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## JAPAN'S ODA CONTRIBUTION TO THE WORLD DEVELOPMENT

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**Abstract:** Japan has been remaining one of the world's leaders in terms of Official Development Aid for years. The aim of the article is to indicate current Japan's engagement in world development aid, its origins and directions of further development. Japan's philosophy of ODA, rules of its implementation, geographical distribution and different forms of aid are discussed in the article. Finally Japan's involvement in ODA is compared with ODA donated by other DAC countries. The scale of Japan's assistance to development places the country fifth among largest donors, however, comparing aid to Japan's GNI moves the country to the last but one position among DAC members. What is more, Japan's ODA consists of larger percentage of loans and ties aid and lower percentage of grant element in comparison to other donors.

**Keywords:** Japan, Official Development Assistance, DAC, aid.

### 1. Introduction

By the year 2010 Japan has been remaining as an only Asian donor country associated in Development Assistance Committee (DAC). Providing development aid mainly to Asian countries Japan has significantly influenced economic development of the region and strengthened its relations with those markets. Over the years Japan's Official Development Assistance (ODA) expanded remaining at the top level among other DAC countries. For the previous decade Japan occupied the first position being world largest development aid provider. Although it is not any longer, nowadays Japan has significant share of world development assistance providing aid of 185 countries and regions all over the world.

The aim of the article is to present Japanese involvement in official development aid, its origins and the way of its expansion. I would like to discuss philosophy of Japan's ODA and rules of its implementation as well as present geographical distribution of aid and different forms in which assistance is provided. Finally, I would like to compare Japan's commitment to development aid to other DAC countries.

## 2. What is development aid?

A major international organization dealing with issues of development aid is Development Assistance Committee.<sup>1</sup> It is a forum where 24 world leading donors of development aid meet to consult on methods for assisting developing countries on economic development process, to co-ordinate, expand and improve the flows of long term funds and other development assistance. Moreover DAC collects and provides detailed financial and qualitative information on aid flows from its members, multilateral aid agencies and donors outside the OECD. The DAC analyses and statistics are the main reliable source of internationally comparable data on foreign aid.

In the article DAC's definition of development aid (development assistance) is going to be used. According to this official development assistance (ODA) are grants or loans to developing countries and territories specified on the list of ODA recipients and to multilateral agencies. The list indicates countries entitled to receive ODA and it is being revised every three years. To gain ODA status the flows have to fulfil the following conditions:

(a) must be undertaken by the official sector (government, public administration institutions, etc.),

(b) their main objective should be to promote an economic development and welfare (grants, loans and credits for military purposes are excluded),

(c) have to contain at least 25% of grant element.

Apart from financial flows, technical co-operation is included in aid. Contributions can be made to public administration sector as well as to non-governmental organisations. However, transfer payments to private individuals are not counted in general.<sup>2</sup>

Three major groups of aid activities may be specified. Those are financial assistance, delivery of goods and technical co-operation. The first group contains grants, loans and debt relief operations. The next one is a delivery of consumer and investment goods as well as food aid. Finally the last one includes training courses, research projects and council services.

## 3. Japanese involvement in world development since 1954

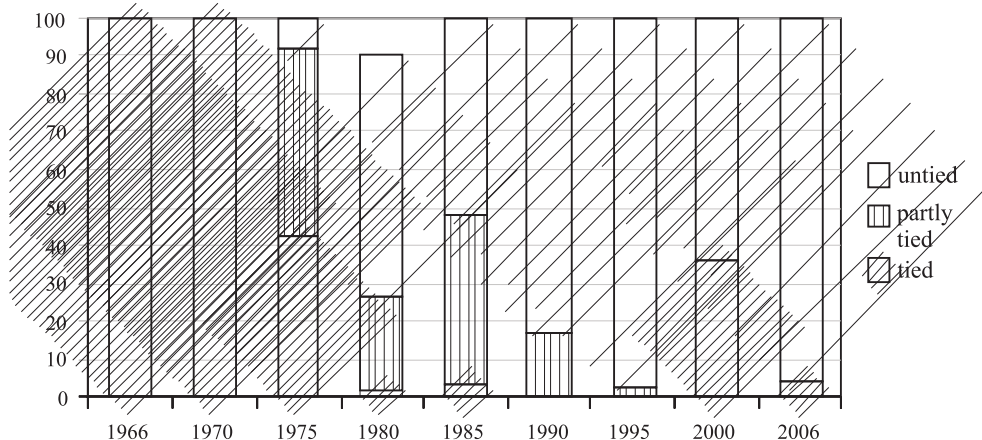
Japan has been contributing to world development since 1954, when Japanese government decided to join Colombo Plan concerning technical co-operation in South and South-East Asia. Further step was signing a number of agreements with South-East Asia countries providing both post-war reparations and economic co-

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<sup>1</sup> DAC associates 23 OECD countries and the Commission of the European Communities. The member countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States, Australia, Canada, Japan, Korea and New Zealand. The observer status have the Czech Republic, Hungary, Iceland, Mexico, Poland, the Slovak Republic and Turkey.

<sup>2</sup> *DAC Glossary*, [http://www.oecd.org/glossary/0,3414,en\\_2649\\_33721\\_1965693\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/glossary/0,3414,en_2649_33721_1965693_1_1_1_1,00.html).

operation. The model of assistance provided to the Asian countries which have close links to Japan served as a pattern for the years to come. Beginning with India, Japan provided a number of yen loans in 1950s and 1960s. The main objective was to extend exports markets as well as secure imports of raw materials. Therefore the tied-aid rate of the loans reached almost 100%. A milestone in Japan's commitment to world development was the establishment of Development Assistance Committee, originally called Development Assistance Group, in 1961. Japan joined DAC in that year as a one of the founding member countries. Until 1966, when Australia joined DAC, Japan had remained a sole representative of Asia-Pacific region. Japan's own economic growth resulted in further expansion of aid activities and country's involvement in world development. In 1966 Japan was a founding member of Asian Development Bank, in previous year Japan Overseas Cooperation Volunteers had been established. In the period of ten years 1964-1976 Japanese aid significantly increased from US\$116 million to US\$1.126 billion.<sup>3</sup> Aid system was also expanded and new forms of aid were introduced. Food aid program was started in 1968, a year later grand aid program was implemented. Yen loans program has been continued until untied loans were introduced in 1972. It was a breakthrough in terms of attitude towards aid. ODA was not perceived first and foremost as an instrument to promote the country's export industries. In the following years percentage of tied ODA significantly decreased. The trend is clearly visible in Figure 1.



**Figure 1.** Tying status of bilateral ODA of Japan 1966-2006, selected years

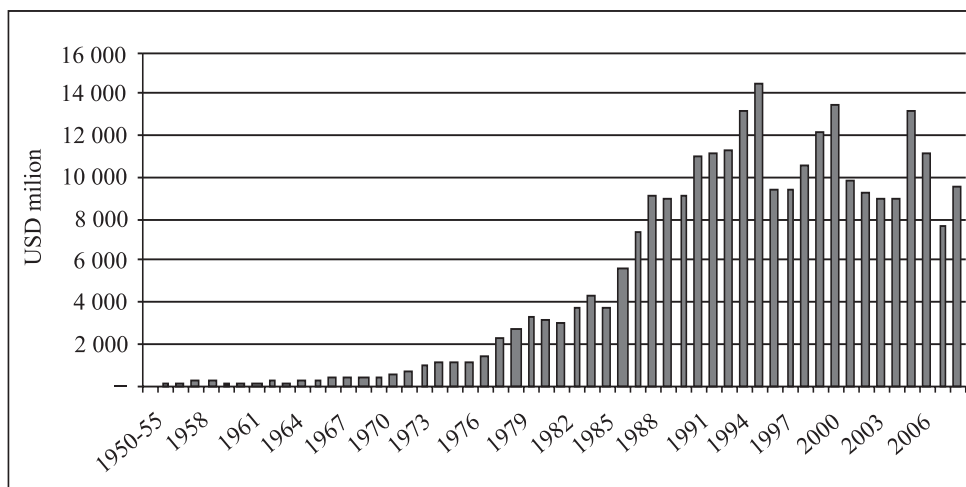
Source: *Japan's Official Development Assistance: Accomplishment and Progress of 50 Years*, Ministry of Foreign Affairs, 2004, <http://www.mofa.go.jp/policy/oda/cooperation/anniv50/pamphlet/contents.html>; *Statistical Annex of the 2010 Development Co-operation Report*, OECD DAC, 2009, [http://www.oecd.org/document/9/0,3343,en\\_2649\\_34447\\_1893129\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/9/0,3343,en_2649_34447_1893129_1_1_1_1,00.html).

<sup>3</sup> *Statistical Annex of the 2010 Development Co-operation Report*, OECD DAC, 2009, [http://www.oecd.org/document/9/0,3343,en\\_2649\\_34447\\_1893129\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/9/0,3343,en_2649_34447_1893129_1_1_1_1,00.html).

In the following decades of 70s and 80s Japan reached significant level of economic development, which found its reflection in the amount of funds devoted to development aid. Three new aid programs were introduced in 1970s to meet particular needs of developing countries: Disaster Relief (1973), Grant Aid for Cultural Activities (1975) and Aid for Increasing Food Production (1977). Since 1977 Medium-Terms Targets of ODA have been introduced. They were assuming particular level of increase in funds devoted to aid. As a consequence the total amount of funds for ODA have been steadily increasing over the next 15 years.

As a result of disappointing achievements of developing countries the decade of 1980s was marked with the crisis of development economy in general. More attention started to be paid to human rights and fulfilment of human basic needs rather than to economic development. Japan followed the trend and its aid became more focused on issues of poverty. The share of Japan's ODA for that problem doubled in 1978. More attention has been also paid to environmental issues. In 1983 Japan became the second largest donor country among OECD members and in 1989 beat United States becoming world's largest ODA provider. Although the first position was lost for three years Japan soon regained it, remaining the largest donor country over 1990s.

Initiated in 1989 new type of aid program was improved and reinforced over 1990s. It was so called grassroots program assuring small-scale grant assistance for projects conducted by NGOs, local governments and civil society institutions. In 1992 Japan's ODA charter was published. The document included fundamental philosophies of the country's ODA, its principles, priorities and measures for the effective implementation. Japan's aid extended on number of countries with assistance



**Figure 2.** Japan's net ODA in million US\$ (current prices) from 1950 to 2008

Source: *Statistical Annex...*

provided but also with range of issues covered by ODA. Various kinds of global issues have been separately developed such as: infectious diseases, sustainable development, gender issues or climate changes.

Late 90s turned out to be tough for Japanese economy. The country entered into long lasting recession period. As a result ODA budget has been decreasing beginning from 1997. However it was in 2001 when Japan lost its position of top donor among DAC countries. Limiting of budget forced Japan to focus more on quality of provided aid. More attention has been also paid to visibility of aid projects. Moreover administrative reforms were conducted in order to manage more efficiently the resources of Japan's ODA. Competences in aid activities were handed over to the Ministry of Foreign Affairs. Finally, Japan's ODA Charter was revised, gaining current shape in 2003.

The latest Medium-Term Policy on Official Development Assistance was published in 2005. It corresponds strictly to Japan's commitment in fulfilling Millennium Development Goals as well as peace-building activities in Iraq, Afghanistan and the Sudan. Sustainable growth and disaster prevention are also indicated as priority issues of the policy. Within last few years Japan's ODA magnitude is strongly fluctuating. It is partly due to the debt relief operations which highly increase amount of ODA in the years when are conducted.<sup>4</sup> Figure 2 presents Japan's net ODA from its origins in 1950s up to 2008.

#### 4. Japan's ODA Charter

Revised ODA Charter was published in the year 2003. It is a fundamental document of Japanese government concerning country's aid policies. It contains philosophy and principles of Japan's ODA. The objective of aid was defined as a contribution to world peace and development and therefore assurance of Japan's own prosperity and security. It was underlined that Japan as a first developed country in Asia has particular obligation to assist economical and social development of East Asia countries. Japan perceives ODA as an instrument of strengthening economic ties and vitalize exchange with its Asian partners. The Charter enumerates basic policies of country's ODA. Those are:

(a) Supporting self-help efforts of developing countries – priority is given to the projects of human resource development, institution building, pursuing peace, democratization and protection of human rights with respect to supported country's own development strategy.

(b) Perspective of "Human Security" – perspective oriented on strengthening the capacity of local communities through human resource development, protection and empowerment of individuals to ensure human dignity.

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<sup>4</sup> *Japan's Official Development Assistance: Accomplishment...*

(c) Assurance of fairness – to be fair, implementation of ODA should take into consideration its social and environmental impact, distribution of resources within country and gender equality.

(d) Utilization of Japan's experience and expertise – when assisting Japan's technologies, expertise, human resources, and institutions are to be utilized.

(e) Partnership and collaboration with the international community – strengthening co-operation with international organizations sharing common development goals.

Beside policies, the document indicates also priority issues of ODA. Those are: poverty reduction, sustainable growth, addressing global issues and peace-building.<sup>5</sup> The first two priorities correspond to Millennium Development Goals, whilst the others concern global security. Those are common problems of developed and developing countries like international organized crime, infectious diseases, terrorism, drugs traffic and others.

## 5. Geographical distribution of Japanese aid

Originally Japan's ODA was nearly entirely limited to East Asian countries. It was due to tying aid with war reparations as well as strengthening Japanese presence on exports markets. Yet in early 1970s Asia accounted for almost 80% of all Japanese aid. It was consisted with Japan's perception of importance of trade and investments in the region. Yen loans were the instrument of developing trading potential and also strengthening political and economical ties of Japan with Asian partners. Aid was perceived as a part of country's trade and investment strategy. The situation has begun to change slowly in mid 70s. With increasing volume of its aid Japan found itself under the pressure of DAC to broaden its program to new areas. After the Oil Shock the Middle East region gained particular high priority, also the share of Africa and South America increased significantly. However, Asia has remained as Japan's larger recipient region. Country's strong commitment to the region has been continuously emphasized.

The revised ODA Charter indicates priority regions. In the first place Asian countries are mentioned, due to their closest economic relations with Japan and their direct influence on Japan's stability and prosperity. Then South Asia is indicated as a region of large population living in poverty. The Caucasus region and Central Asia are mentioned in the context of transition to the market economy. Next Africa, Middle East, Latin America and Oceania are pointed.

According to OECD-DAC the largest share in Japan's ODA (53%) have Asia and Oceania. In the second place (15%) is the Middle East and North Africa, then Sub-Saharan Africa (13%), next Latin America (5%) and Europe (3)%, the remaining 11% is not specified to particular region. Dividing by income group the largest part (52%) is a share of Lower Middle Income Countries, Least Developed Countries'

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<sup>5</sup> *Japan's Official Development Assistance Charter*, Government of Japan, Ministry of Foreign Affairs, Economic Co-operation Bureau, Tokyo 2003, p. 4.

share is 18%, than 9% receive other Low Income Countries, finally Upper Middle Income Countries get 8% of Japan's ODA. The remaining 13% is unspecified.<sup>6</sup> Table 1 presents list of top ten recipients of the aid. Those ten countries received 42% of total ODA.

**Table 1.** Top ten recipients of gross Japan's ODA, 2008

Country	US\$ million
Iraq	1402
China	1196
Indonesia	1191
India	949
Viet Nam	780
Philippines	599
Bangladesh	540
Tanzania	396
Turkey	354
Sri Lanka	288

Source: *Statistical Annex...*

Nowadays Japan's assistance is provided globally. In 2007 bilateral ODA was given to 187 regions, of which the number of countries was 165.

## 6. Forms of Japan's ODA

There are three basic forms of Japan's ODA: grants, loans and technical co-operation. In spite of these ODA also consist of contributions to multilateral institutions. The country's ODA program is based on bilateral aid. In 2007 it accounted for roughly 72% of overall disbursements, whereas the remaining part, approximately 28%, was contributed to international organizations, what is more than DAC average.<sup>7</sup> Donors are more keen in general to depend on bilateral agreements to strengthen economic and political relations with recipient country and to ensure that aid is provided according theirs to rules and policies. On the other hand, the aid provided by multilateral institutions ensures larger political neutrality and is available for those who have difficulties to get assistance on government level.

At the beginning of implementation Japan's ODA was mostly limited to yen loans, originally financing large-scale infrastructure projects (energy, infrastructure,

<sup>6</sup> *Aid Statistics, Donor Aid Charts*, OECD DAC, 2009, [http://www.oecd.org/countrylist/0,3349,en\\_2649\\_34447\\_1783495\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/countrylist/0,3349,en_2649_34447_1783495_1_1_1_1,00.html).

<sup>7</sup> *Japan's Official Development Assistance White Paper 2008; Japan's International Cooperation*, Ministry of Foreign Affairs, Tokyo 2009, p. 44.

etc.), moving later towards supporting economic and social development. Currently human resource development, small and medium enterprises promotion and agricultural projects are supported. There are four types of ODA loans: Project Loans, Engineering Service Loans, Project Type Sector Loans and Commodity Loans. In 2007 net loan aid was US\$ –206 million. Negative figure is due to higher amount received than disbursed. The amount disbursed was US\$ 5,747 million. Excluding debt relief and assistance to Eastern Europe and graduated countries aid loan presented 4% of Japan's bilateral net ODA and 49% on gross basis.<sup>8</sup>

An indispensable pillar of Japan's ODA are grants, unlike loans given without obligation of repayment. Grant aid includes technical co-operation and debt relief operation. Some of grants are provided through multilateral institutions, however, in 2008 it was only 6.5% out of total grants sum: US\$ 6,046 million. For technical operation was devoted US\$ 2,630 million and for debt relief US\$ 1,941 million. Japanese grants are generally used for social infrastructure development. Areas such as medicine, health care, research, education, training, housing, public welfare, environment and agriculture are supported.<sup>9</sup> Grants also support grassroots projects. Moreover there are grants for cultural activities, emergency and food grants. The grant aid implementation requires a request for assistance of developing country, application is screened and then negotiations are held through the Japanese Embassy or consulate general. As a result parties sign an Exchange of Notes, which is followed by disbursement of grant funds. The final stage is an evaluation. In 2007 grants aid presented 35% of Japan's bilateral net ODA and 29% on gross basis.

Technical co-operation includes variety of activities. Japanese experts are dispatched to recipient countries to support expertise in fields ranging from medical care to computing and high-tech equipment. Also volunteers from the Japan Overseas Cooperation Volunteers are dispatched. On the other hand trainees are accepted in Japan; counsellor services and materials (for instance technical documentation in local languages) are provided.<sup>10</sup> Technical co-operation is perceived as one of Japan's strengths, it presented 61% of Japan's bilateral net ODA (gross 22%) in 2007.

## 7. Japan's commitment in comparison to the other DAC members

Although not in the first position Japan still remains one of the top donor DAC countries. It has the largest share of disbursements in Asia. However, the number of countries in which Japan is a top donor is steadily decreasing. In 2002 it was 40 countries whilst in 2006 just 27. In the year 2008 Japan's net ODA was at the level of US\$ 9.36 billion and it gave the fifth position among DAC members; after United States, Germany, United Kingdom and France. On Figure 3 Japan was compared with all the DAC members in terms of net ODA amount.

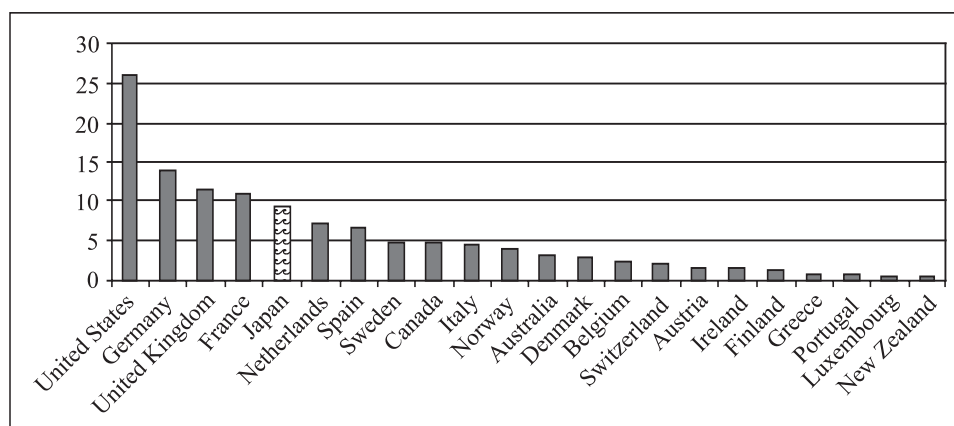
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<sup>8</sup> *Ibid.*, p. 46.

<sup>9</sup> D. Potter, *Japans Foreign Aid to Thailand and the Philippines*, St. Martin's Press, New York 1996, p. 5.

<sup>10</sup> *A guide to Japan's Aid*.

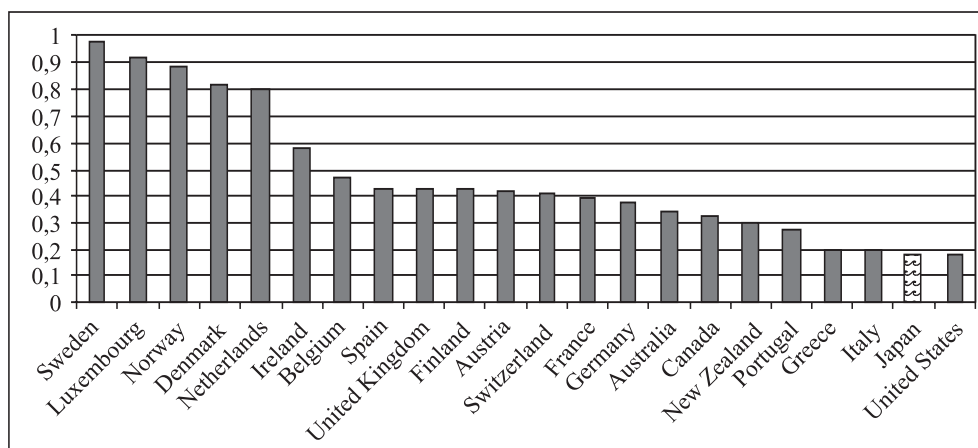




**Figure 3.** Net official development assistance in 2008 (US\$ billion)

Source: *Statistical Annex...*

On Figure 4 country's ODA as a percentage of GNI was presented. Japan occupies last but one position with the result 0.18%. It is much below DAC average. Moreover Japan also fails to fulfil UN target of ODA, which was established at the level of 0.7% of GNI.



**Figure 4.** Net official development assistance in 2008 (as a percentage of GNI)

Source: *Statistical Annex...*

Comparison of Japan's aid by major sector to average of DAC reflects the fact that the country emphasizes economic development in its aid programs. The position has significant share in ODA disbursement: 31%, which doubles DAC average.

Although agricultural infrastructure share is only 6.8%, it is also significantly higher than DAC average. The share of program assistance and commodity aid which is an important position: 34% of aid, is slightly higher than DAC average. On the other hand, lower share have emergency aid and assistance to production sectors. Japan's aid for social infrastructure is also below DAC average.<sup>11</sup> Grant element of Japan's ODA is considerably small being at the level of 85.1% in 2008 just below DAC norm (86%). The smaller percentage had only Portugal. When comparing Japan's aid in terms of tying status to other DAC members Japan had 96.5% of its ODA untied when DAC average was 87.3% in 2008.<sup>12</sup>

In terms of total net flows Japan has fourth position among DAC countries (US\$ 31,783 million) after the United Kingdom, France and Germany. Total net flows consist not only of ODA but also other official flows (bilateral and multilateral), private flows on market terms (direct investment, bilateral portfolio investment, multilateral portfolio investment, export credits) and net grants by NGOs. The result was caused mainly due to high level of private flows on market terms (US\$ 21,979 million) out of those the largest position were direct investment (US\$ 18,037 million). Grants of Private Voluntary Agencies were relatively significant (US\$ 446 million), larger amounts were provided only by Australia, Canada, Germany and the United States.

## 8. Conclusions

In 2008 Japan was fifth world development assistance provider. Country's aid program begun in 1950s as a supplement to war reparations and originally was limited to yen loans which were designed to serve Japanese exports. Over the next years, owing to Japan's own rapid development, country's aid program was expanded in terms of variety of aid forms and geographical disbursement. Japan's aid evolved from tied loans to untied ones and grant aid appeared. Geographical disbursement expansion decreased the share of Asian countries, however the region, followed by the Middle East and Africa, still remains Japan's priority and the largest part of ODA is allocated there. In terms of income the largest amounts are delivered to Lower Middle Income Countries that are followed by Least Developed Countries. Japan's net ODA has been steadily rising every year up to 1997, when due to long lasting recession period cuts must have been done. Aid activities evolved from the support of large scale infrastructure investments towards founding economic and social infrastructure and support human resources development. The priorities of Japan's aid program are poverty reduction, sustainable growth, addressing global issues and peace-building. Most of country's activities are being implemented due to bilateral agreements, the contribution to bilateral organisations is at the level of roughly 30%

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<sup>11</sup> *Statistical Annex...*

<sup>12</sup> Commitments (excluding technical co-operation), *ibid.*

depending on year. There are three major forms of assistance: grants, loans, and technical co-operation. Referring to ODA on gross basis the largest share have loans, then grants and finally technical co-operation.

In comparison to other DAC members Japan's contribution is significant. The country occupies fifth position when it comes to net ODA and fourth in terms of total net flows to developing countries. However, when comparing net ODA as a percentage of GNI, the country is last but one much below DAC average and UN target. Moreover Japan's ODA has higher percentage of loans and ties aid and lower percentage of grant element in comparison to other donors.

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## OFICJALNA POMOC ROZWOJOWA JAPONII NA RZECZ ŚWIATOWEGO ROZWOJU

**Streszczenie:** Japonia od wielu lat pozostaje jednym z największych na świecie dostawców pomocy rozwojowej dla krajów rozwijających się. Celem artykułu jest omówienie obecnego zaangażowania Japonii w pomoc rozwojową, jej początkowych przesłanek oraz kierunków późniejszego rozwoju. W artykule omówiono filozofię japońskiej pomocy rozwojowej, zasady jej wdrażania, zasięg geograficzny oraz różne formy działań pomocowych. Na końcu porównano zaangażowanie Japonii w pomoc rozwojową z pomocą świadczoną przez inne kraje zrzeszone w DAC. Wielkość pomocy świadczonej przez Japonię stawia ten kraj na piątym miejscu wśród ofiarodawców, jednakże biorąc pod uwagę stosunek pomocy do dochodu narodowego brutto, Japonia znajduje się na przedostatnim miejscu. Co więcej, w porównaniu do innych krajów zrzeszonych w DAC pomoc Japonii składa się w większym odsetku z pomocy wiązanej i pożyczek, a w mniejszym z grantów.