (27.6 percent), followed by Public Works and Projects (10.4 percent), and Agriculture, Forestry

⁹ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹⁰ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹¹ Japan International Cooperation Agency, *JICA Annual Report 2004*, from the JICA's Internet Homepage <http://www.jica.go.jp/english/resources/publications/annual/2004/index.html>

and Fisheries (10.4 percent).¹²

A new type of training is offered under the “Partnership for Democratic Development”. Under this new JICA scheme, Japan provides training courses or holds seminars to assist the establishment of functional legal, administrative, and police systems. In 1997, there were 211 trainees under this scheme; in 1998, the number of trainees increased to 231.¹³

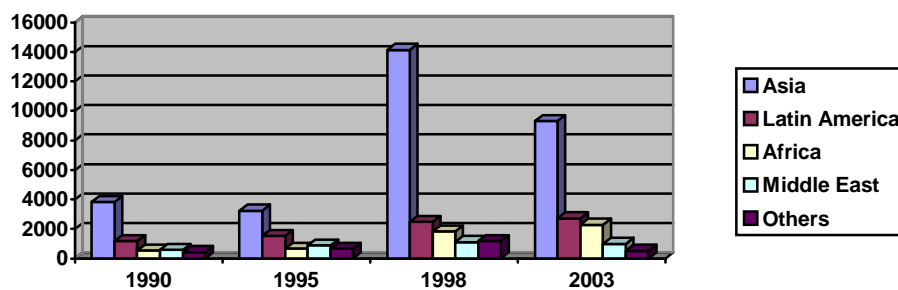


Figure 5.3 Acceptance of Trainees by Regions (1990, 1995, 1998, and 2003)
Source: MOFA, *Japan’s ODA Annual Report*, various issues

4.2 Dispatch of Experts and Volunteers

Asian countries remain the main destination not only for Japan’s ODA funds, but for experts and specialists as well. In FY 1998, under JICA’s scheme, Japan dispatched to Asian countries 2956 experts (53.8 percent of the total number of experts sent abroad) and 410 officials and consultants (53.8 percent). For comparison, 410 experts and 762 officials and consultants were sent to the Middle East; 422 experts and 1246 officials and consultants were dispatched to Africa.¹⁴

¹² Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹³ Ministry of Foreign Affairs, *Japan’s Support for Democratization*, from the MOFA’s Internet Homepage <http://www.mofa.go.jp/policy/oda/summary/category/democratiz/1999/support.html>

¹⁴ Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage

In order to support the democratisation process in Indonesia, in 1999, Japan sent 17 experts to the General Election Commission in Indonesia. These personnel advised on the election process, assisted in improving computer systems and supervised the distribution of election-related materials.

Aoyama (1991: 139-140) notes some shortcomings of the expert dispatch program. From his point of view, the Japanese still lack the required experience and expertise, especially knowledge of foreign languages, for technical co-operation. Due to this, there is a serious shortage of candidates who could be dispatched as experts.

For thirty years Japan has been sending volunteers to developing countries under the scheme of the Japan Overseas Co-operation Volunteers (JOCV). In 1965, when JOCV was established, 26 volunteers were dispatched to four countries (twelve of them went to the Philippines, five each to Malaysia and Laos, four to Cambodia). From 1965 to 1999, JOCV sent a total 18,853 volunteers to 59 countries. In FY 1998, 1123 volunteers were sent to developing countries including four new destinations - Kyrgyzstan, Burkina Faso, Uzbekistan and Djibouti.¹⁵

4.3 Other Types of Technical Co-operation

There are another three types of technical co-operation. One is development studies. It consists of conducting feasibility studies or drawing-up master plans. In 1998,

http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹⁵ Japan International Co-operation Agency, *Outline of the Program*, from the JICA's Internet Homepage <http://www.jica.go.jp/english/activities/schemes/04jocv.html>

development studies were carried out on 296 co-operation projects.¹⁶

Another type of technical co-operation is the dispatch of Japanese Disaster Relief Teams. In 1999, Japan sent rescue teams to three countries (Colombia in January, Turkey in August and Taiwan in September), where large-scale earthquakes had occurred.¹⁷

Finally, there is a project-type technical co-operation where projects are implemented through the combination of human development assistance and provision of equipment. As of April 1998, a total of 221 projects were carried out under the project type technical co-operation; 93 of them were under the Social and Industrial Development Co-operation Program and 83 were implemented under the Agricultural, Forestry and Fisheries Co-operation Program.¹⁸

5. Multilateral Aid

The Japanese government gives indirect support to the activities and efforts of international co-operation by paying contributions and subscriptions to various international institutions. Contributions are made in the form of Multilateral Aid, the amount of which is decided every year by donor countries. A subscription is an allocated share of an international organization's costs and its amount is fixed.

Multilateral aid has its advantages, because it comes via international organizations and is

¹⁶ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹⁷ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_05.html

¹⁸ Ministry of Foreign Affairs, *A Guide to Japan's Aid*, from the MOFA's Internet Homepage <http://www.mofa.go.jp/policy/oda/guide/1998/2-8.html>

implemented through a global network. For example, it has the advantage of expert knowledge and experience, combined with coordination of aid across multiple countries and regions (MOFA, 1997: 163). The Japanese government recognizes the importance of multilateral aid and had been steadily increasing its amount in the mid-1990s. The total budget for multilateral aid expanded from ¥165 billion (US\$1.55 billion) in 1996 to ¥256 billion (US\$1.96 billion) in 1998; it reached ¥299 billion (US\$2.53 billion) in 1999.¹⁹

Nishigaki and Shimomura (1993: 171) point out that Japan is the leading contributor to several international organizations. In the World Bank Group, Japan is the second biggest donor to the International Development Association (Second World Bank) after the US. Japan's share makes up nearly half of all donations to the Asian Development Bank (ADB), of which the president is traditionally chosen from among Japanese nationals.²⁰ Also, Japan is the biggest contributor to another regional bank, the African Development Bank (AfDB).

6. Bilateral Loans (Yen Loans)

Japanese Bilateral Loans are usually called “Yen Loans”. They constitute half of the total budget for Japan's ODA. The total budget for bilateral loans decreased from ¥1583 billion (US\$14.93 billion), or 58.2 percent of the total budget for Japan's ODA, in FY 1996 to ¥1059 billion (US\$8.82 billion), or 60.8 percent, in FY 1997 (MOFA, 1998a: 100). In FY 1998, it further decreased to ¥958 billion (US\$8.11 billion), or 50.8

¹⁹ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_04.html

²⁰ For more details of ADB's history, see Chapter Four.

percent.²¹

There are criticisms that bilateral loans have been provided primarily for economic infrastructure projects in land transportation, marine transportation and the electrical power sector (Okuizumi, 1995: 377-378). In response to this criticism, the Japanese government claims to have made efforts to channel these loans into various social sectors, such as agricultural projects or rural development. For instance, in 1995, the Japanese government approved the first WID (Women in Development) specific project (MOFA, 1996: 130-131). With regard to bilateral loans by sector, the share of “economic infrastructure” decreased from 68.0 percent in 1997 to 62.5 percent in 1998, while the share of “social infrastructure” increased from 12.9 percent in 1997 to 19.0 percent in 1998.²²

Although Asia’s share of Japan’s ODA has decreased, the region’s share in total bilateral loans remains high. It increased from 63.3 percent in 1992 to 87.8 percent in 1994. In 1996, the share diminished to 78.6 percent before increasing sharply to 91.5 percent in 1997. The reason for this increase was that Tokyo provided special loan packages to the Asian countries hit by the financial crisis. In October 1998, the Japanese government announced the “New Miyazawa Initiative” that included a US\$30 billion emergency aid package and was aimed at assisting the Asian countries’ structural adjustment efforts.²³

There are two major types of bilateral loans: 1) Project loans, 2) Non-project loans.

²¹ Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g1.html

²² Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g1.html

²³ Ministry of Foreign Affairs, *Japan’s ODA 1999*, from the MOFA’s Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/d_g2_06.html

6.1 Project Loans

Project loans are bilateral loans given for projects in economic and social development. The loans are given to build plants or factories, such as fertilizer plants or steel factories. Project loans are also given for economic infrastructure projects (e.g. telecommunication, transportation systems, power generation plants) and social infrastructure projects (e.g. irrigation systems, river improvement projects, water supply systems). Project loans constitute the greater part of bilateral loans.²⁴

According to Nishigaki and Shimomura (1993: 168-169), within project loans, there exists a unique “Two-step loan”. In this scheme, the Japanese government gives aid to financial institutions in developing countries (the first step) and then these financial institutions distribute loans to small projects (the second step). The researchers find two merits in this mechanism: 1) it reinforces fiscal institutions, and 2) aid is able to reach small-scale projects. However, the drawback is that it is sometimes difficult to find suitable or reliable financial institutions.

6.2. Non-Project Loans

Non-project loans are Yen Loans given not to particular projects, but for the improvement of the macro-economic situation in the recipient countries. For example, Japan gives “commodity loans”, a type of non-project loan that provides funds for buying commodities and goods in cases of serious deficits in the trade balance.

²⁴ Ministry of Foreign Affairs, *A Guide to Japan's Aid*, from the MOFA's Internet Homepage <http://www.mofa.go.jp/policy/oda/guide/1998/3-4.html>

Nishigaki and Shimomura (1993: 169-170) assert that commodity loans contribute to the improvement of the economic situation in the short term only. If developing countries want to sustain development, they need to reform their economic systems or institutions. In support of this theory, the Japanese government started to give Structure Adjustment Loans (SALs) and Sector Program Loans (SPLs) that aim to assist or reinforce the World Bank's Structure Adjustment Programs.

7. Conclusion

At the end of the 1990s, the Japanese government distributed annually more than US\$10 billion as foreign aid directly or indirectly to developing countries. Japan's ODA can be divided into the following four groups: 1) Bilateral Grants, 2) Technical Co-operation, 3) Multilateral Aid, and 4) Bilateral Loans.

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